

RESOLUTION NUMBER 2894

RESOLUTION OF INTENTION OF THE CITY COUNCIL OF THE CITY OF PERRIS TO ESTABLISH COMMUNITY FACILITIES DISTRICT NO. 2001-1 (MAY FARMS) OF THE CITY OF PERRIS AND TO AUTHORIZE THE LEVY OF A SPECIAL TAX WITHIN COMMUNITY FACILITIES DISTRICT NO. 2001-1 (MAY FARMS) OF THE CITY OF PERRIS.

WHEREAS, the City Council (the "Council") of the City of Perris (the "City") has received a petition (including consent and waiver) (the "Petition") requesting the institution of proceedings for formation of a community facilities district (the "District") pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, commencing with Section 53311 of the Government Code of the State of California (the "Act"); and

WHEREAS, the Council has determined that the Petition complies with the requirements of Government Code Section 53318 and now intends to form Community Facilities District No. 2001-1 (May Farms) of the City of Perris; and

WHEREAS, the Council desires to adopt this resolution of intention as provided in Section 53321 of the Act to establish a community facilities district consisting of the territory described in Exhibit "A" hereto and incorporated herein by this reference, which the Council hereby determines shall be known as "Community Facilities District No. 2001-1 (May Farms) of the City of Perris" (the "Community Facilities District No. 2001-1" or the "District") pursuant to the Act to finance (1) the purchase, construction, modification, expansion, improvement or rehabilitation of certain real or other tangible property described in Exhibit "B" hereto and incorporated herein by this reference, including all furnishings, equipment and supplies related thereto (collectively, the "Facilities"), which Facilities have a useful life of five years or longer; and (2) the incidental expenses to be incurred in connection with financing the Facilities and forming and administering the District (the "Incidental Expenses"); and

WHEREAS, it is the intention of the Council to consider financing the Facilities and the Incidental Expenses through the formation of Community Facilities District No. 2001-1 and the sale of bonded indebtedness in an amount not to exceed \$8,000,000 within proposed Improvement Area No. 1 and \$90,000,000 within proposed Improvement Area No. 2 and the levy of a special tax within each Improvement Area to pay for the Facilities and the Incidental Expenses and to pay debt service on the bonded indebtedness incurred by such Improvement Area, provided that the bond sales and special tax levies are approved at an election to be held within each proposed Improvement Area of Community Facilities District No. 2001-1;

NOW, THEREFORE, the City Council of the City of Perris does hereby resolve, determine and order as follows:

Section 1. The above recitals are true and correct.

Section 2. A community facilities district is proposed to be established under the terms of the Act, with two separate improvement areas designated pursuant to Section 53350 of the Act. It is further proposed that the boundaries of the community facilities district and the boundaries of each Improvement Area shall be as described in Exhibit "A" hereto, which boundaries shall, upon recordation of the boundary map for the District, include the entirety of any parcel subject to taxation by the District. The proposed boundaries of the District and each Improvement Area are depicted on the map of the proposed Community Facilities District No. 2001-1 which is on file in the office of the City Clerk entitled "Proposed Boundaries, City of Perris, Community Facilities District No. 2001-1," which map indicates by a boundary line the extent of the territory included in the proposed community facilities district and shall govern for all details as to the extent of Community Facilities District No. 2001-1. On the original and one copy of the map of such Community Facilities District No. 2001-1 on file in the City Clerk's office, the City Clerk shall endorse the certificate evidencing the date and adoption of this resolution. The City Clerk shall file the original of such map in her office and, within fifteen (15) days after the adoption of this Resolution, the City Clerk shall file or cause to be filed a copy of such map so endorsed in the records of the County Recorder, County of Riverside, State of California, all as required by Section 3111 of the Streets and Highways Code of the State of California.

Section 3. The name of the proposed City of Perris Community Facilities District shall be "Community Facilities District No. 2001-1 (May Farms) of the City of Perris" and the two proposed Improvement Areas shall be designated as "Improvement Area No. 1" and "Improvement Area No. 2."

Section 4. The Facilities proposed to be provided within Community Facilities District No. 2001-1 and to be financed in part by each Improvement Area are public facilities as defined in the Act, which the City is authorized by law to construct, acquire, own and operate. The Council hereby finds and determines that the description of the Facilities herein is sufficiently informative to allow taxpayers within the proposed District and each Improvement Area to understand what the funds of each Improvement Area may be used to finance. The Incidental Expenses expected to be incurred include the cost of planning and designing the Facilities, the costs of forming the District, issuing bonds and levying and collecting a special tax within each proposed Improvement Area of the District. The Council hereby finds that the proposed Facilities are necessary to meet increased demands placed upon the City as a result of development occurring in the District. The Facilities may be acquired from one or more of the property owners as completed public improvements or may be constructed from bond or special tax proceeds. All or a portion of the Facilities may be purchased with District funds as completed public facilities pursuant to Section 53314.9 of the Act and/or constructed with District funds pursuant to Section 53316.2 of the Act. Any portion of the Facilities may be financed through a lease or lease-purchase arrangement if the District hereafter determines that such arrangement is of benefit to the District.

Section 5. Except where funds are otherwise available, it is the intention of the City Council to levy annually in accordance with procedures contained in the Act a special tax within each Improvement Area, secured by recordation of a continuing lien against all nonexempt real property in that Improvement Area, sufficient to pay for: (i) the Facilities and Incidental Expenses; and (ii) the principal and interest and other periodic costs on bonds or other indebtedness issued for such Improvement Area to finance the Facilities and Incidental Expenses, including the establishment and replenishment of any reserve funds deemed necessary by the District, and any remarketing, credit enhancement and liquidity facility fees (including such fees for instruments which serve as the basis of a reserve fund in lieu of cash). The rate and method of apportionment and manner of collection of the special tax within each Improvement Area are described in detail in Exhibit "C" attached hereto and incorporated herein by this reference. Exhibit "C" allows each landowner within each of the Improvement Areas proposed within the District to estimate the maximum amount that may be levied against each parcel. In the first year in which such special tax is levied, the levy shall include an amount sufficient to repay the District all amounts, if any, transferred to the District pursuant to Section 53314 of the Act and interest thereon.

If special taxes of the District are levied against any parcel used for private residential purposes, (i) the maximum special tax rate shall not be increased over time except that it may be increased by an amount not to exceed two percent (2%) per year to the extent permitted in the rate and method of apportionment; (ii) such tax shall be levied for a period not to exceed fifty (50) years commencing with Fiscal Year 2001-2002, as further described in Exhibit "C" hereto; and (iii) under no circumstances will such special tax be increased as a consequence of delinquency or default by the owner of any other parcels within the District by more than ten percent.

The special tax within a proposed Improvement Area is based on the expected demand that each parcel of real property within the proposed Improvement Area will place on the Facilities and on the benefit that each parcel derives from the right to access the Facilities. The Council hereby determines that the proposed Facilities are necessary to meet the increased demand placed upon the City and the existing infrastructure in the City as a result of the development of land proposed for inclusion in the District. The Council hereby determines the rate and method of apportionment of the special tax set forth in Exhibit "C" for each proposed Improvement Area to be reasonable. The special tax is apportioned to each parcel on the foregoing basis pursuant to Section 53325.3 of the Act and such special tax is not based upon the value or ownership of real property. In the event that a portion of the property within a proposed Improvement Area of Community Facilities District No. 2001-1 shall become for any reason exempt, wholly or partially, from the levy of the special tax specified on Exhibit "C", the Council shall, on behalf of Community Facilities District No. 2001-1, cause the levy to be increased, subject to the limitation of the maximum special tax for a parcel as set forth in Exhibit "C," to the extent necessary upon the remaining property within that Improvement Area which is not delinquent or exempt in order to yield the special tax revenues required for the purposes described in Section 5. The obligation to pay special taxes may be prepaid as set forth in Exhibit "C."

Section 6. A public hearing (the "Hearing") on the establishment of Community Facilities District No. 2001-1, each proposed Improvement Area, the proposed rate and method of apportionment of the Special Tax and the proposed issuance of bonds by the Improvement Area to finance the Facilities and the Incidental Expenses shall be held on January 8, 2002, at 6:00 o'clock p.m., or as soon thereafter as practicable, at the chambers of the City Council of the City of Perris, 101 North "D" Street, Perris, California 92570. Should the Council determine to form the District and establish the Improvement Areas, a special election will be held within each Improvement Area to authorize the issuance of bonds and the levy of the Special Tax in accordance with the procedures contained in Government Code Section 53326. If held, the proposed voting procedure at the elections will be a landowner vote with each landowner who is the owner of record of land within an Improvement Area at the close of the Hearing, or the authorized representative thereof, having one vote for each acre or portion thereof owned within the Improvement Area. Ballots for the special elections may be distributed by mail or by personal service.

Section 7. At the time and place set forth above for the Hearing, any interested person, including all persons owning lands or registered to vote within the proposed District, may appear and be heard.

Section 8. Each City officer who is or will be responsible for the District, if it is established, is hereby directed to study the proposed District and, at or before the time of the above-mentioned Hearing, file a report with the City Council, and which is to be made a part of the record of the Hearing, containing a brief description of the public facilities by type which will in his or her opinion be required to meet adequately the needs of Community Facilities District No. 2001-1 and an estimate of the cost of providing those public facilities, including the cost of environmental evaluations of such facilities and an estimate of the fair and reasonable cost of any Incidental Expenses to be incurred.

Section 9. The City may accept advances of funds or work-in-kind from any sources, including, but not limited to, private persons or private entities, for any authorized purpose, including, but not limited to, paying the cost incurred in creating Community Facilities District No. 2001-1. The District may enter into an agreement with the person or entity advancing the funds or work-in-kind, to repay all or a portion of the funds advanced, or to reimburse the person or entity for the value, or cost, whichever is less, of the work-in-kind, as determined by the Council, with or without interest.

Section 10. The City Clerk is hereby directed to publish a notice ("Notice") of the Hearing pursuant to Section 6061 of the Government Code in a newspaper of general circulation published in the area of the proposed District. Such Notice shall contain the text of this Resolution, state the time and place of the Hearing, a statement that the testimony of all interested persons or taxpayers will be heard, a description of the protest rights of the registered voters and landowners in the proposed District as provided in Section 53324 of the Act and a description of the proposed voting procedure for the election required by the Act. Such publication shall be completed at least 7 days prior to the date of the Hearing.

Section 11. Except to the extent limited in any bond resolution or trust indenture related to the issuance of bonds, the Council hereby reserves to itself all rights and powers set forth in Section 53344.1 of the Act (relating to tenders in full or partial payment).

Section 12. The previous Resolution of Intention adopted by the Council on August 28, 2001, is hereby repealed and of no further force or effect.

ADOPTED, SIGNED and APPROVED this 27th day of November, 2001.

MAYOR OF THE CITY OF PERRIS

Attest:

City Clerk

STATE OF CALIFORNIA)
COUNTY OF RIVERSIDE) §
CITY OF PERRIS)

I, Margaret Rey, duly elected City Clerk of the City of Perris, California, hereby certify that the foregoing Resolution Number 2894 was duly and regularly adopted by the City Council of the City of Perris at a regular meeting held the 27th day of November, 2001, by the following called vote:

Ayes: Busch, Yarbrough, Larios, Motte
Noes:
Absent: Rogers

City Clerk

EXHIBIT A

COMMUNITY FACILITIES DISTRICT NO. 2001-1 BOUNDARY

EXHIBIT B

TYPES OF FACILITIES TO BE FINANCED BY

COMMUNITY FACILITIES DISTRICT NO. 2001-1

Streets, roadway improvements, including improvements to intersections and arterial highways, street lights, landscaping, sanitary sewers, water supply, including sewer and water treatment facilities, and storm drainage, school facilities, impact fees and other fees.

EXHIBIT C
RATE AND METHOD OF APPORTIONMENT
OF SPECIAL TAX
RATE AND METHOD OF APPORTIONMENT FOR
IMPROVEMENT AREA NO. 1 OF
COMMUNITY FACILITIES DISTRICT NO. 2001-1 (MAY FARMS)
OF THE CITY OF PERRIS

The following sets forth the Improvement Area No. 1 Rate and Method of Apportionment (the "Improvement Area No. 1 Rate and Method") for the levy and collection of Special Taxes in Community Facilities District No. 2001-1 (May Farms) of the City of Perris ("CFD No. 2001-1"). In each Fiscal Year, in an amount determined through the application of the Improvement Area No. 1 Rate and Method, all of the real property in CFD No. 2001-1 shall be taxed for the purposes, to the extent, and in the manner herein provided, except (i) property that is exempted by law or by the provisions of this Improvement Area No. 1 Rate and Method, and (ii) Security Property (as defined herein) that has been released in accordance with the provisions of this Improvement Area No. 1 Rate and Method.

SECTION A
DEFINITIONS

The terms hereinafter set forth have the following meanings:

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

"Administrative Expenses" means any ordinary and necessary expense incurred by the City in connection with Improvement Area No. 1 of CFD No. 2001-1 related to the determination of the amount of the levy of Special Taxes, the collection of Special Taxes including the expenses of collecting delinquencies, the administration of the Improvement Area No. 1 Bonds, the payment of salaries and benefits of any City employee whose duties are directly related to the administration of Improvement Area No. 1 of CFD No. 2001-1, and costs otherwise incurred in order to carry out the authorized purposes of Improvement Area No. 1 of CFD No. 2001-1.

"Annual Special Tax" means the Special Tax actually levied in any Fiscal Year on any Assessor's Parcel pursuant to this Improvement Area No. 1 Rate and Method.

"Assessor's Parcel" means any lot or parcel of land designated on an Assessor's Parcel Map with an assigned Assessor's Parcel Number within the boundaries of CFD No. 2001-1.

"Assessor's Parcel Map" means an official map of the Assessor of the County designating parcels by Assessor's Parcel Number.

"Assessor's Parcel Number" means that number assigned to an Assessor's Parcel by the County for purposes of identification.

"Building Permit" means a permit for the construction of one or more Units. For purposes of this definition, "Building Permit" shall not include permits for construction or installation of retaining walls, utility improvements, or other insubstantial improvement.

"Calendar Year" means the period commencing January 1 of any year and ending the following December 31.

"CFD No. 2001-1" means Community Facilities District No. 2001-1 (May Farms) of the City of Perris.

"City Council" means the City Council of the City of Perris or its designee as the legislative body of CFD No. 2001-1.

"County" means the County of Riverside.

"Debt Service Coverage Ratio" shall mean the number calculated for Improvement Area No. 1 Bonds by dividing (i) the sum of the Maximum Special Tax for each parcel of Developed Property in Improvement Area No. 1 to be levied in the current Fiscal Year, less Administrative Expenses for such Fiscal Year, by (ii) the Maximum Annual Debt Service for the Improvement Area No. 1 Bonds.

"Developed Property" means all Assessor's Parcels for which a Building Permit was issued on or before May 1 of the prior Fiscal Year, provided that such Assessor's Parcels were created on or before January 1 of the prior Fiscal Year.

"Exempt Property" means all Assessor's Parcels designated as being exempt from Special Taxes in Section J.

"Fiscal Year" means the period commencing on July 1 of any year and ending the following June 30.

"Improvement Areas" means one or more areas of property within CFD No. 2001-1 created as separate improvement areas pursuant to Section 53350 of the Act.

"Improvement Area No. 1" means Improvement Area No. 1 of CFD No. 2001-1.

"Improvement Area No. 1 Bonds" means one or more series of special tax bonds issued by Improvement Area No. 1 of CFD No. 2001-1 which are secured by the collection of special taxes levied pursuant to this Improvement Area No. 1 Rate and Method.

"Maximum Annual Debt Service" means the maximum sum obtained in any future Calendar Year by adding the following for each such Calendar Year: (1) the principal amount of all Outstanding Improvement Area No. 1 Bonds payable in such Calendar Year either at maturity or pursuant to a sinking fund payment, and (2) the interest payable on the aggregate principal amount of all Improvement Area No. 1 Bonds Outstanding in such Calendar Year if the Improvement Area No. 1 Bonds are retired as scheduled.

"Maximum Special Tax" means the maximum Special Tax, determined in accordance with Section C, that can be levied by CFD No. 2001-1 in any Fiscal Year on any Assessor's Parcel.

"Minimum Annual Special Tax Requirement" means the amount required to be collected in any Fiscal Year to pay: (i) annual debt service, lease payments, or other periodic costs on all Outstanding Improvement Area No. 1 Bonds coming due in the next succeeding Calendar Year, (ii) Administrative Expenses to be paid during the next succeeding Calendar Year, (iii) the costs associated with the release of funds from any escrow account in the next succeeding Calendar Year, and (iv) any amount required to establish or replenish any reserve funds established in association with the Improvement Area No. 1 Bonds, less (v) amounts on deposit in any fund or account which are available to pay debt service, lease payments, or other periodic costs during the next succeeding Calendar Year on all Outstanding Improvement Area No. 1 Bonds pursuant to any applicable fiscal agent agreement, bond indenture, or trust agreement.

"Outstanding" means all Improvement Area No. 1 Bonds issued by CFD No. 2001-1 except: (i) Improvement Area No. 1 Bonds theretofore cancelled or surrendered for cancellation in accordance with any applicable fiscal agent agreement, bond indenture, or trust agreement, (2) Improvement Area No. 1 Bonds payment or redemption of which monies shall have been deposited in trust, provided that, if such Improvement Area No. 1 Bonds are to be redeemed prior to maturity thereof, notice of redemption shall have been given as provided in any applicable fiscal agent agreement, bond indenture, or trust agreement, (3) Improvement Area No. 1 Bonds which have been surrendered to the fiscal agent or trustee for transfer or exchange pursuant to any applicable fiscal agent agreement, bond indenture, or trust agreement, and (4) Improvement Area No. 1 Bonds for which a replacement Improvement Area No. 1 Bond has been issued pursuant to any applicable fiscal agent agreement, bond indenture, or trust agreement.

"Partial Prepayment Amount" means the amount required to prepay a portion of the Annual Special Tax obligation for an Assessor's Parcel, as described in Section H.

"Prepayment Amount" means the amount required to prepay the Annual Special Tax obligation in full for an Assessor's Parcel, as described in Section G.

"Proportionately" means that the ratio of the actual Annual Special Tax levy to the applicable Maximum Special Tax is equal for all applicable Assessor's Parcels.

"Release of the Security Property" means the Fiscal Year in which the Security Property is released from the lien of this Improvement Area No. 1 Rate and Method pursuant to Section D herein.

"**Security Property**" means all property in CFD No. 2001-1 that is not located within the boundaries of Improvement Area No. 1.

"**Security Property Improvement Areas**" means the Improvement Areas (other than Improvement Area No. 1) where all Security Property in CFD No. 2001-1 is located.

"**Special Tax**" means any of the special taxes authorized to be levied by CFD No. 2001-1 pursuant to the Act and this Improvement Area No. 1 Rate and Method.

"**Taxable Property**" means all Assessor's Parcels which are not Exempt Property and which are subject to the lien of Special Taxes levied pursuant to this Improvement Area No. 1 Rate and Method.

"**Undeveloped Property**" means all Assessor's Parcels of Taxable Property which are not Developed Property.

"**Unit**" means each separate residential dwelling unit which comprises an independent facility capable of conveyance separate from adjacent residential dwelling units.

**SECTION B
CLASSIFICATION OF ASSESSOR'S PARCELS**

For each Fiscal Year, beginning with Fiscal Year 2002-2003, each Assessor's Parcel shall be classified as Developed Property, Undeveloped Property, or Exempt Property.

**SECTION C
MAXIMUM SPECIAL TAXES**

The Maximum Special Tax applicable to an Assessor's Parcel in Fiscal Year 2002-2003 shall be determined pursuant to Table 1 below.

Section 1. TABLE 1

Classification of Property	Maximum Special Tax for Fiscal Year 2002-2003
Developed Property	\$1,200.00 per Unit
Undeveloped Property	\$0.195 per square foot of Parcel
Exempt Property	\$0.00

Commencing in Fiscal Year 2003-2004, the Maximum Special Tax for each classification of Assessor's Parcels set forth in Table 1 (other than Exempt Property) shall increase by 2.0% of the amount set forth in Table 1. Thereafter, annually in each Fiscal Year, commencing in Fiscal Year 2004-2005, the Maximum Special Tax for each classification of Assessor's Parcels (other than Exempt Property) shall increase by 2.0% of the amount of the immediately prior Fiscal Year's Maximum Special Tax for such classification of Assessor's Parcels.

**SECTION D
RELEASE OF SECURITY PROPERTY FROM SPECIAL TAXES**

On or after July 1 of each year, but in no event later than July 15 of each year, the City, on behalf of CFD No. 2001-1, shall calculate the Debt Service Coverage Ratio as of July 1 of such Fiscal Year for the Improvement Area No. 1 Bonds. If, for the Improvement Area No. 1 Bonds, the Debt Service Coverage Ratio equals 1.10 or greater, the City, on behalf of CFD No. 2001-1, shall release all Security Property from the lien of this Improvement Area No. 1 Rate and Method by recording a Notice of Cessation of Special Tax Lien against the Security Property such that the lien of the Special Taxes levied in accordance with this Improvement Area No. 1 Rate and Method is removed from the Security Property. From and after the release of the Security Property pursuant hereto, the Improvement Area No. 1 Bonds shall be secured solely by the property in Improvement Area No. 1.

**SECTION E
METHOD OF APPORTIONMENT OF THE ANNUAL SPECIAL TAX
PRIOR TO RELEASE OF SECURITY PROPERTY**

Commencing in Fiscal Year 2002-2003 and for each subsequent Fiscal Year prior to the Release of the Security Property, the City Council shall levy Annual Special Taxes as follows:

- Step One: The City Council shall levy an Annual Special Tax Proportionately on each Assessor's Parcel of Developed Property in Improvement Area No. 1 in an amount not to exceed the Maximum Special Tax applicable to each such Assessor's Parcel.

- Step Two: If the sum of the amounts collected in step one is insufficient to satisfy the Minimum Annual Special Tax Requirement, then the City Council shall additionally levy an Annual Special Tax Proportionately on each Assessor's Parcel of Undeveloped Property in Improvement Area No. 1, up to the Maximum Special Tax applicable to each such Assessor's Parcel to satisfy the Minimum Annual Special Tax Requirement.

- Step Three: If the sum of the amounts collected in steps one and two is insufficient to satisfy the Minimum Annual Special Tax Requirement, then the City Council shall additionally levy an Annual Special Tax Proportionately on each Assessor's Parcel of Developed Property in the Security Property Improvement Areas, up to the Maximum Special Tax applicable to each such Assessor's Parcel to satisfy the Minimum Annual Special Tax Requirement.

Step Four: If the sum of the amounts collected in steps one, two and three is insufficient to satisfy the Minimum Annual Special Tax Requirement, then the City Council shall additionally levy an Annual Special Tax Proportionately on each Assessor's Parcel of Undeveloped Property in the Security Property Improvement Areas, up to the Maximum Special Tax applicable to each such Assessor's Parcel to satisfy the Minimum Annual Special Tax Requirement.

**SECTION F
METHOD OF APPORTIONMENT OF THE ANNUAL SPECIAL TAX
FROM AND AFTER THE RELEASE OF SECURITY PROPERTY**

Commencing in the Fiscal Year in which the Security Property is released pursuant to Section D and for each subsequent Fiscal Year thereafter, the City Council shall levy Annual Special Taxes as follows:

Step One: The City Council shall levy an Annual Special Tax Proportionately on each Assessor's Parcel of Developed Property in Improvement Area No. 1 in an amount not to exceed the Maximum Special Tax applicable to each such Assessor's Parcel.

Step Two: If the sum of the amounts collected in step one is insufficient to satisfy the Minimum Annual Special Tax Requirement, then the City Council shall additionally levy an Annual Special Tax Proportionately on each Assessor's Parcel of Undeveloped Property in Improvement Area No. 1, up to the Maximum Special Tax applicable to each such Assessor's Parcel to satisfy the Minimum Annual Special Tax Requirement.

**SECTION G
PREPAYMENT OF ANNUAL SPECIAL TAXES**

The Annual Special Tax obligation of an Assessor's Parcel of Developed Property or an Assessor's Parcel of Undeveloped Property for which a Building Permit has been issued may be prepaid in full at the times and under the conditions set forth in this Section G, provided that there are no delinquent Special Taxes, penalties, or interest charges Outstanding with respect to such Assessor's Parcel at the time the Annual Special Tax obligation would be prepaid. Undeveloped Property for which no Building Permit has been issued may not prepay its Annual Special Tax obligation. The Prepayment Amount for an Assessor's Parcel eligible for prepayment shall be determined as described below.

The Prepayment Amount for each eligible Assessor's Parcel shall be determined pursuant to the following formula (capitalized terms defined below):

Improvement Area No. 1 Bond Redemption Amount	
plus	Redemption Premium
plus	Defeasance
plus	Administrative Fee
<u>less</u>	<u>Reserve Fund Credit</u>
equals	Prepayment Amount

As of the date of prepayment, the Prepayment Amount shall be calculated as follows:

1. Confirm that there are no Special Tax delinquencies with respect such Assessor's Parcel.
2. For Assessor's Parcels of Developed Property, compute the Maximum Special Tax applicable to the Assessor's Parcel on the date of calculation. For Assessor's Parcels of Undeveloped Property, compute the Maximum Special Tax applicable to the Assessor's Parcel as though it was already designated as Developed Property, based upon the Building Permit which has already been issued for that Assessor's Parcel.
3. For each Assessor's Parcel of Developed Property and Undeveloped Property to be prepaid, divide the Maximum Special Tax computed pursuant to Section G.1. for such Assessor's Parcel by the estimated Maximum Special Taxes applicable to all Assessor's Parcels of Developed Property in Improvement Area No. 1 at buildout, as reasonably determined by the City Council.
4. Multiply the quotient computed pursuant to paragraph 3 by the face value of all Outstanding Improvement Area No. 1 Bonds. The product shall be the "Improvement Area No. 1 Bond Redemption Amount."
5. Multiply the Improvement Area No. 1 Bond Redemption Amount by the applicable redemption premium, if any, on the Outstanding Improvement Area No. 1 Bonds to be redeemed with the proceeds of the Improvement Area No. 1 Bond Redemption Amount. This product is the "Redemption Premium."
6. Compute the amount needed to pay interest on the Improvement Area No. 1 Bond Redemption Amount, the Redemption Premium, and the Reserve Fund Credit (see step 10) to be redeemed with the proceeds of the Prepayment Amount until the earliest call date for the Outstanding Improvement Area No. 1 Bonds.
7. Estimate the amount of interest earnings to be derived from the reinvestment of the Improvement Area No. 1 Bond Redemption Amount plus the Redemption Premium until the earliest call date for the Outstanding Improvement Area No. 1 Bonds.

8. Subtract the amount computed pursuant to paragraph 7 from the amount computed pursuant to paragraph 6. This difference is the "Defeasance."

9. Estimate the administrative fees and expenses associated with the prepayment, including the costs of computation of the Prepayment Amount, the costs of redeeming Improvement Area No. 1 Bonds, and the costs of recording any notices to evidence the prepayment and the redemption. This amount is the "Administrative Fee."

10. Determine the lesser of: (a) the expected reduction in the applicable reserve requirement, if any, associated with the redemption of Outstanding Improvement Area No. 1 Bonds as a result of the prepayment, or (b) the amount derived by subtracting the new reserve requirement in effect after the redemption of Outstanding Improvement Area No. 1 Bonds as a result of the prepayment from the balance in the applicable reserve fund on the prepayment date. If the result is greater than zero, then the result is the "Reserve Fund Credit." If the result is less than zero, then no Reserve Fund Credit shall be given.

11. The Prepayment Amount is equal to the sum of the Improvement Area No. 1 Bond Redemption Amount, the Redemption Premium, the Defeasance, and the Administrative Fee, less the Reserve Fund Credit.

With respect to an Annual Special Tax obligation that is prepaid, the City Council shall indicate in the records of CFD No. 2001-1 that there has been a prepayment of the Annual Special Tax obligation and shall cause a suitable notice to be recorded in compliance with the Act within thirty (30) days of receipt of such prepayment of the Annual Special Tax obligation, to indicate the prepayment of the Annual Special Tax obligation and the release of the Annual Special Tax lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay such Annual Special Taxes shall cease.

The Prepayment Amount may not be fully utilized to redeem Improvement Area No. 1 Bonds due to the requirement that the Improvement Area No. 1 Bonds be redeemed in \$5,000 increments. In such cases, the increment above \$5,000 or any integral multiple thereof will be retained in the appropriate fund established under the fiscal agent agreement, bond indenture or trust agreement to redeem Improvement Area No. 1 Bonds to be used with the next prepayment of Improvement Area No. 1 Bonds.

Notwithstanding the foregoing, no prepayment will be allowed unless the amount of the Maximum Special Taxes that may be levied on Taxable Property, net of Administrative Expenses, shall be at least 1.10 times the Maximum Annual Debt Service on the Improvement Area No. 1 Bonds.

**SECTION H
PARTIAL PREPAYMENT OF ANNUAL SPECIAL TAXES**

The Annual Special Tax obligation of an Assessor's Parcel may be partially prepaid at the times and under the conditions set forth in this Section H, provided that there are no delinquent Special Taxes, penalties, or interest charges Outstanding with respect to such Assessor's Parcel at the time the Annual Special Tax obligation would be prepaid.

The Partial Prepayment Amount shall be calculated according to the following formula:

$$PP = (PG) \times (F)$$

These terms have the following meanings:

PP = the Partial Prepayment Amount

PG = the Prepayment Amount calculated according to Section G

F = the percent by which the owner of the Assessor's Parcel is partially prepaying the Annual Special Tax obligation.

With respect to any Assessor's Parcel that is partially prepaid, the City Council shall indicate in the records of CFD No. 2001-1 that there has been a partial prepayment of the Annual Special Tax obligation and shall cause a suitable notice to be recorded in compliance with the Act within thirty (30) days of receipt of such partial prepayment of the Annual Special Tax obligation, to indicate the partial prepayment of the Annual Special Tax obligation and the partial release of the Annual Special Tax lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay such prepaid portion of the Annual Special Tax shall cease.

Notwithstanding the foregoing, no partial prepayment will be allowed unless the amount of Annual Special Taxes applicable to Taxable Property after such partial prepayment, net of Administrative Expenses, shall be at least 1.10 times the Maximum Annual Debt Service on the Improvement Area No. 1 Bonds.

**SECTION I
TERMINATION OF SPECIAL TAX**

The Annual Special Taxes shall not be levied after Fiscal Year 2042-2043.

**SECTION J
EXEMPTIONS**

The City Council shall classify as Exempt Property (i) Assessor's Parcels owned by the State of California, Federal or other local governments, (ii) Assessor's Parcels which are used as places of worship and are exempt from ad valorem property taxes because they are owned by a religious organization, (iii) Assessor's Parcels used exclusively by a homeowners' or property owners' association, and (iv) Assessor's Parcels with public or utility easements making impractical their utilization for other than the purposes set forth in the easement.

**SECTION K
APPEALS**

Any property owner claiming that the amount or application of the Special Tax is not correct may file a written notice of appeal with the City Council not later than twelve months after having paid the first installment of the Special Tax that is disputed. A representative of CFD No. 2001-1 shall promptly review the appeal, and, if necessary, meet with the property owner, consider written and oral evidence regarding the amount of the Special Tax, and rule on the appeal. If the representative's decision requires that the Special Tax for an Assessor's Parcel be modified or changed in favor of the property owner, a cash refund shall not be made (except for the last year of levy), but an adjustment shall be made to the Annual Special Tax on that Assessor's Parcel in the subsequent Fiscal Year(s).

**SECTION L
AMENDMENT**

Prior to the Release of the Secured Property, this Improvement Area No. 1 Rate and Method may only be amended or modified pursuant to the Act by the qualified electors in both Improvement Area No. 1 and in the Secured Property Improvement Areas at the time of such amendment or modification. From and after the Release of the Security Property, this Improvement Area No. 1 Rate and Method may only be amended or modified by the qualified electors in Improvement Area No. 1 at the time of such amendment or modification.

**SECTION M
MANNER OF COLLECTION**

The Annual Special Tax shall be collected in the same manner and at the same time as ordinary ad valorem property taxes, provided, however, that CFD No. 2001-1 may collect Annual Special Taxes at a different time or in a different manner if necessary to meet its financial obligations.

**RATE AND METHOD OF APPORTIONMENT FOR
IMPROVEMENT AREA NO. 2 OF
COMMUNITY FACILITIES DISTRICT NO. 2001-1 (MAY FARMS)
OF THE CITY OF PERRIS**

The following sets forth the Improvement Area No. 2 Rate and Method of Apportionment (the "Improvement Area No. 2 Rate and Method") for the levy and collection of Special Taxes in Community Facilities District No. 2001-1 (May Farms) of the City of Perris ("CFD No. 2001-1"). In each Fiscal Year, in an amount determined through the application of the Improvement Area No. 2 Rate and Method, all of the real property in CFD No. 2001-1 shall be taxed for the purposes, to the extent, and in the manner herein provided, except (i) property in Improvement Area No. 1, (ii) property that is exempted by law or by the provisions of this Improvement Area No. 2 Rate and Method, and (iii) Security Property (as defined herein) that has been released in accordance with the provisions of this Improvement Area No. 2 Rate and Method.

**SECTION A
DEFINITIONS**

The terms hereinafter set forth have the following meanings:

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

"**Administrative Expenses**" means any ordinary and necessary expense incurred by the City in connection with Improvement Area No. 2 of CFD No. 2001-1 related to the determination of the amount of the levy of Special Taxes, the collection of Special Taxes including the expenses of collecting delinquencies, the administration of the Improvement Area No. 2 Bonds, the payment of salaries and benefits of any City employee whose duties are directly related to the administration of Improvement Area No. 2 of CFD No. 2001-1, and costs otherwise incurred in order to carry out the authorized purposes of Improvement Area No. 2 of CFD No. 2001-1.

"**Annual Special Tax**" means the Special Tax actually levied in any Fiscal Year on any Assessor's Parcel pursuant to this Improvement Area No. 2 Rate and Method.

"**Assessor's Parcel**" means any lot or parcel of land designated on an Assessor's Parcel Map with an assigned Assessor's Parcel Number within the boundaries of CFD No. 2001-1.

"**Assessor's Parcel Map**" means an official map of the Assessor of the County designating parcels by Assessor's Parcel Number.

"**Assessor's Parcel Number**" means that number assigned to an Assessor's Parcel by the County for purposes of identification.

"Building Permit" means a permit for the construction of one or more Units. For purposes of this definition, "Building Permit" shall not include permits for construction or installation of retaining walls, utility improvements, or other insubstantial improvement.

"Calendar Year" means the period commencing January 1 of any year and ending the following December 31.

"CFD No. 2001-1" means Community Facilities District No. 2001-1 (May Farms) of the City of Perris.

"City Council" means the City Council of the City of Perris or its designee as the legislative body of CFD No. 2001-1.

"County" means the County of Riverside.

"Debt Service Coverage Ratio" shall mean the number calculated for Improvement Area No. 2 Bonds by dividing (i) the sum of the Maximum Special Tax for each parcel of Developed Property in Improvement Area No. 2 to be levied in the current Fiscal Year, less Administrative Expenses for such Fiscal Year, by (ii) the Maximum Annual Debt Service for the Improvement Area No. 2 Bonds.

"Developed Property" means all Assessor's Parcels for which a Building Permit was issued on or before May 1 of the prior Fiscal Year, provided that such Assessor's Parcels were created on or before January 1 of the prior Fiscal Year.

"Exempt Property" means all Assessor's Parcels designated as being exempt from Special Taxes in Section J.

"Fiscal Year" means the period commencing on July 1 of any year and ending the following June 30.

"Improvement Areas" means one or more areas of property within CFD No. 2001-1 created as separate improvement areas pursuant to Section 53350 of the Act.

"Improvement Area No. 1" means Improvement Area No. 1 of CFD No. 2001-1.

"Improvement Area No. 2" means Improvement Area No. 2 of CFD No. 2001-1.

"Improvement Area No. 2 Bonds" means one or more series of special tax bonds issued by Improvement Area No. 2 of CFD No. 2001-1 which are secured by the collection of special taxes levied pursuant to this Improvement Area No. 2 Rate and Method.

"Maximum Annual Debt Service" means the maximum sum obtained in any future Calendar Year by adding the following for each such Calendar Year: (1) the principal amount of all Outstanding Improvement Area No. 2 Bonds payable in such Calendar Year either at maturity or pursuant to a sinking fund payment, and (2) the interest payable on the aggregate principal amount of all Improvement Area No. 2 Bonds Outstanding in such Calendar Year if the Improvement Area No. 2 Bonds are retired as scheduled.

"Maximum Special Tax" means the maximum Special Tax, determined in accordance with Section C, that can be levied by CFD No. 2001-1 in any Fiscal Year on any Assessor's Parcel.

"Minimum Annual Special Tax Requirement" means the amount required to be collected in any Fiscal Year to pay: (i) annual debt service, lease payments, or other periodic costs on all Outstanding Improvement Area No. 2 Bonds coming due in the next succeeding Calendar Year, (ii) Administrative Expenses to be paid during the next succeeding Calendar Year, (iii) the costs associated with the release of funds from any escrow account in the next succeeding Calendar Year, and (iv) any amount required to establish or replenish any reserve funds established in association with the Improvement Area No. 2 Bonds, less (v) amounts on deposit in any fund or account which are available to pay debt service, lease payments, or other periodic costs during the next succeeding Calendar Year on all Outstanding Improvement Area No. 2 Bonds pursuant to any applicable fiscal agent agreement, bond indenture, or trust agreement.

"Outstanding" means all Improvement Area No. 2 Bonds issued by CFD No. 2001-1 except: (i) Improvement Area No. 2 Bonds theretofore cancelled or surrendered for cancellation in accordance with any applicable fiscal agent agreement, bond indenture, or trust agreement, (2) Improvement Area No. 2 Bonds payment or redemption of which monies shall have been deposited in trust, provided that, if such Improvement Area No. 2 Bonds are to be redeemed prior to maturity thereof, notice of redemption shall have been given as provided in any applicable fiscal agent agreement, bond indenture, or trust agreement, (3) Improvement Area No. 2 Bonds which have been surrendered to the fiscal agent or trustee for transfer or exchange pursuant to any applicable fiscal agent agreement, bond indenture, or trust agreement, and (4) Improvement Area No. 2 Bonds for which a replacement Improvement Area No. 2 Bond has been issued pursuant to any applicable fiscal agent agreement, bond indenture, or trust agreement.

"Partial Prepayment Amount" means the amount required to prepay a portion of the Annual Special Tax obligation for an Assessor's Parcel, as described in Section H.

"Prepayment Amount" means the amount required to prepay the Annual Special Tax obligation in full for an Assessor's Parcel, as described in Section G.

"Proportionately" means that the ratio of the actual Annual Special Tax levy to the applicable Maximum Special Tax is equal for all applicable Assessor's Parcels.

"Release of the Security Property" means the Fiscal Year in which the Security Property is released from the lien of this Improvement Area No. 2 Rate and Method pursuant to Section D herein.

"**Security Property**" means all property in CFD No. 2001-1 that is not located within the boundaries of Improvement Area No. 2 or Improvement No. 1.

"**Security Property Improvement Areas**" means the Improvement Areas (other than Improvement Area No. 2 and Improvement Area No. 1) where all Security Property in CFD No. 2001-1 is located.

"**Special Tax**" means any of the special taxes authorized to be levied by CFD No. 2001-1 pursuant to the Act and this Improvement Area No. 2 Rate and Method.

"**Taxable Property**" means all Assessor's Parcels which are not Exempt Property and which are subject to the lien of Special Taxes levied pursuant to this Improvement Area No. 2 Rate and Method.

"**Undeveloped Property**" means all Assessor's Parcels of Taxable Property which are not Developed Property.

"**Unit**" means each separate residential dwelling unit which comprises an independent facility capable of conveyance separate from adjacent residential dwelling units.

**SECTION B
CLASSIFICATION OF ASSESSOR'S PARCELS**

For each Fiscal Year, beginning with Fiscal Year 2002-2003, each Assessor's Parcel shall be classified as Developed Property, Undeveloped Property, or Exempt Property.

**SECTION C
MAXIMUM SPECIAL TAXES**

The Maximum Special Tax applicable to an Assessor's Parcel in Fiscal Year 2002-2003 shall be determined pursuant to Table 1 below.

TABLE 1

<u>Classification of Property</u>	<u>Maximum Special Tax for Fiscal Year 2002-2003</u>
Developed Property	\$1,200.00 per Unit
Undeveloped Property	\$0.52 per square foot of Parcel
Exempt Property	\$0.00

Commencing in Fiscal Year 2003-2004, the Maximum Special Tax for each classification of Assessor's Parcels set forth in Table 1 (other than Exempt Property) shall increase by 2.0% of the amount set forth in Table 1. Thereafter, annually in each Fiscal Year, commencing in Fiscal Year 2004-2005, the Maximum Special Tax for each classification of Assessor's Parcels (other than Exempt Property) shall increase by 2.0% of the amount of the immediately prior Fiscal Year's Maximum Special Tax for such classification of Assessor's Parcels.

**SECTION D
RELEASE OF SECURITY PROPERTY FROM SPECIAL TAXES**

On or after July 1 of each year, but in no event later than July 15 of each year, the City, on behalf of CFD No. 2001-1, shall calculate the Debt Service Coverage Ratio as of July 1 of such Fiscal Year for the Improvement Area No. 2 Bonds. If, for the Improvement Area No. 2 Bonds, the Debt Service Coverage Ratio equals 1.10 or greater, the City, on behalf of CFD No. 2001-1, shall release all Security Property (as defined in this Improvement Area No. 2 Rate and Method) from the lien of this Improvement Area No. 1 Rate and Method by recording a Notice of Cessation of Special Tax Lien against the Security Property such that the lien of the Special Taxes levied in accordance with this Improvement Area No. 2 Rate and Method is removed from the Security Property. From and after the release of the Security Property pursuant hereto, the Improvement Area No. 2 Bonds shall be secured solely by the property in Improvement Area No. 2.

**SECTION E
METHOD OF APPORTIONMENT OF THE ANNUAL SPECIAL TAX
PRIOR TO RELEASE OF SECURITY PROPERTY**

Commencing (i) in the Fiscal Year in which the first issuance of the Improvement Area No. 2 Bonds are issued (provided the Improvement Area No. 2 Bonds are issued prior to August 1 of any Fiscal Year) or (ii) in the Fiscal Year immediately following the Fiscal Year in which the first issuance of the Improvement Area No. 2 Bonds are issued (if the Improvement Area No. 2 Bonds are issued on August 1 or later in any Fiscal Year), and for each subsequent Fiscal Year prior to the Release of the Security Property, the City Council shall levy Annual Special Taxes as follows:

- Step One: The City Council shall levy an Annual Special Tax Proportionately on each Assessor's Parcel of Developed Property in Improvement Area No. 2 in an amount not to exceed the Maximum Special Tax applicable to each such Assessor's Parcel.

- Step Two: If the sum of the amounts collected in step one is insufficient to satisfy the Minimum Annual Special Tax Requirement, then the City Council shall additionally levy an Annual Special Tax Proportionately on each Assessor's Parcel of Undeveloped Property in Improvement Area No. 2, up to the Maximum Special Tax applicable to each such Assessor's Parcel to satisfy the Minimum Annual Special Tax Requirement.

- Step Three: If the sum of the amounts collected in steps one and two is insufficient to satisfy the Minimum Annual Special Tax Requirement, then the City Council shall additionally levy an Annual Special Tax Proportionately on each Assessor's Parcel of Developed Property in the Security Property Improvement Areas, up to the Maximum Special Tax applicable to each such Assessor's Parcel to satisfy the Minimum Annual Special Tax Requirement.

Step Four: If the sum of the amounts collected in steps one, two and three is insufficient to satisfy the Minimum Annual Special Tax Requirement, then the City Council shall additionally levy an Annual Special Tax Proportionately on each Assessor's Parcel of Undeveloped Property in the Security Property Improvement Areas, up to the Maximum Special Tax applicable to each such Assessor's Parcel to satisfy the Minimum Annual Special Tax Requirement.

**SECTION F
METHOD OF APPORTIONMENT OF THE ANNUAL SPECIAL TAX
FROM AND AFTER THE RELEASE OF SECURITY PROPERTY**

Commencing in the Fiscal Year in which the Security Property is released pursuant to Section D and for each subsequent Fiscal Year thereafter, the City Council shall levy Annual Special Taxes as follows:

Step One: The City Council shall levy an Annual Special Tax Proportionately on each Assessor's Parcel of Developed Property in Improvement Area No. 2 in an amount not to exceed the Maximum Special Tax applicable to each such Assessor's Parcel.

Step Two: If the sum of the amounts collected in step one is insufficient to satisfy the Minimum Annual Special Tax Requirement, then the City Council shall additionally levy an Annual Special Tax Proportionately on each Assessor's Parcel of Undeveloped Property in Improvement Area No. 2, up to the Maximum Special Tax applicable to each such Assessor's Parcel to satisfy the Minimum Annual Special Tax Requirement.

**SECTION G
PREPAYMENT OF ANNUAL SPECIAL TAXES**

The Annual Special Tax obligation of an Assessor's Parcel of Developed Property or an Assessor's Parcel of Undeveloped Property for which a Building Permit has been issued may be prepaid in full at the times and under the conditions set forth in this Section G, provided that there are no delinquent Special Taxes, penalties, or interest charges Outstanding with respect to such Assessor's Parcel at the time the Annual Special Tax obligation would be prepaid. Undeveloped Property for which no Building Permit has been issued may not prepay its Annual Special Tax obligation. The Prepayment Amount for an Assessor's Parcel eligible for prepayment shall be determined as described below.

The Prepayment Amount for each eligible Assessor's Parcel shall be determined pursuant to the following formula (capitalized terms defined below):

Improvement Area No. 2 Bond Redemption Amount	
plus	Redemption Premium
plus	Defeasance
plus	Administrative Fee
less	Reserve Fund Credit
<hr/>	
equals	Prepayment Amount

As of the date of prepayment, the Prepayment Amount shall be calculated as follows:

12. Confirm that there are no Special Tax delinquencies with respect such Assessor's Parcel.

13. For Assessor's Parcels of Developed Property, compute the Maximum Special Tax applicable to the Assessor's Parcel on the date of calculation. For Assessor's Parcels of Undeveloped Property, compute the Maximum Special Tax applicable to the Assessor's Parcel as though it was already designated as Developed Property, based upon the Building Permit which has already been issued for that Assessor's Parcel.

14. For each Assessor's Parcel of Developed Property and Undeveloped Property to be prepaid, divide the Maximum Special Tax computed pursuant to Section G.1. for such Assessor's Parcel by the estimated Maximum Special Taxes applicable to all Assessor's Parcels of Developed Property in Improvement Area No. 2 at buildout, as reasonably determined by the City Council.

15. Multiply the quotient computed pursuant to paragraph 3 by the face value of all Outstanding Improvement Area No. 2 Bonds. The product shall be the "Improvement Area No. 2 Bond Redemption Amount."

16. Multiply the Improvement Area No. 2 Bond Redemption Amount by the applicable redemption premium, if any, on the Outstanding Improvement Area No. 2 Bonds to be redeemed with the proceeds of the Improvement Area No. 2 Bond Redemption Amount. This product is the "Redemption Premium."

17. Compute the amount needed to pay interest on the Improvement Area No. 2 Bond Redemption Amount, the Redemption Premium, and the Reserve Fund Credit (see step 10) to be redeemed with the proceeds of the Prepayment Amount until the earliest call date for the Outstanding Improvement Area No. 2 Bonds.

18. Estimate the amount of interest earnings to be derived from the reinvestment of the Improvement Area No. 2 Bond Redemption Amount plus the Redemption Premium until the earliest call date for the Outstanding Improvement Area No. 2 Bonds.

19. Subtract the amount computed pursuant to paragraph 7 from the amount computed pursuant to paragraph 6. This difference is the "Defeasance."

20. Estimate the administrative fees and expenses associated with the prepayment, including the costs of computation of the Prepayment Amount, the costs of redeeming Improvement Area No. 2 Bonds, and the costs of recording any notices to evidence the prepayment and the redemption. This amount is the "Administrative Fee."

21. Determine the lesser of: (a) the expected reduction in the applicable reserve requirement, if any, associated with the redemption of Outstanding Improvement Area No. 2 Bonds as a result of the prepayment, or (b) the amount derived by subtracting the new reserve requirement in effect after the redemption of Outstanding Improvement Area No. 2 Bonds as a result of the prepayment from the balance in the applicable reserve fund on the prepayment date. If the result is greater than zero, then the result is the "Reserve Fund Credit." If the result is less than zero, then no Reserve Fund Credit shall be given.

22. The Prepayment Amount is equal to the sum of the Improvement Area No. 2 Bond Redemption Amount, the Redemption Premium, the Defeasance, and the Administrative Fee, less the Reserve Fund Credit.

With respect to an Annual Special Tax obligation that is prepaid, the City Council shall indicate in the records of CFD No. 2001-1 that there has been a prepayment of the Annual Special Tax obligation and shall cause a suitable notice to be recorded in compliance with the Act within thirty (30) days of receipt of such prepayment of the Annual Special Tax obligation, to indicate the prepayment of the Annual Special Tax obligation and the release of the Annual Special Tax lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay such Annual Special Taxes shall cease.

The Prepayment Amount may not be fully utilized to redeem Improvement Area No. 2 Bonds due to the requirement that the Improvement Area No. 2 Bonds be redeemed in \$5,000 increments. In such cases, the increment above \$5,000 or any integral multiple thereof will be retained in the appropriate fund established under the fiscal agent agreement, bond indenture or trust agreement to redeem Improvement Area No. 2 Bonds to be used with the next prepayment of Improvement Area No. 2 Bonds.

Notwithstanding the foregoing, no prepayment will be allowed unless the amount of the Maximum Special Taxes that may be levied on Taxable Property, net of Administrative Expenses, shall be at least 1.10 times the Maximum Annual Debt Service on the Improvement Area No. 2 Bonds.

**SECTION H
PARTIAL PREPAYMENT OF ANNUAL SPECIAL TAXES**

The Annual Special Tax obligation of an Assessor's Parcel may be partially prepaid at the times and under the conditions set forth in this Section H, provided that there are no delinquent Special Taxes, penalties, or interest charges Outstanding with respect to such Assessor's Parcel at the time the Annual Special Tax obligation would be prepaid.

The Partial Prepayment Amount shall be calculated according to the following formula:

$$PP = (PG) \times (F)$$

These terms have the following meanings:

PP = the Partial Prepayment Amount

PG = the Prepayment Amount calculated according to Section G

F = the percent by which the owner of the Assessor's Parcel is partially prepaying the Annual Special Tax obligation.

With respect to any Assessor's Parcel that is partially prepaid, the City Council shall indicate in the records of CFD No. 2001-1 that there has been a partial prepayment of the Annual Special Tax obligation and shall cause a suitable notice to be recorded in compliance with the Act within thirty (30) days of receipt of such partial prepayment of the Annual Special Tax obligation, to indicate the partial prepayment of the Annual Special Tax obligation and the partial release of the Annual Special Tax lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay such prepaid portion of the Annual Special Tax shall cease.

Notwithstanding the foregoing, no partial prepayment will be allowed unless the amount of Annual Special Taxes applicable to Taxable Property after such partial prepayment, net of Administrative Expenses, shall be at least 1.10 times the Maximum Annual Debt Service on the Improvement Area No. 2 Bonds.

**SECTION I
TERMINATION OF SPECIAL TAX**

The Annual Special Taxes shall not be levied after Fiscal Year 2042-2043.

**SECTION J
EXEMPTIONS**

The City Council shall classify as Exempt Property (i) Assessor's Parcels owned by the State of California, Federal or other local governments, (ii) Assessor's Parcels which are used as places of worship and are exempt from ad valorem property taxes because they are owned by a religious organization, (iii) Assessor's Parcels used exclusively by a homeowners' or property owners' association, and (iv) Assessor's Parcels with public or utility easements making impractical their utilization for other than the purposes set forth in the easement.

**SECTION K
APPEALS**

Any property owner claiming that the amount or application of the Special Tax is not correct may file a written notice of appeal with the City Council not later than twelve months after having paid the first installment of the Special Tax that is disputed. A representative of CFD No. 2001-1 shall promptly review the appeal, and, if necessary, meet with the property owner, consider written and oral evidence regarding the amount of the Special Tax, and rule on the appeal. If the representative's decision requires that the Special Tax for an Assessor's Parcel be modified or changed in favor of the property owner, a cash refund shall not be made (except for the last year of levy), but an adjustment shall be made to the Annual Special Tax on that Assessor's Parcel in the subsequent Fiscal Year(s).

**SECTION L
AMENDMENT**

Prior to the Release of the Secured Property, this Improvement Area No. 2 Rate and Method may only be amended or modified pursuant to the Act by the qualified electors in both Improvement Area No. 2 and in the Secured Property Improvement Areas at the time of such amendment or modification. From and after the Release of the Security Property, this Improvement Area No. 2 Rate and Method may only be amended or modified by the qualified electors in Improvement Area No. 2 at the time of such amendment or modification.

**SECTION M
MANNER OF COLLECTION**

The Annual Special Tax shall be collected in the same manner and at the same time as ordinary ad valorem property taxes, provided, however, that CFD No. 2001-1 may collect Annual Special Taxes at a different time or in a different manner if necessary to meet its financial obligations.