# RATE AND METHOD OF APPORTIONMENT FOR IMPROVEMENT AREA NO. 1 OF CITY OF AZUSA COMMUNITY FACILITIES DISTRICT NO. 2005-1 (ROSEDALE)

Special Taxes as hereinafter defined shall be levied on all Assessor's Parcels in Improvement Area No. 1 ("IA No. 1") of the City of Azusa Community Facilities District No. 2005-1 (Rosedale) ("CFD No. 2005-1") and collected each Fiscal Year commencing in Fiscal Year 2006-2007, in an amount determined by the Council through the application of the appropriate Special Tax for "Developed Property," "Other Taxable Property," and "Undeveloped Property" as described below. All of the real property in IA No. 1, unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent and in the manner herein provided.

## A. DEFINITIONS

This Rate and Method of Apportionment employs terms defined below and terms defined in the Rate and Method of Apportionment for Improvement Area No. 2. When necessary, terms defined in the latter shall be distinguished from terms defined in the former by including the words "IA No. 2" prior to the defined term. The terms hereinafter set forth have the following meanings:

**"Acre or Acreage"** means the land area of an Assessor's Parcel as shown on an Assessor's Parcel Map, or if the land area is not shown on an Assessor's Parcel Map, the land area shown on the applicable final map, parcel map, condominium plan, or other recorded County parcel map.

**"Act"** means the Mello-Roos Community 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 the following actual or reasonably estimated costs directly related to the administration of IA No. 1 and each Zone therein: the costs of computing the Special Taxes and preparing the annual Special Tax collection schedules (whether by the City or designee thereof or both); the costs of collecting the Special Taxes (whether by the County or otherwise); the costs of remitting the Special Taxes to the Trustee; the costs of the Trustee (including its legal counsel) in the discharge of the duties required of it under the Indenture; the costs to the City, IA No. 1 or any designee thereof of complying with arbitrage rebate requirements; the costs to the City, IA No. 1 or any designee thereof of complying with City, IA No. 1 or obligated persons disclosure requirements associated with applicable federal and state securities laws and of the Act; the costs associated with preparing Special Tax disclosure statements and responding to public inquiries regarding the Special Taxes or the Bonds; the costs of the City, IA No. 1 or any designee thereof related to an appeal of the Special Tax; the costs associated with the release of funds from an escrow account; that portion of the City's overhead and staff time related to the administration of IA No. 1; and the City's third party expenses. Administrative Expenses shall also include amounts estimated or advanced by the City or IA No. 1 for any other administrative purposes of IA No. 1, including attorney's fees and other costs related to commencing and pursuing to completion any foreclosure of delinquent Special Taxes.

**"Assessor's Parcel"** means a lot or parcel shown on an Assessor's Parcel Map with an assigned Assessor's Parcel number.

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

**"Assigned Special Tax A"** means the Special Tax A for each Land Use Class of Developed Property within IA No. 1, as determined in accordance with Section C.1 below.

**"Backup Special Tax A"** means the Special Tax A applicable to each Assessor's Parcel of Developed Property within IA No.1, as determined in accordance with Section C.1 below.

**"Bonds"** means any bonds or other debt (as defined in Section 53317(d) of the Act), whether in one or more series, issued by IA No. 1 under the Act.

**"Builder"** means an entity which owns a residential dwelling unit immediately prior to the issuance of a Certificate of Occupancy, and then enters into a contract to sell that dwelling unit for its Value to an Original Homeowner.

**"Certificate of Occupancy"** means a document issued by the City which permits the initial habitation of a newly constructed residential dwelling unit.

**"CFD Administrator"** means an official of the City, or designee thereof, responsible for determining the Special Tax Requirement for Facilities and the Special Tax Requirement for Services, and providing for the levy and collection of the Special Taxes.

**"CFD No. 2005-1"** means City of Azusa Community Facilities District No. 2005-1 (Rosedale).

**"City"** means the City of Azusa.

**"Council"** means the City Council of the City, acting as the legislative body of CFD No. 2005-1.

**"County"** means the County of Los Angeles.

**"Developed Property"** means, for each Fiscal Year, all Taxable Property, exclusive of Taxable Property Owner Association Property, or Taxable Public Property, for which a building permit for new construction was issued after January 1, 2006 and as of May 1 of the previous Fiscal Year.

**"Final Map"** means (i) a final map, or portion thereof, approved by the City pursuant to the Subdivision Map Act (California Government Code Section 66410 *et seq*.) that creates individual lots or parcels for which residential building permits may be issued, or (ii) for condominiums, a final map approved by the City and a condominium plan recorded pursuant to California Civil Code Section 1352 creating such individual lots or parcels.

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

**"Improvement Area No. 1"** or **"IA No. 1"** means Improvement Area No. 1 of CFD No. 2005-1, as identified on the boundary map for CFD No. 2005-1, and includes each Zone therein.

**"Improvement Area No. 2"** or **"IA No. 2"** means Improvement Area No. 2 of CFD No. 2005-1, as identified on the boundary map for CFD No. 2005-1, and includes each Zone therein.

**"Indenture"** means the indenture, fiscal agent agreement, resolution or other instrument pursuant to which Bonds are issued, as modified, amended and/or supplemented from time to time.

**"Land Use Class"** means any of the classes listed in Table 1, Table 2, or Table 6.

**"Maximum Special Tax"** means the Maximum Special Tax A and/or Maximum Special Tax B, as applicable.

**"Maximum Special Tax A"** means the Maximum Special Tax A, determined in accordance with Section C.1 below, that can be levied in any Fiscal Year on any Assessor's Parcel within IA No. 1.

**"Maximum Special Tax B"** means the Maximum Special Tax B, determined in accordance with Section C.2 below, that can be levied in any Fiscal Year on any Assessor's Parcel within IA No. 1.

**"Non-Residential Property"** means all Assessor's Parcels of Developed Property for which a building permit(s) was issued for a non-residential use.

**"One-Time Special Tax"** means a one-time special tax payable by a Builder prior to issuance of a Certificate of Occupancy for a residential dwelling unit in order to reduce the Maximum Special Tax A on such dwelling unit, so that the Total Tax and Assessment Obligation for the Fiscal Year in which a Certificate of Occupancy for such residential dwelling unit is expected to be issued will not exceed two percent (2.0%) of the Value of such residential dwelling unit.

**"Original Homeowner"** means the first homeowner expected to purchase and close escrow on a residential dwelling unit from a Builder after the issuance of a Certificate of Occupancy.

**"Other Taxable Property"** means Taxable Property Owner Association Property and Taxable Public Property.

**"Outstanding Bonds"** means all Bonds which are deemed to be outstanding under the Indenture.

**"Property Owner Association Property"** means, for each Fiscal Year, any Assessor's Parcel within the boundaries of IA No. 1 that was owned by or irrevocably offered for dedication to a property owner association, including any master or sub-association, as of January 1 of the previous Fiscal Year.

**"Proportionately"** means for Developed Property that the ratio of the actual Special Tax A levy to the Assigned Special Tax A is equal for all Assessor's Parcels of Developed Property and that the ratio of the actual Special Tax B levy to the Maximum Special Tax B is equal for all Assessor's Parcels of Developed Property. For Undeveloped Property and Other Taxable Property, "Proportionately" means that the ratio of the actual Special Tax A levy per Acre to the Maximum Special Tax A per Acre is equal for all Assessor's Parcels of Undeveloped Property or Other Taxable Property and that the ratio of the actual Special Tax B levy to the Maximum Special Tax B is equal for all Assessor's Parcels of Undeveloped Property or Other Taxable Property.

**"Public Property"** means, for each Fiscal Year, (i) any property within the boundaries of IA No. 1 that was owned by or irrevocably offered for dedication to the federal government, the State, the City or any other public agency as of January 1 of the previous Fiscal Year; provided however that any property leased by a public agency to a private entity and subject to taxation under Section 53340.1 of the Act shall be taxed and classified in accordance with its use; or (ii) any property within the boundaries of CFD No. 2005-1 that was encumbered, as of January 1 of the previous Fiscal Year, by an unmanned utility easement making impractical its utilization for other than the purpose set forth in the easement.

**"Residential Floor Area"** for any Residential Property means all of the square footage of living area within the perimeter of a residential structure, not including any carport, walkway, garage, overhang, patio, enclosed patio, or similar area. The determination of Residential Floor Area shall be made by reference to the building permit(s) issued for each dwelling unit.

**"Residential Property"** means all Assessor's Parcels of Developed Property for which a building permit has been issued for purposes of constructing one or more residential dwelling units.

**"RMA"** means Rate and Method of Apportionment.

**"Special Tax"** means the Special Tax A, Special Tax B, and/or One-Time Special Tax, as applicable.

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

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

**"Special Tax Requirement for Facilities"** means that amount required in any Fiscal Year for IA No. 1 to: (i) pay debt service on all Outstanding Bonds; (ii) pay periodic costs on the

Bonds, including but not limited to, credit enhancement and rebate payments on the Bonds; (iii) pay all or a portion of Administrative Expenses; (iv) pay any amounts required to establish or replenish any reserve funds for all Outstanding Bonds; (v) pay directly for acquisition or construction facilities eligible under the Act and authorized to be financed in IA No. 1 to the extent that inclusion of such amount does not increase the Special Tax A levy on Undeveloped Property; and (vi) pay for reasonably anticipated Special Tax A delinquencies based on the delinquency rate for Special Taxes levied in the previous Fiscal Year; less (vii) a credit for funds available to reduce the annual Special Tax A levy, as determined by the CFD Administrator pursuant to the Indenture.

**"Special Tax Requirement for Services"** means that amount required in any Fiscal Year for CFD No. 2005-1 to: (i) pay directly for all public services eligible under the Act; (ii) pay Administrative Expenses not funded through the Special Tax Requirement for Facilities as determined by the CFD Administrator and IA No. 2 Administrative Expenses not funded through the IA No. 2 Special Tax Requirement for Facilities; less (iii) a credit for funds available to reduce the annual Special Tax B levy and the IA No. 2 Special Tax B levy, as determined by the CFD Administrator. The Special Tax Requirement for Services represents the total amount to be levied in any Fiscal Year within IA No. 1 and IA No. 2.

**"State"** means the State of California.

**"Taxable Property"** means all of the Assessor's Parcels within the boundaries of IA No. 1 which are not exempt from the Special Tax pursuant to law or Section F below.

**"Taxable Property Owner Association Property"** means all Assessor's Parcels of Property Owner Association Property that are not exempt from the Special Tax pursuant to Section F below.

**"Taxable Public Property"** means all Assessor’s Parcels of Public Property that are not exempt pursuant to Section F below.

**“Total Tax and Assessment Obligation”** means for any residential dwelling unit, the sum of the projected *ad valorem* taxes and any other charges, special assessments, or taxes which are expected to be included on the annual property tax bill for the Fiscal Year in which a Certificate of Occupancy for such residential dwelling unit is expected to be issued. For purposes of this calculation, the CFD Administrator shall include the Maximum Special Tax A and Maximum Special Tax B for CFD No. 2005-1 plus estimated amounts for all other items expected to appear on the property tax bill.

**"Trustee"** means the trustee or fiscal agent under the Indenture.

**"Undeveloped Property"** means, for each Fiscal Year, all Taxable Property not classified as Developed Property or Other Taxable Property.

**“Value”** means the full sales price of a residential dwelling unit as determined prior to the close of escrow by the Builder and the Original Homeowner, as listed on the preliminary escrow closing statement prepared by the title company for such sale, or if such preliminary escrow closing statement is unavailable, as reasonably determined by the CFD

Administrator.

**"Zone"** means Zone 1 and/or Zone 2, as applicable.

**"Zone 1"** means the property identified as Zone 1 (Planning Areas 4A, 4B, 5A, 5B, and 7A) of IA No. 1, as identified on the boundary map for CFD No. 2005-1.

**"Zone 2"** means the property identified as Zone 2 (Village Core and Garden Court) of IA No. 1, as identified on the boundary map for CFD No. 2005-1.

## B. ASSIGNMENT TO LAND USE CATEGORIES

Each Fiscal Year, all Taxable Property within IA No. 1 shall be assigned to Zone 1 or Zone 2 and classified as Developed Property, Other Taxable Property, or Undeveloped Property, and shall be subject to Special Taxes in accordance with the rate and method of apportionment determined pursuant to Sections C and D below. Developed Property shall be classified as Residential Property and Non-Residential Property.

## C. MAXIMUM SPECIAL TAX RATE

### 1. Special Tax A

a. Developed Property

Residential Property in Zone 1 shall be assigned to Land Use Classes 1 through 10 in Table 1, and Non-Residential Property in Zone 1 shall be assigned to Land Use Class 11 in Table 1. Residential Property in Zone 2 shall be assigned to Land Use Class 1 through 5 in Table 2, and Non-Residential Property in Zone 2 shall be assigned to Land Use Class 6 in Table 2. The Assigned Special Tax A for Residential Property shall be based on the Residential Floor Area of the dwelling units located on the Assessor's Parcel. The Assigned Special Tax A for Non-Residential Property shall be based on the Acreage of the Assessor's Parcel.

(i) Maximum Special Tax A

The Maximum Special Tax A for each Assessor's Parcel classified as Developed Property in IA No. 1 shall be the greater of (i) the amount derived by application of the Assigned Special Tax A or (ii) the amount derived by application of the Backup Special Tax A.

(ii) Assigned Special Tax A – Zone 1

The Fiscal Year 2006-07 Assigned Special Tax A for each Land Use Class within Zone 1 is shown below in Table 1.

**TABLE 1**
**Assigned Special Tax A for Developed Property**
**Fiscal Year 2006-2007**
**Zone 1**

| Land Use Class | Description | Residential Floor Area | Zone 1 (PA 4A, 4B, 5A, 5B, 7A) Assigned Special Tax A |
|---|---|---|---|
| 1 | Residential Property | > 4,150 SF | $7,007.40 per unit |
| 2 | Residential Property | 3,951 – 4,150 SF | $6,524.94 per unit |
| 3 | Residential Property | 3,751 – 3,950 SF | $6,424.98 per unit |
| 4 | Residential Property | 3,551 – 3,750 SF | $6,163.86 per unit |
| 5 | Residential Property | 3,351 – 3,550 SF | $5,977.20 per unit |
| 6 | Residential Property | 3,151 – 3,350 SF | $5,865.00 per unit |
| 7 | Residential Property | 2,951 – 3,150 SF | $5,621.22 per unit |
| 8 | Residential Property | 2,751 – 2,950 SF | $5,304.00 per unit |
| 9 | Residential Property | 2,551 – 2,750 SF | $4,866.42 per unit |
| 10 | Residential Property | < 2,551 SF | $4,509.42 per unit |
| 11 | Non-Residential Property | NA | $30,600.00 per Acre |

On each July 1, commencing July 1, 2007 the Assigned Special Tax A for each Land Use Class shall be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year.

(iii) Assigned Special Tax A – Zone 2

The Fiscal Year 2006-07 Assigned Special Tax A for each Land Use Class within Zone 2 is shown below in Table 2.

**TABLE 2**
**Assigned Special Tax A for Developed Property**
**Fiscal Year 2006-2007**
**Zone 2**

| Land Use Class | Description | Residential Floor Area | Zone 2 (Village Core and Garden Court) Assigned Special Tax A |
|---|---|---|---|
| 1 | Residential Property | > 2,700 SF | $4,974.54 per unit |
| 2 | Residential Property | 2,501 – 2,700 SF | $4,775.64 per unit |
| 3 | Residential Property | 2,301 – 2,500 SF | $4,537.98 per unit |
| 4 | Residential Property | 2,101 – 2,300 SF | $4,526.76 per unit |
| 5 | Residential Property | < 2,101 SF | $4,288.08 per unit |
| 6 | Non-Residential Property | NA | $30,600.00 per Acre |

On each July 1, commencing July 1, 2007 the Assigned Special Tax A for each Land Use Class shall be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year.

(iv) Backup Special Tax A

a. Residential Property

The Fiscal Year 2006-07 Backup Special Tax A attributable to Residential Property within a Final Map will equal the amount indicated in Table 3 below for the applicable Final Map multiplied by the Acreage of all Taxable Property located within such Final Map, excluding current or expected Non-Residential Property or Other Taxable Property.

The Fiscal Year 2006-07 Backup Special Tax A for each Assessor's Parcel of Residential Property in a Final Map shall be computed by dividing the aggregate Backup Special Tax A attributable to such Final Map by the number of Assessor's Parcels of Taxable Property for which building permits for residential construction have or may be issued (i.e., the number of residential dwelling units).

**<u>TABLE 3</u>**
**Backup Special Tax A**
**Fiscal Year 2006-07**
**for Final Maps in IA No. 1**

| Zone | Tentative Tract/Tract | FY 2006-07 Backup Special Tax A |
|---|---|---|
| Zone 1 | 54057-8 | $45,101.88 per Acre |
| Zone 1 | 54057-12 | $36,594.95 per Acre |
| Zone 1 | 54057-18 | $40,951.50 per Acre |
| Zone 1 | 54057-20 | $46,611.42 per Acre |
| Zone 1 | 54057-3 | $42,229.63 per Acre |
| Zone 1 | 54057-9 | $37,204.31 per Acre |
| Zone 1 | 54057-19 | $44,178.24 per Acre |
| Zone 1 | 54057-13 | $44,814.30 per Acre |
| Zone 1 | 54057-7 | $38,254.94 per Acre |
| Zone 1 | 54057-10 | $38,060.74 per Acre |
| Zone 1 | 54057-16 | $37,810.34 per Acre |
| Zone 1 | 54057-14 | $36,423.64 per Acre |
| Zone 1 | 54057-4 | $45,298.06 per Acre |
| Zone 1 | 54057-15 | $38,512.52 per Acre |
| Zone 1 | 54057-17 | $37,009.35 per Acre |
| Zone 1 | 54057-11 | $42,864.33 per Acre |
| Zone 1 | 54057-6 | $35,559.60 per Acre |
| Zone 1 | 54057-2 | $31,709.12 per Acre |
| Zone 1 | 54057-5 | $33,405.16 per Acre |
| Zone 1 | Any Other Tract | $43,421.02 per Acre |
| Zone 2 | 63336 | $74,329.91 per Acre |
| Zone 2 | 64417 | $74,791.09 per Acre |
| Zone 2 | Any Other Tract | $82,581.06 per Acre |

Notwithstanding the foregoing, if all or any portion of a Final Map is subsequently changed or modified, then the Backup Special Tax A for each Assessor's Parcel of Residential Property in such Final Map that is changed or modified shall be a rate per Acre calculated as follows:

1. Determine the total Backup Special Tax A anticipated to apply to the changed or modified Final Map prior to the change or modification.

2. The result of paragraph 1 above shall be divided by the total Acreage of Taxable Property excluding Non-Residential Property and Other Taxable Property which is expected to exist in such changed or modified Final Map area, as reasonably determined by the CFD Administrator.

3. The result is the Backup Special Tax A per Acre which shall be applicable to all Assessor's Parcels of Residential Property in such changed or modified Final Map.

The Backup Special Tax A shall not change for an Assessor's Parcel of Residential Property within a Final Map unless such Assessor's Parcel of Residential Property was changed or modified.

On each July 1, commencing July 1, 2007 the Backup Special Tax A for each Final Map shall be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year.

b. Non-Residential Property

The Fiscal Year 2006-07 Backup Special Tax A attributable to Non-Residential Property shall be the amount indicated in Table 4 below.

**TABLE 4**
**Backup Special Tax A for Non-Residential Property Fiscal Year 2006-07 Zone 1 and Zone 2**

| Zone | FY 2006-07 Backup Special Tax A for Non-Residential Property |
|---|---|
| 1 | $43,421.02 per Acre |
| 2 | $82,581.06 per Acre |

On each July 1, commencing July 1, 2007 the Backup Special Tax A for Non-Residential Property shall be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year.

(v) Multiple Land Use Classes

In some instances an Assessor's Parcel of Developed Property may contain more than one Land Use Class. The Assigned Special Tax A levied on an Assessor's Parcel shall be the sum of the Assigned Special Tax A for all Land Use Classes located on that Assessor's Parcel. The Maximum Special Tax A that can be levied on an

Assessor's Parcel shall be the sum of the Maximum Special Tax A that can be levied for all Land Use Classes located on that Assessor's Parcel. For an Assessor's Parcel that contains both Residential Property and Non-Residential Property, the Acreage of such Assessor's Parcel shall be allocated to each type of property based on the amount of Acreage designated for each land use as determined by reference to the site plan approved for such Assessor's Parcel. The CFD Administrator's allocation to each type of property shall be final.

b. Undeveloped Property and Other Taxable Property

The Fiscal Year 2006-07 Maximum Special Tax A for Undeveloped Property and Other Taxable Property within each Zone is shown below in Table 5.

**TABLE 5**
**Maximum Special Tax A for**
**Undeveloped Property and Other Taxable Property**
**Fiscal Year 2006-07**
**Zone 1 and Zone 2**

| Zone | FY 2006-07 Maximum Special Tax A |
|---|---|
| 1 | $43,725.36 per Acre |
| 2 | $83,203.44 per Acre |

On each July 1, commencing July 1, 2007 the Maximum Special Tax A for Undeveloped Property and Other Taxable Property in Zone 1 and Zone 2 shall be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year.

**2. Special Tax B**

a. Developed Property

(i) Maximum Special Tax B

The Fiscal Year 2006-07 Maximum Special Tax B for each Assessor's Parcel classified as Developed Property in Zone 1 and Zone 2 shall be the amount shown below in Table 6.

**TABLE 6**
**Maximum Special Tax B for Developed Property**
**Fiscal Year 2006-07**
**Zone 1 and Zone 2**

| Land Use Class | Description | Zone 1 FY 2006-07 Maximum Special Tax B | Zone 2 FY 2006-07 Maximum Special Tax B |
|---|---|---|---|
| 1 | Residential Property | $571.24 per unit | $423.30 per unit |
| 2 | Non-Residential Property | $3,621.52 per Acre | $6,152.79 per Acre |

On each July 1, commencing July 1, 2007 the Maximum Special Tax B for Developed Property in Zone 1 and Zone 2 shall be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year.

(ii) Multiple Land Use Classes

In some instances an Assessor's Parcel of Developed Property may contain more than one Land Use Class. The Maximum Special Tax B levied on an Assessor's Parcel shall be the sum of the Maximum Special Tax B for all Land Use Classes located on that Assessor's Parcel.

b. Undeveloped Property

The Fiscal Year 2006-07 Maximum Special Tax B for Undeveloped Property within each Zone is shown below in Table 7.

**TABLE 7**
**Maximum Special Tax B for**
**Undeveloped Property**
**Fiscal Year 2006-07**
**Zone 1 and Zone 2**

| Zone | FY 2006-07 Maximum Special Tax B |
|---|---|
| 1 | $1,773.46 per Acre |
| 2 | $1,773.46 per Acre |

On each July 1, commencing July 1, 2007 the Maximum Special Tax B for Undeveloped Property in Zone 1 and Zone 2 shall be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year.

c. Property Owner Association Property and Public Property

There shall be no Special Tax B levied on Property Owner Association Property and Public Property.

## D. ONE-TIME SPECIAL TAX

Prior to the issuance of a Certificate of Occupancy for a residential dwelling unit, the CFD Administrator shall make a one-time determination of whether or not a One-Time Special Tax payment is required for such dwelling unit. The CFD Administrator shall charge a fee for providing this determination.

A One-Time Special Tax payment shall be paid by the Builder for a residential dwelling unit if the Total Tax and Assessment Obligation is expected to be greater than two percent (2.0%) of the Value for such residential dwelling unit. The amount of the One-Time Special Tax for such residential dwelling unit shall equal that Partial Prepayment Amount calculated pursuant to Section I.2 which shall be sufficient to reduce the Total Tax and Assessment Obligation to two percent (2.0%) of the Value for such residential dwelling unit.

If the Total Tax and Assessment Obligation for a residential dwelling unit is expected to be less than or equal to two percent (2.0%) of the Value of such residential dwelling unit, no One-Time Special Tax will be required.

## E. METHOD OF APPORTIONMENT OF THE SPECIAL TAX

### 1. Special Tax A

Commencing with Fiscal Year 2006-2007 and for each following Fiscal Year, the Council shall levy the Special Tax A until the amount of Special Tax A equals the Special Tax Requirement for Facilities. The Special Tax A shall be levied each Fiscal Year as follows:

First: The Special Tax A shall be levied Proportionately on each Assessor's Parcel of Developed Property in Zone 1 and Zone 2 at up to 100% of the applicable Assigned Special Tax A as needed to satisfy the Special Tax Requirement for Facilities;

Second: If additional monies are needed to satisfy the Special Tax Requirement for Facilities after the first step has been completed, the Special Tax A shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property in Zone 1 and Zone 2 at up to 100% of the Maximum Special Tax A for Undeveloped Property;

Third: If additional monies are needed to satisfy the Special Tax Requirement for Facilities after the first two steps have been completed, then the levy of the Special Tax A on each Assessor's Parcel of Developed Property in Zone 1 and Zone 2 whose

Maximum Special Tax A is determined through the application of the Backup Special Tax A shall be increased in equal percentages from the Assigned Special Tax A up to the Maximum Special Tax A for each such Assessor's Parcel;

Fourth: If additional monies are needed to satisfy the Special Tax Requirement for Facilities after the first three steps have been completed, then the Special Tax A shall be levied Proportionately on each Assessor's Parcel of Other Taxable Property in Zone 1 and Zone 2 at up to the Maximum Special Tax A for Other Taxable Property.

**2. Special Tax B**

Commencing with Fiscal Year 2006-2007 and for each following Fiscal Year, the Council shall determine the Special Tax Requirement for Services and levy the Special Tax B, taking into consideration the levy of the IA No. 2 Special Tax B, until the amount of Special Tax B and IA No. 2 Special Tax B equals the Special Tax Requirement for Services. The Special Tax B shall be levied each Fiscal Year as follows:

First: The Special Tax B shall be levied Proportionately on each Assessor's Parcel of Developed Property in Zone 1 and Zone 2 at up to 100% of the applicable Maximum Special Tax B as needed to satisfy the Special Tax Requirement for Services; and the Council shall be notified that under the terms of the IA No. 2 RMA, the IA No. 2 Special Tax B shall be levied on each Assessor's Parcel of IA No. 2 Developed Property in Zone 1 and Zone 2 at up to 100% of the applicable IA No. 2 Maximum Special Tax B as needed to satisfy the Special Tax Requirement for Services;

Second: If additional monies are needed to satisfy the Special Tax Requirement for Services after the first step has been completed, the Special Tax B shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property in Zone 1 and Zone 2 at up to 100% of the Maximum Special Tax B for Undeveloped Property; the Council shall be notified that under the terms of the IA No. 2 RMA, the IA No. 2 Special Tax B shall be levied Proportionately on each Assessor's Parcel of IA No. 2 Undeveloped Property in Zone 1 and Zone 2 at up to 100% of the IA No. 2 Maximum Special Tax B for Undeveloped Property.

**3. One-Time Special Tax**

The One-Time Special Tax may be levied on any Assessor's Parcel as required in Section D.

Notwithstanding the above, under no circumstances will the Special Tax A or Special Tax B levied against any Assessor's Parcel of Residential Property for which a Certificate of Occupancy for private residential use has been issued be increased by more than ten percent as a consequence of delinquency or default by the owner of any other Assessor's Parcel within CFD No. 2005-1.

## F. EXEMPTIONS

### 1. Special Tax A

No Special Tax A shall be levied on up to 97.36 Acres of Property Owner Association Property and Public Property in Zone 1 and up to 15.62 Acres of Property Owner Association Property and Public Property in Zone 2. Tax-exempt status will be assigned by the CFD Administrator in the chronological order in which property becomes Property Owner Association Property or Public Property. However, should an Assessor's Parcel no longer be classified as Property Owner Association Property or Public Property its tax-exempt status will be revoked.

Property Owner Association Property or Public Property that is not exempt from Special Tax A under this section shall be subject to the levy of the Special Tax A and shall be taxed Proportionately as part of the fourth step in Section E.1 above, at up to 100% of the applicable Maximum Special Tax A for Other Taxable Property.

### 2. Special Tax B

No Special Tax B shall be levied on Property Owner Association Property and Public Property.

## G. APPEALS AND INTERPRETATIONS

Any landowner or resident may file a written appeal of the Special Tax on his/her property with the CFD Administrator, provided that the appellant is current in his/her payments of Special Taxes. During the pendency of an appeal, all Special Taxes previously levied must be paid on or before the payment date established when the levy was made. The appeal must specify the reasons why the appellant claims the Special Tax is in error. The CFD Administrator shall review the appeal, meet with the appellant if the CFD Administrator deems necessary, and advise the appellant of its determination. If the CFD Administrator agrees with the appellant, the CFD Administrator shall eliminate or reduce the Special Tax on the appellant's property and/or provide a refund to the appellant. If the CFD Administrator disagrees with the appellant and the appellant is dissatisfied with the determination, the appellant then has 30 days in which to appeal to the Council by filing a written notice of appeal with the City Clerk, provided that the appellant is current in his/her payments of Special Taxes. The second appeal must specify the reasons for its disagreement with the CFD Administrator's determination.

Interpretations may be made by the Council by ordinance or resolution for purposes of clarifying any vagueness or ambiguity in this Rate and Method of Apportionment.

## H. MANNER OF COLLECTION

The Special Tax A and Special Tax B shall be collected in the same manner and at the same time as ordinary *ad valorem* property taxes; provided, however, that IA No. 1 may directly bill the Special Tax, may collect Special Taxes at a different time or in a different manner if necessary to meet its financial obligations, and may covenant to foreclose and may actually foreclose on delinquent Assessor's Parcels as permitted by the Act.

The One-Time Special Tax shall be paid directly to the City by, or on behalf of, the Builder.

## I. PREPAYMENT OF SPECIAL TAX

The following definitions apply to this Section I:

**"CFD Public Facilities"** means either $58.2 million in 2006 dollars, which shall increase by the Construction Inflation Index on July 1, 2007, and on each July 1 thereafter, or such lower number as (i) shall be determined by the CFD Administrator as sufficient to provide the public facilities to be provided by IA No. 1 under the authorized bonding program for IA No. 1, or (ii) shall be determined by the Council concurrently with a covenant that it will not issue any more Bonds to be supported by Special Taxes levied under this Rate and Method of Apportionment as described in Section E.

**"Construction Inflation Index"** means the annual percentage change in the Engineering News-Record Building Cost Index for the City of Los Angeles, measured as of the calendar year which ends in the previous Fiscal Year. In the event this index ceases to be published, the Construction Inflation Index shall be another index as determined by the CFD Administrator that is reasonably comparable to the Engineering News-Record Building Cost Index for the City of Los Angeles.

**"Future Facilities Costs"** means the CFD Public Facilities minus (i) public facility costs previously paid from the Improvement Fund, (ii) moneys currently on deposit in the Improvement Fund, and (iii) moneys currently on deposit in an escrow fund that are expected to be available to finance public facilities costs.

**"Improvement Fund"** means an account specifically identified in the Indenture to hold funds which are currently available for expenditure to acquire or construct CFD Public Facilities eligible under the Act.

**"Outstanding Bonds"** means all Previously Issued Bonds which are deemed to be outstanding under the Indenture after the first interest and/or principal payment date following the current Fiscal Year.

**"Previously Issued Bonds"** means all Bonds that have been issued by IA No. 1 prior to the date of prepayment.

### 1. Prepayment in Full

The obligation of an Assessor's Parcel to pay the Special Tax A may be prepaid and permanently satisfied as described herein; provided that a prepayment may be made only for Assessor's Parcels of Developed Property or Undeveloped Property for which a building permit has been issued, and only if there are no delinquent Special Taxes with respect to such Assessor's Parcel at the time of prepayment. An owner of an Assessor's Parcel intending to prepay the Special Tax A obligation shall provide the CFD

Administrator with written notice of intent to prepay. Within 30 days of receipt of such written notice, the CFD Administrator shall notify such owner of the prepayment amount of such Assessor's Parcel. The CFD Administrator may charge a reasonable fee for providing this service. Prepayment must be made not less than 45 days prior to the next occurring date that notice of redemption of Bonds from the proceeds of such prepayment may be given to the Trustee pursuant to the Indenture.

The Prepayment Amount (defined below) shall be calculated as summarized below (capitalized terms as defined below):

| | | |
|---|---|---|
| | Bond Redemption Amount | |
| | plus | Redemption Premium |
| | plus | Future Facilities Amount |
| | plus | Defeasance Amount |
| | plus | Administrative Fees and Expenses |
| | less | Reserve Fund Credit |
| | <u>less</u> | <u>Capitalized Interest Credit</u> |
| Total: | equals | Prepayment Amount |

As of the proposed date of prepayment, the Prepayment Amount (defined below) shall be calculated as follows:

**<u>Paragraph No.:</u>**

1. Confirm that no Special Tax delinquencies apply to such Assessor’s Parcel.

2. For Assessor’s Parcels of Developed Property, compute the Assigned Special Tax A and Backup Special Tax A. For Assessor’s Parcels of Undeveloped Property for which a building permit has been issued, compute the Assigned Special Tax A and Backup Special Tax A for that 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. (a) Divide the Assigned Special Tax A computed pursuant to paragraph 2 by the total estimated Assigned Special Tax A for the entire IA No. 1 based on the Developed Property Special Tax A which could be charged in the current Fiscal Year on all expected development through buildout of IA No. 1, excluding any Assessor’s Parcels which have been prepaid, and

   (b) Divide the Backup Special Tax A computed pursuant to paragraph 2 by the total estimated Backup Special Tax A at buildout for the entire IA No. 1, excluding any Assessor’s Parcels which have been prepaid.

4. Multiply the larger quotient computed pursuant to paragraph 3(a) or 3(b) by the Outstanding Bonds to compute the amount of Outstanding Bonds to be retired and prepaid (the "Bond Redemption Amount").

5. Multiply the Bond Redemption Amount computed pursuant to paragraph 4 by the applicable redemption premium, if any, on the Outstanding Bonds to be redeemed (the "Redemption Premium").

6. Compute the current Future Facilities Costs.

7. Multiply the larger quotient computed pursuant to paragraph 3(a) or 3(b) by the amount determined pursuant to paragraph 6 to compute the amount of Future Facilities Costs to be prepaid (the "Future Facilities Amount").

8. Compute the amount needed to pay interest on the Bond Redemption Amount from the first bond interest and/or principal payment date following the current Fiscal Year until the earliest redemption date for the Outstanding Bonds.

9. Determine the Special Tax A levied on the Assessor's Parcel in the current Fiscal Year which has not yet been paid.

10. Compute the minimum amount the CFD Administrator reasonably expects to derive from the reinvestment of the Prepayment Amount less the Future Facilities Amount and the Administrative Fees and Expenses from the date of prepayment until the redemption date for the Outstanding Bonds to be redeemed with the prepayment.

11. Add the amounts computed pursuant to paragraphs 8 and 9 and subtract the amount computed pursuant to paragraph 10 (the "Defeasance Amount").

12. Verify the administrative fees and expenses of IA No. 1, 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 (the "Administrative Fees and Expenses").

13. The reserve fund credit ("Reserve Fund Credit") shall equal the lesser of: (a) the expected reduction in the reserve requirement (as defined in the Indenture), if any, associate with the redemption of Outstanding Bonds as a result of the prepayment, or (b) the amount derived by subtracting the new reserve requirement (as defined in the Indenture) in effect after the redemption of Outstanding Bonds as a result of the prepayment from the balance in the reserve fund on the prepayment date, but in no event shall such amount be less than zero.

14. If any capitalized interest for the Outstanding Bonds will not have been expended at the time of the first interest and/or principal payment following the current Fiscal Year, a capitalized interest credit shall be calculated by multiplying the larger quotient computed pursuant to paragraph 3(a) or 3(b) by the expected balance in the capitalized interest fund after such first interest and/or principal payment (the "Capitalized Interest Credit").

15. The Special Tax A prepayment is equal to the sum of the amounts computed pursuant to paragraphs 4, 5, 7, 11 and 12, less the amounts computed pursuant to paragraphs 13 and 14 (the "Prepayment Amount").

16. From the Prepayment Amount, the amounts computed pursuant to paragraphs 4, 5, 11, 13 and 14 shall be deposited into the appropriate fund as established under the Indenture and be used to retire Outstanding Bonds or make debt service payments. The amount computed pursuant to paragraph 7 shall be deposited into the Improvement Fund. The amount computed pursuant to paragraph 12 shall be retained by IA No. 1.

The Special Tax A Prepayment Amount may be sufficient to redeem other than a $5,000 increment of Bonds. In such cases, the increment above $5,000 or integral multiple thereof will be retained in the appropriate fund established under the Indenture to be used with the next prepayment of bonds or to make debt service payments.

As a result of the payment of the current Fiscal Year's Special Tax A levy as determined under paragraph 9 (above), the CFD Administrator shall remove the current Fiscal Year's Special Tax A levy for such Assessor's Parcel from the County tax rolls. With respect to any Assessor's Parcel that is prepaid, the Council shall cause a suitable notice to be recorded in compliance with the Act, to indicate the prepayment of Special Tax A and the release of the Special Tax A lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay the Special Tax A shall cease.

Notwithstanding the foregoing, no prepayment will be allowed unless the amount of Assigned Special Tax A that may be levied on Taxable Property (based on expected development at build out), both prior to and after the proposed prepayment, less expected Administrative Expenses, shall be at least 1.1 times the regularly scheduled annual interest and principal payments on all Outstanding Bonds (excluding Bonds to be redeemed by such prepayment and all prior prepayments) in each future Fiscal Year and such prepayment will not impair the security of all Outstanding Bonds, as reasonably determined by the CFD Administrator.

The Special Tax B may not be prepaid.

**2. Prepayment in Part**

The Special Tax A on 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 partially prepaid. The Partial Prepayment Amount shall be calculated as in Section I.1; except that a partial prepayment shall be calculated according to the following formula:

$PP = [(P_E\text{-}AE) \times F] + AE$

These terms have the following meaning:

| | | |
|---|---|---|
| AE | = | the Administrative Fees and Expenses |
| PP | = | the partial prepayment |
| $P_E$ | = | the Prepayment Amount calculated according to Section I.1 |
| F | = | the percentage by which the owner of the Assessor's Parcel is partially prepaying the Special Tax A. |

The owner of any Assessor's Parcel who desires such prepayment shall notify the CFD Administrator of such owner's intent to partially prepay the Special Tax A and the percentage by which the Special Tax A shall be prepaid. The CFD Administrator shall provide the owner with a statement of the amount required for the partial prepayment of the Special Tax A for an Assessor's Parcel within thirty (30) days of the request and may charge a reasonable fee for providing this service. With respect to any Assessor's Parcel that is partially prepaid, the City shall (i) distribute the funds remitted to it according to Section I.1, and (ii) indicate in the records of IA No. 1 that there has been a partial prepayment of the Special Tax A and that a portion of the Special Tax A with respect to such Assessor's Parcel, equal to the outstanding percentage (1.00 - F) of the remaining Maximum Special Tax A, shall continue to be levied on such Assessor's Parcel pursuant to Section E.

Notwithstanding the foregoing, no partial prepayment will be allowed unless the amount of Assigned Special Tax A that may be levied on Taxable Property (based on expected development at build out), both prior to and after the proposed prepayment, less expected Administrative Expenses, shall be at least 1.1 times the regularly scheduled annual interest and principal payments on all Outstanding Bonds (excluding Bonds to be redeemed by such prepayment and all prior prepayments) in each future Fiscal Year and such partial prepayment will not impair the security of all Outstanding Bonds, as reasonably determined by the CFD Administrator.

## J. TERM OF SPECIAL TAX

The Special Tax A and the One-Time Special Tax shall be levied for a period not to exceed fifty years commencing with Fiscal Year 2006-07. The Special Tax B shall be levied as long as necessary to meet the Special Tax Requirement for Services.

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