Eleventh Draft
December 15, 1998

RATE AND METHOD OF APPORTIONMENT FOR COMMUNITY FACILITIES DISTRICT NO. 99-1 OF LAKE ELSINORE UNIFIED SCHOOL DISTRICT

The following sets forth the Rate and Method of Apportionment for the levy and collection of Special Taxes in Lake Elsinore Unified School District ("School District") Community Facilities District No. 99-1 ("CFD No. 99-1"). An Annual Special Tax shall be levied on and collected in CFD No. 99-1 each Fiscal Year, in an amount determined through the application of the Rate and Method of Apportionment described below. All of the real property in CFD No. 99-1, unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent, and in the manner herein provided.

SECTION A
DEFINITIONS

The terms hereinafter set forth have the following meanings:

"**Acreage**" means the land area of an Assessor's Parcel as shown on an Assessor's Parcel Map or as calculated from the applicable Assessor's Parcel Map by the Board.

"**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.

"**Actual Product Quotient**" means the amount of that name derived by the calculations set forth in Section E.1. below.

"**Additional Assigned Annual Special Tax**" means the Special Tax of that name described in Section E below.

"**Administrative Expenses**" means any ordinary and necessary expense incurred by the School District on behalf of CFD No. 99-1 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 CFD No. 99-1 including the Bonds, the payment of salaries and benefits of any School District employee whose duties are directly related to the administration of CFD No. 99-1, and costs otherwise incurred in order to carry out the authorized purposes of CFD No. 99-1.

"**Annual Special Tax**" means the Special Tax actually levied in any Fiscal Year on any Assessor's Parcel.

"**Annual Special Tax Requirement**" means the amount required in any Fiscal Year to pay: (i) the debt service on all Bonds and other periodic costs on the Bonds or other obligations of CFD No. 99-1, (ii) Administrative Expenses of CFD No. 99-1, (iii) the costs associated with the release of funds from an escrow account, (iv) any amount required to establish or replenish any reserve funds established in association with the Bonds or other obligations of CFD No. 99-1, (v) lease payments for existing or future Facilities, and (vi) the accumulation of funds reasonably required for future

debt service or for the acquisition, construction, expansion, or rehabilitation of existing or future Facilities.

"**Assessor's Parcel**" means a 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. 99-1.

"**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.

"**Assigned Annual Special Tax**" means the Special Tax of that name described in Section D below.

"**Board**" means the Governing Board of Lake Elsinore Unified School District or its designee as the legislative body of CFD No. 99-1.

"**Bonds**" means any obligation to repay a sum of money, including obligations in the form of Mello-Roos Special Tax Bonds; notes; loans from government agencies, banks, other financial institutions, private businesses, or individuals; long-term contracts; or any other obligations, including any refunding thereof, which may be incurred by CFD No. 99-1 or the School District.

"**Building Permit**" means a permit for the construction of a residential structure. For purposes of this definition, "Building Permit" shall not include permits for construction or installation of commercial/industrial structures, parking structures, retaining walls, utility improvements, or other such improvements not intended for human habitation.

"**Building Square Feet**" or "**BSF**" means the square footage of assessable internal living space, exclusive of garages or other structures not used as living space, as determined by reference to the building permit application for such Assessor's Parcel.

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

"**CFD No. 99-1**" means Community Facilities District No. 99-1 established by the School District under the Act.

"**Commercial/Industrial Property**" means all Assessor's Parcels for which a building permit has been issued for the construction or installation of commercial/industrial structures not intended for human habitation and for which no Building Permit has been issued.

"**County**" means the County of Riverside.

"**Cumulative Mello-Roos Bond Proceeds**" means the amount of that name described in Section F below.

"**Developed Property**" means all Assessor's Parcels for which a Building Permit was issued on or before January 1 of the prior Fiscal Year.

"**Equivalent Dwelling Unit**" or "**EDU**" means the factor assigned to a Unit pursuant to Table 2.

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

"**Facilities**" means those school facilities (including land, equipment, furniture and technology) and other facilities which the School District is authorized by law to construct, own or operate.

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

"**Final Map**" means that portion of a final tract map, parcel map, lot line adjustment, or functionally equivalent map or instrument that creates individual lots or authorizes the development of a Unit for which a Building Permit could be issued.

"**Index**" means the Marshall & Swift Western Region Class D Wood Frame Index, or if the Marshall & Swift Western Region Class D Wood Frame Index ceases to be published, a reasonably comparable index determined by the Board to estimate changes in school construction costs, or in the absence of such an index, the Engineering News Record, Construction Cost Index (Los Angeles Area) published by McGraw-Hill, Inc.

"**Inflator**" means the percentage change in the Index as measured between the Index published in December of the prior Calendar Year and the Index published in December of the Calendar Year immediately preceding the prior Calendar Year.

"**Maximum Special Tax**" means the maximum Special Tax, determined in accordance with Section C, that can be levied by CFD No. 99-1 in any Fiscal Year on any Assessor's Parcel.

"**Mello-Roos Special Tax Bonds**" means any bonded indebtedness authorized to be issued pursuant to the Act and secured by Special Taxes of CFD No. 99-1.

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

"**Project Obligation**" means the amount of that name described in Section F below.

"**Project Units**" means the amount of that name described in Section F below.

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

"**Special Tax**" means any of the special taxes authorized to be levied by CFD No. 99-1 pursuant to the Act.

"**Target Product Quotient**" means 0.90136.

"**Taxable Property**" means all Assessor's Parcels which are not Exempt Property.

"**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.

"**Unit Obligation**" means $6,000 per Unit in Calendar Year 1999. In Calendar Year 2000 and in each Calendar Year thereafter, the Unit Obligation shall be increased by the greater of (i) two percent (2.00%) or (ii) the Inflator.

SECTION B
CLASSIFICATION OF ASSESSOR'S PARCELS

For each Fiscal Year, beginning with Fiscal Year 1999-2000, all Assessor's Parcels within CFD No. 99-1 shall be classified as Developed Property, Undeveloped Property, or Exempt Property.

SECTION C
MAXIMUM SPECIAL TAXES

The Maximum Special Tax for each Assessor's Parcel classified as Developed Property or Undeveloped Property in any Fiscal Year shall be the amount determined by the sum of (i) the application of the Assigned Annual Special Tax, as set forth in Section D and subject to reduction as provided in Section F and (ii) the application of the Additional Assigned Annual Special Tax, as set forth in Section E and subject to reduction as provided in Section F.

SECTION D
ASSIGNED ANNUAL SPECIAL TAXES

1. <u>Developed Property</u>

   a. **Assigned Annual Special Tax for New Developed Property**

      The Assigned Annual Special Tax applicable to an Assessor's Parcel of Developed Property in the first Fiscal Year in which such Assessor's Parcel is classified as Developed Property shall be determined pursuant to Table 1 below for Fiscal Year 1999-2000. On each July 1, commencing July 1, 2000, the Assigned Annual Special Tax applicable to an Assessor's Parcel of Developed Property in the first Fiscal Year in which such Assessor's Parcel is classified as Developed Property shall be increased by the greater of (i) two percent (2.00%) or (ii) the Inflator.

TABLE 1

BSF	Assigned Annual Special Tax Fiscal Year 1999-2000
> 3,300	$696.70 per Unit
3,000 - 3,300	$663.52 per Unit
2,700 - 2,999	$630.35 per Unit
2,400 - 2,699	$597.17 per Unit
2,100 - 2,399	$564.00 per Unit
1,800 - 2,099	$530.82 per Unit
< 1,800	$497.64 per Unit

b. Assigned Annual Special Tax for Existing Developed Property

Each July 1, commencing the July 1 immediately following the Fiscal Year in which the Assessor's Parcel was first classified as Developed Property, the Assigned Annual Special Tax applicable to each such Assessor's Parcel shall be increased by two percent (2.00%).

2. Undeveloped Property

The Assigned Annual Special Tax applicable to an Assessor's Parcel of Undeveloped Property shall be $0.00 per acre of Acreage for Fiscal Year 1999-2000.

SECTION E
ADDITIONAL ASSIGNED ANNUAL SPECIAL TAX

1. Test for Additional Assigned Annual Special Tax

An Annual Special Tax may only be levied pursuant to Step Two of Section G in Fiscal Years in which the Actual Product Quotient is less than the Target Product Quotient. The Target Product Quotient is 0.90136. The Actual Product Quotient is calculated as follows:

Step One: Assign an EDU to each Unit located on Developed Property pursuant to Table 2 below.

TABLE 2

BSF	EDU
> 3,300	1.0000 per Unit
3,000 - 3,300	0.9524 per Unit
2,700 - 2,999	0.9048 per Unit
2,400 - 2,699	0.8571 per Unit
2,100 - 2,399	0.8095 per Unit
1,800 - 2,099	0.7619 per Unit
< 1,800	0.7143 per Unit

Step Two: Sum all the EDUs in CFD No. 99-1.

Step Three: Divide the result of Step Two by the number of Units located on Developed Property. The result is the Actual Product Quotient.

2. **Developed Property**

a. **Additional Assigned Annual Special Tax for New Developed Property**

The Additional Assigned Annual Special Tax applicable to an Assessor's Parcel of Developed Property in the first Fiscal Year in which such Assessor's Parcel is classified as Developed Property shall be determined pursuant to Table 3 below for Fiscal Year 1999-2000. On each July 1, commencing July 1, 2000, the Additional Assigned Annual Special Tax applicable to an Assessor's Parcel of Developed Property in the first Fiscal Year in which such Assessor's Parcel is classified as Developed Property shall be increased by the greater of (i) two percent (2.00%) or (ii) the Inflator.

TABLE 3

BSF	Additional Assigned Annual Special Tax Fiscal Year 1999-2000
> 3,300	$0.00 per Unit
3,000 - 3,300	$0.00 per Unit
2,700 - 2,999	$0.00 per Unit
2,400 - 2,699	$30.78 per Unit
2,100 - 2,399	$63.95 per Unit
1,800 - 2,099	$97.13 per Unit
< 1,800	$130.31 per Unit

a. Additional Assigned Annual Special Tax for Existing Developed Property

Each July 1, commencing the July 1 immediately following the Fiscal Year in which the Assessor's Parcel was first classified as Developed Property, the Additional Assigned Annual Special Tax Applicable to each such Assessor's Parcel shall be increased by two percent (2.00%).

3. Undeveloped Property

The Additional Assigned Annual Special Tax applicable to an Assessor's Parcel of Undeveloped Property shall be $0.00 per acre of Acreage for Fiscal Year 1999-2000.

SECTION F
REDUCTION OF SPECIAL TAXES

1. Test for Reduction of Special Taxes

At the time any Mello-Roos Special Tax Bonds are issued by CFD No. 99-1, the Board shall reasonably calculate the Project Units, Project Obligation, and Cumulative Mello-Roos Bond Proceeds as described in this Section F.1. If the Project Obligation is greater than the Cumulative Mello-Roos Bond Proceeds at the time any Mello-Roos Special Tax Bonds are issued by CFD No. 99-1, the Special Taxes shall not be reduced at that time. If the Project Obligation is less than or equal to the Cumulative Mello-Roos Bond Proceeds at the time any Mello-Roos Special Tax Bonds are issued, the Special Taxes shall be reduced as described in Section F.2. below.

a. **Project Units**

At the time any Mello-Roos Special Tax Bonds are issued by CFD No. 99-1, the Project Units shall be (i) 509 Units if Final Maps have not been recorded for all Taxable Property in CFD No. 99-1 or (ii) the number of Units which could be constructed on all the Taxable Property in CFD No. 99-1 based upon current zoning restrictions if Final Maps have been recorded for all Taxable Property in CFD No. 99-1.

b. **Project Obligation**

At the time any Mello-Roos Special Tax Bonds are issued by CFD No. 99-1, the Project Obligation shall be calculated as the product of (i) the Unit Obligation for the Calendar Year in which such Mello-Roos Special Tax Bonds are being issued by CFD No. 99-1 and (ii) the Project Units.

c. **Cumulative Mello-Roos Bond Proceeds**

At the time any Mello-Roos Special Tax Bonds are issued by CFD No. 99-1, the Cumulative Mello-Roos Bond Proceeds shall be calculated as the sum of all the proceeds allocated to fund Facilities as derived from the issuance of all the Mello-Roos Special Tax Bonds issued by CFD No. 99-1, including the Mello-Roos Special Tax Bonds being issued by CFD No. 99-1 at the time of this calculation. The Cumulative Mello-Roos Bond Proceeds shall exclude proceeds of Mello-Roos Special Tax Bonds used or intended to be used to pay debt service on any obligation, to satisfy any reserve requirement, to pay costs of the issuance of the Mello-Roos Special Tax Bonds, or to pay Administrative Expenses. Earnings on proceeds of Mello-Roos Special Tax Bonds shall not be considered Cumulative Mello-Roos Bond Proceeds. For purposes of this calculation, all proceeds of the Mello-Roos Special Tax Bonds shall be adjusted to the current Calendar Year at the time of this calculation from each applicable issue date of such Mello-Roos Special Tax Bonds based upon the greater of (i) two percent (2.00%) or (ii) the Inflator for each applicable Calendar Year.

2. **Special Tax Reduction**

If Special Taxes are to be reduced based upon the determinations made pursuant to Section F.1. above, then the Assigned Annual Special Tax and Additional Assigned Annual Special Tax applicable to each Assessor's Parcel shall be reduced by the same percentage. The Assigned Annual Special Taxes and Additional Assigned Annual Special Taxes shall be reduced such that the amount of Annual Special Taxes which may be levied on Taxable Property, net of Administrative Expenses, shall be 1.1 times the regularly scheduled annual interest and principal payments on all currently outstanding obligations of CFD No. 99-1 in each future Fiscal Year.

SECTION G
METHOD OF APPORTIONMENT OF ANNUAL SPECIAL TAXES

Commencing Fiscal Year 1999-2000 and for each subsequent Fiscal Year, the Board shall levy Annual Special Taxes as follows:

Step One: The Board shall levy an Annual Special Tax on each Assessor's Parcel of Developed Property in an amount equal to the Assigned Annual Special Tax applicable to each such Assessor's Parcel, as set forth in Section D and subject to reduction as provided in Section F.

Step Two: If the sum of the amounts levied in Step One is less than the Annual Special Tax Requirement and the Actual Product Quotient is less than the Target Product Quotient, the Board shall additionally levy an Annual Special Tax Proportionately on each Assessor's Parcel of Developed Property up to the applicable Additional Assigned Annual Special Tax, as set forth in Section E and subject to reduction as provided in Section F, to satisfy the Annual Special Tax Requirement.

SECTION H
PREPAYMENT OF ANNUAL SPECIAL TAXES

The Annual Special Tax obligation for an Assessor's Parcel of Developed Property or for an Assessor's Parcel of Undeveloped Property may be prepaid in full at the time a Building Permit is issued for such Assessor's Parcel, provided that there are no delinquent Special Taxes, penalties, or interest charges outstanding with respect to such Assessor's Parcel. The Prepayment Amount for an applicable Assessor's Parcel shall be determined as described below.

1. **Prior to Issuance of Bonds**

Prior to the issuance of Bonds, the Prepayment Amount for each applicable Assessor's Parcel in Calendar Year 1999 shall be determined by reference to Table 4.

TABLE 4

BSF	Prepayment Amount Calendar Year 1999
> 3,300	$6,661.89 per Unit
3,000 - 3,300	$6,344.66 per Unit
2,700 - 2,999	$6,027.42 per Unit
2,400 - 2,699	$6,000.00 per Unit
2,100 - 2,399	$6,000.00 per Unit
1,800 - 2,099	$6,000.00 per Unit
< 1,800	$6,000.00 per Unit

In Calendar Year 2000 and in each Calendar Year thereafter, the Prepayment Amount applicable to an Assessor's Parcel shall be increased by the greater of (i) two percent (2.00%) or (ii) the Inflator.

2. **Subsequent to Issuance of Bonds**

Subsequent to the issuance of Bonds, the Prepayment Amount for each applicable Assessor's Parcel shall be determined pursuant to the following formula:

Prepayment Amount applicable to Assessor's Parcel, calculated pursuant to Section H.1. above	
plus	A. Redemption Premium
plus	B. Defeasance
plus	C. Prepayment Fees and Expenses
less	D. Reserve Fund Credit
less	E. Regularly Retired Principal Credit
equals	Prepayment Amount

Detailed explanations of items A through E follow:

A. Redemption Premium

The Redemption Premium is calculated by multiplying (i) the principal amount of the Bonds to be redeemed with the proceeds of the Prepayment Amount by (ii) the applicable redemption premium, if any, on the Bonds to be redeemed.

B. Defeasance

The Defeasance is the amount needed to pay interest on the portion of the Bonds to be redeemed with the proceeds of the Prepayment Amount until the earliest call date of the Bonds to be redeemed, net of interest earnings to be derived from the reinvestment of the Prepayment Amount until the redemption date of the portion of the Bonds to be redeemed with the Prepayment Amount. Such amount of interest earnings will be calculated reasonably by the Board.

C. Prepayment Fees and Expenses

The Prepayment Fees and Expenses are the costs of the computation of the Prepayment Amount and an allocable portion of the costs of redeeming Bonds and recording any notices to evidence the prepayment and the redemption, as calculated reasonably by the Board.

D. Reserve Fund Credit

The Reserve Fund credit, if any, shall be calculated as the reduction in the applicable reserve fund requirements resulting from the redemption of Bonds with the Prepayment Amount.

E. Regularly Retired Principal Credit

The Regularly Retired Principal Credit is the total regularly scheduled retirement of principal that has occurred with respect to the Assessor's Parcel. For purposes of this calculation, it shall be assumed that the Annual Special Taxes actually collected from each Assessor's Parcel in any Fiscal Year are applied prorata to the regularly scheduled principal payment on the outstanding Bonds in the immediately following Fiscal Year based on each Assessor's Parcel's share of the total Annual Special Taxes which are actually collected from all Taxable Property in the current Fiscal Year and are applied to such regularly scheduled principal payment in the immediately following Fiscal Year. In no event shall any Annual Special Taxes determined to have been used to make a regularly scheduled principal payment on the Bonds be adjusted for any increase in any cost index or other basis subsequent to the date of the applicable principal payment.

With respect to an Annual Special Tax obligation that is prepaid, the Board shall indicate in the records of CFD No. 99-1 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.

SECTION I
TERMINATION OF SPECIAL TAX

The Annual Special Tax shall not be levied for a period greater than 30 Fiscal Years on any given Assessor's Parcel of Developed Property.

SECTION J
EXEMPTIONS

The Board shall not levy a Special Tax on (i) Assessor's Parcels owned by the State of California, Federal or other local governments except as otherwise provided in Sections 53317.3, 53317.5 and 53340.1 of the Government Code, (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' association, (iv) Assessor's Parcels of Commercial/Industrial Property, or (v) 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 Board not later than twelve months after having paid the first installment of the Special Tax that is disputed. A representative(s) of CFD No. 99-1 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
MANNER OF COLLECTION

Excluding delinquent Annual Special Taxes, Annual Special Taxes shall be collected in the same manner and at the same time as ordinary *ad valorem* property taxes.

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