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

$5,870,000
COMMUNITY FACILITIES DISTRICT NO. 5
OF THE CITY OF MORENO VALLEY
2007 SPECIAL TAX BONDS

Dated: Date of Delivery

Due: September 1, as shown on the inside page

The Community Facilities District No. 5 of the City of Moreno Valley 2007 Special Tax Bonds (the “Bonds”) are being issued and delivered to finance various public improvements needed to develop property located within Community Facilities District No. 5 of the City of Moreno Valley (the “District”). The District is located in the City of Moreno Valley (the “City”), County of Riverside, California.

The Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 et seq. of the Government Code of the State of California), and pursuant to a Fiscal Agent Agreement, dated as of May 1, 2007 (the “Fiscal Agent Agreement”), by and between the City for and on behalf of the District and Wells Fargo Bank, National Association, as fiscal agent (the “Fiscal Agent”). The Bonds are special limited obligations of the District and are payable solely from revenues derived from certain annual Special Taxes (as defined herein) to be levied on and collected from the owners of the taxable land within the District and from certain other funds pledged under the Fiscal Agent Agreement, all as further described herein. The Special Taxes are to be levied according to the rates and method of apportionment approved by the City Council of the City and the qualified electors within the District. See “SOURCES OF PAYMENT FOR THE BONDS—Rates and Method of Apportionment of Special Taxes.” The City Council of the City is the legislative body of the District.

The Bonds are issuable in fully registered form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). Individual purchases may be made in principal amounts of $5,000 and integral multiples thereof and will be in book-entry form only. Purchasers of Bonds will not receive certificates representing their beneficial ownership of the Bonds but will receive credit balances on the books of their respective nominees. The Bonds will not be transferable or exchangeable except for transfer to another nominee of DTC or as otherwise described herein. Interest on the Bonds will be payable on September 1, 2007 and semiannually thereafter on each March 1 and September 1. Principal of and interest on the Bonds will be paid by the Fiscal Agent to DTC for subsequent disbursement to DTC Participants who are obligated to remit such payments to the Beneficial Owners of the Bonds. See “THE BONDS—Description of the Bonds” and APPENDIX H—“BOOK-ENTRY-ONLY SYSTEM” herein.

Neither the faith and credit nor the taxing power of the City, the County of Riverside, the State of California or any political subdivision thereof is pledged to the payment of the Bonds. The Bonds are special limited tax obligations of the District payable solely from Special Taxes and other amounts held under the Fiscal Agent Agreement as more fully described herein.

The Bonds are subject to optional redemption, mandatory redemption from Special Tax Prepayments and mandatory sinking fund redemption prior to maturity as set forth herein. See “THE BONDS—Redemption” herein.

CERTAIN EVENTS COULD AFFECT THE ABILITY OF THE DISTRICT TO PAY THE PRINCIPAL OF AND INTEREST ON THE BONDS WHEN DUE. AS A RESULT, THE BONDS INVOLVE SIGNIFICANT RISKS, AND THE BONDS ARE NOT SUITABLE INVESTMENTS FOR ALL INVESTORS. SEE THE SECTION OF THIS OFFICIAL STATEMENT ENTITLED “SPECIAL RISK FACTORS” FOR A DISCUSSION OF CERTAIN RISK FACTORS THAT SHOULD BE CONSIDERED, IN ADDITION TO THE OTHER MATTERS SET FORTH HEREIN, IN EVALUATING THE INVESTMENT QUALITY OF THE BONDS.

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

MATURITY SCHEDULE
(See Inside Cover Page)

The Bonds are offered when, as and if issued and accepted by the Underwriter, subject to approval as to their legality by Best Best & Krieger LLP San Diego, California, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed on for the City and the District by the City Attorney. Certain legal matters will be passed on by Stradling Yocca Carlson & Rauth, as Disclosure Counsel. It is anticipated that the Bonds in book-entry form will be available for delivery to DTC in New York, New York, on or about May 31, 2007.
$5,870,000
COMMUNITY FACILITIES DISTRICT NO. 5
OF THE CITY OF MORENO VALLEY
2007 SPECIAL TAX BONDS

MATURITY SCHEDULE
(Base CUSIP†: 616865)

<table>
<thead>
<tr>
<th>Maturity Date (September 1)</th>
<th>Principal Amount</th>
<th>Interest Rate</th>
<th>Yield</th>
<th>CUSIP†</th>
<th>Maturity Date (September 1)</th>
<th>Principal Amount</th>
<th>Interest Rate</th>
<th>Yield</th>
<th>CUSIP†</th>
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<tbody>
<tr>
<td>2009</td>
<td>15,000</td>
<td>4.00%</td>
<td>4.00%</td>
<td>CV1</td>
<td>2016</td>
<td>75,000</td>
<td>4.50%</td>
<td>4.65%</td>
<td>DC2</td>
</tr>
<tr>
<td>2010</td>
<td>20,000</td>
<td>4.00%</td>
<td>4.15%</td>
<td>CW9</td>
<td>2017</td>
<td>85,000</td>
<td>4.50%</td>
<td>4.70%</td>
<td>DD0</td>
</tr>
<tr>
<td>2011</td>
<td>30,000</td>
<td>4.00%</td>
<td>4.25%</td>
<td>CX7</td>
<td>2018</td>
<td>95,000</td>
<td>4.50%</td>
<td>4.75%</td>
<td>DE8</td>
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<tr>
<td>2012</td>
<td>35,000</td>
<td>4.10%</td>
<td>4.35%</td>
<td>CY5</td>
<td>2019</td>
<td>110,000</td>
<td>4.60%</td>
<td>4.80%</td>
<td>DF5</td>
</tr>
<tr>
<td>2013</td>
<td>45,000</td>
<td>4.20%</td>
<td>4.45%</td>
<td>C22</td>
<td>2020</td>
<td>120,000</td>
<td>4.70%</td>
<td>4.85%</td>
<td>DG3</td>
</tr>
<tr>
<td>2014</td>
<td>55,000</td>
<td>4.30%</td>
<td>4.55%</td>
<td>DA6</td>
<td>2021</td>
<td>135,000</td>
<td>4.75%</td>
<td>4.90%</td>
<td>DH1</td>
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<tr>
<td>2015</td>
<td>65,000</td>
<td>4.40%</td>
<td>4.60%</td>
<td>DB4</td>
<td>2022</td>
<td>150,000</td>
<td>4.75%</td>
<td>4.95%</td>
<td>DJ7</td>
</tr>
</tbody>
</table>

$1,010,000 5.00% Term Bonds due September 1, 2027 Yield: 5.00%, CUSIP:DK4†
$3,825,000 5.00% Term Bonds due September 1, 2037 Yield: 5.05%, CUSIP:DL2†

† Copyright 2007, American Bankers Association. CUSIP data herein is provided by Standard & Poor’s, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. Neither the Underwriter nor the City takes any responsibility for the accuracy of such data.
CITY OF MORENO VALLEY  
COUNTY OF RIVERSIDE  
STATE OF CALIFORNIA  

CITY COUNCIL  
Charles R. White, Mayor  
William H. Batey II, Mayor Pro Tem  
Bonnie Flickinger, Council Member  
Richard A. Stewart, Council Member  
Frank West, Council Member  

CITY OFFICIALS  
Robert G. Gutierrez, City Manager  
Robert D. Herrick, City Attorney  
Rick C. Hartmann, Deputy City Manager  
Steven M. Chapman, Finance Director/City Treasurer  
Chris A. Vogt, P.E., Public Works Director/City Engineer  
Sue Maxinoski, Special Districts Division Manager  
Barry Foster, Economic Development Director  
Alice Reed, City Clerk  

BOND COUNSEL  
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Newport Beach, California  

SPECIAL TAX CONSULTANT  
Harris & Associates  
Irvine, California  

FINANCIAL ADVISOR  
Fieldman, Rolapp & Associates  
Irvine, California  

MARKET ABSORPTION CONSULTANT  
Empire Economics, Inc.  
Capistrano Beach, California  

REAL ESTATE APPRAISER  
Harris Realty Appraisal  
Newport Beach, California  

FISCAL AGENT  
Wells Fargo Bank, National Association  
Los Angeles, California
Except where otherwise indicated, all information contained in this Official Statement has been provided by the City and the District. No dealer, broker, salesperson or other person has been authorized by the City, the District, the Fiscal Agent or the Underwriter to give any information or to make any representations in connection with the offer or sale of the Bonds other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the City, the District, the Fiscal Agent or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers or Owners of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with a nationally recognized municipal securities depository.

The Underwriter has provided the following sentence for inclusion in this Official Statement:

The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

The information set forth herein has been obtained from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the City, the District, the Fiscal Agent or the Underwriter. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the District or any other parties described herein since the date hereof. All summaries of the Fiscal Agent Agreement or other documents are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the City for further information in connection therewith.

All information considered material to the making of an informed investment decision with respect to the Bonds is contained in this Official Statement. While the City maintains an internet website for various purposes, none of the information on its website is incorporated by reference into this Official Statement. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded.

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “project,” “budget” or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the caption “THE COMMUNITY FACILITIES DISTRICT” and “THE DEVELOPMENT AND PROPERTY OWNERSHIP.”

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE DISTRICT DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENT SET FORTH IN THIS OFFICIAL STATEMENT.

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

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

The purpose of this Official Statement, which includes the cover page, the table of contents and the attached appendices (collectively, the “Official Statement”), is to provide certain information concerning the issuance by the City of Moreno Valley (the “City”) of the $5,870,000 Community Facilities District No. 5 of the City of Moreno Valley 2007 Special Tax Bonds (the “Bonds”). The proceeds of the Bonds will be used to construct and acquire various public improvements needed with respect to the proposed development within Community Facilities District No. 5 of the City of Moreno Valley (the “District”), to fund the Reserve Fund securing the Bonds, to provide capitalized interest on the Bonds, to pay costs of issuance of the Bonds and to fund the “Improvement Fund” as created under a Fiscal Agent Agreement (the “Fiscal Agent Agreement”) by and between the City of Moreno Valley (the “City”) for and on behalf of the District and Wells Fargo Bank, National Association (the “Fiscal Agent”).

The Bonds are authorized to be issued pursuant to the Act (as defined herein), and pursuant to the Fiscal Agent Agreement. The Bonds are secured under the Fiscal Agent Agreement by a pledge of and lien upon Special Tax Revenues (as described below under the heading “SOURCES OF PAYMENT FOR THE BONDS”) and all moneys deposited in the Bond Fund and all moneys deposited in the Reserve Fund.

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

The District was formed on October 25, 2005 pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, Sections 53311 et seq. of the Government Code of the State of California (the “Act”). The Act was enacted by the California legislature to provide an alternative method of financing certain public capital facilities and services, especially in developing areas of the State. Any local agency (as defined in the Act) may establish a community facilities district to provide for and finance the cost of eligible public facilities and services. Generally, the legislative body of the local agency which forms a community facilities district acts on behalf of such district as its legislative body. Subject to approval by two-thirds of the votes cast at an election and compliance with the other provisions of the Act, a legislative body of a local agency may issue bonds for a community facilities district and may levy and collect a special tax within such district to repay such indebtedness.

The District consists of approximately 64.4 gross acres of which approximately 32.95 are net taxable acres and is located at the southeast corner of the intersection of State Route 60 and Nason Street in the City of Moreno Valley, Riverside County, California, and consists of the proposed Stoneridge Towne Centre, which, based on current land use approvals and projections, is being developed with over 560,000 square feet of commercial retail center uses. **The portion of the Stoneridge Towne Centre owned and occupied by Target and Kohl’s is approximately 23.28 acres and is not subject to the Special Tax (as defined herein) lien of the District.** Accordingly, of the projected approximately 560,000 square feet of commercial retail space within the District, only approximately 288,000 square feet is projected to be subject to the levy of Special Taxes of the District.
Harris Realty Appraisal (the “Appraiser”) has conducted an appraisal (the “Appraisal”) of the taxable land within the District and has concluded, based upon the assumptions and limiting conditions contained in the Appraisal, that, as of March 19, 2007, the value of land within the District, subject to the Special Taxes, was estimated to be $21,000,000, assuming the public improvements to be financed by the Bonds are funded. Empire Economics, Inc., Capistrano Beach, California (the “Market Absorption Consultant”) has prepared a Market Absorption Study (the “Market Absorption Study”) for the purpose of developing a build-out projection for the commercial/retail space planned in the District. The Market Absorption Study concludes that, based on development plans as of March 5, 2007, the date of the Market Absorption Study, the estimated 288,330 square feet of commercial/retail space within the District should be occupied by end users by 2011, assuming continued development with no delays due to unanticipated market or business factors. The Developer may add or delete additional space in the future based on changes to the development plan at the time of construction. See “THE DEVELOPMENT AND PROPERTY OWNERSHIP—Appraisal” and “—Market Absorption Study,” and APPENDIX C—“APPRAISAL REPORT.”

Property Ownership and Development Status

All taxable property within the District is currently owned by Stoneridge Centre Partners, L.P., a California limited partnership (the “Developer”). The Developer’s current business plan anticipates retaining ownership of all taxable property within the District and leasing such property to commercial tenants. See “THE DEVELOPMENT AND PROPERTY OWNERSHIP—The Development Plan” herein.

Pursuant to the Act, the City Council adopted the necessary resolutions stating its intent to establish the District, to authorize the levy of Special Taxes on taxable property within the boundaries of the District, and to have the District incur bonded indebtedness. Following a public hearing conducted pursuant to the provisions of the Act, the City Council adopted resolutions establishing the District and calling a special election to submit the levy of the Special Taxes and the incurring of bonded indebtedness to the qualified voters of the District. On October 25, 2005, at an election held pursuant to the Act, the Developer, who was the sole landowner and qualified voter within the District, authorized the District to incur bonded indebtedness in the aggregate principal amount not to exceed $10,000,000 and approved the rates and method of apportionment of the Special Taxes for the District (the “Rates and Method”) to pay the principal of and interest on the bonds of the District. A copy of the Rates and Method is set forth in APPENDIX A hereto. The City Council of the City acts as the legislative body of the District.

Sources of Payment for the Bonds

As used in this Official Statement, the term “Special Tax” is that tax which has been authorized pursuant to the Act to be levied against certain land within the District pursuant to the Act and in accordance with the Rates and Method. See “SOURCES OF PAYMENT FOR THE BONDS—Special Taxes” and APPENDIX A—“RATES AND METHOD OF APPORTIONMENT OF SPECIAL TAXES.” Under the Fiscal Agent Agreement, the City has pledged to repay the Bonds from the Special Tax Revenues and amounts on deposit in the Bond Fund and the Reserve Fund established under the Fiscal Agent Agreement. Special Tax Revenues are defined in the Fiscal Agent Agreement to include the proceeds of the Special Taxes received by the City, including any scheduled payments, interest and penalties thereon and the proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes in the amount of said lien and interest and penalties thereon.

The Special Taxes are the primary security for the repayment of the Bonds. In the event that the Special Taxes are not paid when due, the only sources of funds available to pay the debt service on the Bonds are amounts held by the Fiscal Agent, including amounts held in the Reserve Fund. The City has covenanted for the benefit of the owners of the Bonds that it will commence, and diligently pursue to completion, judicial foreclosure proceedings against Assessor’s parcels with delinquent Special Taxes within 60 days after each Interest Payment Date if the amount of Special Taxes theretofore received by the City is less than 100% of the
amount of the Special Taxes to be collected for such installment of property tax. See “SOURCES OF PAYMENT FOR THE BONDS—Proceeds of Foreclosure Sales” herein.

The Appraisal provides an estimate of the market value of the fee simple interest in the taxable parcels within the District, assuming that the facilities to be financed from the proceeds of the Bonds are constructed and installed. The Appraisal is based upon a direct comparison approach. Based upon the assumptions set forth in the Appraisal and the current development plan being undertaken by the Developer, the Appraiser is of the opinion that the market value of the property in the District as of March 19, 2007, assuming the completion of all improvements to be financed with the proceeds of that portion of the Bonds, was $21,000,000. This estimate of land value results in an estimated appraised value-to-lien ratio of approximately 3.58 to 1 for the District as a whole based on the estimated principal amount of the Bonds, but excluding any direct and overlapping debt allowable to parcels within the District. If direct and overlapping debt were included, the estimated appraised value-to-lien ratio would be slightly lower. See “THE COMMUNITY FACILITIES DISTRICT—Estimated Appraised Value-to-Lien Ratios” herein.

There is no assurance that the property within the District can be sold for the appraised value or for a price sufficient to pay the principal of and interest on the Bonds in the event of a default in payment of Special Taxes by the current or future landowners within the District. See “SPECIAL RISK FACTORS—Land Value” and APPENDIX C—“APPRAISAL REPORT” herein. Other taxes and/or special assessments with liens equal in priority to the continuing lien of the Special Taxes may also be levied on the property within the District. See “SPECIAL RISK FACTORS—Parity Taxes, Special Assessments and Land Development Costs” herein.

EXCEPT FOR THE SPECIAL TAXES, NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS. THE BONDS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF THE CITY NOR GENERAL OBLIGATIONS OF THE DISTRICT, BUT ARE SPECIAL OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM SPECIAL TAXES AND AMOUNTS HELD UNDER THE FISCAL AGENT AGREEMENT AS MORE FULLY DESCRIBED HEREIN.

Parity Bonds

The City has covenanted not to encumber, pledge or place any charge or lien upon any of the Special Tax Revenues or other amounts pledged to the Bonds superior to or on a parity with the pledge and lien created for the benefit of the Bonds, except as permitted by the Fiscal Agent Agreement. Nothing in the Fiscal Agent Agreement prevents the City from issuing and selling, pursuant to law, refunding bonds or other refunding obligations payable from and having a first lien upon the Special Taxes Revenues on a parity with the Outstanding Bonds so long as the issuance of such refunding bonds or other refunding obligations results in a reduction in each Bond Year on the Annual Debt Service on the Bonds when combined with the annual debt service on such refunding bonds or other refunding obligations following the issuance thereof. See “SOURCES OF PAYMENT FOR THE BONDS—Parity Bonds” and APPENDIX D—“SUMMARY OF FISCAL AGENT AGREEMENT” herein.

Description of the Bonds

The Bonds will be issued and delivered as fully registered Bonds, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York (“DTC”), and will be available to actual purchasers of the Bonds (the “Beneficial Owners”) in the denominations of $5,000 or any integral multiple thereof, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described herein. Beneficial Owners will not be entitled to receive physical delivery of the Bonds. In the event that the book-entry-only system described herein is no longer used with
respect to the Bonds, the Bonds will be registered and transferred in accordance with the Fiscal Agent Agreement. See APPENDIX H—“BOOK-ENTRY-ONLY SYSTEM” herein.

Principal of, premium, if any, and interest on the Bonds is payable by the Fiscal Agent to DTC. Disbursement of such payments to DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of DTC Participants. In the event that the book-entry-only system is no longer used with respect to the Bonds, the Beneficial Owners will become the registered owners of the Bonds and will be paid principal and interest by the Fiscal Agent, all as described herein. See APPENDIX H—“BOOK-ENTRY-ONLY SYSTEM” herein.

The Bonds are subject to optional redemption, mandatory redemption from Special Tax Prepayments or from other amounts transferred to the Special Tax Prepayment Account and mandatory sinking fund redemption as described herein. For a more complete descriptions of the Bonds and the basic documentation pursuant to which they are being sold and delivered, see “THE BONDS” and APPENDIX D—“SUMMARY OF FISCAL AGENT AGREEMENT” herein.

Tax Matters

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

Professionals Involved in the Offering

Wells Fargo Bank, National Association, Los Angeles, California, will act as Fiscal Agent under the Fiscal Agent Agreement and as the initial Dissemination Agent under the Continuing Disclosure Agreements to be entered into by the City and the Developer. E. J. De La Rosa & Co., Inc. is the Underwriter of the Bonds. All proceedings in connection with the issuance and delivery of the Bonds are subject to the approval of Best Best & Krieger LLP, San Diego, California, Bond Counsel. Certain legal matters will be passed upon for the Developer by Judkins, Glatt et al LLP, San Diego, California, as counsel to the Developer. Fieldman, Rolapp & Associates, Irvine, California, is acting as Financial Advisor for the City in connection with the Bonds. Certain legal matters will be passed on for the City and the District by the City Attorney. Other professional services have been performed by Stradling Yocca Carlson & Rauth, Newport Beach, California, as Disclosure Counsel, Harris & Associates, Irvine, California, as Special Tax Consultant, Harris Realty Appraisal, Newport Beach, California, as Appraiser, and Empire Economics, Inc., Capistrano Beach, California, as Market Absorption Consultant.

For information with respect to which the above-mentioned professionals, advisors, counsel and agents have a financial or other interest in the offering of the Bonds, see “FINANCIAL INTERESTS” herein.

Continuing Disclosure

Each of the City, for and on behalf of the District, and the Developer has agreed to provide, or cause to be provided, to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission certain annual financial information and operating data. The City’s obligation commences April 1, 2008. The City has further agreed to provide, in a timely manner,
certain annual financial information and operating data and notice of certain material events. The Developer is obligated to file annual reports commencing March 1, 2008 and semi-annual reports commencing September 1, 2007. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) of the Securities and Exchange Commission. See “CONTINUING DISCLOSURE” herein, APPENDIX E and APPENDIX F hereto for a description of the specific nature of the annual reports to be filed by the City, and the semi-annual reports to be filed by the Developer and notices of material events and a summary description of the terms of the continuing disclosure agreement pursuant to which such annual reports are to be made.

**Bond Owners’ Risks**

Certain events could affect the timely repayment of the principal of and interest on the Bonds when due. See the section of this Official Statement entitled “SPECIAL RISK FACTORS” for a discussion of certain factors which should be considered, in addition to other matters set forth herein, in evaluating an investment in the Bonds. The Bonds are not rated by any nationally recognized rating agency. The purchase of the Bonds involves risks, and the Bonds may not be appropriate investments for some types of investors. See “SPECIAL RISK FACTORS” herein.

**Other Information**

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

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

Copies of the Fiscal Agent Agreement, the Continuing Disclosure Agreements and other documents and information referred to herein are available for inspection and (upon request and payment to the City of a charge for copying, mailing and handling) for delivery from the City at 14177 Frederick Street, Moreno Valley, California 92553, Attention: Finance Director.
ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the expected uses of Bond proceeds:

<table>
<thead>
<tr>
<th>Sources of Funds</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Bond Par Amount</td>
<td>$ 5,870,000.00</td>
</tr>
<tr>
<td>(Less Original Issue Discount)</td>
<td>(46,257.10)</td>
</tr>
<tr>
<td><strong>TOTAL SOURCES</strong></td>
<td>$ 5,823,742.90</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Uses of Funds</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Improvement Fund</td>
<td>$ 4,646,390.15</td>
</tr>
<tr>
<td>Reserve Fund</td>
<td>511,043.77</td>
</tr>
<tr>
<td>Cost of Issuance Fund(1)</td>
<td>419,047.90</td>
</tr>
<tr>
<td>Interest Account(2)</td>
<td>217,261.08</td>
</tr>
<tr>
<td>Administrative Expense Account</td>
<td>30,000.00</td>
</tr>
<tr>
<td><strong>TOTAL USES</strong></td>
<td>$ 5,823,742.90</td>
</tr>
</tbody>
</table>

(1) Includes Underwriter’s discount, legal, financing and consulting fees, printing costs, Fiscal Agent fees and other miscellaneous expenses.
(2) To pay capitalized interest on the Bonds through March 1, 2008.

THE BONDS

Authority for Issuance

The Bonds in the aggregate principal amount of $5,870,000 are authorized to be issued by the City for the District under and subject to the terms of the Fiscal Agent Agreement, the Act and other applicable laws of the State of California.

Resolutions of Intention: On September 13, 2005, the City Council of the City adopted a resolution stating its intention to establish the District and to authorize the levy of special taxes.

Resolutions of Formation: On October 25, 2005 the City Council of the City adopted resolutions which established the District, authorized the submittal of levy of special taxes within the District to qualified electors, and determined the necessity to incur bonded indebtedness within the District, in the amount not to exceed $10,000,000.

Resolution Calling Election: The resolutions adopted by the City Council of the City on October 25, 2005 also called for an election by the landowners in the District for the same date on the issues of the levy of the Special Tax, the incurring of bonded indebtedness in the District, and the establishment of an appropriations limit.

Landowner Election and Declaration of Results: On October 25, 2005, an election was held at which the Developer, as the sole landowner and qualified voter within the District approved a ballot proposition authorizing the issuance of up to $10,000,000 of bonds to finance the acquisition and construction of various public facilities, the levy of the Special Tax and the establishment of an appropriations limit for the District. On October 25, 2005, the City Council adopted a resolution approving the canvass of the votes and declaring the District to be fully formed with the authority to levy the Special Taxes, to incur the bonded indebtedness, and to have the established appropriations limit.

Special Tax Lien and Levy: A Notice of Special Tax Lien for the District was recorded in the real property records of the County on November 8, 2005, as a continuing lien against the property in the District.
On November 8, 2005, the City Council of the City, acting as the legislative body of the District, enacted Ordinance No. 701 authorizing the levy of the Special Tax within the District. On June 26, 2006 a Notice of Cessation of Special Tax Lien with respect to the Target and Kohl’s parcels was recorded in the real property records of the County.

Resolution Authorizing Issuance of the Bonds: On May 8, 2007, the City Council adopted a resolution approving issuance of the Bonds.

Purpose of the Bonds

The Bonds are being issued to provide funds to: (i) finance the costs of constructing and acquiring certain public facilities within the District (see “THE COMMUNITY FACILITIES DISTRICT—Description of Authorized Facilities”); (ii) pay costs related to the issuance of the Bonds; (iii) fund the Reserve Fund for the Bonds; and (iv) fund capitalized interest on the Bonds. See “ESTIMATED SOURCES AND USES OF FUNDS.”

Description of the Bonds

The Bonds will be issued as fully registered bonds in denominations of $5,000 and any integral multiple thereof (not exceeding the principal amount maturing at any one time), and shall be dated the date of delivery thereof. The Bonds will be issued in book-entry only form and The Depository Trust Company, New York, New York (“DTC”) will act as securities depository for the Bonds. So long as the Bonds are held in book-entry only form, principal of, premium, if any, and interest on the Bonds will be paid directly to DTC for distribution to the Beneficial Owners of the Bonds in accordance with the procedures adopted by DTC. See APPENDIX H—“BOOK-ENTRY-ONLY SYSTEM” herein. The Bonds will mature on September 1, in the years and principal amounts, and bearing rates of interest, as shown on the inside cover of this Official Statement.

Interest on the Bonds will be payable semiannually on March 1 and September 1 of each year, commencing September 1, 2007 (each, an “Interest Payment Date”) and will be computed on the basis of a 360-day year comprised of twelve 30-day months. Each Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof, unless (i) it is authenticated on an Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (ii) it is authenticated prior to an Interest Payment Date and after the close of business on the Record Date preceding such Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (iii) it is authenticated prior to the Record Date preceding the first Interest Payment Date in which event it shall bear interest from its dated date; provided, that if at the time of authentication of a Bond, interest is then in default thereon, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon, or from its dated date, if no interest has previously been paid or made available for payment thereon.

Interest on the Bonds is payable by check of the Fiscal Agent mailed by first class mail, postage prepaid, on each Interest Payment Date, to the registered Owner thereof at such registered Owner’s address as it appears on the registration books maintained by the Fiscal Agent at the close of business on the Record Date preceding the Interest Payment Date. The principal of the Bonds and any premium on the Bonds are payable in lawful money of the United States of America by check of the Fiscal Agent upon surrender of such Bonds at the Principal Office of the Fiscal Agent; provided, however, that at the written request of the Owner of at least $1,000,000 in aggregate principal amount of Outstanding Bonds filed with the Fiscal Agent prior to any Record Date, interest on such Bonds will be paid to such Owner on each succeeding Interest Payment Date by wire transfer of immediately available funds to an account in the United States of America designated in such written request. All Bonds redeemed and purchased by the Fiscal Agent will be canceled by the Fiscal Agent.
Redemption

Optional Redemption. The Bonds are subject to redemption prior to their stated maturity dates on any Interest Payment Date, as selected among maturities by the District (and by lot within any one maturity), in integral multiples of $5,000, at the option of the District from moneys derived by the District from any source, at a redemption price (expressed as a percentage of the principal amount of the Bonds to be redeemed), together with accrued interest to the date of redemption, as follows.

<table>
<thead>
<tr>
<th>Redemption Dates</th>
<th>Redemption Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Any Interest Payment Date through and including March 1, 2015</td>
<td>103%</td>
</tr>
<tr>
<td>September 1, 2015 and March 1, 2016</td>
<td>102</td>
</tr>
<tr>
<td>September 1, 2016 and March 1, 2017</td>
<td>101</td>
</tr>
<tr>
<td>September 1, 2017 and any Interest Payment Date thereafter</td>
<td>100</td>
</tr>
</tbody>
</table>

Mandatory Redemption From Special Tax Prepayments or From Other Amounts Transferred to the Special Tax Prepayment Account. The Bonds are subject to mandatory redemption prior to their stated maturity dates on any Interest Payment Date, as selected among maturities by the District (and by lot within any one maturity), in integral multiples of $5,000, from moneys derived by the District from Special Tax Prepayments, at redemption prices (expressed as percentages of the principal amounts of the Bonds to be redeemed), together with accrued interest to the date of redemption as follows:

<table>
<thead>
<tr>
<th>Redemption Dates</th>
<th>Redemption Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Any Interest Payment Date through and including March 1, 2015</td>
<td>103%</td>
</tr>
<tr>
<td>September 1, 2015 and March 1, 2016</td>
<td>102</td>
</tr>
<tr>
<td>September 1, 2016 and March 1, 2017</td>
<td>101</td>
</tr>
<tr>
<td>September 1, 2017 and any Interest Payment Date thereafter</td>
<td>100</td>
</tr>
</tbody>
</table>

Mandatory Sinking Fund Redemption. The Outstanding Bonds maturing on September 1, 2027 and September 1, 2037 are subject to mandatory sinking fund redemption, in part, on September 1, 2023 and September 1, 2028, respectively, and on each September 1 thereafter to maturity, by lot, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date of redemption, without premium, and from sinking payments as follows:

<table>
<thead>
<tr>
<th>Bonds Maturing on September 1, 2027</th>
</tr>
</thead>
<tbody>
<tr>
<td>Redemption Date (September 1)</td>
</tr>
<tr>
<td>Sinking Payment</td>
</tr>
<tr>
<td>-----------------------------------------------------</td>
</tr>
<tr>
<td>2023</td>
</tr>
<tr>
<td>2024</td>
</tr>
<tr>
<td>2025</td>
</tr>
<tr>
<td>2026</td>
</tr>
<tr>
<td>2027 (Maturity)</td>
</tr>
</tbody>
</table>
**Bonds Maturing on September 1, 2037**

<table>
<thead>
<tr>
<th>Redemption Date (September 1)</th>
<th>Sinking Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2028</td>
<td>$265,000</td>
</tr>
<tr>
<td>2029</td>
<td>285,000</td>
</tr>
<tr>
<td>2030</td>
<td>310,000</td>
</tr>
<tr>
<td>2031</td>
<td>335,000</td>
</tr>
<tr>
<td>2032</td>
<td>360,000</td>
</tr>
<tr>
<td>2033</td>
<td>390,000</td>
</tr>
<tr>
<td>2034</td>
<td>420,000</td>
</tr>
<tr>
<td>2035</td>
<td>455,000</td>
</tr>
<tr>
<td>2036</td>
<td>485,000</td>
</tr>
<tr>
<td>2037 (Maturity)</td>
<td>520,000</td>
</tr>
</tbody>
</table>

The amount of Outstanding Bonds to be redeemed pursuant to the foregoing schedule shall be reduced by the City pro rata among redemption dates, in order to maintain substantially level debt service as a result of any prior or partial optional redemption or mandatory redemption from Special Tax Prepayments of the Bonds or from other amounts transferred to the Special Tax Prepayment Account.

**Purchase of Bonds.** In lieu of payment at maturity or redemption, moneys in the Bond Fund may be used and withdrawn by the Fiscal Agent for purchase of Outstanding Bonds, upon the filing with the Fiscal Agent of an Officer’s Certificate requesting such purchase, at a public or private sale as and when, and at such prices (including brokerage and other charges) as such Officer’s Certificate may provide, but in no event will Bonds be purchased at a price in excess of the principal amount thereof, plus interest accrued to the date of purchase. In such event, the City shall, as may be appropriate, provide to the Fiscal Agent a revised maturity schedule or a revised mandatory sinking fund schedule for the Bonds, or both.

**Redemption Procedure by Fiscal Agent**

The Fiscal Agent Agreement requires the Fiscal Agent to cause notice of any redemption to be mailed by first class mail, postage prepaid, at least thirty (30) days but not more than sixty (60) days prior to the date fixed for redemption, to the Securities Depositories and to one or more Information Services, and to the respective registered Owners of any Bonds designated for redemption, at their addresses appearing on the Bond registration books maintained by the Fiscal Agent at its Principal Office; but such mailing will not be a condition precedent to such redemption and failure to mail or to receive any such notice, or any defect therein, will not affect the validity of the proceedings for the redemption of such Bonds.

Such notice will state the date of such notice, the date of issue of the Bonds, the place or places of redemption, the redemption date, the redemption price and, if less than all of the then Outstanding Bonds are to be called for redemption, will designate the CUSIP numbers and Bond numbers of the Bonds to be redeemed, by giving the individual CUSIP number and Bond number of each Bond to be redeemed, or will state that all Bonds between two stated Bond numbers, both inclusive, are to be redeemed or that all of the Bonds of one or more maturities have been called for redemption, will state as to any Bond called for redemption in part the portion of the principal of the Bond to be redeemed, will require that such Bonds be then surrendered at the Principal Office of the Fiscal Agent for redemption as the said redemption price, and will state that further interest on such Bonds will not accrue from and after the redemption date. The cost of the mailing and publication of any such redemption notice will be paid by the District.

Upon the payment of the redemption price of Bonds being redeemed, each check or other transfer of funds issued for such purpose will, to the extent practicable, bear the CUSIP number identifying, by issue and maturity, the Bonds being redeemed with the proceeds of such check or other transfer.
With respect to any notice of optional redemption of Bonds, such notice may state that such redemption shall be conditional upon the receipt by the Fiscal Agent on or prior to the date fixed for such redemption of moneys sufficient to pay the principal of, premium, if any, and interest due on such Bonds to be redeemed and that, if such moneys shall not have been so received, said notice shall be of no force and effect and the Fiscal Agent shall not be required to redeem such Bonds. In the event that such notice of redemption contains such a condition and such moneys are not so received, the redemption shall not be made, and the Fiscal Agent shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

In the event of an optional redemption or a mandatory redemption from a Special Tax Prepayment, the City will transfer or cause to be transferred to the Fiscal Agent for deposit in the Bond Fund moneys in an amount equal to the redemption price of the Bonds being redeemed on or before the fifteenth (15th) day of the month preceding the Interest Payment Date upon which such Bonds are to be redeemed.

If less than all the Bonds Outstanding are to be redeemed, the portion of any Bond of a denomination of more than $5,000 to be redeemed will be in the principal amount of $5,000 or a multiple thereof, and, in selecting portions of such Bonds for redemption, the Fiscal Agent will treat each such Bond as representing the number of Bonds of $5,000 denomination which is obtained by dividing the principal amount of such Bond to be redeemed in part by $5,000.

Whenever provision is made in the Fiscal Agent Agreement for the redemption of less than all of the Bonds of a maturity or any given portion thereof, the Fiscal Agent shall select the Bonds of such maturity to be redeemed, from all Bonds of such maturity or such given portion thereof not previously called for redemption, by lot within a maturity, in any manner which the Fiscal Agent in its sole discretion shall deem appropriate.

Upon surrender of Bonds redeemed in part only, the City will execute and the Fiscal Agent will authenticate and deliver to the Owner, at the expense of the District, a new Bond or Bonds, of the same maturity, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the Bond or Bonds.

**Effect of Redemption**

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

All Bonds redeemed and purchased by the Fiscal Agent pursuant to the Fiscal Agent Agreement will be canceled by the Fiscal Agent.

**Transfer and Exchange of Bonds**

Any Bond may, in accordance with its terms, be transferred, upon the books required to be kept pursuant to the provisions of the Fiscal Agent Agreement, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation at the Principal Office of the Fiscal Agent, accompanied by delivery of a duly executed written instrument of transfer in a form acceptable to the Fiscal Agent. The cost for any services rendered or any expenses incurred by the Fiscal Agent in connection with any such transfer will be paid by the District. The Fiscal Agent will collect from the Owner requesting transfer of a Bond any tax or other governmental charge required to be paid with respect to such transfer.
Whenever any Bond or Bonds are surrendered for transfer, the City will execute and the Fiscal Agent will authenticate and deliver a new Bond or Bonds of like aggregate principal amount.

No transfers of Bonds will be required to be made (i) during the fifteen (15) days preceding the date established by the Fiscal Agent for selection of Bonds for redemption, or (ii) with respect to Bonds which have been selected for redemption.

Bonds may be exchanged at the Principal Office of the Fiscal Agent only for a like aggregate principal amount of Bonds of authorized denominations and of the same maturity and interest rate. The cost for any services rendered or any expense incurred by the Fiscal Agent in connection with any such exchange will be paid by the District. The Fiscal Agent will collect from the Owner requesting exchange of a Bond any tax or other governmental charge required to be paid with respect to such exchange.

No exchanges of Bonds will be required to be made (i) during the fifteen (15) days preceding the date established by the Fiscal Agent for selection of Bonds for redemption, or (ii) with respect to Bonds which have been selected for redemption.
Debt Service Schedule for the Bonds

The following table presents the annual debt service on the Bonds (including sinking fund redemptions), assuming that there are no optional redemptions or mandatory redemptions from Special Tax Prepayments. See “—Redemption” above.

<table>
<thead>
<tr>
<th>Period Ending (September 1)</th>
<th>Principal</th>
<th>Interest</th>
<th>Total Debt Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$ -</td>
<td>$72,954.83(1)</td>
<td>$72,954.83</td>
</tr>
<tr>
<td>2008</td>
<td>$ -</td>
<td>288,612.50(2)</td>
<td>288,612.50</td>
</tr>
<tr>
<td>2009</td>
<td>15,000</td>
<td>288,612.50</td>
<td>303,612.50</td>
</tr>
<tr>
<td>2010</td>
<td>20,000</td>
<td>288,012.50</td>
<td>308,012.50</td>
</tr>
<tr>
<td>2011</td>
<td>30,000</td>
<td>287,212.50</td>
<td>317,212.50</td>
</tr>
<tr>
<td>2012</td>
<td>35,000</td>
<td>286,012.50</td>
<td>321,012.50</td>
</tr>
<tr>
<td>2013</td>
<td>45,000</td>
<td>284,577.50</td>
<td>329,577.50</td>
</tr>
<tr>
<td>2014</td>
<td>55,000</td>
<td>282,687.50</td>
<td>337,687.50</td>
</tr>
<tr>
<td>2015</td>
<td>65,000</td>
<td>280,322.50</td>
<td>345,322.50</td>
</tr>
<tr>
<td>2016</td>
<td>75,000</td>
<td>277,462.50</td>
<td>352,462.50</td>
</tr>
<tr>
<td>2017</td>
<td>85,000</td>
<td>274,087.50</td>
<td>359,087.50</td>
</tr>
<tr>
<td>2018</td>
<td>95,000</td>
<td>270,262.50</td>
<td>365,262.50</td>
</tr>
<tr>
<td>2019</td>
<td>110,000</td>
<td>265,987.50</td>
<td>375,987.50</td>
</tr>
<tr>
<td>2020</td>
<td>120,000</td>
<td>260,927.50</td>
<td>380,927.50</td>
</tr>
<tr>
<td>2021</td>
<td>135,000</td>
<td>255,287.50</td>
<td>390,287.50</td>
</tr>
<tr>
<td>2022</td>
<td>150,000</td>
<td>248,875.00</td>
<td>398,875.00</td>
</tr>
<tr>
<td>2023</td>
<td>165,000</td>
<td>241,750.00</td>
<td>406,750.00</td>
</tr>
<tr>
<td>2024</td>
<td>185,000</td>
<td>233,500.00</td>
<td>418,500.00</td>
</tr>
<tr>
<td>2025</td>
<td>200,000</td>
<td>224,250.00</td>
<td>424,250.00</td>
</tr>
<tr>
<td>2026</td>
<td>220,000</td>
<td>214,250.00</td>
<td>434,250.00</td>
</tr>
<tr>
<td>2027</td>
<td>240,000</td>
<td>203,250.00</td>
<td>443,250.00</td>
</tr>
<tr>
<td>2028</td>
<td>265,000</td>
<td>191,250.00</td>
<td>456,250.00</td>
</tr>
<tr>
<td>2029</td>
<td>285,000</td>
<td>178,000.00</td>
<td>463,000.00</td>
</tr>
<tr>
<td>2030</td>
<td>310,000</td>
<td>163,750.00</td>
<td>473,750.00</td>
</tr>
<tr>
<td>2031</td>
<td>335,000</td>
<td>148,250.00</td>
<td>483,250.00</td>
</tr>
<tr>
<td>2032</td>
<td>360,000</td>
<td>131,500.00</td>
<td>491,500.00</td>
</tr>
<tr>
<td>2033</td>
<td>390,000</td>
<td>113,500.00</td>
<td>503,500.00</td>
</tr>
<tr>
<td>2034</td>
<td>420,000</td>
<td>94,000.00</td>
<td>514,000.00</td>
</tr>
<tr>
<td>2035</td>
<td>455,000</td>
<td>73,000.00</td>
<td>528,000.00</td>
</tr>
<tr>
<td>2036</td>
<td>485,000</td>
<td>50,250.00</td>
<td>535,250.00</td>
</tr>
<tr>
<td>2037</td>
<td>520,000</td>
<td>26,000.00</td>
<td>546,000.00</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$5,870,000</td>
<td>$6,498,394.83</td>
<td>$12,368,394.83</td>
</tr>
</tbody>
</table>

(1) Funded from capitalized interest.
(2) March 1, 2008 interest payment funded from capitalized interest.
SOURCES OF PAYMENT FOR THE BONDS

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

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


Special Taxes

The City Council, as the legislative body of the District, has covenanted in the Fiscal Agent Agreement that by August 10 of each year (or such later date as may be authorized by the Act or any amendment thereof) it will levy Special Taxes up to the maximum rates permitted under the Rates and Method in the amount required for the payment of principal of and interest on any Outstanding Bonds becoming due and payable during the ensuing calendar year, including any necessary replenishment or expenditure of the Reserve Fund and the amount estimated to be sufficient to pay the Administrative Expenses during such calendar year.

The Special Taxes levied in any fiscal year may not exceed the maximum rates authorized pursuant to the Rates and Method. See APPENDIX A—“RATES AND METHOD OF APPORTIONMENT OF SPECIAL TAXES” herein. There is no assurance that the Special Tax proceeds will, in all circumstances, be adequate to pay the principal of and interest on the Bonds when due. See “SPECIAL RISK FACTORS—Insufficiency of Special Taxes” herein.

Rates and Method of Apportionment of Special Taxes

The Rates and Method provides that for each Fiscal Year all parcels in the District not otherwise exempt are to be classified as either Developed Property or Undeveloped Property. “Developed Property” is defined as all Assessor’s Parcels of Taxable Property for which a building permit for new construction was issued prior to March 1 of the prior Fiscal Year. “Undeveloped Property” is defined to include all Taxable Property not classified as Developed Property.

Under the Rates and Method, the Maximum Special Tax to be levied on each taxable parcel in the District classified as Developed Property or Undeveloped Property will be $10,865.04 per acre for Fiscal Year 2007-08, and shall increase thereafter, on July 1 of each Fiscal Year thereafter, by an amount equal to two percent (2%) of the Maximum Annual Special Tax in effect in the previous Fiscal Year.
Commencing with Fiscal Year 2007-2008 and for each following Fiscal Year, the City Council shall levy the Special Tax until the amount of Special Taxes levied equals the Annual Special Tax Requirement. The Special Tax shall be levied for each Fiscal Year as follows:

First: The Special Tax shall be levied Proportionately on each Assessor’s Parcels of Developed Property up to 100% of the Maximum Annual Special Tax; and

Second: If additional Special Taxes are needed to satisfy the Annual Special Tax Requirement, the Special Tax shall be levied Proportionately on each Assessor’s Parcels of Undeveloped Property up to 100% of the applicable Maximum Annual Special Tax.

Prepayment of Special Taxes

The Special Tax obligation applicable to an Assessor’s Parcel may be prepaid at any time and the obligation of such Assessor’s Parcel to pay any Special Tax may be fully or partially satisfied as described herein. See APPENDIX A—“RATES AND METHOD OF APPORTIONMENT OF SPECIAL TAXES” herein for a discussion of how the prepayment amount is calculated. No Special Tax prepayment shall be allowed unless the amount of Special Taxes, net of Administrative Expenses, that may be levied on Taxable Property within the District both prior to and after the proposed prepayment is at least 1.1 times the maximum annual debt service on all Outstanding Bonds. Tenders of Bonds in prepayment of Special Taxes may be accepted upon the terms and conditions established by the City Council pursuant to the Act. The Rates and Method provides that a property owner may prepay and satisfy the Special Tax obligation of an Assessor’s Parcel in whole only if there are no delinquent Special Taxes with respect to such Assessor’s Parcel at the time of prepayment.

In the event that a prepayment of Special Taxes occurs in the future, the net proceeds of such prepayment will be applied to effect a mandatory redemption of the Bonds. See “THE BONDS—Redemption” herein.

Collection of Special Tax Revenues

The Special Taxes are levied and collected by the Treasurer-Tax Collector of the County of Riverside (the “County”) in the same manner and at the same time as ad valorem property taxes, provided that the District 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 City has made certain covenants in the Fiscal Agent Agreement for the purpose of ensuring that the current maximum Special Tax rates and method of collection of the Special Taxes are not altered in a manner that would impair the City’s ability to collect sufficient Special Taxes to pay debt service on the Bonds and Administrative Expenses when due. First, the City has covenanted that, to the extent it is legally permitted to do so, it will not reduce the maximum Special Tax rates on then existing Developed Property in the District below the amounts which are necessary to provide Special Tax Revenues in an amount equal to estimated Administrative Expenses for the then current Fiscal Year plus an amount equal to one hundred ten percent (110%) of Maximum Annual Debt Service on the Outstanding Bonds. Second, the City has covenanted that in the event an ordinance is adopted by initiative pursuant to Section 3 of Article XIIIC of the California Constitution, which purports to reduce or otherwise alter the Maximum Rates, it will commence and pursue legal action seeking to preserve its ability to comply with its covenant contained in the preceding sentence.

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

Under the terms of the Fiscal Agent Agreement, not later than ten (10) Business Days after receipt, all Special Tax Revenues received by the City are to be deposited in the Special Tax Fund. As soon as practicable after the receipt from the City of any Special Tax Revenues, but no later than ten (10) Business Days after such receipt, the Fiscal Agent is to withdraw from the Special Tax Fund and deposit in the Administrative Expense Fund, an amount estimated by the City to be sufficient, together with the amount then on deposit in the Administrative Expense Fund, to pay the Administrative Expenses during the current Fiscal Year; provided, however, that the amount deposited in the Administrative Expense Fund prior to the deposit to the Interest Account and Principal Account of the Bond Fund shall not exceed $30,000 (the “Annual Administrative Expense Requirement”) for any Fiscal Year. However, if prior to the September 1 Interest Payment Date in any Bond Year the City determines that Special Tax Revenues will be sufficient to enable the Fiscal Agent to deposit in the Reserve Fund and Principal Account the amount, if any, which is necessary to make the amount on deposit therein equal to the Reserve Requirement and deposit in the Bond Fund the full amount required for deposit to the Interest Account and Principal Account of the Bond Fund shall not exceed $30,000 (the “Annual Administrative Expense Requirement”) for any Fiscal Year. However, if prior to the September 1 Interest Payment Date in any Bond Year the City determines that Special Tax Revenues will be sufficient to enable the Fiscal Agent to deposit in the Reserve Fund and Principal Account the amount, if any, which is necessary to make the amount on deposit therein equal to the Reserve Requirement and deposit in the Bond Fund the full amount required for deposit to the Interest Account to pay the interest on and principal of the Bonds on such Interest Payment Date, the City may instruct the Fiscal Agent in an Officer’s Certificate, upon which the Fiscal Agent may conclusively rely, to deposit an additional amount, in the Administrative Expense Fund before making the required deposit to the Bond Fund, and the Fiscal Agent shall deposit such additional amount in the Administrative Expense Fund before depositing any amount to the Reserve Fund or Bond Fund.

On or before the March 1 Interest Payment Date in each Bond Year, if the amount of other moneys which is on deposit in the Special Tax Fund is less than the amount of the interest on the Bonds which is due on such Interest Payment Date, the Fiscal Agent shall transfer moneys from the Surplus Account, to the extent of moneys on deposit therein and available for transfer, to and deposit such moneys in the Interest Account of the Bond Fund in an amount not to exceed the deficiency in the amount of other moneys which are on deposit in the Special Tax Fund, and available for transfer to and deposit in the Interest Account to pay the full amount of the interest on the Bonds which is due and payable on such Interest Payment Date. On or before the September 1 Interest Payment Date in each Bond Year, if the amount of other moneys which is on deposit in the Special Tax Fund is less than the amount of the interest on and principal of the Bonds which is due on such Interest Payment Date, the Fiscal Agent shall transfer moneys from the Surplus Account, to the extent of moneys on deposit therein and available for transfer, to and deposit such moneys in the Interest Account and the Principal Account in amounts not to exceed the amount of the deficiency in the amount of other moneys which are on deposit in the Special Tax Fund, and available for transfer, to pay the full amount of the interest on and principal of the Bonds which is due and payable on such Interest Payment Date. On or before May 30 of each year, commencing on May 30, 2008 the Fiscal Agent shall notify the City of the amount which is then on deposit in the Surplus Account and of the aggregate amount of the principal of and interest on the Bonds which will become due and payable on the following September 1.

Proceeds of Foreclosure Sales

The net proceeds received following a judicial foreclosure sale of land within the District resulting from a landowner’s failure to pay the Special Tax when due are pledged to the payment of principal of and interest on the Bonds.

Pursuant to Section 53356.1 of the Act, in the event of any delinquency in the payment of any Special Tax or receipt by the City of Special Taxes in an amount which is less than the Special Tax levied, the City Council, as the legislative body of the District, may order that Special Taxes be collected by a superior court action to foreclose the lien within specified time limits. In such an action, the real property subject to the
unpaid amount may be sold at a judicial foreclosure sale. Under the Act, the commencement of judicial foreclosure following the nonpayment of a Special Tax is not mandatory. However, in the Fiscal Agent Agreement, the City covenants for the benefit of the Owners of the Bonds that, within sixty (60) days after each Interest Payment Date, it will cause to be commenced, as hereinafter provided, and (unless delinquent Special Taxes are paid) diligently prosecute to judgment, an action in the superior court to foreclose the lien of any Special Taxes, or any installments thereof, which were not paid by the statutory delinquency date (i.e., December 10 or April 10). In furtherance of this covenant, within five (5) Business Days after each Interest Payment Date, the Finance Director, or his designee, shall review the most recent Fixed Charge Unpaid List received from the Auditor-Controller of the County of Riverside regarding unpaid property taxes to determine if there are any delinquent installments of Special Taxes levied on property in the District. If there are any such delinquent Special Tax installments, the Finance Director, or his designee, shall notify the City Attorney of such delinquencies and, within the previously mentioned sixty (60) days, the City Attorney shall commence, or cause to be commenced, and diligently prosecute such a superior court foreclosure action or actions to collect such delinquent Special Taxes.

If foreclosure is necessary and other funds (including amounts in the Reserve Fund) have been exhausted, debt service payments on the Bonds could be delayed until the foreclosure proceedings have ended with the receipt of any foreclosure sale proceeds. Judicial foreclosure actions are subject to the normal delays associated with court cases and may be further slowed by bankruptcy actions, involvement by agencies of the federal government and other factors beyond the control of the City. See “SPECIAL RISK FACTORS—Bankruptcy and Foreclosure” herein. Moreover, no assurances can be given that the real property subject to foreclosure and sale at a judicial foreclosure sale will be sold or, if sold, that the proceeds of such sale will be sufficient to pay any delinquent Special Tax installment. See “SPECIAL RISK FACTORS—Land Values” herein. Although the Act authorizes the City to cause such an action to be commenced and diligently pursued to completion, the Act does not impose on the District or the City any obligation to purchase or acquire any lot or parcel of property sold at a foreclosure sale if there is no other purchaser at such sale. The Act provides that, in the case of a delinquency, the Special Tax will have the same lien priority as is provided for ad valorem taxes.

**Reserve Fund**

In order to secure further the payment of principal of and interest on the Bonds, the City is required, upon delivery of the Bonds, to deposit $511,043.77 into the Reserve Fund and thereafter to maintain the Reserve Fund an amount equal to the Reserve Requirement. The Fiscal Agent Agreement defines the Reserve Requirement as of the date of any calculation the lesser of (i) 10% of the proceeds of the sale of the Bonds, (ii) Maximum Annual Debt Service on the Bonds or (iii) 125% of average Annual Debt Service on the Bonds, as determined by the City. Subject to the limits on the maximum annual Special Tax which may be levied within the District, as described in APPENDIX A, the City has covenanted to levy Special Taxes in an amount that is anticipated to be sufficient, in light of the other intended uses of the Special Tax proceeds, to maintain the balance in the Reserve Fund at the Reserve Requirement. Amounts in the Reserve Fund are to be applied to make transfers to the Interest Account and the Principal Account of the Bond Fund in the event of any deficiency at any time in either of such accounts of the amount then required for payment of the principal of and interest and any premium on the Bonds or to redeem Bonds in whole or in part. See APPENDIX D—“SUMMARY OF FISCAL AGENT AGREEMENT—Reserve Fund” herein.

**Parity Bonds**

The City has covenanted not to encumber, pledge or place any charge or lien upon any of the Special Tax Revenues or other amounts pledged to the Bonds superior to or on a parity with the pledge and lien created by the Fiscal Agent Agreement for the benefit of the Bonds, except as permitted by the Fiscal Agent Agreement. Nothing in the Fiscal Agent Agreement prevents the City from issuing and selling, pursuant to law, refunding bonds or other refunding obligations payable from and having a first lien upon the Special
Taxes Revenues on a parity with the Outstanding Bonds so long as the issuance of such refunding bonds or other refunding obligations results in a reduction in each Bond Year on the Annual Debt Service on the Bonds when combined with the annual debt service on such refunding bonds or other refunding obligations following the issuance thereof. See APPENDIX D—“SUMMARY OF FISCAL AGENT AGREEMENT” herein.

THE COMMUNITY FACILITIES DISTRICT

General Description of the District

The District consists of approximately 64.4 gross acres of which approximately 32.95 are net taxable acres and is located at the southeast corner of the intersection of State Route 60 and Nason Street in the City of Moreno Valley, Riverside County, California, and consists of the proposed Stoneridge Towne Centre, which, based on current land use approvals and projections, is being developed with over 560,000 square feet of commercial retail center uses. **The portion of the Stoneridge Towne Centre owned and occupied by Target and Kohl’s is approximately 23.28 acres and is not subject to the Special Taxes by the District.** Accordingly, of the projected approximately 560,000 square feet of commercial retail space, only approximately 288,000 square feet is subject to the levy of Special Taxes by the District.

Description of Authorized Facilities

The proposed facilities for the District to be financed from Bond proceeds include all or a portion of design, construction, indirect costs and administration relating to the street and traffic signal public improvements associated with Stoneridge Ranch Towne Centre. The District will also be authorized to finance Eastern Municipal Water District connection/impact fees imposed pursuant to Eastern Municipal Water District fee programs for financing master planned capital facilities and other additional public facilities. However, it is anticipated that only connection/impact fees related to Phase 1 of Stoneridge Towne Centre will be financed from Bond proceeds. The actual facilities to be financed will ultimately be determined in accordance with the Acquisition/Financing Agreement between the City and the Developer.
# TABLE 1
COMMUNITY FACILITIES DISTRICT NO. 5
OF THE CITY OF MORENO VALLEY

CONSTRUCTION COST ESTIMATE

<table>
<thead>
<tr>
<th>Facilities</th>
<th>Estimated Construction Cost(1)</th>
<th>Estimated Cost Incurred as of April 10, 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Street Improvements</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nason Street</td>
<td>$1,002,635</td>
<td>$824,464</td>
</tr>
<tr>
<td>Eucalyptus Avenue</td>
<td>1,788,177</td>
<td>1,457,309</td>
</tr>
<tr>
<td>Fir Avenue</td>
<td>394,254</td>
<td>301,760</td>
</tr>
<tr>
<td>Dracaea Avenue</td>
<td>396,701</td>
<td>331,767</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>$3,581,767</strong></td>
<td><strong>$2,915,300</strong></td>
</tr>
<tr>
<td>(2) Traffic Signals</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nason Street at Fir Avenue</td>
<td>$240,210</td>
<td>$240,210</td>
</tr>
<tr>
<td>Nason Street at Eucalyptus Avenue</td>
<td>261,559</td>
<td>261,559</td>
</tr>
<tr>
<td>Nason Street at Dracaea Avenue</td>
<td>207,042</td>
<td>207,042</td>
</tr>
<tr>
<td>Fir Avenue at Eucalyptus Avenue</td>
<td>213,822</td>
<td>-</td>
</tr>
<tr>
<td>Stoneridge - Commercial</td>
<td>250,000</td>
<td>-</td>
</tr>
<tr>
<td>Stoneridge - Commercial</td>
<td>250,000</td>
<td>-</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>$1,422,633</strong></td>
<td><strong>$708,811</strong></td>
</tr>
<tr>
<td>(3) EMWD Connection/Capacity Fees (Phase 1)</td>
<td>$400,000</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$5,404,400</strong></td>
<td><strong>$3,624,111</strong></td>
</tr>
</tbody>
</table>

(1) Estimated construction cost includes applicable soft costs.

Source: The Developer.

**Principal Taxpayer and Coverage from Leased Property**

The Developer, as the owner of all taxable property within the District, is the sole taxpayer within the District. See “SPECIAL RISK FACTORS—Concentration of Ownership/Reliance on Success of the Stoneridge Towne Centre” herein. Table 2 shows what the projected Fiscal Year 2007-08 Special Tax Levy would be assuming no capitalized interest and the estimated percentage of such projected Special Tax Levy based on leasing status as of April 1, 2007.
TABLE 2
PROJECTED FISCAL YEAR 2007-08
SPECIAL TAX LEVY BASED ON LEASING STATUS
AS OF APRIL 1, 2007
(Assuming No Capitalized Interest)

<table>
<thead>
<tr>
<th>Category</th>
<th>Building Square Footage</th>
<th>Parcel Area (Acres)</th>
<th>Estimated FY 2007-08 Special Tax Levy(1)</th>
<th>Percentage of Estimated FY 2007-08 Special Tax Levy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leased and Occupied</td>
<td>0</td>
<td>0.00</td>
<td>$ 0.00</td>
<td>0.0%</td>
</tr>
<tr>
<td>Leased but Not Occupied</td>
<td>125,341</td>
<td>15.22</td>
<td>153,636.35</td>
<td>48.2</td>
</tr>
<tr>
<td>Signed Letter of Intent/ Lease out for Review</td>
<td>5,300</td>
<td>0.80</td>
<td>7,261.60</td>
<td>2.3</td>
</tr>
<tr>
<td>Not Leased</td>
<td>157,689</td>
<td>16.93</td>
<td>157,714.55</td>
<td>49.5</td>
</tr>
<tr>
<td>Totals</td>
<td>288,330</td>
<td>32.95</td>
<td>$ 318,612.50</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

(1) Assumes no capitalized interest. Interest on the Bonds has been capitalized through March 1, 2008.
Source: Harris & Associates/the Developer.

Coverage from Developed Property

Table 3 below sets forth what the projected Fiscal Year 2007-08 Special Tax Levy would be, assuming no capitalized interest, based upon development status as of March 1, 2007. As can be seen below, Developed Property is projected to be responsible for approximately 37.2% of such projected Fiscal Year 2007-08 Special Tax Levy while Undeveloped Property is projected to be responsible for 62.8%. See “SPECIAL RISK FACTORS—Failure to Develop Properties” herein.

TABLE 3
PROJECTED FISCAL YEAR 2007-08 SPECIAL TAX LEVY
BASED ON DEVELOPMENT STATUS
AS OF MARCH 1, 2007
(Assuming No Capitalized Interest)

<table>
<thead>
<tr>
<th>Parcel Area (Acres)</th>
<th>Projected FY 2007-08 Special Tax Levy</th>
<th>Percentage of Projected FY 2007-08 Special Tax Levy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developed Property</td>
<td>10.92</td>
<td>$ 118,646.24</td>
</tr>
<tr>
<td>Undeveloped Property</td>
<td>22.03</td>
<td>199,966.26</td>
</tr>
<tr>
<td>Total</td>
<td>32.95</td>
<td>$ 318,612.50</td>
</tr>
</tbody>
</table>

Source: Harris & Associates.

Subsequent to March 1, 2007, which is the cutoff date for classifying property as Developed or Undeveloped for the Rate and Method for purposes of calculating the Fiscal Year 2007-08 Special Tax levy, the Developer pulled several building permits in the District. Table 3A below sets forth a hypothetical Fiscal Year 2007-08 Special Tax Levy based on development as of April 1, 2007 and assuming no capitalized interest.
TABLE 3A
HYPOTHETICAL FISCAL YEAR 2007-08 SPECIAL TAX LEVY
BASED ON DEVELOPMENT STATUS
AS OF APRIL 1, 2007
(Assuming No Capitalized Interest)

<table>
<thead>
<tr>
<th>Parcel Area</th>
<th>Projected FY 2007-08 Special Tax Levy</th>
<th>Percentage of Projected FY 2007-08 Special Tax Levy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developed Property</td>
<td>14.36</td>
<td>$ 156,021.97</td>
</tr>
<tr>
<td>Undeveloped Property</td>
<td>18.59</td>
<td>162,590.53</td>
</tr>
<tr>
<td>Total</td>
<td>32.95</td>
<td>$ 318,612.50</td>
</tr>
</tbody>
</table>

Source: Harris & Associates.

Direct and Overlapping Debt

The ability of the Developer or future owners of land within the District to pay the Special Taxes could be affected by the existence of other taxes and assessments imposed upon the property. Certain of these taxes relate to direct and overlapping tax and assessment debt including that of the Metropolitan Water District, Riverside City Community College District, Moreno Valley Unified School District and Eastern Municipal Water District Improvement District No. 22. Based on data assembled and reported to the District by California Municipal Statistics, Inc., as of December 1, 2006, the District estimates that such direct and overlapping debt for Fiscal Year 2006-07 did not exceed $60,000.

Estimated Appraised Value-to-Lien Ratio

The estimated appraised value-to-lien ratio for the taxable property within the District based on the $21,000,000 appraised value estimated by the Appraiser as of March 19, 2007 and the $5,870,000 principal amount of the outstanding Bonds results in an estimated appraised value-to-lien ratio of approximately 3.58 to 1 for the District as a whole, exclusive of any other direct and overlapping debt. See “—Direct and Overlapping Debt” above for a discussion of direct and overlapping debt, which if included, would reduce slightly the direct and overlapping debt.

Aerial Photo of District

The following page contains an aerial photo of the District taken on March 23, 2007. The pads for Target and Kohl’s are not subject to the levy of the Special Tax and do not secure the Bonds. Additionally, Retail Pad A, which is located between Target and Kohl’s, is shown as excluded from the Special Tax Levy. Retail Pad A, which is leased to Dress Barn, is, however, subject to the Special Tax. See Site Plan map introduction.
THE DEVELOPMENT AND PROPERTY OWNERSHIP

Except for the information under the captions “—Appraisal” and “—Market Absorption Study,” the Developer has provided the information in this section.

The information herein regarding ownership of property in the District has been included because it is considered relevant to an informed evaluation of the Bonds. The inclusion in this Official Statement of information related to the existing owner of all of the property within the District should not be construed to suggest that the Bonds, or the Special Taxes that will be used to pay the Bonds, are recourse obligations of such property owner. A property owner may sell or otherwise dispose of land within the District or a development or any interest therein at any time.

No assurance can be given that the proposed development within the District will occur as described below. Although planning for the development of the District is at an advanced stage, actual construction of improvements is as described below under the captions “—The Development Plan” and “—Infrastructure Requirements and Construction Status.” No assurance can be given that development of the land within the District will continue to completion, or that it will occur in a timely manner or in the configuration or intensity described herein, or that the Developer will retain ownership of any of the land within the District. The Bonds and the Special Taxes are not personal obligations of any landowners and, in the event that a landowner defaults in the payment of the Special Taxes, the District may proceed with judicial foreclosure but has no direct recourse to the assets of any landowner other than the property upon which the Special Tax is levied. The Bonds are secured solely by the Special Taxes and other amounts pledged under the Fiscal Agent Agreement. See “SOURCES OF PAYMENT FOR THE BONDS” and “SPECIAL RISK FACTORS” herein.

General Description and Location of the District

The City of Moreno Valley (the “City”) encompasses approximately 49 square miles of land area in western Riverside County. The City is immediately east of the City of Riverside, 66 miles east of the City of Los Angeles, 48 miles northeast of the City of Irvine and 100 miles north of the City of San Diego. Geographically, the City is bordered by three low-lying mountain ranges, March Air Reserve Base and Lake Perris State Park. The City is situated at the junction of two major highways, California State Highway 60 (the Moreno Valley Freeway) and Interstate 215.

The District is located in the City and consists of approximately 64.4 gross acres of which approximately 32.95 are net taxable acres. The District consists of a proposed commercial-retail oriented center development known as “Stoneridge Ranch Towne Centre,” which at buildout is expected to contain over 560,000 square feet of commercial-retail and entertainment uses. Stoneridge Ranch Towne Centre is currently anchored by tenants such as Target, Kohl’s, Best Buy, Famous Footwear, Jack in the Box, Jamba Juice, Office Max and Starbucks. **Target and Kohl’s are located at Stoneridge Ranch Towne Centre but are not subject to the levy of Special Taxes and are not security for the Bonds.** See “—The Development Plan.”

The Bond proceeds and additional amounts expended and expected to be expended by the Developer will be used to finance a portion of the infrastructure benefitting shopping center uses within the District.

The Developer

The Developer of Stoneridge Towne Centre is Stoneridge Centre Partners, L.P., a California limited partnership. The General Partner of the Developer is Empire Land Holdings LLC, a California limited liability company of which Peter Sterling, Gary Nogle and Michael Marks are members. Limited Partners of the Developer are: (i) Generation Properties L.P., a California limited partnership of which Trilogy Investment Group LLC, a California limited liability company is the general partner and of which Michael Marks is
President; (ii) Ryan Family Partnership, L.P., a California limited partnership of which Ryco Associates, a California corporation is the general partner and of which Jerome Ryan is President; (iii) Gary Nogle; and (iv) Peter Sterling Living Trust. The Developer was founded by Peter Sterling, Gary Nogle and Michael Marks to acquire, own and develop approximately 240 acres of unimproved land at the intersection of Nason Street and Highway 60 within the City, a portion of which consists of the property within the District. The Developer sold approximately 172 gross acres of property adjacent to the District to Beazer Homes Holdings Corp., a Delaware corporation (“Beazer”) pursuant to a Purchase and Sale Agreement and Joint Escrow Instructions dated as of May 11, 2004 (the “Beazer Purchase and Sale Agreement”). Pursuant to the Beazer Purchase and Sale Agreement, Beazer was obligated to rough grade the property in the District for the Developer and complete certain shared infrastructure improvements. The Developer is obligated to pay approximately 37% of the costs of the shared infrastructure with Beazer responsible for the remaining 63%. See “—Infrastructure Requirements and Construction Status” below for a description of the status of completion of the infrastructure in the District. Additionally, the Developer has sold 15.76 acres to Target and 7.52 acres to Kohl’s.

The following are brief resumes of Peter Sterling, Gary Nogle and Michael Marks.

**Peter Sterling.** Mr. Sterling is a real estate attorney by training and has extensive experience in conceptualizing development projects, site selection, feasibility studies, land acquisition, financing and marketing.

Prior to working with the Developer, Mr. Sterling practiced real estate and corporate law for ten (10) years in New York and New Jersey. Moving to San Diego in 1980, Mr. Sterling was in-house counsel for a real estate syndication firm. For the past 15 years, Mr. Sterling has concentrated on real estate acquisition and development.

Mr. Sterling earned his Bachelor of Arts degree from Pennsylvania State in 1967 and graduated from Cornell Law School in 1970. He is licensed to practice law in California, New York, and New Jersey.

**Gary Nogle.** Mr. Nogle is the president and owner of Nogle Onufer Associates and Architects, Inc. Mr. Nogle oversees and coordinates architecture and engineering for the Developer. Mr. Nogle started with a major architectural and engineering firm in Irvine, California. The firm specialized in master planned communities throughout the United States. The opportunity to work on quality projects and the diverse residential and commercial experience led to the formation of Mr. Nogle’s own firm, Nogle Onufer Associates Architects, Inc. (“NOAA”) in 1978.

Mr. Nogle is the principal in charge of planning and design with NOAA and has enjoyed 18 years of building a reputation of providing quality professional service to clients in the private and public sectors.

Mr. Nogle is a graduate of California Polytechnic State University at San Luis Obispo with a Bachelor of Architecture in 1976. His professional memberships and licenses include National Council of Architectural Regulation Boards (“NCARB”), California Council of the American Institute of Architects (“AIA”) and the Urban Land Institute (“ULI”).

**Michael Marks.** Mr. Marks is the President and CEO of Trilogy Investment Group. Founded in 1994, Trilogy Investment Group (“TIG”) represents over 1.4 million square feet of office and retail projects throughout California. Through acquisition, development and repositioning of existing projects, TIG is now involved in a portfolio that exceeds $350,000,000.

Prior to founding TIG and joining the Developer, Mr. Marks worked with Apple Computers for over eight years holding various marketing and sales positions. Before working at Apple Computers, Mr. Marks held management and sales positions at Unisys Corporation and Harris/Lanier Corporation.
Mr. Marks is active in the Southern California real estate community and is a member of the Young Presidents Organization. Marks graduated from the University of the Pacific with a BA in Political Science.

The Development Plan

The Developer owns all of the taxable property within the District and pursuant to the Developer’s current business plan, anticipates maintaining ownership of the property within the District for the foreseeable future. The Developer plans to lease the property within the District to various commercial-retail tenants pursuant to the terms of triple net leases whereby each tenant is generally responsible to pay its pro rata share of ad valorem taxes and Special Taxes. The leases vary as to term of lease, pricing, and other business terms. As of April 1, 2007, the Developer had signed leases totaling approximately 125,341 square feet. Additionally, as of April 1, 2007, the Developer has signed letters of intent or leases out for review on approximately 5,300 square feet. As of April 1, 2007, approximately 72,118 square feet remained available for lease in Phase 1 and all approximately 85,571 square feet in Phase 2 was not leased.

Stoneridge Towne Centre is being developed by the Developer in two phases. Phase 1 consists of approximately 202,759 square feet of space, excluding the Super Target store and the Kohl’s store which are not subject to the Special Tax levy. Phase 1 includes Best Buy, Office Max, Dress Barn, Famous Footwear, Chili’s and other tenants shown on Table 4 below.

Phase 1 is under construction, with approximately 62% of the phase leased as of April 1, 2007. Target (which is not subject to the Special Tax levy) is scheduled to open July 29, 2007. Kohl’s (which is also not subject to the Special Tax levy) and many of the other tenants in Phase 1 are scheduled to open in the 4th quarter of 2007.

Phase 2 is expected to consist of approximately 85,571 square feet of space. Construction has yet to commence on Phase 2, and no leases have been signed for Phase 2. The Developer expects to break ground on the construction of Phase 2 in the 4th quarter of 2008.

The Developer has hired Coreland Companies (“Coreland”) to act as the initial property manager for the property within the District. Coreland was established in 1989 and is a privately held commercial real estate service company based in California. Coreland’s management portfolio includes management of retail, commercial office, industrial and mixed-used projects. Coreland’s other services include construction management, financial management and accounting, asset management, leasing, property and investment sales, tenant representation, acquisition due diligence, financing, strategic planning, disposition coordination and receiverships.

Table 4 below describes the current leasing status and tenant information as of April 1, 2007. Please see the map of the District on the following page for a description of the Stoneridge Towne Centre project and the general locations of the development phases shown on Table 4.

The leasing summaries shown below are based on the Developer’s current plans. These plans may change to respond to changes in economic or market conditions.
### TABLE 4
SUMMARY OF LEASING/TENANT STATUS
(As of April 1, 2007)

<table>
<thead>
<tr>
<th>Tenant</th>
<th>Location</th>
<th>Use</th>
<th>Size (in Square Feet)</th>
<th>Initial Lease Term (in Years)</th>
<th>Option</th>
<th>Expected Rent Start Date</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PHASE 1</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Dress Barn</td>
<td>Retail A</td>
<td>Women’s Apparel</td>
<td>7,369</td>
<td>5 Years</td>
<td>(2x) 5 Years</td>
<td>December 2007</td>
<td>Under Construction; Scheduled to Open October or November 2007</td>
</tr>
<tr>
<td>Famous Footwear</td>
<td>Retail B</td>
<td>Shoe Store</td>
<td>7,000</td>
<td>10 Years</td>
<td>(2x) 5 Years</td>
<td>December 2007</td>
<td>Under Construction; Scheduled to Open October or November 2007</td>
</tr>
<tr>
<td>Best Buy</td>
<td>Major C</td>
<td>Electronic Store</td>
<td>45,666</td>
<td>10 Years</td>
<td>(3x) 5 Years</td>
<td>December 2007</td>
<td>Under Construction; Scheduled to Open October or November 2007</td>
</tr>
<tr>
<td>Office Max</td>
<td>Major D</td>
<td>Office Supply Store</td>
<td>17,948</td>
<td>10 Years</td>
<td>(2x) 5 Years</td>
<td>December 2007</td>
<td>Under Construction; Scheduled to Open October or November 2007</td>
</tr>
<tr>
<td>Available</td>
<td>Major E</td>
<td>TBD</td>
<td>25,000</td>
<td>TBD</td>
<td>-</td>
<td>-</td>
<td>Pad Delivery: May 2007; Scheduled to Open: Fourth Quarter of 2007</td>
</tr>
<tr>
<td>Available</td>
<td>Pad 1</td>
<td>TBD</td>
<td>5,200</td>
<td>TBD</td>
<td>-</td>
<td>-</td>
<td>Pad Delivery: May 2007; Scheduled to Open: Fourth Quarter of 2007</td>
</tr>
<tr>
<td>Pomona First Federal</td>
<td>Pad 2</td>
<td>Bank</td>
<td>3,600</td>
<td>20 Years</td>
<td>(4x) 5 Years</td>
<td>December 2007</td>
<td>Pad Delivery: May 2007; Scheduled to Open: Fourth Quarter of 2007</td>
</tr>
<tr>
<td>Jack in the Box</td>
<td>Pad 3</td>
<td>Fast Food</td>
<td>2,692</td>
<td>20 Years</td>
<td>(2x) 5 Years</td>
<td>December 2007</td>
<td>Pad Delivery: May 2007; Scheduled to Open: Fourth Quarter of 2007</td>
</tr>
<tr>
<td>Chevron</td>
<td>Pad 4</td>
<td>Gasoline Station / Convenience Store / Car Wash</td>
<td>3,000</td>
<td>25 Years</td>
<td>(3x) 5 Years</td>
<td>December 2007</td>
<td>Pad Delivery: May 2007; Scheduled to Open: Fourth Quarter of 2007</td>
</tr>
<tr>
<td>Chili’s</td>
<td>Pad 5</td>
<td>Restaurant</td>
<td>5,990</td>
<td>20 Years</td>
<td>(4x) 5 Years</td>
<td>December 2007</td>
<td>Pad Delivery: May 2007; Scheduled to Open: Fourth Quarter of 2007</td>
</tr>
<tr>
<td>Available</td>
<td>Pad 6</td>
<td>TBD</td>
<td>4,200</td>
<td>TBD</td>
<td>-</td>
<td>-</td>
<td>Permits Pulled; Scheduled to Open: Fourth Quarter of 2007</td>
</tr>
<tr>
<td>Starbucks’</td>
<td>Pad 7</td>
<td>Retail Coffee and baked goods</td>
<td>4,200</td>
<td>TBD</td>
<td>-</td>
<td>-</td>
<td>Permits Pulled; Scheduled to Open: Fourth Quarter of 2007</td>
</tr>
<tr>
<td>Pacific Dental Services</td>
<td>Pad 7</td>
<td>Dental Services</td>
<td>3,500</td>
<td>10 Years</td>
<td>(2x) 5 Years</td>
<td>December 2007</td>
<td>Permits Pulled; Scheduled to Open: Fourth Quarter of 2007</td>
</tr>
<tr>
<td>Subway</td>
<td>Pad 7</td>
<td>Retail Sandwich Shop</td>
<td>1,267</td>
<td>6 Years</td>
<td>(2x) 6 Years</td>
<td>December 2007</td>
<td>Permits Pulled; Scheduled to Open: Fourth Quarter of 2007</td>
</tr>
<tr>
<td>Tenant</td>
<td>Location</td>
<td>Use</td>
<td>Size (in Square Feet)</td>
<td>Initial Lease Term (in Years)</td>
<td>Option</td>
<td>Expected Rent Start Date</td>
<td>Status</td>
</tr>
<tr>
<td>----------------------------</td>
<td>----------</td>
<td>----------------------------</td>
<td>-----------------------</td>
<td>------------------------------</td>
<td>--------</td>
<td>--------------------------</td>
<td>----------------------------------------------------------------------</td>
</tr>
<tr>
<td>Business Group International</td>
<td>Pad 7</td>
<td>Nail Salon</td>
<td>1,900</td>
<td>10 Years</td>
<td>(2x) 5 Years</td>
<td>December 2007</td>
<td>Permits Pulled; Scheduled to Open: Fourth Quarter of 2007</td>
</tr>
<tr>
<td>Available</td>
<td>Pad 7</td>
<td>TBD</td>
<td>2,347</td>
<td>TBD</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Available</td>
<td>Pad 7</td>
<td>TBD</td>
<td>1,187</td>
<td>TBD</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Verizon Wireless</td>
<td>Pad 8</td>
<td>Cellular Phone Sales</td>
<td>2,500</td>
<td>5 Years</td>
<td>(3x) 3 Years</td>
<td>December 2007</td>
<td>Permits Pulled; Scheduled to Open: Fourth Quarter of 2007</td>
</tr>
<tr>
<td>Zen’s Chinese</td>
<td>Pad 8</td>
<td>Fast Food</td>
<td>1,600</td>
<td>7 Years</td>
<td>(2x) 4 Years</td>
<td>December 2007</td>
<td>Permits Pulled; Scheduled to Open: Fourth Quarter of 2007</td>
</tr>
<tr>
<td>Available</td>
<td>Pad 8</td>
<td>TBD</td>
<td>11,334</td>
<td>TBD</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Roundtable Pizza</td>
<td>Pad 9</td>
<td>Retail Pizza</td>
<td>3,807</td>
<td>10 Years</td>
<td>(2x) 5 Years</td>
<td>December 2007</td>
<td>Permits Pulled; Scheduled to Open: Fourth Quarter of 2007</td>
</tr>
<tr>
<td>Available</td>
<td>Pad 9</td>
<td>TBD</td>
<td>10,041</td>
<td>TBD</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Jamba Juice</td>
<td>Pad 10</td>
<td>Retail Sale of Juices,</td>
<td>1,300</td>
<td>10 Years</td>
<td>(2x) 5 Years</td>
<td>December 2007</td>
<td>Permits Pulled; Scheduled to Open: Fourth Quarter of 2007</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Blended Juice and Baked</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Visterra Credit Union</td>
<td>Pad 10</td>
<td>Credit Union</td>
<td>4,002</td>
<td>10 Years</td>
<td>(3x) 5 Years</td>
<td>December 2007</td>
<td>Permits Pulled; Scheduled to Open: Fourth Quarter of 2007</td>
</tr>
<tr>
<td>T-Mobile</td>
<td>Pad 10</td>
<td>Cellular Phone Sales</td>
<td>2,000</td>
<td>5 Years</td>
<td>(2x) 5 Years</td>
<td>December 2007</td>
<td>Permits Pulled; Scheduled to Open: Fourth Quarter of 2007</td>
</tr>
<tr>
<td>Available</td>
<td>Pad 10</td>
<td>TBD</td>
<td>6,709</td>
<td>TBD</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Mattress Gallery</td>
<td>Pad 11</td>
<td>Retail Sales – Mattresses</td>
<td>3,500</td>
<td>5 Years</td>
<td>(2x) 5 Years</td>
<td>January 2008</td>
<td>Construction to Start on August 1, 2007 with a Delivery Date of December 2007</td>
</tr>
<tr>
<td></td>
<td></td>
<td>and bedding</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Available</td>
<td>Pad 11</td>
<td>TBD</td>
<td>1,100</td>
<td>TBD</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Washington Mutual</td>
<td>Pad 12</td>
<td>Bank</td>
<td>5,000</td>
<td>15 Years</td>
<td>(4x) 5 Years</td>
<td>February 2008</td>
<td>Pad Delivery: June 2007; Scheduled to Open: First Quarter of 2008</td>
</tr>
<tr>
<td>Available</td>
<td>Pad 13</td>
<td>TBD</td>
<td>4,000</td>
<td>TBD</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Available</td>
<td>Pad 14</td>
<td>TBD</td>
<td>6,300</td>
<td>TBD</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>Total Leased</strong></td>
<td><strong>Phase I</strong></td>
<td></td>
<td><strong>125,341</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Available</strong></td>
<td><strong>Phase I</strong></td>
<td></td>
<td><strong>77,418</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**Infrastructure Requirements and Construction Status**

As described under the caption “—The Developer” above, pursuant to the Beazer Purchase and Sale Agreement, Beazer is constructing all offsite improvements for the District and for the subdivision of approximately 600 residential homes being constructed by Beazer adjacent to the Stoneridge Towne Centre. The costs of off-site improvements are estimated at over $30,000,000, of which the Developer is responsible to pay 37%. The off-site improvements being constructed by Beazer include improvements relating to sewer, water, power, drainage, curbs, gutters, sidewalks, traffic signals and streets, including the widening of Nason Street, which is the main entrance to the Stoneridge Ranch Towne Centre and the installation of approximately 1.7 miles of arterial roads.

As of April 24, 2007, approximately 80% of the off-site improvements were complete and substantial completion of all off-site improvements is expected by July 1, 2007. All of the off-site infrastructure has been contracted for except for a portion of the 90 inch Line I storm draining which the Developer expects will be contracted for by May 1, 2007. The remaining 20% of off-sites to be completed consist of remaining street, signal and ancillary improvements. The Developer has obtained building permits for all major tenants in Phase 1 except Major E, and has obtained building permits for the “Main Street” promenade shopping portion of the project.

**Estimated Sources and Uses of Funds and Projected Cash Flow**

The full development of property in the District requires the expenditure of substantial amounts both directly related to the District property and for other infrastructure improvements located outside the District. Table 5 below has been provided by the Developer to indicate its present projection of the sources and uses associated with the development. Table 5 summarizes the actual investment in the development through December 31, 2006 and the projected sources and uses of funds to complete the development as proposed by the Developer. The Developer has indicated that the Developer has obtained a construction loan from Northwestern Mutual Life Insurance Company in the amount of $40,000,000 of which $29,838,557 was outstanding as of March 12, 2007. The loan is for 22 years at a 6.15% interest rate. The loan is for the construction of Phase 1 only. The Developer has not secured financing for Phase 2. However, the Developer has granted Northwestern Mutual Life Insurance Company a right of first refusal on providing financing for Phase 2.

The unaudited, projected cash flow for the Developer is set forth in Table 5 below. As described above, the Developer’s cash flow in Table 5 anticipates obtaining financing for the construction of Phase 2. As of the date of this Official Statement, such financing had not yet been secured. There can be no assurance that the Developer will have timely access to the sources of funds (as shown below) which will be necessary to
complete and operate the proposed development or that there will be no substantial changes in the sources and uses of funds shown below. Furthermore, pursuant to the Beazer Purchase and Sale Agreement, Beazer is obligated to complete certain shared infrastructure needed to develop the shopping center. No assurance can be made that Beazer will complete such required infrastructure by July 1, 2007 as projected by the Developer or on budget.

Although Table 5 reflects the Developer’s current projections, many factors beyond the Developer’s control, or a decision by the Developer to alter its current plans, may cause the actual sources and uses to differ from the projections. Planning for Phase 2 is still in its preliminary stages, however all of the backbone infrastructure for Phase 2 will be completed in connection with Phase 1. The Developer is negotiating with potential tenants, but has not executed any leases for Phase 2. The actual leasing of Phase 2 to end users may effect the projections shown below. The Developer makes no assurance that actual lease rates for the unleased property within the District will be at the rates projected in Table 5 below. However, based on current leasing status and leasing rates, the Developer believes such projections to be reasonable. Table 5 is presented to show that expected revenues demonstrate that the development as proposed is financially feasible and not to guarantee a particular cash flow to the Developer. Future changes to the Developer’s financial projections will be shown in the Annual Report to be prepared by the Developer pursuant to the Continuing Disclosure Agreement of Developer. See APPENDIX F—“FORM OF CONTINUING DISCLOSURE AGREEMENT OF THE DEVELOPERS.”
**TABLE 5**
**DEVELOPERS’ PROJECTED SOURCES AND USES OF FUNDS**
**AS OF APRIL 1, 2007**

<table>
<thead>
<tr>
<th>Incurred through</th>
<th>12/31/2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sources:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction/Perm Loan&lt;br/&gt;(1)</td>
<td>$ 5,220,718</td>
<td>$ 26,825,000</td>
<td>$ 7,954,282</td>
<td>$ 0</td>
<td>$ 0</td>
<td>$ 40,000,000</td>
</tr>
<tr>
<td>Phase II Construction/Perm Loan</td>
<td>11,024,600</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>11,024,600</td>
</tr>
<tr>
<td>Equity Contributions</td>
<td>0</td>
<td>4,650,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>4,650,000</td>
</tr>
<tr>
<td>Site Reimbursements – Target &amp; Kohl’s</td>
<td>0</td>
<td>5,885,827</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>5,885,827</td>
</tr>
<tr>
<td>Site Reimbursements - Ground Leases</td>
<td>0</td>
<td>750,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>750,000</td>
</tr>
<tr>
<td>County Reimbursement</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Sales Revenue&lt;br/&gt;(2)</td>
<td>12,750,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>12,750,000</td>
</tr>
<tr>
<td>Building/Ground Lease Income</td>
<td>0</td>
<td>212,500</td>
<td>3,721,022</td>
<td>4,629,382</td>
<td>5,163,532</td>
<td>13,726,436</td>
</tr>
<tr>
<td>Operating Expense Recovery</td>
<td>0</td>
<td>40,000</td>
<td>1,137,000</td>
<td>1,516,000</td>
<td>1,609,990</td>
<td>4,302,990</td>
</tr>
<tr>
<td>Ground Leases</td>
<td>0</td>
<td>70,500</td>
<td>143,750</td>
<td>550,000</td>
<td>842,500</td>
<td>1,606,750</td>
</tr>
<tr>
<td><strong>Total Sources:</strong></td>
<td><strong>$ 28,995,318</strong></td>
<td><strong>$ 38,433,827</strong></td>
<td><strong>$ 16,456,054</strong></td>
<td><strong>$ 14,695,382</strong></td>
<td><strong>$ 7,616,022</strong></td>
<td><strong>$ 106,196,603</strong></td>
</tr>
<tr>
<td>Uses:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land Acquisition and Prior Expenses</td>
<td>$ 11,024,600</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>$ 11,024,600</td>
</tr>
<tr>
<td>Building Construction</td>
<td>350,000</td>
<td>14,616,384</td>
<td>2,000,000</td>
<td>7,862,500</td>
<td>0</td>
<td>24,828,884</td>
</tr>
<tr>
<td>Site Work</td>
<td>2,000,000</td>
<td>12,018,083</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>14,018,083</td>
</tr>
<tr>
<td>Off-site expenses</td>
<td>2,500,000</td>
<td>7,800,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>10,300,000</td>
</tr>
<tr>
<td>Soft Costs</td>
<td>889,425</td>
<td>714,452</td>
<td>225,000</td>
<td>175,000</td>
<td>0</td>
<td>2,003,877</td>
</tr>
<tr>
<td>Contingency</td>
<td>1,384,715</td>
<td>1,384,715</td>
<td>150,000</td>
<td>600,000</td>
<td>0</td>
<td>3,519,430</td>
</tr>
<tr>
<td>Indirects</td>
<td>2,067,169</td>
<td>3,471,396</td>
<td>100,000</td>
<td>100,000</td>
<td>0</td>
<td>5,738,565</td>
</tr>
<tr>
<td>Capitalized Property Tax</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Commissions</td>
<td>500,000</td>
<td>1,220,000</td>
<td>200,000</td>
<td>225,000</td>
<td>0</td>
<td>2,145,000</td>
</tr>
<tr>
<td>Capitalized Interest</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Loan Fees</td>
<td>500,000</td>
<td>0</td>
<td>62,500</td>
<td>0</td>
<td>0</td>
<td>562,500</td>
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<tr>
<td>Operating Costs</td>
<td>0</td>
<td>75,000</td>
<td>1,255,668</td>
<td>1,634,668</td>
<td>1,731,172</td>
<td>4,696,508</td>
</tr>
<tr>
<td>CFD Debt Service (50%)&lt;br/&gt;(3)</td>
<td>0</td>
<td>50,000</td>
<td>70,000</td>
<td>30,000</td>
<td>0</td>
<td>150,000</td>
</tr>
<tr>
<td>Permanen Loan Payments&lt;br/&gt;(4)</td>
<td>171,326</td>
<td>2,227,240</td>
<td>0</td>
<td>500,000</td>
<td>0</td>
<td>2,898,566</td>
</tr>
<tr>
<td>Repayment of Construction Loan&lt;br/&gt;(4)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total Uses:</strong></td>
<td><strong>$ 21,387,233</strong></td>
<td><strong>$ 43,577,270</strong></td>
<td><strong>$ 6,673,753</strong></td>
<td><strong>$ 14,607,948</strong></td>
<td><strong>$ 5,908,108</strong></td>
<td><strong>$ 92,154,310</strong></td>
</tr>
<tr>
<td>Sources in Excess of Uses</td>
<td>$ 7,608,085</td>
<td>$ (5,143,443)</td>
<td>$ 9,782,301</td>
<td>$ 87,434</td>
<td>$ 1,707,914</td>
<td>$ 14,042,291</td>
</tr>
<tr>
<td>Cumulative Sources in Excess of Uses</td>
<td>$ -</td>
<td>$ 2,464,642</td>
<td>$ 12,246,943</td>
<td>$ 12,334,377</td>
<td>$ 14,042,291</td>
<td>-</td>
</tr>
</tbody>
</table>

**Source:** The Developer.

**Status of Land Use Approvals**

On March 9, 2006, the City Planning Commission approved the master plot plan and Tentative Tract Map No. 34411 (“TTM 34411”) and the master plot plan subdividing the property located within the District. In connection with the approval of TTM 34411, the City Planning Commission adopted a Negative Declaration in accordance with the City’s Guidelines for the Implementation of the California Environmental Quality Act (“CEQA”). Parcel Map No. 34411 was recorded on June 22, 2006. Other than conditional use permits for potential tenants with drive-thru facilities, no other discretionary land use approvals are required to complete the development of the Stoneridge Towne Centre as currently planned by the Developer.
Appraisal

The following information regarding ownership of property in the District included in the Appraisal has been included because it is considered relevant to an informed evaluation of the Bonds. The inclusion in this Official Statement of information related to the Developer should not be construed to suggest that the Bonds, or the Special Taxes that will be used to pay the Bonds, are recourse obligations of the Developer or future property owners within the District. A property owner may sell or otherwise dispose of land within the District or a development or any interest therein at any time. Development may also be abandoned at any time.

To arrive at the value of the property within the District and subject to the Special Taxes, for its highest and best use (as defined in the Appraisal), the Appraiser compared such property within the District to similar properties in the region, including properties in Western Riverside County which sold during 2006 and 2007. The Appraiser compared the property within the District to properties in the Western Riverside County due to low activity within the immediate surrounding area of the District. The Appraiser then adjusted those sales prices for factors such as market conditions, location, size, special taxes and site condition. Based on the foregoing, and based on other qualifications stated in the Appraisal, the Appraiser concluded that the market value of the fee simple interest for the property within the District and subject to the Special Taxes, as of March 19, 2007, is $21,000,000, assuming that the improvements to be financed by the Bonds are complete and deducting the remaining $500,000 in costs to bring the site to a finished site condition. This value is based upon a number of assumptions and limiting conditions contained in the Appraisal as set forth in APPENDIX C and assumes the public improvements to be financed by the Bonds are complete. See APPENDIX C—“APPRAISAL REPORT” herein.

No assurance can be given that the assumptions made by the Appraiser will, in fact, be realized, and, as a result, no assurance can be given that the property within the District could be sold at the appraised values included in the Appraisal. See APPENDIX C—“APPRAISAL REPORT” herein.

Market Absorption Study

The Market Absorption Study dated September 18, 2006, as revised on March 5, 2007 (as updated, the “Market Absorption Study”), for the District has been prepared by Empire Economics, Inc. (the “Market Absorption Consultant”). A synopsis and summary of the Market Absorption Study is included herein as APPENDIX B. The Market Absorption Consultant has estimated, based upon the analysis of relevant demographic and economic conditions in the Moreno Valley area, the number and proportion of leaseable space in the District that can be expected to be marketed annually using the estimated absorption schedules for each of the use types. The Market Absorption Study estimates that, based on development plans as of March 5, 2007, the 288,330 square feet of space within the District will be absorbed at a rate of 125,692 square feet in 2007, 33,047 square feet in 2008, 43,271 square feet in 2009, 43,257 square feet in 2010, and the balance of 43,257 square feet in 2011.

In the view of the Market Absorption Consultant, the leaseable spaces proposed for the District are competitive with other shopping centers in the market area of the District. See APPENDIX B—“SUMMARY OF MARKET ABSORPTION STUDY” herein.

The Market Absorption Study assumes that all required governmental approvals will be obtained, that there are no physical impediments to construction such as earthquakes and hazardous waste, that the public infrastructure necessary to develop will be provided in a timely manner, that the Developer will respond to market conditions with products that are competitively priced and have the features and amenities desired by purchasers, that the Developer and its lenders have sufficient financial strength to fund adequately the projects and that they have sufficient cash flow reserves to supplement their cash flow positions in the event that adverse economic or market conditions occur. The actual absorption of units could be adversely affected if one or more of the foregoing assumptions is not realized. The Market Absorption Study also notes that over
time, the specific types of retail and entertainment tenants are subject to significant changes due to shifts in demand from customers. See APPENDIX B—“SUMMARY OF MARKET ABSORPTION STUDY” herein.

SPECIAL RISK FACTORS

The purchase of the Bonds involves a high degree of investment risk and, therefore, the Bonds are not appropriate investments for many types of investors. The following is a discussion of certain risk factors which should be considered, in addition to other matters set forth herein, in evaluating the investment quality of the Bonds. This discussion does not purport to be comprehensive or definitive. The occurrence of one or more of the events discussed herein could adversely affect the ability or willingness of property owners in the District to pay their Special Taxes when due. Such failures to pay Special Taxes could result in the inability of the City to make full and punctual payments of debt service on the Bonds. In addition, the occurrence of one or more of the events discussed herein could adversely affect the value of the property in the District. See “—Land Values” and “—Limited Secondary Market” below.

Concentration of Ownership/Reliance on Success of Stoneridge Towne Centre

All of the taxable land within the District is owned by the Developer. The Developer, pursuant to its current business plan, intends to maintain ownership of the project indefinitely. Accordingly, the Developer is responsible for 100% of the Special Tax Levy. The lack of diversity in the obligation to pay Special Taxes represents a risk to Bondowners. Pursuant to the terms of the commercial leases, ad valorem taxes and, in some cases, Special Taxes are, however, a part of a commercial tenant’s rental obligation. The receipt of the Special Taxes is dependent on the willingness and the ability of the Developer to pay the Special Taxes when due and could be adversely affected by the Developer’s inability to lease property within the District due to commercial downturns or high vacancy rates. The only significant asset of the Developer is its ownership interest in the Stoneridge project. Failure of the Developer, or any successor, to pay the annual Special Taxes when due could result in a default in payments of the principal of, and interest on, the Bonds, when due.

The willingness of the Developer, or any successor, to pay the Special Taxes will be dependent in large measure on the success of the Stoneridge Towne Centre project. No assurance can be made that the Developer, or its successors, will complete the intended construction and development in the District. See “—Failure to Develop Properties” below. As a result, no assurance can be given that the Developer and the other landowners within the District will continue to pay Special Taxes in the future or that they will be able to pay such Special Taxes on a timely basis. See “—Bankruptcy and Foreclosure” below, for a discussion of certain limitations on the District’s ability to pursue judicial proceedings with respect to delinquent parcels. Furthermore, as shown in Table 5, the terms of the commercial leases are shorter than the term on the Bonds. Additionally, as of April 1, 2007, only 125,341 square feet out of 288,330 square feet was leased, none of the tenants in the Stoneridge Towne Centre were open for business and the Developer had not secured financing for Phase 2 of the project. Accordingly, Bondowners should not assume that the current mix of tenants will lease property within the District through the maturity of the Bonds. Furthermore, as noted in the Market Absorption Study, the success of the project will over time depend on the Developer’s ability to adjust to shifts in demand from consumers for specific types of retail and entertainment tenants. See APPENDIX B—“SUMMARY OF MARKET ABSORPTION STUDY” herein.

Limited Obligations

The Bonds and interest thereon are not payable from the general funds of the City. Except with respect to the Special Taxes, neither the credit nor the taxing power of the District or the City is pledged for the payment of the Bonds or the interest thereon, and, except as provided in the Fiscal Agent Agreement, no Owner of the Bonds may compel the exercise of any taxing power by the District or the City or force the forfeiture of any City or District property. The principal of, premium, if any, and interest on the Bonds are not a debt of the City or a legal or equitable pledge, charge, lien or encumbrance upon any of the City’s property.
or upon any of the City’s income, receipts or revenues, except the Special Taxes and other amounts pledged under the Fiscal Agent Agreement.

Insufficiency of Special Taxes

Under the Rates and Method, the annual amount of Special Tax to be levied on each taxable parcel in the District will generally be based on whether such parcel is categorized as Undeveloped Property or as Developed Property. See APPENDIX A—“RATES AND METHOD OF APPORTIONMENT OF SPECIAL TAXES” and “SOURCES OF PAYMENT FOR THE BONDS—Rates and Method of Apportionment of Special Taxes” herein.

If for any reason property within the District becomes exempt public property, including, but not limited to, schools, streets, parks, storm drainage facilities, urban runoff facilities and fire and police stations, subject to the limitations of the maximum authorized rates, the Special Tax will be reallocated to the remaining taxable properties within the District. This would result in the owners or tenants of such property paying a greater amount of the Special Tax and could have an adverse impact upon the ability and willingness of the owners or tenants of such property to pay the Special Tax when due.

Moreover, if a substantial portion of land within the District became exempt from the Special Tax because of public ownership, or otherwise, the maximum Special Tax which could be levied upon the remaining property within the District might not be sufficient to pay principal of and interest on the Bonds when due and a default could occur with respect to the payment of such principal and interest.

Failure to Develop Properties

Undeveloped or partially developed land is inherently less valuable than developed land and provides less security to the Bondowners should it be necessary for the City to foreclose on the property due to the nonpayment of Special Taxes. The failure to complete development of the required infrastructure for development in the District as planned, or substantial delays in the completion of the development or the required infrastructure for the development due to litigation or other causes may reduce the value of the property within the District and increase the length of time during which Special Taxes will be payable from undeveloped property, and may affect the willingness and ability of the owners of property within the District to pay the Special Taxes when due.

Land development is subject to comprehensive federal, State and local regulations. Approval is required from various agencies in connection with the layout and design of developments, the nature and extent of improvements, construction activity, land use, zoning, school and health requirements, as well as numerous other matters. There is always the possibility that such approvals will not be obtained or, if obtained, will not be obtained on a timely basis. Failure to obtain any such agency approval or satisfy such governmental requirements would adversely affect planned land development. Finally, development of land is subject to economic considerations.

No assurance can be given that the proposed development will be partially or fully completed, and it is possible that cost overruns will be incurred which will require additional funding, which may or may not be available.

The installation of the necessary infrastructure improvements and the construction of the proposed development are subject to the receipt of ministerial and discretionary approvals from a number of public agencies concerning the layout and design of the proposed development, the nature and extent of the improvements, land use, health and safety requirements and other matters. The failure to obtain any such approval could adversely affect the planned land development within the District. Moreover, there can be no
assurance that land development operations within the District will not be adversely affected by future governmental policies, including, but not limited to, governmental policies to restrict or control development.

Under current California law, it is generally accepted that proposed development is not exempt from future land use regulations until building permits have been properly issued and substantial work has been performed and substantial liabilities have been incurred in good faith reliance on such permits.

In the past, a number of communities in Southern California have placed on the ballot initiative measures intended to control the rate of future development. It is possible that future initiatives could be enacted, could become applicable to the proposed development and could negatively impact the ability of the current landowners, and their successors, to complete the proposed development. The application of future land use regulations to the proposed development could cause significant delays and cost increases in the completion of the development and could cause the land values within the District to decrease substantially from those estimated by the Appraiser.

There can be no assurance that land development operations within the District will not be adversely affected by a future deterioration of the real estate market and economic conditions or future local, State and federal governmental policies relating to real estate development, the income tax treatment of real property ownership, the direct and indirect consequences of military and/or terrorist activities in this country or abroad or the national economy. A slowdown of the development process and the absorption rate could adversely affect land values and reduce the ability or desire of the Developer to pay the annual Special Taxes. In that event, there could be a default in the payment of principal of, and interest on, the Bonds when due.

Bondowners should assume that any event that significantly impacts the ability to develop land in the District would cause the property values within the District to decrease substantially from those estimated by the Appraiser and could affect the willingness and ability of the owners of land within the District to pay the Special Taxes when due.

Except for the capitalized interest funded with the Bond proceeds, the payment of 100% of the annual principal of and interest on the Bonds depends upon the receipt of Special Taxes levied on property owned by the Developer, some of which is undeveloped property. Undeveloped property is less valuable per unit of area than developed land. The undeveloped property also provides less security to the Bondowners should it be necessary for the District to foreclose on undeveloped property due to the nonpayment of the Special Taxes. Furthermore, an inability to develop the land within the District as currently proposed will make the Bondowners dependent upon timely payment of the Special Taxes levied on undeveloped property for a longer period of time than projected. A slowdown or stoppage in the continued development of the District could reduce the willingness and ability of the Developer to make Special Tax payments on undeveloped property and could greatly reduce the value of such property in the event it has to be foreclosed upon. See “—Land Values” below.

**Endangered Species**

During the last several years, there has been an increase in activity at the State and federal level related to the possible listing of certain plant and animal species found in the Southern California area as endangered species. An increase in the number of endangered species is expected to curtail development in a number of areas. The Developer is not aware of the existence of any plant or animal species which either the California Fish and Game Commission or the United States Fish and Wildlife Service has listed or has proposed for listing on the endangered species list located within the District and as of April 1, 2007, all of the property within the District had been graded. Notwithstanding this fact, new species are proposed to be added to the State and federal protected lists on a regular basis. Any action by the State or federal governments to protect species located on or adjacent to the property within the District could negatively impact the ability of an owner of the undeveloped land within the District, to complete the remaining development planned within
the District. This, in turn, could reduce the likelihood of timely payment of the Special Taxes and would likely reduce the value of the land estimated by the Appraiser and the potential revenues available at a foreclosure sale for delinquent Special Taxes. See “—Failure to Develop Properties” and “—Land Values” below.

Natural Disasters

The District, like all California communities, may be subject to unpredictable seismic activity, fires, floods or other natural disasters. The District is not situated within any currently designated State of California Earthquake Fault zones. However, the District, like most of Southern California is located in a seismically active area. Seismic activity from faults represents potential risk for damage to buildings, roads, bridges and property within the District in the event of an earthquake. There is significant potential for destructive ground-shaking during the occurrence of a major seismic event. In addition, land susceptible to seismic activity may be subject to liquefaction during the occurrence of such an event.

In the event of a severe earthquake, fire, flood or other natural disaster, there may be significant damage to both property and infrastructure in the District. As a result, the Developer or future property owners may be unable or unwilling to pay the Special Taxes when due. In addition, the value of land in the District could be diminished in the aftermath of such a natural disaster, reducing the resulting proceeds of foreclosure sales in the event of delinquencies in the payment of the Special Taxes.

The District is located outside the 500-year floodplain.

Hazardous Substances

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

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

Parity Taxes, Special Assessments and Land Development Costs

The Special Taxes and any penalties thereon will constitute a lien against the lots and parcels of land on which they will be annually imposed until they are paid. Such lien is on a parity with all special taxes and special assessments levied by other agencies and is co-equal to and independent of the lien for general property taxes regardless of when they are imposed upon the same property. The Special Taxes have priority over all
existing and future private liens imposed on the property, except for liens or security interests held by the Federal Deposit Insurance Corporation. See “—Bankruptcy and Foreclosure” below.

Development of land within the District is contingent upon construction or acquisition of major public improvements such as arterial streets, water distribution facilities, sewage collection and transmission facilities, drainage and flood protection facilities, gas, telephone and electrical facilities, and street lighting, as well as local in-tract improvements and on-site grading and related improvements. The off-site improvements for the District are being constructed by Beazer and not the Developer. See “THE DEVELOPMENT AND PROPERTY OWNERSHIP—Infrastructure Requirements and Construction Status” herein. Certain of these improvements have been acquired and/or completed; however, there can be no assurance that the remaining improvements will be constructed or will be constructed in time for development to proceed as currently expected. The cost of these additional improvements plus the public and private in-tract, on-site and off-site improvements could increase the public and private debt for which the land within the District is security. This increased debt could reduce the ability or desire of the property owners to pay the annual Special Taxes levied against the property. In that event there could be a default in the payment of principal of, and interest on, the Bonds when due.

Neither the City nor the District has control over the ability of other entities and districts to issue indebtedness secured by special taxes or assessments payable from all or a portion of the property within the District. In addition, the landowners within the District may, without the consent or knowledge of the City, petition other public agencies to issue public indebtedness secured by special taxes or assessments. Any such special taxes or assessments may have a lien on such property on a parity with the Special Taxes and could reduce the estimated value-to-lien ratios for property within the District described herein.

Disclosures to Future Purchasers

The willingness or ability of an owner of a parcel to pay the Special Tax even if the value of the parcel is sufficient may be affected by whether or not the owner was given due notice of the Special Tax authorization at the time the owner purchased the parcel, was informed of the amount of the Special Tax on the parcel should the Special Tax be levied at the maximum tax rate and the risk of such a levy and, at the time of such a levy, has the ability to pay it as well as pay other expenses and obligations. The City has caused a notice of the Special Tax lien to be recorded in the Office of the Recorder for the County against each parcel. While title companies normally refer to such notices in title reports, there can be no guarantee that such reference will be made or, if made, that a prospective purchaser or lender will consider such Special Tax obligation in the purchase of a property within the District or lending of money thereon.

The Act requires the subdivider (or its agent or representative) of a subdivision to notify a prospective purchaser or long-term lessor of any lot, parcel, or unit subject to a Mello-Roos special tax of the existence and maximum amount of such special tax using a statutorily prescribed form. California Civil Code Section 1102.6b requires that in the case of transfers other than those covered by the above requirement, the seller must at least make a good faith effort to notify the prospective purchaser of the special tax lien in a format prescribed by statute. Failure by an owner of the property to comply with the above requirements, or failure by a purchaser or lessor to consider or understand the nature and existence of the Special Tax, could adversely affect the willingness and ability of the purchaser or lessor to pay the Special Tax when due.

Special Tax Delinquencies

Under provisions of the Act, the Special Taxes, from which funds necessary for the payment of principal of, and interest on, the Bonds are derived, are customarily billed to the properties within the District on the ad valorem property tax bills sent to owners of such properties. The Act currently provides that such
Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do ad valorem property tax installments.

See “SOURCES OF PAYMENT FOR THE BONDS—Proceeds of Foreclosure Sales,” for a discussion of the provisions which apply, and procedures which the City is obligated to follow under the Fiscal Agent Agreement, in the event of delinquencies in the payment of Special Taxes. See “—Bankruptcy and Foreclosure” below, for a discussion of the policy of the Federal Deposit Insurance Corporation (the “FDIC”) regarding the payment of special taxes and assessment and limitations on the City’s ability to foreclosure on the lien of the Special Taxes in certain circumstances.

Non-Cash Payments of Special Taxes

Under the Act, the City Council may reserve to itself the right and authority to allow the owner of any taxable parcel to tender a Bond in full or partial payment of any installment of the Special Taxes or the interest or penalties thereon. A Bond so tendered is to be accepted at par and credit is to be given for any interest accrued thereon to the date of the tender. Thus, if Bonds can be purchased in the secondary market at a discount, it may be to the advantage of an owner of a taxable parcel to pay the Special Taxes applicable thereto by tendering a Bond. Such a practice would decrease the cash flow available to the City to make payments with respect to other Bonds then outstanding; and, unless the practice was limited by the City, the Special Taxes paid in cash could be insufficient to pay the debt service due with respect to such other Bonds. In order to provide some protection against the potential adverse impact on cash flows which might be caused by the tender of Bonds in payment of Special Taxes, the Fiscal Agent Agreement includes a covenant pursuant to which the City will not authorize owners of taxable parcels to satisfy Special Tax obligations by the tender of Bonds unless the City shall have first obtained a report of an Independent Financial Consultant certifying that doing so would not result in the City having insufficient Special Tax Revenues to pay the principal of and interest on all Outstanding Bonds when due.

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

An owner of a taxable parcel is not personally obligated to pay the Special Tax. Rather, the Special Tax is an obligation which is secured only by a lien against the taxable parcel. If the value of a taxable parcel is not sufficient, taking into account other liens imposed by public agencies, to secure fully the Special Tax, the City has no recourse against the owner.

Land Values

The value of the property within the District is a critical factor in determining the investment quality of the Bonds. If a property owner is delinquent in the payment of Special Taxes, the City’s only remedy is to commence foreclosure proceedings in an attempt to obtain funds to pay the Special Taxes. Reductions in property values due to a downturn in the economy, physical events such as earthquakes, fires, floods or military or terrorist activities, stricter land use regulations, delays in development or other events will adversely impact the security underlying the Special Taxes. See “THE COMMUNITY FACILITIES DISTRICT—Estimated Appraised Value-to-Lien Ratio” herein.

The Appraiser has estimated, on the basis of certain definitions, assumptions and limiting conditions contained in the Appraisal, that as of March 19, 2007 the value of the land and buildings within the District was $21,000,000.

The Appraisal is based on the assumptions as stated in APPENDIX C—“APPRAISAL REPORT.” The Appraisal does not reflect any possible negative impact which could occur by reason of future slow or no growth voter initiatives, any potential limitations on development occurring due to time delays, an inability of the Developer or Beazer to obtain any needed development approval or permit, the presence of hazardous
substances within the District, the listing of endangered species or the determination that habitat for endangered or threatened species exists within the District, or other similar situations.

Prospective purchasers of the Bonds should not assume that the land within the District could be sold for the appraised amounts described above at a foreclosure sale for delinquent Special Taxes. In arriving at the estimates of value, the Appraiser assumes that any sale will be unaffected by undue stimulus and will occur following a reasonable marketing period, which is not always present in a foreclosure sale. See the Appraisal Summary included as APPENDIX C for a description of other assumptions made by the Appraiser and for the definitions and limiting conditions used by the Appraiser.

No assurance can be given that, should a parcel with delinquent Special Taxes be foreclosed upon and sold for the amount of the delinquency, any bid will be received for such property or, if a bid is received, that such bid will be sufficient to pay all delinquent Special Taxes. See “SOURCES OF PAYMENT FOR THE BONDS—Proceeds of Foreclosure Sales” herein.

FDIC/Federal Government Interests in Properties

The ability of the District to foreclose the lien of delinquent unpaid Special Tax installments may be limited with regard to properties in which the Federal Deposit Insurance Corporation (the “FDIC”) has an interest. In the event that any financial institution making any loan which is secured by real property within the District is taken over by the FDIC, and prior thereto or thereafter the loan or loans go into default, then the ability of the District to collect interest and penalties specified by State law and to foreclose the lien of delinquent unpaid Special Taxes may be limited.

The FDIC’s policy statement regarding the payment of state and local real property taxes (the “Policy Statement”) provides that property owned by the FDIC is subject to state and local real property taxes only if those taxes are assessed according to the property’s value, and that the FDIC is immune from real property taxes assessed on any basis other than property value. According to the Policy Statement, the FDIC will pay its property tax obligations when they become due and payable and will pay claims for delinquent property taxes as promptly as is consistent with sound business practice and the orderly administration of the institution’s affairs, unless abandonment of the FDIC’s interest in the property is appropriate. The FDIC will pay claims for interest on delinquent property taxes owed at the rate provided under state law, to the extent the interest payment obligation is secured by a valid lien. The FDIC will not pay any amounts in the nature of fines or penalties and will not pay nor recognize liens for such amounts. If any property taxes (including interest) on FDIC-owned property are secured by a valid lien (in effect before the property became owned by the FDIC), the FDIC will pay those claims. The Policy Statement further provides that no property of the FDIC is subject to levy, attachment, garnishment, foreclosure or sale without the FDIC’s consent. In addition, the FDIC will not permit a lien or security interest held by the FDIC to be eliminated by foreclosure without the FDIC’s consent.

The Policy Statement states that the FDIC generally will not pay non-ad valorem taxes, including special assessments, on property in which it has a fee interest unless the amount of tax is fixed at the time that the FDIC acquires its fee interest in the property, nor will it recognize the validity of any lien to the extent it purports to secure the payment of any such amounts. Special taxes imposed under the Mello-Roos Act and a special tax formula which determines the special tax due each year are specifically identified in the Policy Statement as being imposed each year and therefore covered by the FDIC’s federal immunity.

The District is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency in the payment of Special Taxes on a parcel within the District in which the FDIC has or obtains an interest, although prohibiting the lien of the FDIC to be foreclosed out at a judicial foreclosure sale could reduce or eliminate the number of persons willing to purchase a parcel at a foreclosure sale. Such
an outcome could cause a draw on the Reserve Fund and perhaps, ultimately, a default in payment on the Bonds.

**Bankruptcy and Foreclosure**

Bankruptcy, insolvency and other laws generally affecting creditor’s rights could adversely impact the interests of owners of the Bonds in at least two ways. First, the payment of property owners’ taxes and the ability of the District to foreclose the lien of a delinquent unpaid Special Tax pursuant to its covenant to pursue judicial foreclosure proceedings may be limited by bankruptcy, insolvency or other laws generally affecting creditors’ rights or by the laws of the State relating to judicial foreclosure. See “SOURCES OF PAYMENT FOR THE BONDS—Proceeds of Foreclosure Sales” herein. In addition, the prosecution of a foreclosure could be delayed due to many reasons, including crowded local court calendars or lengthy procedural delays.

Secondly, the Bankruptcy Code might prevent moneys on deposit in the Special Tax Fund and the Reserve Fund from being applied to pay interest on the Bonds and/or to redeem Bonds if bankruptcy proceedings were brought by or against the current landowner or its successors and if the court found that any of such landowners had an interest in such moneys within the meaning of Section 541(a)(1) of the Bankruptcy Code.

Although a bankruptcy proceeding would not cause the Special Taxes to become extinguished, the amount and priority of any Special Tax lien could be modified if the value of the property falls below the value of the lien. If the value of the property is less than the lien, such excess amount could be treated as an unsecured claim by the bankruptcy court. In addition, bankruptcy of a property owner could result in a delay in procuring Superior Court foreclosure proceedings. Such delay would increase the likelihood of a delay or default in payment of the principal of, and interest on, the Bonds and the possibility of delinquent tax installments not being paid in full.

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

**No Acceleration Provision**

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

**Loss of Tax Exemption**

As discussed under the caption “TAX MATTERS,” the interest on the Bonds could become includable in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds as a result of a failure of the City to comply with certain provisions of the Internal Revenue Code of 1986, as amended. Should such an event of taxability occur, the Bonds are not subject to early redemption and will remain outstanding to maturity or until redeemed under the optional redemption provisions of the Fiscal Agent Agreement.

**Limitations on Remedies**

Remedies available to the Owners of the Bonds may be limited by a variety of factors and may be inadequate to assure the timely payment of principal of and interest on the Bonds or to preserve the tax-exempt status of interest on the Bonds.
Bond Counsel has limited its opinion as to the enforceability of the Bonds and of the Fiscal Agent Agreement to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium, or other similar laws affecting generally the enforcement of creditors’ rights, by equitable principles and by the exercise of judicial discretion. The lack of availability of certain remedies or the limitation of remedies may entail risks of delay, limitation or modification of the rights of the Owners of the Bonds.

**Limited Secondary Market**

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that such Bonds can be sold for any particular price. Although the City and the Developer have committed to provide certain statutorily-required financial and operating information, there can be no assurance that such information will be available to Bondowners on a timely basis. See “CONTINUING DISCLOSURE” herein. The failure to provide the required annual financial information does not give rise to monetary damages but merely an action for specific performance. Occasionally, because of general market conditions, lack of current information, or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

**Proposition 218**

An initiative measure entitled the “Right to Vote on Taxes Act” (the “Initiative”) was approved by the voters of the State at the November 5, 1996 general election. The Initiative added Article X IIIC and Article XIIID to the California Constitution. According to the “Title and Summary” of the Initiative prepared by the California Attorney General, the Initiative limits “the authority of local governments to impose taxes and property-related assessments, fees and charges.” Provisions of the Initiative have been and will continue to be interpreted by the courts. The Initiative could potentially impact the Special Taxes otherwise available to the District to pay the principal of and interest on the Bonds as described below.

Among other things, Section 3 of Article XIIIC states that “…the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge.” The Act provides for a procedure, which includes notice, hearing, protest and voting requirements to alter the Rates and Method of Apportionment of an existing special tax. However, the Act prohibits a legislative body from adopting any resolution to reduce the rate of any special tax or terminate the levy of any special tax pledged to repay any debt incurred pursuant to the Act unless such legislative body determines that the reduction or termination of the special tax would not interfere with the timely retirement of that debt. On July 1, 1997, a bill was signed into law by the Governor of the State enacting Government Code Section 5854, which states that:

Section 3 of Article XIIIC of the California Constitution, as adopted at the November 5, 1996, general election, shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after that date, assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights protected by Section 10 of Article I of the United States Constitution.

Accordingly, although the matter is not free from doubt, it is likely that the Initiative has not conferred on the voters the power to repeal or reduce the Special Taxes if such reduction would interfere with the timely retirement of the Bonds.
It may be possible, however, for voters or the District or the City acting as the legislative body of the District to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the Bonds, but which does reduce the maximum amount of Special Taxes that may be levied in any year below the existing levels. Furthermore, no assurance can be given with respect to the future levy of the Special Taxes in amounts greater than the amount necessary for the timely retirement of the Bonds. Therefore, no assurance can be given with respect to the levy of Special Taxes for Administrative Expenses. Nevertheless, the District has covenanted that it will not initiate proceedings under the Act to reduce the maximum Special Tax rates on parcels of Developed Property within the District below the amounts which are necessary to provide the Special Tax Revenues in an amount equal to the estimated Administrative Expense on the then current Fiscal Year plus an amount equal to one hundred ten percent (110%) of Maximum Annual Debt Service on the Outstanding Bonds. The District also has covenanted that, in the event an initiative is adopted which purports to reduce or otherwise alter the Maximum Rates, it will commence and pursue legal action in seeking to preserve its ability to comply with the foregoing covenant. However, no assurance can be given as to the enforceability of the foregoing covenants.

The interpretation and application of the Initiative will ultimately be determined by the courts with respect to a number of the matters discussed above, and it is not possible at this time to predict with certainty the outcome of such determination or the timeliness of any remedy afforded by the courts. See “Limitations on Remedies” herein.

Ballot Initiatives

Article XIII A, Article XIII B and Proposition 218 were adopted pursuant to measures qualified for the ballot pursuant to California’s constitutional initiative process. On March 6, 1995 in the case of Rossi v. Brown, the State Supreme Court held that an initiative can repeal a tax ordinance and prohibit the imposition of further such taxes and that the exemption from the referendum requirements does not apply to initiatives. From time to time, other initiative measures could be adopted by California voters. The adoption of any such initiative might place limitations on the ability of the State, the City or local districts to increase revenues or to increase appropriations or on the ability of the landowners within the District to complete the remaining proposed development. See “SPECIAL RISK FACTORS—Failure to Develop Properties” herein.

CONTINUING DISCLOSURE

Pursuant to a Continuing Disclosure Agreement with the Fiscal Agent, as dissemination agent (the “Disclosure Agreement”), the City, for and on behalf of the District, has agreed to provide, or cause to be provided, to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission (each, a “Repository”) certain annual financial information and operating data concerning the District. The Annual Report to be filed by the City for and on behalf of the District is to be filed not later than April 1 of each year, beginning April 1, 2008 and is to include audited financial statements of the City. The requirement that the City file its audited financial statements as a part of the Annual Report has been included in the Disclosure Agreement solely to satisfy the provisions of Rule 15c2-12. The inclusion of this information does not mean that the Bonds are secured by any resources or property of the City other than as described hereinabove. See “SOURCES OF PAYMENT FOR THE BONDS” and “SPECIAL RISK FACTORS—Limited Obligations” herein. The City has complied in all material respects with each of its previous undertakings with regard to Rule 15c2-12 to provide annual reports or notices of material events. The full text of the Disclosure Agreement is set forth in APPENDIX E.

To assist the Underwriter in complying with Rule 15c2-12(b)(5), the Developer will enter into a Continuing Disclosure Agreement (the “Developer Disclosure Agreement”) covenantee prior to the termination of the Developer Disclosure Agreement to provide an Annual Report not later than March 1 of each year beginning March 1, 2008 and a Semiannual Report not later than September 1 of each year,
commencing September 1, 2007. The Annual Reports provided by the Developer will contain audited financial statements and the additional financial and operating data outlined in Section 4 of the Developer Disclosure Agreement, a form of which is attached in APPENDIX F. In addition to the information expressly required to be provided pursuant to the Developer Disclosure Agreement, the Developer are also required to provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading. The Developer has not previously entered into an undertaking with regard to Rule 15c2-12.

The Developer Disclosure Agreement will inure solely to the benefit of the City, any Dissemination Agent, the Underwriter and owners or Beneficial Owners from time to time of the Bonds.

**TAX MATTERS**

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

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

Certain requirements and procedures contained or referred to in the Indenture, the Tax Certificate, and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of Bond Counsel other than itself.

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

The legal opinion of Best Best & Krieger LLP, San Diego, California, approving the validity of the Bonds in substantially the form set forth as APPENDIX G hereto, will be made available to purchasers at the time of original delivery. A copy of the legal opinion for the Bonds will be provided with each definitive bond. Certain legal matters will be passed upon for the City and the District by the City Attorney and for the District by Stradling Yocca Carlson & Rauth, a Professional Corporation, as Disclosure Counsel (“Disclosure Counsel”).

LITIGATION

No litigation is pending or threatened concerning the validity of the Bonds or the pledge of Special Taxes to repay the Bonds and a certificate of the City to that effect will be furnished to the Underwriter at the time of the original delivery of the Bonds. The City is not aware of any litigation pending or threatened which questions the existence of the District or the City or contests the authority of the City to levy and collect the Special Taxes or to issue and retire the Bonds.

NO RATING

The City has not made and does not contemplate making application to any rating agency for the assignment of a rating of the Bonds.

UNDERWRITING

The Bonds are being purchased by E J. De La Rosa & Co., Inc. (the “Underwriter”). The Underwriter has agreed to purchase the Bonds at a price of $5,734,695.00 (being $5,870,000.00 aggregate principal amount thereof, less Underwriter’s discount of $89,047.90 and less original issue discount of $46,257.10). The purchase agreement relating to the Bonds provides that the Underwriter will purchase all of the Bonds if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in such purchase agreement, the approval of certain legal matters by counsel and certain other conditions.

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

FINANCIAL INTERESTS

The fees being paid to the Underwriter are contingent upon the issuance and delivery of the Bonds. A portion of the fees paid to the Financial Advisor, Bond Counsel and Disclosure Counsel is contingent upon the issuance and delivery of the Bonds. From time to time, Bond Counsel and Disclosure Counsel represent the Underwriter on matters unrelated to the Bonds.

PENDING LEGISLATION

The City is not aware of any significant pending legislation which would have material adverse consequences on the Bonds or the ability of the City to pay the principal of and interest on the Bonds when due.
ADDITIONAL INFORMATION

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

The execution and delivery of this Official Statement by the Finance Director of the City has been duly authorized by the City Council of the City of Moreno Valley acting in its capacity as the legislative body of the District.

CITY OF MORENO VALLEY FOR AND ON BEHALF OF COMMUNITY FACILITIES DISTRICT NO. 5 OF THE CITY OF MORENO VALLEY

By: /s/ Steven M. Chapman
Finance Director
APPENDIX A

RATES AND METHOD OF APPORTIONMENT OF SPECIAL TAXES

(RATES AND METHOD OF APPORTIONMENT FOR COMMUNITY FACILITIES DISTRICT NO. 5 OF THE CITY OF MORENO VALLEY)

A Special Tax as hereinafter defined shall be levied on all Assessor’s Parcels of Taxable Property in Community Facilities District No. 5 of the City of Moreno Valley ("CFD No. 5") and collected each Fiscal Year commencing in Fiscal Year 2006-07, in an amount determined by the City Council through the application of the appropriate Special Tax for “Developed Property” and “Undeveloped Property” as described herein. All of the real property in CFD No. 5 shall be taxed for the purposes, to the extent and in the manner herein provided, except property defined as Exempt Property and subject to Section E below.

A. DEFINITIONS

The terms hereinafter set forth have the following meanings:

"Acre or Acreage" means the land area (excluding rights-of-way) 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, condominium plan, or other recorded parcel map (excluding rights-of-way). If the land area is presented in square footage, then the Acreage equals the parcel square footage divided by 43,560 (square footage per Acre).


"Administrative Expenses" means the following actual or reasonably estimated costs directly related to the administration of CFD No. 5: 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 City 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, CFD No. 5 or any designee thereof of complying with arbitrage rebate requirements, including but not limited to, any rebate obligation; the costs to the City, CFD No. 5 or any designee thereof of complying with disclosure requirements of the City and/or, CFD No. 5 associated with applicable federal and state securities laws and the Act; the costs associated with preparing Special Tax disclosure statements and responding to public inquiries regarding the Special Taxes; the costs to the City, CFD No. 5 or any designee thereof related to any appeal of the Special Tax; the costs associated with the release of funds from an escrow or appeals account, including appraisal costs; and the City’s annual administration fees and third party expenses. Administrative Expenses shall also include amounts estimated by the CFD Administrator or advanced by the City or CFD No. 5 for any other administrative purposes of CFD No. 5, 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 parcel shown in 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.
“Bonds” means any binding obligation including bonds or other debt (as defined in Section 53317(d) of the Act), whether in one or more series, issued by CFD No. 5 under the Act.

“CFD Administrator” means the Enterprise Services Manager of the City of Moreno Valley, or designee thereof, responsible for determining the Special Tax Requirement and providing for the levy and collection of the Special Taxes.

“CFD No. 5” means Community Facilities District No. 5 of the City of Moreno Valley.

“City” means the City of Moreno Valley.

“City Council” means the City Council of the City, acting as the legislative body of CFD No. 5.

“County” means the County of Riverside.

“Final Map” means a final map or parcel map approved by the City pursuant to the Subdivision Map Act (California Government Code Section 66410 et seq.) that creates individual lots for which building permits may be issued.

“Fiscal Year” means the period starting July 1 of any year and ending on the following June 30.

“Indenture” means the indenture, fiscal agent agreement, resolution or other instrument pursuant to which Bonds are issued, as modified, amended and/or supplemented from time to time, and any instrument replacing or supplementing the same.

“Outstanding Bonds” means all Bonds that are deemed to be outstanding under the Indenture.

“Property”:

“Developed Property” means for each Fiscal Year, all Taxable Property for which a building permit for new construction was issued prior to March 1 of the prior Fiscal Year.

“Exempt Property” means any property not subject to Special Tax as described under Section E, herein.

“Taxable Property” means all of the Assessor’s Parcels within the boundaries of CFD No. 5, which are not classified as Exempt Property.

“Undeveloped Property” means, for each Fiscal Year, all Taxable Property not classified as Developed Property.

“Proportionately” means for Developed Property that the ratio of the actual Special Tax levy per acre to the Maximum Annual Special Tax per acre is equal for all Assessor’s Parcels of Developed Property within CFD No. 5. For Undeveloped Property, “Proportionately” means that the ratio of the actual Special Tax levy per Acre to the Maximum Annual Special Tax per Acre is equal for all Assessor’s Parcels of Undeveloped Property in CFD No. 5.

“State” means the State of California.

“Tax”:

“Maximum Annual Special Tax” means the maximum Special Tax, determined in accordance with Section C, that can be levied in any Fiscal Year on any Assessor’s Parcel.
“Special Tax” means the special tax to be levied in each Fiscal Year on each Assessor’s Parcel of Developed Property and Undeveloped Property to fund the Annual Special Tax Requirement.

“Annual Special Tax Requirement” means that amount required in any Fiscal Year for CFD No. 5 to pay the sum of: (i) debt service on all Outstanding Bonds; (ii) periodic costs on the Bonds, including but not limited to, credit enhancement and rebate payments on the Bonds; (iii) Administrative Expenses; (iv) any amounts required to establish or replenish any reserve funds for all Bonds issued or to be issued by CFD No. 5; and (v) any amounts required for the acquisition or construction of facilities eligible under the Act. In arriving at the Annual Special Tax Requirement, the CFD Administrator shall take into account the reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes levied in the previous Fiscal Year and shall give a credit for funds available to reduce the annual Special Tax levy.

“Trustee” means the trustee, fiscal agent, or paying agent under the Indenture.

B. CLASSIFICATION OF PROPERTIES

Each Fiscal Year, all Property within CFD No. 5 shall be classified as Taxable Property or Exempt Property. Taxable Property shall be further classified as Developed Property or Undeveloped Property and shall be subject to Special Taxes up to the rates set forth in Section C and in accordance with the method of apportionment pursuant to Section D.

C. SPECIAL TAX RATE

1. Developed Property
   a. Maximum Annual Special Tax

      The Maximum Annual Special Tax for each Assessor’s Parcel of Developed Property shall be $10,652 per Acre for Fiscal Year 2006-2007, and shall increase thereafter, commencing on July 1, 2007 and on July 1 of each Fiscal Year thereafter, by an amount equal to two percent (2%) of the Maximum Annual Special Tax in effect in the previous Fiscal Year.

2. Undeveloped Property
   a. Maximum Annual Special Tax

      The Maximum Annual Special Tax for each Assessor’s Parcel of Undeveloped Property shall be $10,652 per Acre for Fiscal Year 2006-07, and shall increase thereafter, commencing on July 1, 2007 and on July 1 of each Fiscal Year thereafter, by an amount equal to two percent (2%) of the Maximum Annual Special Tax for the previous Fiscal Year.

D. METHOD OF APPORTIONMENT OF THE SPECIAL TAX

Commencing with Fiscal Year 2006-07 and for each following Fiscal Year, the City Council shall levy the Special Tax until the amount of Special Taxes levied equals the Annual Special Tax Requirement. The Special Tax shall be levied each Fiscal Year as follows:

A-3
First, the Special Tax shall be levied Proportionately on each Assessor’s Parcel of Developed Property at up to 100% of the applicable Maximum Annual Special Tax.

Second, if additional monies are needed to satisfy the Annual Special Tax Requirement, the Special Tax shall be levied Proportionately on each Assessor’s Parcel of Undeveloped Property at up to 100% of the applicable Maximum Annual Special Tax.

E. EXEMPTIONS

At the time the Special Tax is enrolled for the Fiscal Year for which the Special Tax is being levied, the CFD Administrator shall classify as Exempt Property: (i) Assessor’s Parcels owned by, dedicated to, or irrevocably offered for dedication to the State of California, federal or other local governments; (ii) Assessor’s Parcels with public or utility easements making impractical their utilization for other than the purposes set forth in the easement; (iii) Assessor’s Parcels owned by a property owner’s association; provided that no such classification would reduce the Acreage of Taxable Property to less than 55.4 Acres. The CFD Administrator shall classify property as Exempt Property in the chronological order that such property qualifies to be classified as such. Assessor’s Parcels which cannot be classified as Exempt Property because such classification would reduce the Acreage of Taxable Property to less than 55.4 Acres will be classified as Undeveloped Property, and will be subject to Special Taxes accordingly. If the use of an Assessor’s Parcel classified as Exempt Property changes so that such Assessor’s Parcel is no longer classified as one of the uses that would make such Assessor’s Parcel eligible to be classified as Exempt Property, such Assessor’s Parcel shall cease to be classified as Exempt Property and shall be classified as Taxable Property.

F. MANNER OF COLLECTION

The 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. 5 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.

G. PREPAYMENT OF SPECIAL TAX

The following additional definitions apply to Section G, herein:

“CFD Public Facilities” means those public facilities authorized to be financed by CFD No. 5.

“CFD Public Facilities Costs” means either $8,300,000, or such lower number as shall be determined either by (a) the CFD Administrator as sufficient to finance the CFD Public Facilities, or (b) the City Council concurrently with a covenant that it will not issue any more Bonds to be secured by Special Taxes levied under this Rate and Method of Apportionment.

“Construction Fund” means the fund as identified in the Indenture, which is used to disburse funds to pay the cost and acquisition of public improvements funded with the Bond proceeds or Special Taxes.

“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 last day of that calendar year, which ends in the previous Fiscal Year. In the event this index ceases to be published, the 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 Costs minus: (a) the portion of the CFD Public Facilities Costs previously funded (i) from the proceeds of all previously issued Bonds, (ii) from interest earnings on the Construction Fund actually earned prior to the date of prepayment, and (iii) directly from Special Tax revenues; and (b) the amount of the proceeds of all previously issued Bonds, including interest earnings and Special Tax revenues, then on deposit in the Construction Fund.

“Outstanding Bonds” means all previously issued Bonds that have been issued prior to the date of the prepayment which will remain outstanding after the first interest and/or principal payment date following the current Fiscal Year, excluding Bonds to be redeemed at a later date with the proceeds of prior prepayments of Special Taxes.

Prepayment of a Special Tax in Part or in Full

The Special Tax obligation applicable to an Assessor’s Parcel may be prepaid at any time and the obligation of such Assessor’s Parcel to pay any Special Tax may be fully or partially satisfied as described herein. The CFD Administrator may charge a reasonable fee for calculation of the Prepayment Amount as defined below.

1. Prepayment in Full

The Maximum Annual Special Tax obligation may be prepaid and permanently satisfied for any Assessor’s Parcel. The Maximum Annual Special Tax obligation applicable to such Assessor’s Parcel may be fully prepaid and the obligation of the Assessor’s Parcel to pay the Special Tax permanently satisfied as described herein; provided that a prepayment may be made only if there are no delinquent Special Taxes with respect to such Assessor’s Parcel at the time of prepayment. An owner of an Assessor’s Parcel intending to prepay the Maximum Annual Special Tax 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 figure.

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

\[
\text{Prepayment Amount} = \text{Bond Redemption Amount} + \text{Redemption Premium} + \text{Future Facilities Amount} + \text{Defeasance Amount} + \text{Prepayment Fees and Expenses} - \text{Reserve Fund Credit} - \text{Capitalized Interest Credit}
\]

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

1. Compute the Maximum Annual Special Tax for the Assessor’s Parcel to be prepaid.

2. Divide the Maximum Annual Special Tax computed pursuant to paragraph 1 by the sum of the total expected Maximum Annual Special Tax revenues that may be levied...
within CFD No. 5 excluding any Assessors Parcels for which the Maximum Annual Special Tax obligation has been previously prepaid.

3. Multiply the quotient computed pursuant to paragraph 2 by the principal amount of Outstanding Bonds to compute the amount of Outstanding Bonds to be retired and prepaid (the “Bond Redemption Amount”).

4. Multiply the Bond Redemption Amount computed pursuant to paragraph 3 by the applicable redemption premium, if any, on the Outstanding Bonds to be redeemed (the “Redemption Premium”).

5. If all of the authorized Bonds to be issued for CFD No. 5 have not been issued, compute the Future Facilities Costs.

6. Multiply the quotient computed pursuant to paragraph 2 by the amount determined pursuant to paragraph 5 to compute the amount of Future Facilities Costs to be allocated to such Assessor’s Parcel (the “Future Facilities Amount”).

7. 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.

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

9. Determine the Special Taxes levied on the Assessor’s Parcel in the current Fiscal Year that have not yet been paid.

10. Determine the fees and expenses of CFD No. 5, including but not limited to, the costs of computation of the prepayment, the costs to invest the prepayment proceeds, the costs of redeeming Bonds from the proceeds of such prepayment, and the cost of recording any notices to evidence the prepayment and the redemption (the “Prepayment Fees and Expenses”).

11. Compute the amount the CFD Administrator reasonably expects to derive from the reinvestment of the Prepayment Amount less the Prepayment Fees and Expenses as determined pursuant to paragraph 10, from the date of prepayment until the redemption date for the Outstanding Bonds to be redeemed with the prepayment.

12. Add the amounts computed pursuant to paragraphs 7 and 9 and subtract the amount computed pursuant to paragraph 11 (the “Defeasance Amount”).

13. The reserve fund credit (the “Reserve Fund Credit”) shall equal the lesser of: (a) the expected reduction in the reserve requirement (as defined in the Indenture), if any, associated with the redemption of Outstanding Bonds as a result of the prepayment; or (b) the amount derived by subtracting the new reserve 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. No Reserve Fund Credit shall be granted if the amount then on deposit in the reserve fund for the Outstanding Bonds is below 100% of the reserve fund requirement (as defined in the Indenture).
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 quotient computed pursuant to paragraph 2 by the expected balance in the capitalized interest fund after such first interest and/or principal payment (the “Capitalized Interest Credit”).

15. The Maximum Annual Special Tax prepayment is equal to the sum of the amounts computed pursuant to paragraphs 3, 4, 6, 10, 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 3, 4, 12, 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. CFD No. 5 shall retain the amount computed pursuant to paragraph 10. The amount computed pursuant to paragraph 6 shall be deposited in the Construction Fund. If the Prepayment Amount is insufficient to redeem Bonds in $5,000 increment of Bonds, 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 levy as determined under paragraph 9 above, the CFD Administrator shall remove the current Fiscal Year’s Special Tax levy for such Assessor’s Parcel from the County tax rolls. With respect to any Assessor’s Parcel that is prepaid, the City Council shall cause a suitable notice to be recorded in compliance with the Act, to indicate the prepayment of Special Taxes and the release of the Special Tax lien on such Assessor’s Parcel, and the obligation of such Assessor’s Parcel to pay the Special Tax shall cease.

Notwithstanding the foregoing, no Special Tax prepayment shall be allowed unless the amount of Special Taxes, net of Administrative Expenses, that may be levied on Taxable Property within CFD No. 5 both prior to and after the proposed prepayment is at least 1.1 times the maximum annual debt service on all Outstanding Bonds.

Tenders of Bonds in prepayment of Special Taxes may be accepted upon the terms and conditions established by the City Council pursuant to the Act. However, the use of Bond tenders shall only be allowed on a case-by-case basis as specifically approved by the City Council.

2. Prepayment in Part

The Maximum Annual Special Tax obligation of an Assessor’s Parcel may be partially prepaid. The amount of the prepayment shall be calculated as in Section G.1; except that a partial prepayment shall be calculated according to the following formula:

\[ PP = (P_E \times F) + A \]
These terms have the following meaning:

\[
\begin{align*}
PP &= \text{the partial prepayment} \\
PE &= \text{the Prepayment Amount calculated according to Section G.1, minus Prepayment Fees and Expenses pursuant to paragraph 10.} \\
F &= \text{the percent by which the owner of the Assessor’s Parcel(s) is partially prepaying the Maximum Annual Special Tax obligation.} \\
A &= \text{the Prepayment Fees and Expenses pursuant to paragraph 10 of Section G.1.}
\end{align*}
\]

The owner of an Assessor’s Parcel who desires to partially prepay the Maximum Annual Special Tax obligation shall notify the CFD Administrator in writing of: (i) such owner’s intent to partially prepay the Maximum Annual Special Tax obligation, (ii) the percentage by which the Maximum Annual Special Tax obligation shall be prepaid, and (iii) the company or agency that will be acting as the escrow agent, if applicable. The CFD Administrator shall provide the owner with a statement of the amount required for the partial prepayment of the Maximum Annual Special Tax obligation for an Assessor’s Parcel within 30 days of the request and may charge a reasonable fee for providing this service.

With respect to any Assessor’s Parcel that is partially prepaid, the City shall: (i) distribute the funds remitted to it according to paragraph 16 of Section G.1, and (ii) indicate in the records of CFD No. 5 that there has been a partial prepayment of the Maximum Annual Special Tax obligation and that a portion of the Maximum Annual Special Tax obligation equal to the outstanding percentage \((1.00 - F)\) of the remaining Special Tax obligation shall continue to be authorized to be levied on such Assessor’s Parcel pursuant to Section D.

H. TERM OF SPECIAL TAX

For each Fiscal Year, or portion thereof, that any Bonds are Outstanding Bonds the Special Tax shall be levied on all Assessor’s Parcels subject to the Special Tax. The Special Tax shall cease not later than the 2046-47 Fiscal Year, however, the Special Tax will cease to be levied in an earlier Fiscal Year if the CFD Administrator has determined (i) that all required interest and principal payments on the CFD No. 5 Bonds have been paid; (ii) all Authorized Facilities have been acquired and all reimbursements to the developer have been paid, (iii) no delinquent Maximum Annual Special Taxes remain uncollected and (iv) all other obligations of CFD No. 5 have been satisfied.

I. APPEALS

Any landowner who feels that the amount of the Special Tax levied on their Assessor’s Parcel is in error may submit a written appeal to CFD No. 5. The CFD Administrator shall review the appeal and if the CFD Administrator concurs, the amount of the Special Tax levied shall be appropriately modified. If the CFD Administrator’s decision requires that the Special Tax for an Assessor’s Parcel be modified or changed in favor of the landowner, a cash refund will not be made (except for the last year of the levy), but an adjustment shall be made to the Special Tax on that Assessor’s Parcel in the subsequent Fiscal Year(s). The City Council may interpret this Rate and Method of Apportionment for purposes of clarifying any ambiguity and make determinations relative to the annual administration of the Special Tax and any landowner appeals. Any decision of the City Council shall be final and binding as to all persons.
March 5, 2007

City of Moreno Valley

Re: Market Absorption Study for Community Facilities District No. 5 (Stoneridge Ranch)

Empire Economics (Empire) is pleased to provide you with the Market Absorption Study for Community Facilities District (CFD) No. 5 (Stoneridge Ranch), hereafter referred to as CFD No. 5, of the City of Moreno Valley; accordingly, the primary conclusions are set-forth below:

**Product Mix and Market Status**

CFD No. 5 (Stoneridge Ranch) has some 33 acres that are expected to have some 20 buildings with 288,524 sq.ft. of space for tenants. According to information provided to Empire Economics by Sterling USA Development, the leasing status of the space is as follows:

- signed leases for some 116,092 (40.2%) sq.ft.
- leases out for signatures for some 9,600 (3.3%) sq.ft.
- letters of intent for 4,200 (1.5%) sq.ft.
- not committed for 158,632 (55.0%) sq.ft.
Finally, with regards to the CFD No. 5 Special Taxes, Sterling USA Development has represented that each of the tenants is expected to pay the same amount, and so this would be some $1.15 per square foot of space per year; however, the precise amount will be determined once the Bonds are issued.

Since the original Market Study dated September 2006, the amount of space leased out has increased as negotiations and letters of intent have proceeded to signed leases. However, the amount of space that is not committed, some 159,000 sq.ft. (55%), is almost the SAME as for the original Study, which was performed some five months ago.

**Current Marketing Status of the Commercial Products**

The estimated absorption schedules also take into account the marketing status of the commercial-retail pads/buildings in CFD No. 5 by Pad Areas, and these are as follows:

- **Signed Leases for some 116,092 (40.2%) sq.ft.**
  - This space is expected to be occupied as soon as the structures are completed.

- **Leases out for signature for 9,600 (3.3%) sq.ft.**
  - This space is also expected to be occupied as soon as the structures are completed, since there is a sufficient amount of time to complete the negotiations.

- **Letters of Intent for 4,200 (1.5%) sq.ft.**
  - This space is expected to be occupied approximately one year after the structures are completed, since there is a sufficient amount of time to complete their negotiations as well as the possibility for some of these deals not being completed.

- **Not Committed for 158,632 (55.0%) sq.ft.**
  - For the remaining space in Phase I, some 76,318 sq.ft., this is expected to be leased during 2008 and 2009. While for the space in Phase II, some 86,514 sq.ft., this is expected to be leased during 2010 through 2011.

**Empire’s Algorithm for Estimating Absorption Schedules**

Empire Economics has estimated the expected absorption schedules for the CFD No. 5 commercial-retail products through a comprehensive analysis of the following factors:

- The location of the retail centers, near Route 60 and Nason Street, in the easterly portion of the City of Moreno Valley, a newly developing area.

- The construction commitment of the anchors, Target and Kohl’s, are situated immediately to the north of the buildings in CFD No. 5; the anchors will generate a significant amount of traffic; however, they are not a part of the CFD.

- The Trade Areas for CFD No. 5, with regards to their population levels at various distances, are not as strong as the Trade Areas for the major retail centers located near the intersection of routes 215 and 60; furthermore, their freeway accessibility is also not as favorable as the other centers.

- For the County of Riverside as well as the City of Moreno Valley, there has been a strong correlation between residential development and the corresponding level of retail development. Accordingly, the recent/expected slowdown for the real estate market result in less residential development, and this will cause a moderation in the amount of retail development as well. With regards to the level of new residential development in the City of Moreno Valley, its most recent peak level was attained in 2004, some 3,614 homes, and since then it has declined, to some 2,100 homes per year for 2005 and 2006.

- Additionally, higher level of mortgage payments, due to adjustable rate loans as well as mortgage resets, are expected to dampen the amount of consumer spending for retail products. (Note: A significant amount of demand for retail products during the past several years has been driven by households utilizing their housing equity gains.)

**Estimated Absorption Schedules for the Pads in CFD No. 5 (Stoneridge Ranch)**

Accordingly, the estimated absorption schedules for the commercial-retail pads in CFD No. 5 are as follows:

<table>
<thead>
<tr>
<th>Phase I</th>
<th>Phase II</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>100,000</td>
</tr>
<tr>
<td>2008</td>
<td>90,000</td>
</tr>
<tr>
<td>2009</td>
<td>80,000</td>
</tr>
<tr>
<td>2010</td>
<td>70,000</td>
</tr>
<tr>
<td>2011</td>
<td>60,000</td>
</tr>
</tbody>
</table>
Therefore, the 288,524 square feet of commercial-retail space in CFD No. 5 is expected to be absorbed (building constructed and occupied by tenants) during the 2007 through 2011 time period, as follows:

- **2007:** 125,692 sq.ft., as occupancy commences
- **2008:** 33,047 sq.ft.
- **2009:** 43,271 sq.ft., as occupancies are completed for Phase I
- **2010:** 43,257 sq.ft., as occupancies in Phase II commence
- **2011:** 43,257 sq.ft., as the occupancies are completed for Phase II

**Closing Remarks**

The estimated absorption schedules for the commercial-retail products in CFD No. 5 are subject to change due to potential shifts in economic/real estate market conditions and/or the development strategy by the developer, Sterling USA Development.
CERTIFICATION OF INDEPENDENCE
EMPIRE ECONOMICS PROVIDES CONSULTING SERVICES
ONLY FOR PUBLIC ENTITIES

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

Accordingly, Empire Economics certifies that the Market Absorption Study for the CFD No. 5 (Stoneridge Ranch) of the City of Moreno Valley was performed in an independent professional manner, as represented by the following statements:

- Empire was retained to perform the Market Absorption Study by the City of Moreno Valley, not the District’s developer/builder, Sterling USA Development.
- Empire has not performed any consulting services for the District’s property owner or the developer/builder during the past ten years.
- Empire will not perform any consulting services for the District’s property owner or the developer/builder during at least the next three years.
- Empire’s compensation for performing the Market Absorption Study for the District is not contingent upon the issuance of Bonds; Empire’s fees are paid on a non-contingency basis.

Therefore, based upon the statements set-forth above, Empire hereby certifies that the Market Absorption Study for CFD No. 5 (Stoneridge Ranch) of the City of Moreno Valley was performed in an independent professional manner.

________________________
Empire Economics, Inc.
Joseph T. Janczyk, President

MARKET ABSORPTION STUDY
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APPENDIX A

SOUTHERN CALIFORNIA’S FUTURE DEVELOPMENT POTENTIAL

Part I: Long-Term Employment Forecasts
   Supply Conditions: Employment Planning Projections
   Demand Conditions: Consensus Economic Forecast

Part II: Long-Term Housing Forecast
   Supply Conditions: Housing Planning Projections
   Consensus Forecast of Housing Demand for Southern California
   Expected Distribution of Housing Demand within Southern California
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   Comparison of SCAG/SANDAG (SS) Projections and Empire’s Consensus Forecast

Part IV: Geographical Distribution of Employment/Housing Growth Among
   Southern California Market Areas
   Characteristics and Development Potential of the Southern California Market Areas

INTRODUCTION

A. OVERVIEW OF THE BOND FINANCING PROGRAM

The City of Moreno Valley (City of Moreno Valley) was petitioned by the property owner, Sterling USA Development, to form Community Facilities District (CFD) No. 5 for the Stoneridge Ranch, a commercial-retail center, as a means of funding a portion of the “public” infrastructure that is required to support the development of its commercial-retail products.

CFD No. 5, which encompasses portions of Stoneridge Ranch, is located within Riverside County, in the easterly portion of the City of Moreno Valley, southerly of the Route 60 and easterly of Nason Street. According to Sterling USA Development, the developer, CFD No. 5 has the following characteristics:
   - Some 33 acres of property designated for commercial-retail development, with an expected 288,524 sq.ft. of space for tenants; of this 202,010 (70%) is in Phase I and 86,514 (30%) is in Phase II.
   - There are expected to be some 20 buildings; of these, 16 are in Phase I and 4 are in Phase II.
   (Note: Stoneridge Ranch also includes a Super Target which is expected to have some 178,655 sq.ft. and also a Kohl’s department store with some 96,333 sq.ft.; however, these are NOT included in CFD No. 5.)

CFD No. 5, Stoneridge Ranch, is being marketed as the Stoneridge Towne Centre; however, the latter also include Target and Kohl’s, which are not a part of the CFD.

The City of Moreno Valley has retained Empire Economics Inc., an economic and real estate consulting firm, to perform a Market Absorption Study for the forthcoming commercial-retail stores in CFD No. 5 (Stoneridge Ranch). The purpose of the Market Absorption Study for CFD No. 5 is to conduct a comprehensive analysis of the product mix characteristics, macroeconomic factors, and microeconomic factors as well as the potential risk factors that are expected to influence the absorption of the commercial-retail stores in the CFD, in order to arrive at conclusions regarding the following:
   - Estimated absorption schedules for commercial-retail space, from market-entry to build-out, on an annualized basis, for each of the commercial-retail products.
   - Discussion of potential risk factors that may adversely impact their marketability.
SOUTHERN CALIFORNIA MARKET REGION
LOCATION OF CFD NO. 5 AND ITS MARKET AREA

CFD NO. 5 (STONERIDGE) NEIGHBORHOOD
B. ROLES OF THE MARKET STUDY FOR THE BOND FINANCING

The Market Absorption Study for CFD No. 5 has a multiplicity of roles with regards to the Bond Financing; accordingly, these are set-forth below:

Marketing Prospects for the Commercial-Retail Products

* Estimated Absorption Schedules:
  Occupancies of Buildings/Space to Commercial-Retail Tenants,
  From Market-Entry to Build-Out
* Potential Risk Factors that may Adversely Impact the Marketability of the Space

Relationship of the Market Study to the Special Tax Payments

* Maximum Special Taxes for the Tenants Conforming to the Issuer’s Policies
* Aggregate Levels of Special Tax Revenues for Bond Sizing
* Share of Payments: Developer/Builder vs. Final-Users/Tenants

Relationship of the Market Study to the Appraisal/Valuation

* Appraisal of Property Discounted Cash Flow – Present Value
(The Longer the Absorption Time, the Lower the Present Value)

The Issuing Agency, the City of Moreno Valley, along with the Finance Team, can utilize the Market Absorption Study as well as the Special Tax Revenues and Appraised Value to structure the Bond Issue for CFD No. 5.

C. METHODOLOGY UNDERLYING THE MARKET ABSORPTION STUDY

The Market Absorption Study performs a comprehensive analysis of the product mix characteristics, macroeconomic factors, and microeconomic factors as well as the potential risk factors that are expected to influence the absorption of the commercial-retail buildings/spaces in CFD No. 5.

I. Expected Product Mix Characteristics

* Estimated Amount of Buildings/Lease Area and Status of Tenants

II. Macroeconomic Analysis

* Long-term Employment and Housing SCAG Projections for the CFD Market Area
* Recent/Expected Economic and Real Estate Conditions
* CFD Market Area Employment/Housing Forecasts Modified for Recent/Expected Economic Conditions

III. Microeconomic Components

* Development Trends/Patterns
* Recent Retail Construction Activity: Southern California, Riverside County and Moreno Valley
* Relationship of Residential and Commercial-Retail Development
* Recent Patterns in Taxable Sales Riverside County and Moreno Valley
* Characteristics of the Population in the Trade Areas
  Population Levels, Household Incomes and Other Factors
* Characteristics of the Existing Retail Centers in the Vicinity
  Amount of Space and Types of Tenants

IV: Recent Development Trends and Potential Risk Factors

* Recent Levels of New Residential Development in the City of Moreno Valley
* Potential “Financial” Risk Factors Underlying the Credit Quality and Bond Sizing for Land Secured Financings in Southern California

V. Estimated Absorption Schedules

* Market Demand/Supply Factors as well as Market/Financial Risk Factors
  * Expected Market Entry for the Products
  * Leasing to Tenants
  * Closing Remarks

VI. Assumptions and Limiting Conditions

Appendix A

* Southern California’s Future Development Potential
SECTION I: EXPECTED PRODUCT MIX CHARACTERISTICS

A. CHARACTERISTICS OF THE EXPECTED PRODUCT MIX FOR CFD NO. 5 (STONERIDGE RANCH)

CFD No. 5 (Stoneridge Ranch) has some 33 acres that are expected to have some 20 buildings with 288,524 sq.ft. of space for tenants. According to information provided to Empire Economics by Sterling USA Development, the leasing status of the space is as follows:

- signed leases for some 116,092 (40.2%) sq.ft.
- leases out for signatures for some 9,600 (3.3%) sq.ft.
- letters of intent for 4,200 (1.5%) sq.ft.
- not committed for 158,632 (55.0%) sq.ft.

Finally, with regards to the CFD No. 5 Special Taxes, Sterling USA Development has represented that each of the tenants is expected to pay the same amount, and so this would be some $1.15 per square foot of space per year; however, the precise amount will be determined once the Bonds are issued.

Since the original Market Study dated September 2006, the amount of space leased out has increased as negotiations and letters of intent have proceeded to signed leases. However, the amount of space that is not committed, some 159,000 sq.ft. (55%), is almost the SAME as for the original Study, which was performed some five months ago.
DEVELOPMENT ACTIVITY WITHIN CFD NO. 5 (STONE RIDGE RANCH)
SEPTEMBER 2006; SINCE THEN CONSTRUCTION HAS COMMENCED

SECTION II: MACROECONOMIC ANALYSIS

A. METHODOLOGY UNDERLYING THE MACROECONOMIC ANALYSIS FOR THE CFD NO. 5 MARKET AREA

The macroeconomic section performs a comprehensive analysis of the planning projections, which represent the long-term development potential, and the recent/expected economic conditions, which determine the rate at which such development will actually occur, in order to arrive at the growth prospects for Southern California, as a whole, and the CFD No. 5 Market Area (MA), the north central portion of Riverside County.

Based upon Empire Economics’ experience in conducting 400+ Market Studies, these macroeconomic factors are regarded as being the most significant determinants of the actual performance of Planned Communities, Commercial-Retail Centers and Business Parks in the marketplace, and, as such, they represent a critical component of the Market Absorption Study.

Long-Term Employment and Housing SCAG Projections for the CFD Market Area
* Employment/Housing Projections for the CFD Market Area
  * Employment vs. Residential Centers

Recent/Expected Economic and Real Estate Conditions
* United States: Gross Domestic Product, CPI, Productivity Trends, Mortgage Rates, Oil/Gas Prices and Homebuilder Stocks
  * Riverside County: Employment and Housing Trends/Patients

CFD Market Area Employment and Housing Forecasts
* Modifications to Projections based upon Recent/Expected Economic Conditions
  * Employment/Housing Forecasts

Therefore, the analysis of these macroeconomic factors provides an understanding of the economic and real estate environment within which the developer/builder in CFD No. 5 will be marketing the commercial-retail products.

For a comprehensive discussion of the long term employment/housing SCAG projections and the Consensus economic forecasts for Southern California, please refer to Appendix A.

Appendix A
Southern California’s Future Development Potential
SCAG/SANDAG Planning Projections versus Consensus Employment/Housing Economic Forecasts
  * Reconciliation Planning Projections

Empire Economics
8 March 5, 2007

Empire Economics
9 March 5, 2007
B. LONG-TERM EMPLOYMENT AND HOUSING PROJECTIONS FOR THE CFD MARKET AREA

To arrive at long-term employment and housing planning projections for the CFD No. 5 Market Area (MA), Empire Economics utilizes information from the Southern California Association of Governments (SCAG). These projections are considered to be reasonable estimates of the development potential for the forthcoming commercial-industrial and residential projects since they are based upon probable land-use policies of the governing planning jurisdictions.

Projected employment growth in the CFD MA is expected to amount to some 47,602 new positions during the 2000-2020 time period for a capture rate of some 2.24% of all the expected employment growth in Southern California.

Projected housing growth in the CFD MA is expected to amount to some 36,778 new homes during the 2000-2020 time period, for a capture rate of some 2.12% of all the expected housing growth in Southern California; this can be attributed to the Market Area having a significant amount of developable property.

The capture rate for employment growth in the CFD Market Area is similar to the capture rate for residential growth, 2.24% vs. 2.12%, and so it is relatively balanced as an employment/residential center; however, housing growth is comparatively stronger in the earlier years while employment growth is relatively stronger in the latter years.

C. RECENT/EXPECTED ECONOMIC AND REAL ESTATE CONDITIONS

The near-term economic and real estate conditions for the United States (US), California (CA), Southern California (SC) and Riverside County (RC) economies are now discussed. These are then utilized to modify the long-term employment and housing growth projections for the CFD No. 5 Market Area (MA).

1. National/State Economic Trends/Patterns

- Gross Domestic Product (GDP)
- Consumer Price Index (CPI)
- Productivity Trends
- Mortgage Rates
- United States Oil Prices
- California Gas Prices
- Homebuilder Stocks

Overall U.S. Real GDP: The rate of growth moderated from 3.90% (year/year) in 2004 to 3.23% in 2005 and 3.30% in 2006, but it is expected to moderate significantly in 2007, to some 2.26%.

- Consumption: A growth rate of some 3.15% in 2006, but this is expected to moderate substantially, to some 2.33% in 2007.

- Business Investment: A growth rate of some 5.38% in 2006 but is expected to decrease significantly, to some 2.85% in 2007.

- Government Purchases: A growth rate of some 2.03% in 2006 and is expected to moderate slightly to 1.93% in 2007.

The overall rate of growth for GDP is expected to moderate significantly; additionally, with regards to its composition, the rates of growth for consumption and also investment are expected to decline substantially, while the rate of growth for government spending is expected to decrease slightly.
The relatively low levels of CPI changes during 2002 through 2005 have resulted in recent historic lows for both the 10-year bond, which is the primary driving force behind fixed rate mortgages, and also the federal fund rates, which is the primary driving force behind short-term rates, that also enhances the financial feasibility of creative financing mortgage structures.

Although GDP growth has been strong in recent years, the rate of change in the CPI has been minimal; this relationship represents an aberration from historical standards. Specifically, this can be attributed primarily to high levels of productivity growth which have enabled firms to increase their levels of output without substantially hiring additional employees, and thereby keeps their costs and prices relatively stable. However, for 2007, the rate of productivity growth as well as the rate of inflation are both expected to decline; this will also be accompanied by a lower rate of GDP growth.
2003-2006: Prices rose significantly, from $31 to $66 a barrel, more than doubling.
2007: Prices are expected to moderate, to some $57 a barrel.

1999-2001: California gas prices rose moderately, from $1.47 to $1.74.
2002-2006: Prices rose dramatically from $1.62 in 2002 to $2.91 in 2006, by some 80%, due to the invasion of Iraq and uncertainty in the Middle East.
2007: Gas prices are expected to moderate to some $2.51, a decrease of some $0.40 from 2006.

The recent trends in homebuilder stocks MAY provide a leading indicator of future housing market conditions, since the stock market factors reflect anticipated changes in the profitability of a firm.

The recent trends for the homebuilder stock price index, consisting of 19 major builders, referred to as HGX, have been as follows:

- 1st-2003 to 3rd-2005: The homebuilder stock index rose dramatically from $110 to $267, an increase of some 143% (more than double); the peak level of $293 occurred in July 2005.
- 3rd-2005 to 4th-2006: The index declined to $221, some -25% below the prior peak level, as a result of higher mortgage rates and lower demand for housing, thereby reducing the profit margins of homebuilders.

The recent stock value trends for Toll Brothers, a homebuilder primarily of luxury homes, have been as follows:

- 1st-2003 to the 3rd-2005: The stock rose significantly from $10 to $51, an increase of some 400%.
- 3rd-2005 to the 4th-2006: The declined to $30, a decrease of some -47% from the prior peak level, as a result of higher mortgage rates and slower sales reducing the profit margins for the move-up and luxury segments, as compared to the residential market as a whole.

So, based upon the recent declines in homebuilder stocks, Wall Street is anticipating a slowdown in the housing market.
2. Employment Trends/Pattems

The purpose of this section is to discuss the recent/expected trends/pattems of employment activity for the United States (US), California (CA) and Riverside-San Bernardino (R-SB) counties.

- 1991-1996: Economic recovery, with growth rates of 15,117 or 2.02%/yr.
- 1997-2001: Strong expansion, with growth rates of 45,260 or 5.09%/yr.
- 2002-2003: Some moderation, growth rates of 34,750 or 3.32%/yr.
- 2006-2007: Significantly lower growth rates of 21,557 or 1.88%/yr.

Sectors with Relatively Slow (Declining) Growth Rates
- Non-Durable Goods (4.3% of all employment in SC) recently declined by some -4.2%.
- Durable Goods (7.4%) recently declined at a rate of some -3.6%.
- State Government (2.1%) recently declined at a rate of -0.3%.
- Information (3.7%) recently declined at a rate of -0.6%.
- Transportation/Warehousing (3.4%) recently grew at a rate of 1.2%.
- Wholesale Trade (4.9%) had a recent growth rate of -2%

Sectors with Relatively Stable (Average) Growth Rates
- Local Government (11.3% of all employment in SC) recently declined by some -1.1%.
- Federal Government (1.6%) was stable.
- Construction (5.4%), recently grew at a cumulative rate of 10.5%.
- Financial Activities (6.2%) recently grew at a rate of some 6.1%.
- Professional and Business Services (14.6% of all employment in SC) recently grew at a rate of some 2.1%.
- Educational and Health Services (10.4%) recently grew at a rate of 2.8%.
- Retail Trade (10.9%) recently grew at a rate of 3.4%.
- So, for Southern California, as a whole, the economic engines underlying the recent employment growth have been primarily construction and financial activities, due to the robust levels of real estate activity, as well as retail trade, education/health services and professional/business services sectors.

Sectors with Relatively Strong Growth Rates
- Professional and Business Services (14.6% of all employment in SC) recently grew at a rate of some 2.1%.
- Educational and Health Services (10.4%) recently grew at a rate of 2.8%.
- Retail Trade (10.9%) recently grew at a rate of 3.4%.
- Financial Activities (6.2%) recently grew at a rate of some 6.1%.
- Construction (5.4%), recently grew at a cumulative rate of 10.5%.

The total level of wage/salary employment as of 2005 for Southern California (SC) amounted to some 8,152,700 positions. During the 2002 to 2005 time period, the SC economy experienced cumulative employment growth of some 290,400 net positions, or some 1.81%. The performance of the various employment sectors were classified into three categories: strong, stable and declining:

So, for Southern California, as a whole, the economic engines underlying the recent employment growth have been primarily construction and financial activities, due to the robust levels of real estate activity, as well as retail trade, education/health services and professional/business services sectors.

Economic Engines Underlying Employment Growth

The total level of wage/salary employment as of 2005 for Southern California (SC) amounted to some 8,152,700 positions. During the 2002 to 2005 time period, the SC economy experienced cumulative employment growth of some 290,400 net positions, or some 1.81%. The performance of the various employment sectors were classified into three categories: strong, stable and declining:

- Strong Growth Rates
- Stable Growth Rates
- Declining Growth Rates

Sectors with Relatively Slow (Declining) Growth Rates
- Non-Durable Goods (4.3% of all employment in SC) recently declined by some -4.2%.
- Durable Goods (7.4%) recently declined at a rate of some -3.6%.
- State Government (2.1%) recently declined at a rate of -0.3%.
- Information (3.7%) recently declined at a rate of -0.6%.
- Transportation/Warehousing (3.4%) recently grew at a rate of 1.2%.
- Wholesale Trade (4.9%) had a recent growth rate of -2%.

Sectors with Relatively Stable (Average) Growth Rates
- Local Government (11.3% of all employment in SC) recently declined by some -1.1%.
- Federal Government (1.6%) was stable.
- Construction (5.4%), recently grew at a cumulative rate of 10.5%.
- Financial Activities (6.2%) recently grew at a rate of some 6.1%.
- Professional and Business Services (14.6% of all employment in SC) recently grew at a rate of some 2.1%.
- Educational and Health Services (10.4%) recently grew at a rate of 2.8%.
- Retail Trade (10.9%) recently grew at a rate of 3.4%.

So, for Southern California, as a whole, the economic engines underlying the recent employment growth have been primarily construction and financial activities, due to the robust levels of real estate activity, as well as retail trade, education/health services and professional/business services sectors.
Industrial and Office Construction Activity in Riverside County

Employment growth is the primary driving force underlying the levels of industrial and office construction activity.

- **Major Cycles**: During 1970-2006 industrial construction activity in Riverside County has exhibited two major cycles, with peak levels of activity occurring in 1989 and 2006.
- **Capture Rates**: The capture rate for Riverside County relative to Southern California, has increased, rising from some 3%-4% during the early 1970’s to some 26% in 2006.
- **2006**: The amount of construction activity for 2006 rose dramatically, as compared to 2005 and the capture rate for Riverside County is also increased as well.

Recent Residential Construction Activity in Riverside County

- **Major Cycles**: During the 1980-2006 time period, the level of office construction activity in Riverside County has exhibited two major cycles, with peak levels of activity occurring in 1986 and 2006.
- **Capture Rates**: The capture rate for Riverside County, relative to Southern California, has demonstrated an increasing trend during early 1980’s to 2002, from some 2% to 15%.
- **2006**: The levels of office construction activity as well as the capture rates have recently increased during 2003-2006, for 2006 to some $194 million and some 14%, respectively.

3. Housing Starts Trends/Patterns

The purpose of this section is to discuss the recent/expected trends/patterns for the levels of housing activity for the United States (US), California (CA) and Riverside County (RC).

- **1999-2001**: The US residential market experienced relatively stable levels of activity while CA and RC markets experienced a trend of higher levels of activity.
- **2002-2004**: The US, CA and RC markets experienced significant increases in their levels of activity.
- **2005**: The US market experienced a somewhat higher level of activity while for CA and RC the level of activity declined somewhat.
- **2006-2007**: The levels of residential activity for US, CA and RC all declined somewhat, due to higher mortgage rates as well as higher gas prices, and these declines are expected to continue in 2007.

Recent Residential Construction Activity in Riverside County

- **Major Cycles**: During the 1970-2006 time period, the number of new single-family homes in RC exhibited three major cycles, with peak levels of activity occurring in 1977, 1988 and 2004-2005.
- **Capture Rates**: With regards to the capture rate for RC, relative to Southern California, it has demonstrated an increasing trend, from some 7% in the early 1970’s to some 40% in 2005-2006.
D. CFD MARKET AREA EMPLOYMENT AND HOUSING FORECASTS MODIFIED FOR RECENT/EXPECTED ECONOMIC CONDITIONS

The employment and housing planning SCAG projections for the CFD No. 5 Market Area (MA), which are considered to be reasonable estimates of the development potential for the projects, are now modified by taking into account the expected short-run economic conditions, along with the amount of growth that actually occurred during 2000-2005, in order to arrive at the most probable forecasts for employment and housing growth during 2006-2010.
SECTION III: MICROECONOMIC ANALYSIS

A. METHODOLOGY UNDERLYING THE MICROECONOMIC ANALYSIS OF THE CFD NO. 5 COMMERCIAL-RETAIL CENTER

The microeconomic analysis focuses upon the competitiveness of the CFD No. 5 retail center with various regional development factors within Riverside County and also the comparable products within the Trade Area.

Competitiveness from a Regional Perspective
* Location of CFD No. 5 Relative to Competing Planned Communities, Retail Centers and Business Parks

The existing/active/forthcoming Retail Centers, Planned Communities and Business Parks, in conjunction with the transportation system, determines the locations of the employment centers and residential areas along with retail centers; accordingly, these patterns can then be utilized to gauge the marketing potential of CFD No. 5 from a regional perspective.

Competitive Market Analysis of the CFD Commercial-Retail Center
* Development Trends/Patters
* Recent Retail Construction Activity: Southern California, Riverside County and Moreno Valley
* Relationship of Residential and Commercial-Retail Development
  * Recent Patterns in Taxable Sales Riverside County and Moreno Valley
  * Characteristics of the Population in the Trade Area
    * Population Levels, Household Incomes and Other Factors
    * Characteristics of the Existing Retail Centers in the Vicinity
    * Amount of Space and Types of Tenants

The Competitive Market Analysis evaluates the competitiveness of the CFD No. 5 retail center relative to the existing centers within its vicinity.

B. DEVELOPMENT TRENDS/PATTERNS IN THE NORTH CENTRAL PORTION OF RIVERSIDE COUNTY

From a regional perspective, the competitiveness of CFD No. 5’s commercial-retail products are influenced by the development patterns for employment and housing within the Southern California Market Region (MR) and their interrelationships with the CFD’s Market Area.

Specifically, Business Parks generate industrial-office development while Planned Communities generate residential development which is then followed by commercial-retail centers; additionally, the flow of traffic between them is facilitated by the freeways and highways.

Established and Emerging Employment Centers and Business Parks
- The currently established major employment centers are situated in Orange, San Diego and Los Angeles (OC/SD/LA) counties.
- The emerging employment centers are located in the western portions of Riverside and San Bernardino (R-SB) counties.
- The newly developing Business Parks are situated primarily along Interstates 15 and 215, major north-south freeways that link the western portions of Riverside and San Bernardino counties.
- Furthermore, there has been some expansion from these into various Business Parks located in the north central portion of Riverside County.

Commuting Patterns: Employment Centers to Residential Areas
- Some of the households employed in the OC/SD/LA counties and the western portion of R-SB counties employment centers reside in the CFD Market Area, since it offers moderately priced housing; these commuting patterns are based upon the freeways/highways that link the employment centers to the Market Area.
- There is strong spillover of housing demand from Orange County into western Riverside County along Interstates 15 and 215, major north-south freeways that link Riverside County to Orange County; furthermore, the Eastern Transportation Corridor which links Orange County with Riverside County facilitates the commute to the western portion of Riverside County.
- So, there has also been a substantial amount of residential development for Planned Communities located in the north central portion of Riverside County.
- The new residential centers are supported by existing population levels reaching various threshold levels as well as the expected amount of new population growth in the near-term.

For additional information on the regional development patterns, please refer to the following exhibit.
C. RECENT RETAIL CONSTRUCTION ACTIVITY TRENDS/PATTERNS IN SOUTHERN CALIFORNIA, RIVERSIDE COUNTY, AND THE CITY OF MORENO VALLEY

The purpose of this section is to discuss the recent retail construction activity trends/patterns within Southern California, Riverside County, and the City of Moreno Valley during the 1980 to 2006 time period, with respect to the levels of activity as well as the capture rates or market shares.

Retail Construction Activity in Southern California

Southern California experienced significant amounts of retail construction activity during the mid-1980s, followed by a major decline during 1991-1993. Then, starting in the mid-1990s, the retail construction activity demonstrated a slowly increasing trend, but the levels have not yet surpassed their prior peaks.

- **Major Cycle**: During the 1980-1993 time period, the level of retail construction activity in Southern California exhibited a major cycle, with the peak level of activity occurring in 1989, and this was followed by a dramatic decline to a trough in 1993.

- **Steady Growth**: since 1994, Southern California’s retail construction activity has exhibited a moderately increasing trend, and this is expected to continue through 2006; however, the levels of activity have not surpassed their prior peak amounts.
Retail Construction Activity in Riverside County

Riverside County experienced a major retail construction activity cycle during the 1980s to early 1990s; then, starting in the mid- to latter-1990s, retail construction activity demonstrated an increasing trend, and surpassed its prior peak level in 2000, with some additional new peak levels thereafter.

Major Cycle: During the 1980-1993 time period the level of retail construction activity in Riverside County exhibited a major cycle, with the peak level of activity occurring in 1985, and this was followed by moderation through 1992.

Strong Increasing Growth: Since 1995, Riverside County’s retail construction activity has exhibited a strong increasing trend, attaining a new peak level of activity in 2000, and then surpassing this with new record levels in 2004 as well as another expected record in 2006.

Capture Rates: Riverside County’s capture rate of Southern California's retail construction activity has risen from some 8% during the early 1980s to some 24% in recent years, and so the County of Riverside has been increasing its market share of retail development activity.

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Retail Construction Activity in the City of Moreno Valley

The City of Moreno Valley experienced a major retail construction activity cycle during the 1980s; followed by minimal growth during the mid- to latter-1990s, and then a strong increasing growth trend thereafter.

Major Cycle: During the 1986 to 1992 time period, the City of Moreno Valley experienced a major cycle, with respect to retail construction activity, with the peak level occurring in 1990.

Minimal Growth: During the 1993 through 2000 time period, the level of new retail construction activity in the City of Moreno Valley was minimal.

Strong Increasing Growth: During the 2001 to 2006 time period, the City of Moreno Valley experienced a strongly increasing growth trend, with a new record level of activity in 2005, followed by some moderation in 2006.

Capture Rates: The capture rate for the City of Moreno Valley, with respect to the amount of its retail construction activity in Riverside County, amounted to some 12% during the 1980s. Then, during the 1993 to 2000 time period, the capture rate declined to only some 2%. Starting in the year 2001, and continuing thereafter through 2006, its capture rate increased to some 10.5% in recent years.
Summary and Conclusions

For Southern California as a whole, the levels of retail construction activity have demonstrated a moderately increasing trend since 1994; however, the prior record levels of activity has not yet been surpassed. By comparison, for Riverside County, there has been a strongly increasing growth trend, with a new peak level of activity occurring in the year 2000, and this was followed by another peak level in 2004. For the City of Moreno Valley, it recently exhibited a strong growth trend, resulting in peak levels of activity in 2005 and 2006; additionally, its capture rate has risen to some 10% of the amount of such activity within Riverside County.

D. RELATIONSHIP OF RESIDENTIAL AND COMMERCIAL RETAIL DEVELOPMENT ACTIVITY

The construction activity for new residential development generally has a significant impact on the development of new commercial-retail, since the population growth generates a demand for new retail centers; however, this relationship requires modification for population levels reaching critical threshold levels that triggers the economic feasibility of larger retail center.

For Riverside County, the fluctuations in the levels of residential and commercial retail activity have been similar:

- **Major Cycle**: During the mid- to latter-1980s, both the residential and commercial-retail sectors had a major cycles; the trend lines reflect the similarity of these cycles.

- **Increasing Trend**: Since the latter-1990’s, the County of Riverside has experienced an increasing trend in the levels of both residential and also commercial-retail activity, with peak levels of activity occurring in 2004-2005 and 2006, respectively.
For the City of Moreno Valley, the fluctuations in the levels of residential and commercial retail activity have been similar:

- **Major Cycle**: During the mid- to latter-1980s, the City of Moreno Valley’s residential and commercial-retail sectors had major cycles; the trend lines reflect the similarity of these cycles.

- **Increasing Trend**: Since 2001, the City of Moreno Valley has experienced increasing trends in the levels of both residential and also commercial-retail activity, with peak levels of activity occurring in 2004 for residential and a record level for commercial-retail in 2006.

For the County of Riverside, there has been a close correlation between the cycles or residential and commercial-retail development activity. While for the City of Moreno Valley, the cycle of residential and commercial-retail during the latter 1980s were closely aligned, with the peak levels for commercial-retail lagging the peak levels of residential by several years. With regards to the most recent cycle for the City of Moreno Valley, the peak level for residential occurred in 2004, and, since then, the levels of residential activity have declined, for 2005 and 2006. With regards to commercial-retail, the level of activity increased in 2005 and is expected to continue to increase in 2006, following the typical lags, as observed in the prior cycle for the City of Moreno Valley.

**E. RECENT PATTERNS IN TAXABLE SALES: RIVERSIDE COUNTY AND THE CITY OF MORENO VALLEY**

The purpose of this section is to discuss the recent patterns in taxable retail sales for Riverside County as well as the City of Moreno Valley, including the shares of these sales by various categories.

The following analysis is based upon taxable sales for 2004, the most recent year for which data are available for an entire year; additionally, some of the City’s categories were adjusted by Empire to make them comparable to the Riverside County categories.

With regards to the amount of taxable retail sales per capita, they amount to $13,616 for California and $13,365 for Riverside County (similar to California) and $8,254 for the City of Moreno Valley (significantly lower than both the state and the county). This can be attributed to the demographics for the City of Moreno Valley, somewhat lower purchasing power, as well as the residents in the City of Moreno Valley shopping at retail centers that are just outside of the City’s boundaries.

The City of Moreno Valley has taxable sales of some $1,373 billion on an annualized basis, and this amounts to some $8,254 per capita, on the average, and its composition is as follows:

- The **apparel** group, which is comprised of women’s, men’s, and family, represents 3.13% of total sales, and it amounts to some $258 per capita.
- The **general merchandise** group, which is comprised of general merchandise and drug stores, represents 15.30% of total sales, and it amounts to some $1,263 per capita.
- The **specialty stores merchandise** group, which is comprised of gifts, sporting goods, florists, photographic, musical, stationary, jewelry, and office supply stores, represents 11.99% of total sales, and it amounts to some $990 per capita.
- The **food store** group represents 5.72% of total sales, and it amounts to some $472 per capita.
- The **eating and drinking** group represents 8.64% of total sales, and it amounts to some $713 per capita.
- The **household** group, furnishing and appliances, represents 2.86% of total sales, and it amounts to some $236 per capita.
- The **building materials** group, hardware, lumber, and plumbing, among others, represents 10.04% of total sales, and it amounts to some $829 per capita.
- The **automotive** group, new/used motor vehicles and service stations, represents 23.05% of total sales, and it amounts to some $1,902 per capita.
All other retail stores, boats, mobile homes and farm implements, represents 6.28% of total sales, and it amounts to some $519 per capita.

Business and personal services group represents 6.06% of total sales, and it amounts to some $500 per capita.

All other outlets represents 6.94% of total sales, and it amounts to some $573 per capita.

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### F. SOCIOECONOMIC CHARACTERISTICS OF THE POPULATION IN THE TRADE AREAS

This section discusses the socioeconomic characteristics, such as population levels, income and other factors, of the people residing in the CFD No. 5 (Stoneridge Ranch) Trade Area’s, various distances from the subject site.

Empire Economics compiled this information with the assistance of the City of Moreno Valley Economic Development Department which utilized a program from Claritas, a firm that specializes in compiling and forecasting Census Data.

With regards to the recent/expected population levels for the various Trade Areas, along with their annual growth rates, they are as follows:

- **Within 1-Mile**: From 4,289 in 2000 to 6,093 currently (7.0%/yr.) and 7,402 in 2011 (4.3%/yr.); with expected near-term growth during 2006-2011 of 1,309.
- **Within 3 Miles**: From 62,163 in 2000 to 77,187 currently (4.0%/yr.) and 88,159 in 2011 (2.8%/yr.); with expected near term growth during 2006-2011 of 10,972.
- **Within 5 Miles**: From 133,900 in 2000 to 162,593 currently (3.6%/yr.) and 183,538 in 2011 (2.6%/yr.); with expected near-term growth during 2006-2011 of 20,945.

With respect to other characteristics of the households in the various Trade Areas, they are as follows:

- **Household Size**: 1-Mile: 3.6, 3-Miles: 3.7 and 5-Miles: 3.7; All areas similar
- **Median Age**: 1-Mile: 32.6, 3-Miles: 28.5 and 5-Miles: 28.3; 1-Mile somewhat higher
- **Median Household Income**: 1-Mile: $58,232, 3-Miles: $50,339 and 5-Miles: $51,067; 1-Mile significantly higher
- **Per Capita Income**: 1-Mile: $19,233, 3-Miles: $16,263 and 5-Miles: $16,364; 1-Mile significantly higher
- **Home Values**: 1-Mile: $281,231, 3-Miles: $249,591 and 5-Miles: $251,710; 1-Mile significantly higher
- **Employed- Amount/Share of Population**: 1-Mile: 2,745 (45.1%), 3-Miles: 31,879 (41.3%) and 5-Miles: 68,182 (41.9%); 1-Mile substantially higher

So, the immediate trade area, within 1-Mile, has a population that has relatively favorable socioeconomic characteristics, such as a higher median age, higher income, higher per capita income, higher housing values and a greater share of the population being employed.
<table>
<thead>
<tr>
<th>Socioeconomic Characteristics</th>
<th>Radius</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1 - Mile</td>
</tr>
<tr>
<td>Population Levels</td>
<td></td>
</tr>
<tr>
<td>1990 - Census</td>
<td>2,716</td>
</tr>
<tr>
<td>2000 - Census</td>
<td>4,289</td>
</tr>
<tr>
<td>2008 - Estimate</td>
<td>6,093</td>
</tr>
<tr>
<td>2011 - Projection</td>
<td>7,402</td>
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<tr>
<td>Growth: 2006-2011</td>
<td>1,309</td>
</tr>
<tr>
<td>Growth Rates/Year</td>
<td></td>
</tr>
<tr>
<td>1990 - 2000</td>
<td>5.8%</td>
</tr>
<tr>
<td>2000-2006</td>
<td>7.0%</td>
</tr>
<tr>
<td>2006-2011</td>
<td>4.3%</td>
</tr>
<tr>
<td>Median Household Size</td>
<td>3.6</td>
</tr>
<tr>
<td>Median Age</td>
<td>32.6</td>
</tr>
<tr>
<td>Median Household Income: 2006</td>
<td>$58,232</td>
</tr>
<tr>
<td>Per Capita Income: 2006</td>
<td>$19,233</td>
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<tr>
<td>Number of Vehicles</td>
<td>2.2</td>
</tr>
<tr>
<td>Tenure of Households</td>
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</tr>
<tr>
<td>Owner</td>
<td>1,425</td>
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<tr>
<td>Renter</td>
<td>277</td>
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<tr>
<td>Median Value - Homes: 2006</td>
<td>$261,231</td>
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<tr>
<td>Employed</td>
<td>2,745</td>
</tr>
<tr>
<td>Share - Population</td>
<td>45.1%</td>
</tr>
</tbody>
</table>

CFD NO. 5 (STONERIDGE RANCH) TRADE AREAS
G. CHARACTERISTICS OF THE EXISTING RETAIL CENTERS IN THE VICINITY OF CFD NO. 5 (STONERIDGE RANCH)

The characteristics of the existing retail centers in the vicinity CFD No. 5 (Stoneridge Ranch) are now discussed, with regards to their names, amount of space for tenants and the year in which they opened.

There are some twenty-five major commercial retail centers in the vicinity of CFD No. 5 (Stoneridge Ranch), and together these have a total of some 5,446,000 sq.ft. Since these retail centers tend to be clustered into various geographical areas, Empire has organized them in that manner; accordingly, their characteristics are as follows:

- **Retail Core: East 60/215:** This geographic area has 12 major retail centers, which together, have a total of some 3,155,000 sq.ft., some 57.7% of all the square footage. The major retail center is the Moreno Valley Mall, which has more than 1,000,000 square feet, with the major tenants being Robinson-May, Sears and JC Penny. Most of the other retail centers, in this area are in close proximity to the Moreno Valley Mall, and they typically have various types of tenants found in power centers, such as Toy R Us, Circuit City and Lowe’s, among others.

- **Central: Near Route 60:** This geographic area has six major retail centers, which together, have a total of 1,232,000 sq.ft., some 22.8% of all the square footage. The two major retail centers, which have about 400,000 sq.ft. each, and they feature tenants such as Home Base, Big-5 Sports and Vons among others.

- **Central: Southerly Portion of Moreno Valley:** This geographic area has six major retail centers, which together, have a total of 759,000 sq.ft., some 14.0% of all the square footage. The two major retail centers, which have some 200,000 sq.ft. each, feature tenants such as the 99 cent store and also Save-on.

- **Easterly of Route 60:** this geographic area has one major retail center, Moreno Beach Plaza, with some 300,000 sq.ft., and the primary tenant is Wal-Mart. Stoneridge Ranch, the retail center in CFD No. 5, is situated just to the east of this retail center.

Therefore, there has been a significant amount of commercial retail development in the vicinity of the CFD, some 5,446,000 square feet. With respect to the geographical development patterns for commercial retail developments, the represent a movement from the retail core, near 60/215, easterly along Route 60, into the central portion of the city and now further to the easterly part of the city. Consequently, CFD No. 5 (Stoneridge Ranch) represents the next step in this sequential development geographical development pattern.

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### RETAIL CENTERS IN THE VICINITY OF CFD NO. 5 (STONERIDGE)

<table>
<thead>
<tr>
<th>Code</th>
<th>Name of Center</th>
<th>Location</th>
<th>Space: Sq.Ft.</th>
<th>Share %</th>
<th>Year</th>
<th>Major Tenants</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Moreno Valley Mall</td>
<td>Retail Core: East 60/215</td>
<td>1,035,000</td>
<td>19.0%</td>
<td>1980</td>
<td>Robinson-May, Sears, JC Penny</td>
</tr>
<tr>
<td>2</td>
<td>Canyon Springs Plaza</td>
<td></td>
<td>413,000</td>
<td>7.6%</td>
<td>1966</td>
<td>Sears Homelife, Toys R Us</td>
</tr>
<tr>
<td>3</td>
<td>Towngate Center</td>
<td></td>
<td>320,000</td>
<td>5.9%</td>
<td>1989</td>
<td>Edwards Firestone, Skechers</td>
</tr>
<tr>
<td>4</td>
<td>Towngate Promenade/Square</td>
<td></td>
<td>220,000</td>
<td>4.0%</td>
<td>2005</td>
<td>Costco, Johnny Caroline’s</td>
</tr>
<tr>
<td>5</td>
<td>Town Gate Crossing</td>
<td></td>
<td>155,000</td>
<td>2.9%</td>
<td>2005</td>
<td>Circuit City, Lowe’s</td>
</tr>
<tr>
<td>6</td>
<td>Canyon Springs South</td>
<td></td>
<td>118,000</td>
<td>2.2%</td>
<td>1989</td>
<td>Pet World</td>
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<tr>
<td>7</td>
<td>Pigeon Pass Plaza</td>
<td></td>
<td>104,000</td>
<td>1.9%</td>
<td>2004</td>
<td>Michaels, Best Buy</td>
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<tr>
<td>8</td>
<td>Canyon Springs South</td>
<td></td>
<td>103,000</td>
<td>1.9%</td>
<td>2004</td>
<td>Target, Toys R Us</td>
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<tr>
<td>9</td>
<td>Home Depot</td>
<td></td>
<td>100,000</td>
<td>1.8%</td>
<td>1990</td>
<td>Albertsons, Home Depot</td>
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<tr>
<td>10</td>
<td>Orange Tree Marketplace</td>
<td></td>
<td>90,000</td>
<td>1.7%</td>
<td>2005</td>
<td>Jahn’s, Palais</td>
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<tr>
<td>11</td>
<td>Canyon Crossing</td>
<td></td>
<td>60,000</td>
<td>1.1%</td>
<td>1980</td>
<td>Wal-Mart</td>
</tr>
</tbody>
</table>

### Central: Near Route 60

<table>
<thead>
<tr>
<th>Code</th>
<th>Name of Center</th>
<th>Location</th>
<th>Space: Sq.Ft.</th>
<th>Share %</th>
<th>Year</th>
<th>Major Tenants</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>Festival at Moreno Valley</td>
<td></td>
<td>405,000</td>
<td>7.5%</td>
<td>1986</td>
<td>Home Base</td>
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<tr>
<td>14</td>
<td>Moreno Valley Plaza</td>
<td></td>
<td>385,000</td>
<td>7.1%</td>
<td>1985</td>
<td>Big-5 Sports, Vons, Kmart</td>
</tr>
<tr>
<td>15</td>
<td>Butterfield Valley Village</td>
<td></td>
<td>280,000</td>
<td>5.2%</td>
<td>2005</td>
<td>Toys</td>
</tr>
<tr>
<td>16</td>
<td>Moreno Valley Village</td>
<td></td>
<td>220,000</td>
<td>4.1%</td>
<td>1989</td>
<td>Food 4 Less, Kmart</td>
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<tr>
<td>17</td>
<td>Moreno Valley Center</td>
<td></td>
<td>99,000</td>
<td>1.8%</td>
<td>1985</td>
<td>Sav-on</td>
</tr>
<tr>
<td>18</td>
<td>Mission Plaza</td>
<td></td>
<td>99,000</td>
<td>1.8%</td>
<td>1985</td>
<td>Sav-on</td>
</tr>
</tbody>
</table>

### Central: Southerly Moreno Valley

<table>
<thead>
<tr>
<th>Code</th>
<th>Name of Center</th>
<th>Location</th>
<th>Space: Sq.Ft.</th>
<th>Share %</th>
<th>Year</th>
<th>Major Tenants</th>
</tr>
</thead>
<tbody>
<tr>
<td>19</td>
<td>Sunnymead Village Center</td>
<td>Central: Southerly Moreno Valley</td>
<td>99,000</td>
<td>1.8%</td>
<td>1986</td>
<td>Sav-on</td>
</tr>
<tr>
<td>20</td>
<td>Sunnymead Village Center</td>
<td>Central: Southerly Moreno Valley</td>
<td>99,000</td>
<td>1.8%</td>
<td>1986</td>
<td>Sav-on</td>
</tr>
<tr>
<td>21</td>
<td>Sunnymead Village</td>
<td>Central: Southerly Moreno Valley</td>
<td>99,000</td>
<td>1.8%</td>
<td>1986</td>
<td>Sav-on</td>
</tr>
<tr>
<td>22</td>
<td>Bear Valley Plaza</td>
<td>Central: Southerly Moreno Valley</td>
<td>99,000</td>
<td>1.8%</td>
<td>1986</td>
<td>Sav-on</td>
</tr>
<tr>
<td>23</td>
<td>JFK Plaza</td>
<td>Central: Southerly Moreno Valley</td>
<td>99,000</td>
<td>1.8%</td>
<td>1986</td>
<td>Sav-on</td>
</tr>
<tr>
<td>24</td>
<td>Food 4 Less Center</td>
<td>Central: Southerly Moreno Valley</td>
<td>99,000</td>
<td>1.8%</td>
<td>1986</td>
<td>Sav-on</td>
</tr>
</tbody>
</table>

### East: Near Route 60

<table>
<thead>
<tr>
<th>Code</th>
<th>Name of Center</th>
<th>Location</th>
<th>Space: Sq.Ft.</th>
<th>Share %</th>
<th>Year</th>
<th>Major Tenants</th>
</tr>
</thead>
<tbody>
<tr>
<td>25</td>
<td>Moreno Beach Plaza</td>
<td>East: Near Route 60</td>
<td>300,000</td>
<td>5.5%</td>
<td>2005</td>
<td>Wal-Mart</td>
</tr>
</tbody>
</table>
SECTION IV
RECENT/EXPECTED RESIDENTIAL DEVELOPMENT PATTERNS IN THE CITY OF MORENO VALLEY AND POTENTIAL FINANCIAL RISK FACTORS

The demand for space by tenants in the new CFD No. 5 retail center depends upon both the current population levels as well as future population growth. Accordingly, the purpose of this section is to discuss the recent/expected trends/patterns for residential development in the City of Moreno Valley, with regards to the amounts of new homes as well as potential factors that may impact the future residential of development, such as higher mortgage rates.

A. Recent Levels of New Residential Development in the City of Moreno Valley

The number of new single-family homes in the City of Moreno Valley during the 1986 (when the City was incorporated) through 2006 time period has been as follows:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>NEW SINGLE-FAMILY HOMES</th>
</tr>
</thead>
<tbody>
<tr>
<td>1986</td>
<td>3,300</td>
</tr>
<tr>
<td>1987</td>
<td>3,300</td>
</tr>
<tr>
<td>1988</td>
<td>3,300</td>
</tr>
<tr>
<td>1989</td>
<td>3,300</td>
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<tr>
<td>1990</td>
<td>317</td>
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<td>1991</td>
<td>317</td>
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<td>2001</td>
<td>317</td>
</tr>
<tr>
<td>2002</td>
<td>317</td>
</tr>
<tr>
<td>2003</td>
<td>849</td>
</tr>
<tr>
<td>2004</td>
<td>1,152</td>
</tr>
<tr>
<td>2005</td>
<td>1,152</td>
</tr>
<tr>
<td>2006</td>
<td>1,152</td>
</tr>
</tbody>
</table>

- **Very Strong Growth 1986-1989**: During the 1986-1989 time period, the level of new single-family homes construction activity was very strong, some 3,300 homes per year, on the average.
- **Minimal Growth 1990-2000**: During the 1990-2000 time period, the level of new single-family home construction activity was dramatically less, only some 317 homes per year, on the average, a decrease of some 90%.
- **Current Cycle: 2001-2006**: During the 2001-2004 time period, the level of new single-family construction activity rose significantly, to a peak level of 2,109 homes in 2004; however, since then, new homes have decreased, to 1,152 in 2005 and 849 in 2006.
The number of new multiple-family homes (attached for-sale as well as apartments) in the City of Moreno Valley during the 1986 through 2006 time period has been as follows:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>NEW MULTIPLE-FAMILY HOMES</th>
</tr>
</thead>
<tbody>
<tr>
<td>1986</td>
<td>0</td>
</tr>
<tr>
<td>1987</td>
<td>200</td>
</tr>
<tr>
<td>1988</td>
<td>400</td>
</tr>
<tr>
<td>1989</td>
<td>600</td>
</tr>
<tr>
<td>1990</td>
<td>800</td>
</tr>
<tr>
<td>1991</td>
<td>1,000</td>
</tr>
<tr>
<td>1992</td>
<td>1,200</td>
</tr>
<tr>
<td>1993</td>
<td>1,400</td>
</tr>
<tr>
<td>1994</td>
<td>1,600</td>
</tr>
<tr>
<td>1995</td>
<td>1,800</td>
</tr>
<tr>
<td>1996</td>
<td>2,000</td>
</tr>
<tr>
<td>1997</td>
<td>1,800</td>
</tr>
<tr>
<td>1998</td>
<td>1,600</td>
</tr>
<tr>
<td>1999</td>
<td>1,400</td>
</tr>
<tr>
<td>2000</td>
<td>1,200</td>
</tr>
<tr>
<td>2001</td>
<td>1,000</td>
</tr>
<tr>
<td>2002</td>
<td>800</td>
</tr>
<tr>
<td>2003</td>
<td>600</td>
</tr>
<tr>
<td>2004</td>
<td>400</td>
</tr>
<tr>
<td>2005</td>
<td>200</td>
</tr>
<tr>
<td>2006</td>
<td>100</td>
</tr>
</tbody>
</table>

Moderate Growth 1988-1990: During the 1988-1990 time period, the level of new multiple-family construction activity was moderate, some 379 units per year, on the average.

Minimal Growth 1991-2002: During the 1991-2002 time period, the level of new multiple-family units was minimal, only some 29 units per year, on the average, a decline of some 90%.

Current Cycle: 2003-2006: During the 2003-2006 time period, the level of new multiple-family units rose significantly, to a peak level of 1,505 units in 2004; however, since then, new units have decreased, to 929 in 2005 and 1,262 in 2006.

The number of new single-family homes in the City of Moreno Valley reached its peak level of activity in 2004, and, since then, moderated in 2005, and 2006. The construction of multiple-family units have been strong during 2004-2006, and this can be attributed to several large apartment complexes coming on the marketplace.

During the next several years, Empire anticipates a moderation in the level of housing activity, due primarily to higher level of mortgage rates, both fixed and adjustable, as well as mortgage resets for homeowners that recently utilized creative financing with “teaser” rates; this is discussed further in the next section.

B. Potential “Financial” Risk Factors Underlying the Credit Quality and Bond Sizing for Land Secured Financings in Southern California

There has been a fundamental shift in the driving force underlying the recent rates of housing price appreciation, from the historical role of employment growth as the driving force to the recent role of adjustable rate and creative financing techniques as the driving force. Since January 2002, these financial factors have been the primary driving force underlying the extraordinary rate of housing price appreciation in Southern California, more than 70%. However, the economic feasibility of creative financing has recently diminished, as both short-term and long-terms rates have risen. Consequently, the current levels of housing prices and land values are subject to potentially substantial downward adjustments, due to mortgage rate resets (as mortgages are adjusted from teaser rates to market rates) as well as higher short-term rates (due to rate hikes by the Federal Reserve Board). These adjustments, in turn, may cause a softening in housing prices and land values that could adversely impact the credit quality underlying land-secured financings.


New projects with newly developing residential projects have characteristics that make them more vulnerable to a housing market bubble than national or regional markets. Specifically, New projects represent the marketing of new homes to purchasers at current prices that utilize creative financing structures and they are also concentrated in particular geographical locations.

<table>
<thead>
<tr>
<th>CHARACTERISTICS</th>
<th>OVERALL MARKET</th>
<th>COMMUNITY FACILITIES DISTRICT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Geographical Location</td>
<td>Broad</td>
<td>CFD - Focused Area</td>
</tr>
<tr>
<td>Time of Purchase</td>
<td>Long Term: 15-20 Years</td>
<td>Recently</td>
</tr>
<tr>
<td>Type of Financing Structure</td>
<td>Mostly Fixed Rate</td>
<td>Predominantly Adjustable &amp; Creative</td>
</tr>
<tr>
<td>Amortization of Principal</td>
<td>Higher Loan Balances</td>
<td>Higher Loan Balances</td>
</tr>
<tr>
<td>Amount of Equity</td>
<td>Significant Accumulated Over Time</td>
<td>Minimal</td>
</tr>
<tr>
<td>Timing of Loan Resets</td>
<td>Most &amp; Similar Time</td>
<td>May &amp; Similar Time</td>
</tr>
</tbody>
</table>

Definition of Creative Financing

Creative financing, as utilized herein, refers to the use of loan structures other than fixed-rate or one-year adjustable loan structures that provide for amortization of principal; some examples of creative financing structures are as follows:

- Interest only payments.
- Payment option loans (with minimum payment options).
- Loans with initial teaser rates (below market rates that are offered only for a limited time period).

Additional factors related to creative loan structures include:

- Less stringent lending standards such as low/no documentation.
- Higher mortgage payment to income ratios.
1. Recent Housing Price Appreciation Patterns

A comparison of the price appreciation patterns for the current (2001-2006) and the prior (1986-1993) real estate cycles reveals that there are significant similarities between them:

- The peak rates of appreciation amounted to 32% in 3rd-quarter of 2004 for the current cycle and 24% in the 2nd-quarter of 1989 for the prior cycle.
- For the three years leading to the peak rate of appreciation, the average rates of appreciation amounted to 14% for the prior cycle and 16% for the current cycle,
- For the two years after the peak rate of appreciation, the average rates of appreciation amounted to 23% for the current cycle and 12% for the prior cycle. Furthermore, after two years from the peak, the rates of appreciation stabilized for both cycles,

So a comparison of the price appreciation patterns for the current and the prior real estate cycles reveals that there are significant similarities between them.

---

2. Structural Shift in the Primary Factors Underlying Housing Price Appreciation: From Employment Growth to Creative Financing

The primary factors underlying the current cycle of housing price appreciation in Southern California, declining mortgage rates as well as the extensive use of adjustable and creative financing, represent a fundamental shift from the prior cycle, employment growth.

- During the prior cycle, 1986-1991, housing price appreciation was driven by employment growth, with an average growth rate of some +2.3% per year, along with accommodating financial factors, such as stable or somewhat declining mortgage rates. During this time period financial factors played only a secondary role: for instance, over 1991-1993 when employment decreased, housing prices declined, even though mortgage rates fell by more than two percentage points from their 1989-1990 levels.
- However, for the current cycle, 2001-2006, as housing prices escalated at strong rates, the primary fundamental factor, employment growth, has experienced only minimal growth, some +0.6% per year, on the average. Instead, housing price appreciation has been driven primarily by financial factors, particularly the use of adjustable rate mortgages and creative financing techniques.

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Sources: Empire Economic and Office of Federal Housing

Sources: Empire Economics, Employment Development Department, & Freddie Mac
3. Role of Financial Factors Underlying Recent Rates of Housing Price Appreciation

Since January 2002, the primary driving forces underlying housing price appreciation have been as follows:
- Households initially taking advantage of recent historically low fixed rates, through June 2003.
- A shift to adjustable rate mortgages, through March 2004.
- Since April 2004, the use of creative financing structures.

The impacts of creative mortgage financing structures on the price of housing can be gauged by estimating the prices that households could afford to pay utilizing the various structures; the starting price for housing, as of January 2002, was some $278,000, and prices have recently increased to some $475,000, a change of more than 70%.

4. Potential Risk Factors for Purchasers Utilizing Creative Financing Structures

The purchasers of homes that utilize creative financing structures are able to “afford” homes at current market prices; however, their rates are subject to resets that will cause their payments to rise substantially, and so they face the risk of potentially becoming delinquent on their mortgage and tax payments.

4-A. Purchasers Using Creative Financing and Mortgage Loan Resets

Purchasers of homes that utilize creative financing are subject to resets, as their initial teaser rates are re-aligned to the market rates, and so their mortgage payments are likely to increase significantly. The potential for mortgage reset is illustrated below, using a home with a price of $500,000 that is fully financed, with no down payment, something that buyers often do using first and second mortgages:

- **Fixed Rate Loan Structure:**
  - Mortgage payment of some $32,500 per year.

- **Creative Loan Structure:**
  - First three years, $24,375 per year, using a teaser rate interest only payment.
  - Starting in the fourth year, when the loan payment is adjusted to the market rate and fully amortized to pay principal as well, the payment rises to some $34,600 per year.

Therefore, the mortgage payment for the fourth year and thereafter is some 42% higher than for the first three years, an increase of some $10,225 per year.

With regard to the amount of mortgages that are subject to such resets, based upon data for the United States mortgage market as a whole, these are expected to rise dramatically, from some $0.83 billion in 2005 to more that $1.0 trillion in 2007.

Furthermore, it is worthwhile to note that with regards to New projects in particular, mortgage resets are expected to be significant, since most of the recent purchasers have utilized creative financing.
4 - B. Example of Purchasers of Homes in a Residential Project with Mortgage Resets

The following example provides a simulation of the potential impacts of mortgage resets for the recent purchasers of homes in a newly developing residential project:

- **Price of Homes:** $500,000
- **Household Income:** $75,000
- **Fully Mortgaged:** 100% First of 80% and second of 20%
- **Creative Structure:**
  - Interest only for first three years: $20,000 per year
  - Interest and amortization: next 27 years: $30,000 per year
- **Property and Special Taxes:** 2.0%, $10,000 per year.

Accordingly, the application of these assumptions results in the following scenario:

- **Phase I:** 50 buyers in 2004 have payments of $30,000 per year until 2007 when the reset cause the payment to escalate to $40,000 per year. (mortgage payment rises by $10,000)
- **Phase II:** 50 buyers in 2005 follows a similar pattern, with a year’s delay.
- **2006:** The buyers in both phases have stable payments, and so the delinquency rate is expected to be normal.
- **2007:** The first 50 buyers have their payment rise by some $10,000.
- **2008:** The buyers in Phase II which have their payments also rise.

The delinquency rates resulting from these mortgage payment increases will be determined by a multiplicity of factors, including the financial reserves of the households, their ability to reduce other expenditures, and so forth. Nevertheless, an increase in the mortgage payment by some $10,000 may prove to be beyond the financial capabilities of some of the households. Furthermore, their motivation to re-allocate funds to the mortgage payment may be diminished by their low levels of equity (100% financing and negative amortization).

4 - C. Delinquency Rates and Types of Loans

From an historical perspective, the mortgage delinquency levels for homeowners with adjustable mortgages have traditionally been significantly higher than for homeowners with fixed rate loans. During the 2000-2005 time period, the 5.4% delinquency rate for adjustable rate loans has been above the 3.6% delinquency rate for fixed rate loans by some 50% (5.4% vs. 3.6%). This is typically attributed to homeowners with adjustable rate loans having difficulty with higher mortgage payments as rates rise as well as such households having “low” equity levels (due to higher loan to price ratios as well as negative amortization), and hence less of an incentive to “hold-on” to the home.

However, the potential delinquency rates for households with creative financing does not have an historical track record, since such loan structures have just become the available recently, and so they have not yet been tested under adverse real estate and economic conditions. Considering that creative loans are subject to substantial increase in mortgage payments when they are reset, as compared to traditional adjustable loans which vary only due to interest rates fluctuations, their delinquency rates are likely to be substantially higher.

A “leading” indicator of higher Special Tax delinquency rates may be “notices of default” that are recorded against homes that are not making their mortgage payments on a timely basis.

Therefore, although a project may initially have low delinquency levels, when the resets start to occur several years after the original purchase, then the delinquency rates may rise dramatically, since most of the buyers in the project have similar financing structures. Furthermore, these delinquency rate increases may occur despite the higher value of the homes (but minimal equity) and favorable economic growth (not a recession).
5. Conclusions

The housing market is expected to experience some significant adjustments during the foreseeable future, as the current price structure, which is based upon the extensive use of creative financing, is realigned with a sustainable price structure, which is based upon the use of more traditional financing structures:

- The majority of home purchasers in recent years have utilized creative financing structures, and this has enabled them to “afford” homes at current market prices; however, such structures are subject to resets that will cause their payments to rise substantially, and so they face the risk of becoming delinquent on their mortgage and tax payments.

- However, if these purchasers instead used traditional financing structures, then the majority of them would NOT be able to “afford” homes at current market prices, and so their inability to do so would have caused the rate of sales to slowdown, unless builders offered them substantial concessions, and eventually lower prices.

Therefore, as the market transitions from the creative financing structure to the traditional financing structures, prospective purchasers will encounter challenges in paying the current prices, since their purchasing power with traditional loan structures is significantly below their purchasing power with creative structures. So, the real estate market is expected to encounter some significant adjustments, through a combination of lower prices, enhanced builder incentives, and slower sales rates.

Finally, these market adjustments are expected to have a much more significant impact on newly developing residential projects in CFDs as compared to the broader market as a whole, since such projects represent the marketing of new homes to purchasers at current prices and they are also concentrated in particular geographical locations.

SECTION V:
ESTIMATED ABSORPTION SCHEDULES FOR THE COMMERCIAL-RETAIL PRODUCTS IN CFD NO. 5

The purpose of this section is to estimate the absorption schedules for the commercial-retail products in CFD No. 5, based upon a consideration of the recent/expected market demand/supply conditions as well as the potential market and financial risk factors, along with the market-entry of the completed buildings that are ready for occupancy.

Market Demand/Supply as well as the Market/Financial Risk Factors

Macroeconomic Components
- Market Demand for Employment and Housing Based Upon SCAG Projections Modified for Recent/Expected Economics Conditions

Microeconomic Components
- Development Trends/Patterns
- Recent Retail Construction Activity: Southern California, Riverside County and Moreno Valley
- Recent Patterns in Taxable Sales Riverside County and Moreno Valley
- Relationship of Residential and Commercial-Retail Development
- Characteristics of the Population in the Trade Area: Population Levels, Household Incomes and Other Factors
- Characteristics of the Existing Retail Centers in the Vicinity: Amount of Space and Types of Tenants

Recent Residential Development Trends and Potential Risk Factors
- Recent Levels of New Residential Development in the City of Moreno Valley
- Potential “Financial” Risk Factors Underlying the Credit Quality and Bond Sizing for Land Secured Financings in Southern California
Empire Economics has estimated the expected absorption schedules for the CFD No. 5 commercial-retail products through a comprehensive analysis of the following factors:

- The location of the retail centers, near Route 60 and Nason Street, in the easterly portion of the City of Moreno Valley, a newly developing area.
- The construction commitment of the anchors, Target and Kohls', are situated immediately to the north of the buildings in CFD No. 5; the anchors will generate a significant amount of traffic; however, they are not a part of the CFD.
- The Trade Areas for CFD No. 5, with regards to their population levels at various distances, are not as strong as the Trade Areas for the major retail centers located near the intersection of routes 215 and 60; furthermore, their freeway accessibility is also not as favorable as the other centers.
- For the County of Riverside as well as the City of Moreno Valley, there has been a strong correlation between residential development and the corresponding level of retail development. Accordingly, the recent/expected slowdown for the real estate market result in less residential development, and this will cause a moderation in the amount of retail development as well. With regards to the level of new residential development in the City of Moreno Valley, its most recent peak level was attained in 2004, some 3,614 homes, and since then it has declined, to some 2,100 homes per year for 2005 and 2006.
- Additionally, higher level of mortgage payments, due to adjustable rate loans as well as mortgage resets, are expected to dampen the amount of consumer spending for retail products. (Note: A significant amount of demand for retail products during the past several years has been driven by households utilizing their housing equity gains.)

Furthermore, Empire also utilizes its experience from conducting Market Absorption Studies for more than four hundred CFDs, with regards to the time required to develop the properties (finish the pads/lots and complete the construction of the buildings/homes) as well as the time required for their absorption (depending upon economic and real estate conditions).

Finally, the estimated absorption schedules, which represent the occupancy of a building by a tenant, are subject to the Assumptions and Qualifications set-forth in the next section.

Current Marketing Status of the Commercial Products

The estimated absorption schedules also take into account the marketing status of the commercial-retail pads/buildings in CFD No. 5 by Pad Areas, and these are as follows:

- Signed Leases for some 116,092 (40.2%) sq.ft.
  - This space is expected to be occupied as soon as the structures are completed.
- Leases out for signature for 9,600 (3.3%) sq.ft.
  - This space is also expected to be occupied as soon as the structures are completed, since there is a sufficient amount of time to complete the negotiations.
- Letters of Intent for 4,200 (1.5%) sq.ft.
  - This space is expected to be occupied approximately one year after the structures are completed, to allow more time to complete their negotiations as well as the possibility for some of these deals not being completed.
- Not Committed for 158,632 (55.0%) sq.ft.
  - For the remaining space in Phase I, some 76,318 sq.ft., this is expected to be leased during 2008 and 2009. While for the space in Phase II, some 86,514 sq.ft., this is expected to be leased during 2010 through 2011.
Estimated Absorption Schedules for the Pads in CFD No. 5 (Stoneridge Ranch)

Accordingly, the estimated absorption schedules for the commercial-retail pads in CFD No. 5 are as follows:

<table>
<thead>
<tr>
<th>CFD NO. 5 (STONERIDGE RANCH)</th>
<th>ESTIMATED ABSORPTION SCHEDULES</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>20,000</td>
</tr>
<tr>
<td>2</td>
<td>40,000</td>
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<tr>
<td>4</td>
<td>60,000</td>
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<tr>
<td>6</td>
<td>80,000</td>
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<td>8</td>
<td>100,000</td>
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<tr>
<td>10</td>
<td>120,000</td>
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<tr>
<td>12</td>
<td>140,000</td>
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<tr>
<td>14</td>
<td>2007</td>
</tr>
<tr>
<td>16</td>
<td>2008</td>
</tr>
<tr>
<td>18</td>
<td>2009</td>
</tr>
<tr>
<td>20</td>
<td>2010</td>
</tr>
<tr>
<td>22</td>
<td>2011</td>
</tr>
<tr>
<td>SQUARE FOOTAGE - ANNUALLY</td>
<td></td>
</tr>
<tr>
<td>Phase I</td>
<td>288,524</td>
</tr>
<tr>
<td>Phase II</td>
<td>288,524</td>
</tr>
<tr>
<td>Therefore, the 288,524 square feet of commercial-retail space in CFD No. 5 is expected to be absorbed (building constructed and occupied by tenants) during the 2007 through 2011 time period, as follows:</td>
<td></td>
</tr>
<tr>
<td>2007: 125,692 sq.ft., as occupancy commences</td>
<td></td>
</tr>
<tr>
<td>2008: 33,047 sq.ft.</td>
<td></td>
</tr>
<tr>
<td>2009: 43,271 sq.ft., as occupancies are completed for Phase I</td>
<td></td>
</tr>
<tr>
<td>2010: 43,257 sq.ft., as occupancies in Phase II commence</td>
<td></td>
</tr>
<tr>
<td>2011: 43,257 sq.ft., as the occupancies are completed for Phase II</td>
<td></td>
</tr>
</tbody>
</table>

Closing Remarks

The estimated absorption schedules for the commercial-retail products in CFD No. 5 are subject to change due to potential shifts in economic/real estate market conditions and/or the development strategy by the developer, Sterling USA Development.
SECTION VI: ASSUMPTIONS AND LIMITING CONDITIONS

The Market Absorption Study is based upon various assumptions and limiting conditions; accordingly, these are as follows:

Property Boundaries
No survey or engineering analysis of CFD No. 5 property has been made by the market analyst; the District Engineer's report utilized for the Bond is deemed to be reliable. The market analyst assumes the existing boundaries to be correct, that no encroachments exist and assumes no responsibility for any condition not readily observable from customary investigation and inspection of the premises, which might affect the valuation, excepting those items which were specifically mentioned in the report.

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

Title to Property
No opinion as to title is rendered. Data related to ownership and legal description, obtained from governmental records related to the formation of the District that forms the basis for identifying the boundaries of CFD No. 5 are considered reliable. Title is assumed to be marketable and free and clear of all liens, encumbrances, easements and restrictions except those specifically discussed in the report. The property is evaluated assuming to be under responsible ownership and competent management and available for development to highest and best use.

Earthquakes and Seismic Hazards
The property which is the subject of this market analysis is within a geographic area prone to earthquakes and seismic disturbances. Except as specifically indicated in the report, no seismic or geologic studies have been provided to the market analyst concerning the geologic and/or seismic condition of the subject property. The market analyst assumes no responsibility for the possible effect on the subject property of seismic activity and/or earthquakes.

Soil and Geological Studies
No detailed soil studies or geological studies or reports were made available to the market analyst. Assumptions employed in this report regarding soils and geologic qualities of the subject property have been provided to the client. However, such assumptions are not conclusive and the market analyst assumes no responsibility for soils or geologic conditions discovered to be different from the conditions assumed unless otherwise stated in this report.

Hidden or Unapparent Conditions
The market analyst assumes no responsibility for hidden or unapparent conditions of the property, subsoil, groundwater or structures that render the subject property more or less valuable. No responsibility is assumed for arranging for engineering, geologic or environmental studies that may be required to discover such hidden or unapparent conditions.

Presence of Hazardous Material
Except as specifically mentioned in the report, the market analyst did not become aware of the presence of any hazardous material or substance during the market analyst's general inspection of the subject property. However, the market analyst is not qualified to investigate or test for the presence of such materials or substances. The presence of such materials or substances may adversely affect the evaluation of the subject property. The market analyst assumes no responsibility for the presence of any such substance or material on or in the subject property, nor for any expertise or engineering knowledge required to discover the presence of such substance or material.

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

Required Permits and Other Governmental Authority
Unless otherwise stated, the property evaluated is assumed to have all required licenses, permits, certificates, consents or other legislative and/or administrative authority from any local, state or national government or private entity or organization that have been or can be obtained or renewed for any use on which the evaluation analysis contained in this report is based upon.

Designated Economic Scenario
The Market Absorption Study focuses upon the expected absorption schedules for the products in CFD No. 5 according to the designated economic scenario. Specifically, this scenario represents the economic and real estate conditions for the Market Region and also the Market Area during the foreseeable future according to the most probable conditions, and this is regarded as being appropriate for the Bond Financing. However, the economic and market conditions which actually materialize on a year by year basis may differ from those presented according to the designated economic scenario, as a result of exogenous factors which are difficult to forecast/quantify. Accordingly, the designated scenario should be utilized as an economic framework for evaluating the marketing prospects of the properties within CFD No. 5 rather than a "literal" representation of what is expected to occur on a year/year basis during the foreseeable future.

Provision of the Infrastructure
The Market Absorption Study assumes that the governmental agencies that supply public facilities and services, including water, provide these in a timely manner so that the proposed products in CFD No. 5 can respond to the expected market demand for their products. Otherwise, if the required infrastructure is not available in a timely manner, then the absorption of the products could be adversely impacted.

Developer/Builder Responsiveness to Market Conditions
The Market Absorption Study assumes that the developer/builder in CFD No. 5 responds to the market conditions with commercial-retail products that are competitively priced and have the features/amenities that are desired by the purchasers. Specifically, the products in CFD No. 5 have not yet entered the marketplace, and so the specific characteristics of their product types cannot be identified until they actually offer products on the marketplace. Consequently, to the extent that future products have lease rates/features that differ from the competitive market standards, their absorption schedules would need to be modified from those presented according to the designated economic scenario.

Structural Deficiencies of Improvements
The market analyst has not performed a thorough inspection of the subject property, and except as noted in this report has not found obvious evidence of structural deficiencies in any improvements located on the subject property. Consequently, the market analyst assumes no responsibility for hidden defects or nonconformity with specific governmental requirements, such as fire, building and safety, earthquake or occupancy codes, unless inspections by qualified independent professions or governmental agencies were provided to the market analyst. Further, the market analyst is not a licensed engineer or architect and assumes no responsibility for structural deficiencies not apparent to the market analyst at the time of their inspection.

Presence of Asbestos
The market analyst is not aware of the existence of asbestos in any existing improvements on the subject property. However, the market analyst is not trained to discover the presence of asbestos and assumes no responsibility for hidden defects or nonconformity with specific governmental requirements, such as fire, building and safety, earthquake or occupancy codes, unless inspections by qualified independent professions or governmental agencies were provided to the market analyst. Further, the market analyst is not a licensed engineer or architect and assumes no responsibility for structural deficiencies not apparent to the market analyst at the time of their inspection.

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

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Financial Strength of the Project Developer/Builder

The Market Absorption Study assumes that the developer/builder in CFD No. 5 (and also their lenders) have sufficient financial strength to adequately fund their development, including paying their Special Taxes/Assessments, and that they have sufficient financial reserves which could be utilized to supplement their cash flow positions, in the event that adverse economic or market conditions occur.

Accuracy of Information from Others

In preparing this report, the market analyst was required to rely on information furnished by other individuals or found in previously existing records and/or documents. Unless otherwise indicated, such information is presumed to be reliable. However, no warranty, either expressed or implied, is given by the market analyst for the accuracy of such information and the market analyst assumes no responsibility for information relied upon and later found to have been inaccurate. The market analyst reserves the right to make such adjustments to the analyses, opinions and conclusions set forth in this report as may be required by consideration of additional data or more reliable data that may become available.

Liability of Market Analyst

The liability of Empire Economics, the market analyst responsible for this report, is limited to the client only and to the fee actually received by the market analyst. Further, there is no accountability, obligation or liability to any third party. If this report is placed in the hands of anyone other than the client, the client shall make such party aware of all limiting conditions and assumptions of the assignment and related discussion. The market analyst is in no way to be responsible for any costs incurred to discover or correct any deficiencies or any type present in the property—physical, financial, and/or legal.

Testimony or Court Attendance

Testimony or attendance in court or at any other hearing is not required by reason of rendering this market analysis, unless such arrangements are made a reasonable time in advance of said hearing. Separate arrangements would need to be made concerning compensation for the market analyst's time to prepare for and attend any such hearing.

Right of Publication of Report

Possession of this report, or a copy of it, does not carry with it the right of publication except for the party to whom it is addressed. Without the written consent of the market analyst, this report may not be used for any purpose by any person other than the party to whom it is addressed. In any event, this report may be used only with properly written qualification and only in its entirety for its stated purpose.

Timeliness of the Market Absorption Study

The Market Absorption Study performs a comprehensive analysis of the relevant land-use, economic and commercial-retail market conditions that are expected to influence the marketing success of the products in CFD No. 5. Nevertheless, the Study should be dated within six-months of the Bond Sale, or even sooner, should these land-use and/or economic market as well as real estate conditions change significantly.
Harris Realty Appraisal
5100 Birch Street, Suite 200
Newport Beach, California 92660
949-661-1227 FAX 949-661-2000
www.harris-appraisal.com

March 23, 2007

Ms. Sue Maxinowski
Special Districts Manager
CITY OF MORENO VALLEY
14177 Frederick Street
Moreno Valley, CA 92553

Re: Community Facilities District No. 5
Stoneridge Towne Centre

Dear Ms. Maxinowski:

In response to your authorization, we have prepared a self-contained appraisal report that addresses all of the property within the boundaries of Community Facilities District No. 5 (CFD No. 5). This appraisal includes an estimate of Market Value of all the property subject to special tax. This land is under the ownership of one developer, Stoneridge Centre Partners, L. P. All of the land in this CFD is in a finished site condition.

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

Based on the investigation and analyses undertaken, our experience as real estate appraisers and subject to all the premises, assumptions and limiting conditions set forth in this report, the following opinion of Market Value is formed as of March 19, 2007.

TWENTY-ONE MILLION DOLLARS
$21,000,000

The estimated value assumes bond proceeds of about $4,000,000 for eligible City of Moreno Valley facilities and/or fees, as described in the Community Facilities Report, are available at the time of sale.
The self-contained report that follows sets forth the results of the data and analyses upon which our opinions of value are, in part, predicated. This report has been prepared for the City of Moreno Valley for use in the sale of Community Facilities District No. 5 bonds. The intended users of this report are the City of Moreno Valley, its underwriter, legal counsel, consultants, and potential bond investors. This appraisal has been prepared in accordance with and is subject to the requirements of The Appraisal Standards for Land Secured Financing as published by the California Debt and Investment Advisory Commission; the Uniform Standards of Professional Appraisal Practice (USPAP) of the Appraisal Foundation; and the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute.

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

Respectfully submitted,

Bern Cannon Harris
Vice President

James B. Harris, MAI
President
SUMMARY OF FACTS AND CONCLUSIONS

EFFECTIVE DATE OF APPRAISAL
March 19, 2007

DATE OF REPORT
March 23, 2007

INTEREST APPRAISED
Fee Simple Estate, subject to special tax liens

LEGAL DESCRIPTION
Parcels 2, 4 to 24, Parcel Map No. 34411
Parcels 1 and 3 are not subject to CFD No. 5 Special Tax

OWNERSHIP
Stoneridge Ranch Centre Partners, L.P.

SITE CONDITION
Various stages of development from mass-graded to finished site with on-site infrastructure under construction. No buildings are under construction as of the date of value.

The Target and Kohl's properties which are not subject to CFD No. 5 Special Tax have buildings under construction.

HIGHEST AND BEST USE
Portion of a proposed 563,000± square foot shopping center known as Stoneridge Towne Centre

VALUATION CONCLUSION
$21,000,000

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Qualifications
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Empire Economics Absorption Study (Portion)
INTRODUCTION

Purpose of the Report

The purpose of this appraisal is to estimate the Market Value for the fee simple estate, subject to special tax liens for all the property subject to the Special Tax within CFD No. 5, located in the City of Moreno Valley in Riverside County. The purpose of this appraisal is to estimate the "As Is" Market Value of the property under the ownership of the developer.

The opinions set forth are subject to the assumptions and limiting conditions set forth in this appraisal, and the appraisal guidelines as set forth by the City of Moreno Valley (City).

Function of the Report and Intended Use

It is our understanding that this appraisal report is to be used for Community Facilities District bond financing purposes only. The subject property is described more particularly within this report. The bonds are issued pursuant to the Mello-Roos Community Facilities District Act of 1982, as amended. The maximum authorized bonded indebtedness for CFD No. 5 is $10,000,000.

Client and Intended Users of the Report

This report was prepared for our client, the City of Moreno Valley. The intended users of the report include the City, its legal counsel, underwriter, consultants, and potential bond purchasers.

Scope of the Assignment

According to the CDIAC guidelines, the total value conclusion includes the "As Is" estimate of Market Value for the property subject to special tax within the boundaries of CFD No. 5. This is a fully documented self-contained appraisal report. Any lands designated for park, open space or civic uses within this CFD and not subject to special tax are not included in this assignment.

The commercial land and any improvements are valued in their "As Is" condition as of the date of value. Site development for CFD No. 5, is in a near finished site condition with on-site infrastructure under construction. Parcels 1 and 3, Target and Kohl's, are not subject to the Special Tax of CFD No. 5. These properties and their buildings are not included in this appraisal.

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

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

1. Gathered and analyzed demographic data from sources including the California Department of Finance (population data), Employment Development Department of the State of California (employment data), City of Moreno Valley (zoning information, building permit trends), Moreno Valley Chamber of Commerce (local demographic trends), CB Richard's retail rents and sales, inventory levels, and absorption, and brokers of comparable projects (market trends of commercial land sales). Subject information was gathered from the developer and their consultants.

2. Inspected the subject's neighborhood and reviewed proposed product and similar products for consideration of Highest and Best Use of the sites.

3. Gathered and analyzed comparable commercial land sales within the Riverside County market area, and shopping center absorption information, within the subject's primary and secondary market areas. Data was gathered from sources including Comps.com, brokers, appraisers, builders active in the area and developers within the Riverside County area. Where feasible, data were confirmed with both the buyer and seller. The data gathered are presented on individual data sheets within this report.

Date of Value and Report

The opinion of Market Value expressed in this report is stated as of March 19, 2007. The date of the appraisal report is March 23, 2007.
Date of Inspection

The subject property was inspected on numerous occasions, with the most recent on March 18, 2007.

Property Rights Appraised

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

Property Identification

The subject property is a portion of the proposed Stoneridge Towne Centre. This shopping center will encompass 58.23 acres to be improved with 563,328 square feet of retail space. The two parcels to be improved with the Target and Kohl’s are not subject to the Special Tax of CFD No. 5. The acreage subject to the Special Tax of CFD No. 5 is 32.95 acres. Of the taxable acreage, 7.84 acres will not be developed at this time. The 25.31 acres that are being developed will contain 202,024 square feet of retail space. Excluding the Target and Kohl’s not subject to the special tax, the taxable portion of the District will contain Best Buy, Office Max, Dress Barn, Famous Footwear, Washington Mutual, Pomona First Federal, Jack-in-the-Box, Jamba Juice, Roundtable Pizza, Starbuck’s, Subway, Verizon and T-Mobile.

Please refer to the map on the following page, which outlines the boundaries of CFD No. 5.
Legal Description and Ownership
As previously mentioned, the subject of this appraisal includes a portion of the Stoneridge Towne Center, currently under construction. The legal description includes Parcels 1 to 24 of Parcel Map No. 34411, although Parcels 1, Target, and 3, Kohl's, are not subject to the Special Tax. Title to the entire appraised property is vested in:

Stoneridge Centre Partners, L.P.

Property History
The subject property has been owned by the developer or an affiliate for over three years. The property was purchased from Center on August 25, 2003. The purchase included approximately 150 acres. The purchase price for the 150 acres was $8,100,000 or $54,000 per acre. On June 27, 2006, Parcel 1 of PM 34411, containing 15.78 acres, sold to Target for $1,470,150 plus $553,400 for public infrastructure in lieu of inclusion into CFD No. 5. On June 27, 2006, Parcel 3 of PM 34411, containing 7.52 acres, sold to Kohl's for $2,200,000 plus $957,392 for public infrastructure in lieu of inclusion into CFD No. 5.

Definitions
Market Value

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

(a) Buyer and seller are typically motivated.
(b) Both parties are well informed or well advised, and each acting in what he considers his own best interest.
(c) A reasonable time is allowed for exposure in the open market.
(d) Payment is made in terms of cash in U.S. dollars or in terms of

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1 503.17-11b(2), Chapter H, Title 12, Code of Federal Regulations.

HRA

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

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

The Market Value included herein represents the value potential buyers would consider given the special tax lien of CFD No. 5.

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

Blue-Top Graded Parcel
Blue-top graded parcel includes streets cut and paved lots with utilities stubbed to the parcel and perimeter streets completed.

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

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3 Ibid, Page 334
HRA

Mass-Graded Parcels
Mass-graded parcel with utilities stubbed to the site and perimeter streets completed.

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

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

Contingencies of the Appraisal
The report is contingent upon the successful issuance and funding of bonds for CFD No. 5 through the City of Moreno Valley. The special tax formula was prepared on behalf of the City of Moreno Valley by Harris and Associates, tax consultants.

The Market Value estimates stated in this report reflect a portion of the funding for the infrastructure improvements and fees from the proceeds of CFD No. 5. The public improvements and fees to be financed by CFD No. 5 include water and sewer facilities, street improvements, traffic signals, drainage improvements, electrical improvements and fees. The total bond proceeds available as construction funds and fees are $4,000,000. If the CFD is not funded and/or the amount or timing of the reimbursements to the developer should change, the value opinion stated herein could change. Please refer to the Valuation section for further detail of the reimbursements and timeline for reimbursement.

The infrastructure costs and grading costs have been provided for our review by the developer. It is assumed that all conditions for site development as indicated in the Conditions of Approval are included in the infrastructure costs. A specific assumption of this appraisal report is that the costs are accurate.

HRA

The individual parcel sizes have been calculated by Development Resource Consultants. We have relied on their calculations in estimating taxable acreage. Our value estimate is, in part, based on the accuracy of this information.

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

The date of value for which the opinions of Market Value are expressed in this report is March 19, 2007. The dollar amount of this value opinion is based on the purchasing power of the United States dollar on that date.

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

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

The appraisers were provided with one soil report for a 150-acre site which includes the subject property plus the adjacent residential property to the south. The report was prepared by Converse Consultants on May 14, 2004. All of CFD No. 5 has been graded and improved to finished site condition. For purposes of this appraisal, the soil is assumed to be of adequate load-bearing capacity to support all uses considered under our conclusion of Highest and Best Use.

The appraisers have been provided with one title report for CFD No. 5. The report was prepared by Chicago Title Company. For purposes of this appraisal, we are not aware of any easements, encroachments or restrictions that would adversely impact the value of the subject properties. Special taxes for CFD No. 5 were listed on the title report.

Information contained in this report has been gathered from sources which are believed to be reliable, and, where feasible, has been verified. No responsibility is assumed for the accuracy of information supplied by others.
Since earthquakes are common in the area, no responsibility is assumed for their possible effect on individual properties, unless detailed geologic reports are made available.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

James B. Harris is a Member, and Beni Cannon Harris is an Associate Member, of the Appraisal Institute. The Bylaws and Regulations of the Institute require each Member and Associates to control the use and distribution of each appraisal report signed by such Member or Associates. Except as hereinbefore provided, possession of this report, or a copy of it, does not carry with it the right of publication. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent of the appraisers and in any event only with proper written qualification and only in its entirety. The City of Moreno Valley, its underwriter and legal counsel may publish this report in the Official Statement for this Community Facilities District.

Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraisers or the firm with which they are connected, or any reference to the Appraisal Institute or the MAI designation) shall be disseminated to the public through advertising media, public relations, news media or any other public means of communication without the prior consent and approval of the undersigned.

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

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

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

\[\text{AREA DESCRIPTION}\]

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

\[\text{Southern California Regional Overview}\]

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

\[\text{Population}\]

The Southern California region has added about 7.7 million new residents since 1980 as indicated in the table shown on page 14. According to the California Department of Finance, the most recent data available indicate that as of January 2006, the regional population stood at over 21.1 million. If the region were an individual state, it would rank as one of the most populous in the nation.

Since 1981, annual population gains from natural increase and immigration have ranged from a low of 131,400 persons in 2002 up to 568,645 persons in 1989. These figures represent annual gains of 0.7% to 3.5%. During the past five years, the population of the six-county Southern California region grew by 1.2% to 2.0% per annum.
As of January 2006 the population of the six-county area stood at 21,147,203 persons. Looking toward the future it is estimated that the region's population will continue to climb as new residents seek out the southern California area. During the economic downturn from 1992 through 1996, and continuing through 2006, the population growth rate declined compared to the growth experienced in the late 1980s.

<table>
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<th>Year</th>
<th>Population Number</th>
<th>Average Annual Change Percent</th>
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<td>13,359,673</td>
<td>-</td>
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<tr>
<td>1991</td>
<td>13,571,785</td>
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<td>1993</td>
<td>14,179,920</td>
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<tr>
<td>1994</td>
<td>14,463,010</td>
<td>2.1%</td>
</tr>
<tr>
<td>1995</td>
<td>14,705,220</td>
<td>2.1%</td>
</tr>
<tr>
<td>1996</td>
<td>15,169,600</td>
<td>2.7%</td>
</tr>
<tr>
<td>1997</td>
<td>15,413,100</td>
<td>2.8%</td>
</tr>
<tr>
<td>1998</td>
<td>15,627,400</td>
<td>2.7%</td>
</tr>
<tr>
<td>1999</td>
<td>15,860,900</td>
<td>2.7%</td>
</tr>
<tr>
<td>2000</td>
<td>17,023,545</td>
<td>3.5%</td>
</tr>
<tr>
<td>2001</td>
<td>17,232,000</td>
<td>1.2%</td>
</tr>
<tr>
<td>2002</td>
<td>17,539,200</td>
<td>1.8%</td>
</tr>
<tr>
<td>2003</td>
<td>17,746,100</td>
<td>1.2%</td>
</tr>
<tr>
<td>2004</td>
<td>17,812,000</td>
<td>0.7%</td>
</tr>
<tr>
<td>2005</td>
<td>17,949,300</td>
<td>0.5%</td>
</tr>
<tr>
<td>1996</td>
<td>18,041,500</td>
<td>0.6%</td>
</tr>
<tr>
<td>1997</td>
<td>18,232,500</td>
<td>1.0%</td>
</tr>
<tr>
<td>1998</td>
<td>18,467,800</td>
<td>1.3%</td>
</tr>
<tr>
<td>1999</td>
<td>18,705,300</td>
<td>1.6%</td>
</tr>
<tr>
<td>2000</td>
<td>19,167,500</td>
<td>2.3%</td>
</tr>
<tr>
<td>2001</td>
<td>19,522,500</td>
<td>1.7%</td>
</tr>
<tr>
<td>2002</td>
<td>19,916,500</td>
<td>2.0%</td>
</tr>
<tr>
<td>2003</td>
<td>20,250,100</td>
<td>1.2%</td>
</tr>
<tr>
<td>2004</td>
<td>20,629,300</td>
<td>1.6%</td>
</tr>
<tr>
<td>2005</td>
<td>20,902,600</td>
<td>1.3%</td>
</tr>
<tr>
<td>2006</td>
<td>21,147,200</td>
<td>1.2%</td>
</tr>
</tbody>
</table>

*April 1, 1990, 1995, 2000, all other years January 1
Source: California Department of Finance

The future rate of growth will depend on a number of factors that may dramatically affect the region. Some of the major factors include availability of developable land, availability of water, national economic climate, and public policy toward growth and the assimilation of a large number of new foreign immigrants. The continued growth of the...
population within the region, even during periods of economic slow down, provides a positive indicator as to the desirability of the Southern California region.

Employment

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

**Southern California Region Employment Trends 1983-2005**

<table>
<thead>
<tr>
<th>Year</th>
<th>Employment Number</th>
<th>Average Annual Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1983</td>
<td>5,691,000</td>
<td>-</td>
</tr>
<tr>
<td>1984</td>
<td>5,636,100</td>
<td>4.1%</td>
</tr>
<tr>
<td>1985</td>
<td>6,198,000</td>
<td>4.4%</td>
</tr>
<tr>
<td>1986</td>
<td>6,384,500</td>
<td>4.0%</td>
</tr>
<tr>
<td>1987</td>
<td>6,664,000</td>
<td>3.5%</td>
</tr>
<tr>
<td>1988</td>
<td>6,003,800</td>
<td>3.0%</td>
</tr>
<tr>
<td>1989</td>
<td>7,095,000</td>
<td>2.8%</td>
</tr>
<tr>
<td>1990</td>
<td>7,288,100</td>
<td>2.7%</td>
</tr>
<tr>
<td>1991</td>
<td>7,104,000</td>
<td>2.5%</td>
</tr>
<tr>
<td>1992</td>
<td>6,900,700</td>
<td>2.3%</td>
</tr>
<tr>
<td>1993</td>
<td>6,796,100</td>
<td>2.1%</td>
</tr>
<tr>
<td>1994</td>
<td>6,033,900</td>
<td>1.9%</td>
</tr>
<tr>
<td>1995</td>
<td>6,557,800</td>
<td>1.9%</td>
</tr>
<tr>
<td>1996</td>
<td>7,064,100</td>
<td>1.8%</td>
</tr>
<tr>
<td>1997</td>
<td>7,305,800</td>
<td>1.7%</td>
</tr>
<tr>
<td>1998</td>
<td>7,546,800</td>
<td>1.6%</td>
</tr>
<tr>
<td>1999</td>
<td>7,767,800</td>
<td>1.6%</td>
</tr>
<tr>
<td>2000</td>
<td>7,989,900</td>
<td>1.6%</td>
</tr>
<tr>
<td>2001</td>
<td>8,092,300</td>
<td>1.6%</td>
</tr>
<tr>
<td>2002</td>
<td>8,073,100</td>
<td>1.6%</td>
</tr>
<tr>
<td>2003</td>
<td>8,102,100</td>
<td>1.6%</td>
</tr>
<tr>
<td>2004</td>
<td>8,224,600</td>
<td>1.6%</td>
</tr>
<tr>
<td>2005</td>
<td>8,362,000</td>
<td>1.5%</td>
</tr>
</tbody>
</table>

*2005 benchmark
Source: Employment Development Department

In the Southern California region, average annual non-agricultural employment has grown from 5,691,000 jobs in 1983, to a then peak employment of 8,082,300 in 2001.

Employment declined to 8,073,100 in 2002. This decline was mostly caused by a 40,100 job decrease in Los Angeles County. In 2005, employment climbed to a new record level, 8,362,000. This was in spite of Los Angeles County only adding an additional 20,000 jobs. This represents an increase of over 280,000 new jobs over the past five years.

As the economy entered into an economic recession during the latter part of 1990, employment growth slowed. The average annual gain in 1990 was approximately 192,100 jobs or 2.7%. In 1992 when the full weight of the recession was felt, area employment suffered the highest annual decline in jobs registered in the last decade, losing nearly 204,000 jobs or a percentage decrease of 2.9%. This was followed by further employment declines of 102,600 jobs in 1993. It appears that by the middle of 1994, the economic recovery finally began to take hold in the Southern California region. The adverse employment issues experienced in the prior three years had abated. In 1997, total non-agricultural employment stood at 7.2 million, finally exceeding the prior high in 1990. As of year-end 2002, employment was over 8.0 million. Forecasts prior to September 11, 2001, indicate that job growth would continue to be positive in 2001 and increase moderately over the next one to two years. However, with the terrorist attack on the United States and the conflict with Iraq, most economists are saying we were in a flat to slightly declining economy, during 2002 and first half of 2003, but that we began recovery during the second half of 2003. 2003 showed a small increase over the previous high mark in 2001. 2004 had a moderate gain over 2003. Employment gains have recovered in 2005 with an additional 137,400 new jobs or a 1.7% increase.

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

1994 through 2005, as the economy rebounded, residential construction increased bringing back more than the construction jobs lost during the recession.

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

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

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

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

Government employment tends to mirror the growth of the population that it services. It is expected that government employment will grow at a rate similar to the area population. The future employment growth in the Southern California region is expected to continue but at a level moderately lower than recent years. Factors that will affect employment growth include the direction of the national economy, wage levels, housing prices, and population trends. Given the national disaster of September 11, 2001, government should not experience layoffs; on the contrary, growth particularly in the defense sector should occur. However, the California state budget deficit has negatively impacted both state and local government employment.

Riverside County

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

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

Population

Riverside County has more than tripled its population, adding approximately 1,290,000 new residents since 1980 as illustrated in the following table. As of the 2000 Census, the countywide population stood at 1,545,387 residents. The 2006 estimate by the State of California indicates that the County had 1,953,300 residents on January 1, 2006. Annual population gains, from natural increase and immigration, have ranged from 44,813 persons in 2001 up to 81,300 persons in 2004. From 1991 to 1996, the rate of
growth in population declined moderately each year. Recent gains of 44,799 to 81,300 persons represent annual changes of 2.9% to 4.7%.

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

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Population</th>
<th>Average Annual Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>943,189</td>
<td>40,390</td>
</tr>
<tr>
<td>1985</td>
<td>815,100</td>
<td>30,360</td>
</tr>
<tr>
<td>1990</td>
<td>1,170,413</td>
<td>60,063</td>
</tr>
<tr>
<td>1991</td>
<td>1,223,200</td>
<td>52,787</td>
</tr>
<tr>
<td>1992</td>
<td>1,203,800</td>
<td>45,600</td>
</tr>
<tr>
<td>1993</td>
<td>1,304,400</td>
<td>56,600</td>
</tr>
<tr>
<td>1994</td>
<td>1,332,000</td>
<td>70,600</td>
</tr>
<tr>
<td>1995</td>
<td>1,356,000</td>
<td>23,600</td>
</tr>
<tr>
<td>1996</td>
<td>1,381,000</td>
<td>26,300</td>
</tr>
<tr>
<td>1997</td>
<td>1,400,000</td>
<td>36,000</td>
</tr>
<tr>
<td>1998</td>
<td>1,447,200</td>
<td>46,800</td>
</tr>
<tr>
<td>1999</td>
<td>1,473,300</td>
<td>36,100</td>
</tr>
<tr>
<td>2000</td>
<td>1,545,357</td>
<td>32,067</td>
</tr>
<tr>
<td>2001</td>
<td>1,590,200</td>
<td>44,813</td>
</tr>
<tr>
<td>2002</td>
<td>1,653,600</td>
<td>63,000</td>
</tr>
<tr>
<td>2003</td>
<td>1,726,300</td>
<td>72,700</td>
</tr>
<tr>
<td>2004</td>
<td>1,807,600</td>
<td>81,300</td>
</tr>
<tr>
<td>2005</td>
<td>1,888,300</td>
<td>80,700</td>
</tr>
<tr>
<td>2006</td>
<td>1,965,300</td>
<td>85,000</td>
</tr>
</tbody>
</table>

April 1, 1990, 1990, 2000; all other years January 1.
Source: California Department of Finance, U.S. Census 500

HRA

Employment

Employment data for Riverside County are compiled for the entire MSA, which includes San Bernardino and Riverside Counties. These counties have a diverse economy, with manufacturing, construction and tourism being the major industry groups. In conjunction with the rapid population growth experienced in the past two decades, the employment base has continued to grow and diversify. The Inland Empire's unemployment rate is moderately above the Southern California average and similar to the State. The higher unemployment rate is due to the seasonal nature of agricultural employment in the area. The following exhibit illustrates the area's unemployment compared to California as of December 2006. Unemployment rates have declined 54% from the recession high of 12.2% in 1993.

<table>
<thead>
<tr>
<th>Labor Force</th>
<th>Unemployment</th>
</tr>
</thead>
<tbody>
<tr>
<td>California</td>
<td>17,603,500</td>
</tr>
<tr>
<td>Inland Empire</td>
<td>1,766,600</td>
</tr>
</tbody>
</table>

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

Nonagricultural employment has grown from an annual average of 443,100 jobs in 1983 to 1,235,400 jobs in 2005. This represents an increase of over 792,000 new jobs created in San Bernardino and Riverside Counties during the past 22 years. Job gains peaked in 1990 with 67,000 new jobs. Since 2000, job increases have ranged from 34,100 new jobs to a near record increase of 59,300 new jobs in 2004. The percentage increases have ranged from 3.2% to 5.2%. The following table illustrates the annual employment trends from 1983 through 2005. In December 2006, the non-agricultural employment had increased to 1,275,300, a 2.4 increase from December 2005.
HRA

Employment among the individual industry categories reflects changes in the Inland Empire economy during the past decade. Construction employment gains generally mirror the regional economy. In response to the high level of construction activity that occurred in the County during the period from 1984 to 1989, construction employment reached nearly three times the level recorded in 1982. From 1992 through 1995, construction employment declined in response to decreased building activity. The 2005 levels were more than double the 1993 low.

San Bernardino-Riverside MSA
Employment Trends 1982-2005

<table>
<thead>
<tr>
<th>Year</th>
<th>Employment</th>
<th>Average Annual Change Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982</td>
<td>443,100</td>
<td>30,500</td>
<td>6.9%</td>
</tr>
<tr>
<td>1984</td>
<td>473,800</td>
<td>40,500</td>
<td>8.6%</td>
</tr>
<tr>
<td>1986</td>
<td>551,400</td>
<td>37,300</td>
<td>7.3%</td>
</tr>
<tr>
<td>1987</td>
<td>586,700</td>
<td>37,300</td>
<td>6.8%</td>
</tr>
<tr>
<td>1988</td>
<td>625,100</td>
<td>36,400</td>
<td>6.2%</td>
</tr>
<tr>
<td>1990</td>
<td>666,200</td>
<td>43,100</td>
<td>6.9%</td>
</tr>
<tr>
<td>1991</td>
<td>732,200</td>
<td>97,000</td>
<td>13.0%</td>
</tr>
<tr>
<td>1992</td>
<td>774,000</td>
<td>4,200</td>
<td>0.6%</td>
</tr>
<tr>
<td>1993</td>
<td>756,800</td>
<td>9,900</td>
<td>1.3%</td>
</tr>
<tr>
<td>1994</td>
<td>817,000</td>
<td>4,300</td>
<td>0.6%</td>
</tr>
<tr>
<td>1996</td>
<td>801,700</td>
<td>28,900</td>
<td>3.7%</td>
</tr>
<tr>
<td>1998</td>
<td>824,800</td>
<td>33,300</td>
<td>4.1%</td>
</tr>
<tr>
<td>1999</td>
<td>903,800</td>
<td>40,500</td>
<td>4.4%</td>
</tr>
<tr>
<td>2000</td>
<td>950,300</td>
<td>56,500</td>
<td>6.3%</td>
</tr>
<tr>
<td>2001</td>
<td>1,010,100</td>
<td>49,800</td>
<td>5.2%</td>
</tr>
<tr>
<td>2002</td>
<td>1,052,700</td>
<td>40,000</td>
<td>4.0%</td>
</tr>
<tr>
<td>2003</td>
<td>1,004,800</td>
<td>34,100</td>
<td>3.2%</td>
</tr>
<tr>
<td>2004</td>
<td>1,119,400</td>
<td>34,600</td>
<td>3.2%</td>
</tr>
<tr>
<td>2005</td>
<td>1,178,700</td>
<td>59,300</td>
<td>5.3%</td>
</tr>
</tbody>
</table>

2005 Benchmark Source: Employment Development Department S08

The number of manufacturing jobs in the Inland Empire has increased over 45% from the levels recorded in 1991. However, manufacturing jobs declined 5.5% from the 2000 high of 120,000 jobs to 113,400 jobs by 2003, but increased back to 120,200 in 2005. Due to the high labor and capital costs in Los Angeles and Orange Counties, manufacturing firms have expanded or relocated some of their manufacturing operations to Riverside and San Bernardino counties to take advantage of the labor force and lower land costs.

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

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

The future employment growth in the Inland Empire is expected to continue as more firms relocate to the area to take advantage of lower land prices and the abundant labor pool. Factors that will affect employment growth include the direction of the state and national economy, and consumer confidence. Due to the terrorist attack on September 11, 2001 and the Iraq conflict, consumer confidence was negatively impacted. Most economists report that we were in a flat economy in 2002 and the first half of 2003, but that we began recovery during the second half of 2003. The recovery continued into 2007.

Income

The average household income in Riverside County is estimated to be $64,601. The median household income stands at $49,128. These figures are moderately below the Southern California region average. The lower income level is due to the lower wages in agriculture, manufacturing, service and government employment. The household income distribution for Riverside County is illustrated in the following table.
Retail Sales

Retail demand continues to be fueled by the growth in population as outlined previously. For Riverside County, taxable retail sales have increased from $3.9 billion in 1985 to over $7.1 billion by 1994 and to over $20.8 billion by 2005. During the past seven years, annual changes have ranged from an increase of $763 million in 1998 to an increase of $2.7 billion in 2004, as shown on the next table. Data for 2006 are not available as of the date of this report, although on a statewide basis, retail sales were reported up over 7% in 2006.

The increases in retail sales are due to the exceptionally high County population growth rates experienced during the period from 1983 through 1990. During the period from 1991 through 1993, retail sales were stagnant due to the economic recession; from 1994, and continuing through 2005, there was a significant rebound in retail sales. Official state reports for 2006 will not be released until later this year. In the future, retail sales growth should mirror the population growth in the County.

<table>
<thead>
<tr>
<th>Income Range</th>
<th>Households</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $10,000</td>
<td>79,214</td>
<td>12.60%</td>
</tr>
<tr>
<td>$10,000 - $24,999</td>
<td>77,852</td>
<td>11.56%</td>
</tr>
<tr>
<td>$25,000 - $34,999</td>
<td>70,740</td>
<td>11.25%</td>
</tr>
<tr>
<td>$35,000 - $44,999</td>
<td>97,405</td>
<td>15.20%</td>
</tr>
<tr>
<td>$50,000 - $74,999</td>
<td>121,764</td>
<td>18.75%</td>
</tr>
<tr>
<td>$75,000 - $99,999</td>
<td>77,360</td>
<td>12.30%</td>
</tr>
<tr>
<td>$100,000 - $149,999</td>
<td>74,100</td>
<td>11.78%</td>
</tr>
<tr>
<td>$150,000 or more</td>
<td>35,544</td>
<td>5.65%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>629,908</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

Median Household Income: $49,120
Average Household Income: $54,951

Note: Percent of total distribution
Source: Claritas 2006

Transportation

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

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

The Endangered Species Act of 1973 precludes any activity that constitutes a taking of a federally listed endangered species except by permit. Numerous areas within Riverside County have been identified as containing potential habitat of the Stephens' Kangaroo Rat, a listed species. The evidence of habitation by this rat has resulted in delays or substantial revisions of proposed developments. The California Department of Fish and Game is currently reviewing the status of additional wildlife for possible inclusion on a list of endangered or threatened species. A Multiple Species Habitat Conservation Plan (MSHCP) was approved by the County Board of Supervisors on June 17, 2003. The MSHCP is a comprehensive, multi-jurisdictional effort that includes the County and 14 cities. This plan focuses on the conservation of 146 species. The MSHCP consists of a reserve system of approximately 500,000 acres of which 347,000 acres are within public ownership and approximately 153,000 acres are in private ownership. The purchase of the privately owned lands will be funded by an adopted fee. A MSHCP fee of $1,851 per dwelling unit is imposed for housing built in the MSHCP area.

Conclusion

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

Moreno Valley

Moreno Valley is located in the western portion of Riverside County, approximately 83 miles east of Los Angeles and 10 miles east of the City of Riverside. The City of Moreno Valley, incorporated on December 3, 1964, grew from a small collection of rural communities known as Sunnymead, Edgemont and Moreno. Moreno Valley is adjacent to the City of Riverside, and east of the interchange of the 215 and 60 Freeways. It is bounded to the north by the Box Springs mountains and mostly undeveloped unincorporated Riverside and San Bernardino counties, with the City of Redlands further north. To the south are the Lake Perris State Recreation Area and the City of Perris. To the east, the 60 Freeway extends through the Badlands Hills to the Beaumont/Banning area. To the west and south is the City of Riverside and unincorporated area occupied by March Air Reserve Base. A Location Map is on the following page.

Population

The City was incorporated in December 1964. At the time of incorporation, the population stood at approximately 57,600 as shown on page 28. Annual population gains ranging from a high of 16,489 persons in 1980 to a low of 200 persons in 1983 have brought the City's 2006 population to 174,600. The U.S. Census Bureau ranked Moreno Valley as the fastest growing City in America, in the 1990 Census. However, over the last five years, the increases have ranged from 2.1% to 5.7% per year. Moreno Valley is now the second largest City within Riverside County.
Income Levels

The Riverside County area has a moderately lower income level than other sections of Southern California. The City of Moreno Valley has a slightly higher median income level when compared to the Riverside County area as a whole, but it has a lower average income. The median household income for the City of Moreno Valley is $51,449. The average household income is $60,241. The following table summarizes the 2006 estimated income levels for the City of Moreno Valley.

### Moreno Valley Population Trends 1980-2006

<table>
<thead>
<tr>
<th>Year</th>
<th>Population</th>
<th>Average Annual Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>23,138</td>
<td></td>
</tr>
<tr>
<td>1985</td>
<td>57,600</td>
<td>20.9%</td>
</tr>
<tr>
<td>1990</td>
<td>113,778</td>
<td>21.2%</td>
</tr>
<tr>
<td>1995</td>
<td>129,000</td>
<td>8.1%</td>
</tr>
<tr>
<td>1996</td>
<td>129,400</td>
<td>2.7%</td>
</tr>
<tr>
<td>1998</td>
<td>132,200</td>
<td>1.2%</td>
</tr>
<tr>
<td>1999</td>
<td>132,100</td>
<td>0.5%</td>
</tr>
<tr>
<td>2000</td>
<td>131,500</td>
<td>(0.2%)</td>
</tr>
<tr>
<td>2001</td>
<td>132,300</td>
<td>1.5%</td>
</tr>
<tr>
<td>2002</td>
<td>134,500</td>
<td>0.6%</td>
</tr>
<tr>
<td>2003</td>
<td>134,600</td>
<td>0.9%</td>
</tr>
<tr>
<td>2004</td>
<td>137,300</td>
<td>1.3%</td>
</tr>
<tr>
<td>2005</td>
<td>137,200</td>
<td>1.0%</td>
</tr>
<tr>
<td>2006</td>
<td>139,600</td>
<td>1.9%</td>
</tr>
<tr>
<td>2007</td>
<td>142,300</td>
<td>1.8%</td>
</tr>
<tr>
<td>2008</td>
<td>144,300</td>
<td>1.5%</td>
</tr>
<tr>
<td>2009</td>
<td>147,300</td>
<td>1.4%</td>
</tr>
<tr>
<td>2010</td>
<td>151,600</td>
<td>2.0%</td>
</tr>
<tr>
<td>2011</td>
<td>157,800</td>
<td>3.6%</td>
</tr>
<tr>
<td>2012</td>
<td>166,400</td>
<td>5.7%</td>
</tr>
<tr>
<td>2013</td>
<td>174,600</td>
<td>4.9%</td>
</tr>
</tbody>
</table>

*April 1, 1980, 1990, 2000, all other years January 1
Source: California Department of Finance, U.S. Census 2006
City of Moreno Valley
Households 2006

<table>
<thead>
<tr>
<th>Income Range</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $15,000</td>
<td>10.08%</td>
</tr>
<tr>
<td>$15,000 to $24,999</td>
<td>16.55%</td>
</tr>
<tr>
<td>$25,000 to $34,999</td>
<td>10.71%</td>
</tr>
<tr>
<td>$35,000 to $49,999</td>
<td>17.31%</td>
</tr>
<tr>
<td>$50,000 to $74,999</td>
<td>22.71%</td>
</tr>
<tr>
<td>$75,000 to $99,999</td>
<td>14.43%</td>
</tr>
<tr>
<td>$100,000 to $149,999</td>
<td>11.38%</td>
</tr>
<tr>
<td>$150,000 Plus</td>
<td>2.79%</td>
</tr>
<tr>
<td>Average</td>
<td>$60,241</td>
</tr>
<tr>
<td>Median</td>
<td>$51,449</td>
</tr>
<tr>
<td>Per Capita</td>
<td>$16,411</td>
</tr>
</tbody>
</table>

Employment

The State Department of Labor reports that approximately 76,000 residents of the City are employed. The City reports that there are over 28,500 jobs located within the City limits. The City of Moreno Valley has provided information on the major employers in the City, updated in December 2006, which are shown on the following table.

<table>
<thead>
<tr>
<th>Organization</th>
<th>Employees</th>
<th>Business Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>March Air Reserve Base</td>
<td>5,452</td>
<td>Military Installation</td>
</tr>
<tr>
<td>Moreno Valley USD</td>
<td>3,519</td>
<td>Public Schools</td>
</tr>
<tr>
<td>Riverside Co. Regional Medical Center</td>
<td>1,700</td>
<td>County Medical Center</td>
</tr>
<tr>
<td>Moreno Valley Mall</td>
<td>1,699</td>
<td>Retail Mall</td>
</tr>
<tr>
<td>Riverside Comm. College/MV Campus</td>
<td>1,238</td>
<td>Higher Education</td>
</tr>
<tr>
<td>City of Moreno Valley</td>
<td>811</td>
<td>Municipal Government</td>
</tr>
<tr>
<td>Val Verde USD</td>
<td>721</td>
<td>Public Schools</td>
</tr>
<tr>
<td>Torar</td>
<td>702</td>
<td>R. V. Manufacturer</td>
</tr>
<tr>
<td>Walgreen Co.</td>
<td>650</td>
<td>Retail Distribution</td>
</tr>
<tr>
<td>Ross</td>
<td>600</td>
<td></td>
</tr>
</tbody>
</table>

Transportation

Transportation is provided by the Pomona/Moreno Valley Freeway (60) and the Escondido Expressway (215). The City is generally considered to be an entry-level housing, residential suburban community. The freeways provide access to employment centers in Ontario, Orange County and Los Angeles County.

Retail

The major shopping district is located at the western edge of the city. The TownGate area features the Moreno Valley Mall, a 1.25 million square foot indoor shopping mall anchored by Sears, JCPenny, Robinsons-May, and Gottschalks. This center is undergoing a 150,000 square foot expansion including a multi-screen theater. Adjacent is TownGate Crossing a new 237,000-square foot destination retail development anchored by Lowe's and Circuit City. TownGate Center nearby is anchored by Mervyn's, Ross Dress For Less, and Staples. Merchant Square at TownGate is home to Costco. The only existing major retail development in the eastern sector of the city is Moreno Beach Plaza, anchored by a 150,000-square foot Wal-Mart with 18 additional restaurant and service out pads. This existing center is adjacent to the east border of the subject center. Additional future centers in the subject market area include three proposed centers at Alessandro Boulevard and Moreno Beach Drive, and a proposed center at Alessandro Boulevard and LaSalle Street.

Housing

The vast majority of residential improvements are less than 15 years old. The more expensive residences are located north of the 60 Freeway and south within the large master-planned community of Moreno Valley Ranch, near where the subject District is located. In addition to these areas, there is a wide variety of residential products and price ranges available. During the 1980s, Moreno Valley provided an affordable housing alternative to high housing prices in Los Angeles, San Diego, and Orange Counties. The factors which encouraged such unprecedented growth rates diminished during the 1990s. The recession dampened the demand for housing, as did increasing traffic congestion. The cities of Corona and Riverside lifted growth moratoriums. Other residential demand was siphoned off toward the Victor Valley or Temecula, where access was improved by the completion of the 15 Freeway. The
in Orange County resulted in the introduction of smaller, more affordable housing, which also competed with the Moreno Valley market.

Housing prices within Moreno Valley, which had rapidly escalated during the growth years, declined even more rapidly following the 1991 recession than in other areas. Developers as well as homebuyers who had purchased at the peak of the growth era were unable to sell in the diminished market environment, and foreclosures of vacant parcels and homes increased. The Moreno Valley Ranch planned community was significantly impacted by the changes in housing demand during the early 1990s. The developer and major land financier defaulted and the RTC sold extensive residential and commercial land in that community.

It took over a decade for Moreno Valley to regain strength in the housing market. However, over the past 5 to 6 years, Moreno Valley experienced a major recovery in buyer interest and new home sales in the City have significantly increased, from levels experienced during the 1990’s. Over 8,000 dwelling units have been built or are under construction since 2000. The City’s average new home price is over $400,000. The new home sales volume is projected to continue to rise at a steady albeit slower pace for the foreseeable future. New home prices have declined from their 2005-2006 highs.

Local Economy

Despite the negative impacts on the housing market, the rapid expansion of the 1980s brought significant commercial and industrial development to Moreno Valley. Moreno Valley has become a major retail center for the area and master-planned business parks have attracted additional employers. Major commercial developments and planned projects within the City of Moreno Valley are summarized below.

Commercial Centers:

Moreno Valley Mall at TownGate, opened in October, 1992; comprises 1.25 million square feet, 120 specialty stores; anchors are Sears, Gotschalls, JCPenney and Macy’s department stores. Other community retail centers include Moreno Beach Market Place, Alessandro Plaza, Canyon Springs Plaza, Moreno

Valley Plaza and The Festival, Merchant’s Square and TownGate Center. The Moreno Valley Auto Mall has dealers offering Toyota, Honda, Nissan, Chevrolet, Dodge, Chrysler, Jeep, Pontiac, Buick and GMC truck lines.

Business Parks:

CenterPointe Business Park (345 acres), the Koll Corporate Center (32 acres), Moreno Valley Business Park (34 acres), and Moreno Valley Industrial Park (130 acres) and the Oleander Industrial complex (1,521 acre master-planned industrial park) offer multi-tenant, light industrial and office space and vacant parcels for a variety of business uses including large scale heavy industrial uses. The western portions of the City of Moreno Valley are within the redevelopment project of the Economic Development Department which offers development assistance.

The development of Moreno Valley has allowed for the planning of parks, schools, and commercial areas to service the residents. Moreno Valley seeks to become a self-sufficient, well-balanced community providing local employment opportunities to its residents.

In conclusion, the City of Moreno Valley has rebounded from the previous national recession and is once again in an active, but declining, real estate market. The home prices in the City offer a better value than Riverside. The higher home prices in the City of Moreno Valley range from $500,000 to $600,000. The majority of home sales are in the $400,000 to $550,000 price range. Many of the more expensive homes in Moreno Valley are located in Moreno Valley Ranch to the south. Located within three miles of the subject are two proposed large master planned communities, Aquabella, a 2,900+ unit active adult community will be two miles south on Nason Street, Belago, a 7,700+ unit community, will be about 3 miles east at Alessandro Boulevard and Redland Boulevard.

Immediate Surroundings

The subject CFD is located at the southeast quadrant of State Highway 60 (Moreno Valley Freeway) and Nason Street in Moreno Valley. This full interchange is in the planning phase of a redesign and reconstruction that is scheduled to occur in 2006 and 2007. Local access to the subject is via Fir Avenue and Eucalyptus Avenue. These
streets front the south and southeasterly frontage of Southridge Towne Centre. The S-60 Freeway borders the north side of the District.

To the south and southeast of the subject is Stoneridge Ranch, a 900+ unit community under construction by Beazer Homes. This community will include two detached for-sale products and one attached for-sale product.

To the east of CFD No. 5 is the existing Moreno Beach Plaza. This 300,000 square foot center is anchored by Wal-Mart with numerous fast food tenants and local tenants. There is land for additional construction. On the east side of Moreno Beach Drive is the Moreno Valley Auto Mall with eight dealerships and numerous parcels of vacant land.

On the west side of Nason Street south of Fir Avenue is a new residential project under construction by Richmond American. To the west of this project is a built-out subdivision built by Granite Homes. Valley View High School is at the southwest corner of Nason Street and Eucalyptus Avenue.

The general area is mostly vacant land with some scattered dwellings.

**Conclusion**

The economy has experienced economic growth since the 3rd quarter of 2003, due largely to increased consumer and business spending. The anticipated continued strength should fuel job growth. Inflation is reported to remain low, which should keep mortgage rates from rising too steeply as the economy gains strength. The Inland Empire’s long running housing boom has been slowing. Builders in Riverside County increased demand for new detached housing permits and pulled 34,226 detached residential permits during 2004 and 34,330 residential permits in 2005. Demand and sales declined significantly in 2006. Detached permits were down over 20% in 2006, and are forecast to decline another 15% in 2007.
SITE ANALYSIS

General
The subject property of this appraisal is CFD No. 5. The 35± acre subject site is in a finished site condition. The first phase of development for CFD No. 5 will consist of 25± acres to be built-out with 202,000± square feet of retail space. Phase 2 will consist of 8± acres proposed for 86,000± square feet of retail space. Parcels 1 and 3, now being built-out with a Target and a Kohl's are not subject to the Special Tax of CFD No. 5 and not included in this appraisal.

Location
The subject District is located on the south side of the S-80 Freeway, east of Nason Street in Moreno Valley. Specifically, the subject is at the northeast corner of Nason Street and Fir Avenue.

Current Site Condition
As of the date of value of this appraisal, CFD. No. 5 is in a finished site condition with streets and utilities installed, except for the east 200± feet of Eucalyptus Avenue, which still needs asphalt paving. We have estimated the cost to finish at $500,000.

Size and Shape
The overall shape of the subject property is irregular and contains 32.96± gross acres, according to the Parcel Map. Parcel Map No. 34411 contains 68.827 gross acres and 56.23± net acres. Parcel 1, containing 15.76 acres to be developed with a Target and Parcel 3, containing 7.52 acres to be developed with a Kohl's are not subject to the Special Tax of CFD No. 5 and not included in this appraisal.

Soils and Geology
One soil report was provided for a 150-acre parcel which included the subject District. The report was prepared by Converse Consultants and dated May 14, 2004. The report indicates that the development as proposed is feasible, from a geotechnical viewpoint, provided recommendations included in their report are implemented. All of
HRA

CFD No. 5 has been graded and improved to a finished site condition. The appraisers assume that the soil conditions allow all of the proposed development as discussed in the Highest and Best Use section of this report and as proposed by the builder.

Topography and Drainage

CFD No. 5 is mostly level. Drainage is via natural sheet flow and percolation. There are storm drains serving the subject properties. Storm drain capacity for the subject was constructed during the site development process. During our inspection of the site, we observed no drainage problems that would not be cured by the proposed development of the site.

Zoning

CFD No. 5 is zoned C-C, Community Commercial by the City of Moreno Valley. This zone allows for shopping center uses. The General Plan designation is commercial.

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

Access and Circulation

CFD No. 5 is located on the south side of the S-80 Freeway at Nason Street in Moreno Valley. Actual access to the subject site is from Fir and Eucalyptus Avenues. Fir Avenue is dedicated 88 feet wide and Eucalyptus Avenue is dedicated 100 feet wide. Both streets have two lanes of paving in each direction with concrete curbs and gutters, sidewalks and lights will be installed with the on-site parking lot.

Easements

The appraisers have been provided with one preliminary title report for CFD No. 5. The title report was prepared by Chicago Title Company.

Utilities

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

- Electricity: Moreno Valley Utilities
- Water: Eastern Municipal Water District
- Gas: Southern California Gas Company
- Sewer: Eastern Municipal Water District
- Telephone: Verizon
- Police: City of Moreno Valley
- Fire: Riverside County

Earthquake, Flood Hazards, and Nuisances

The subject property, as of the date of valuation, was not located in a designated Earthquake Study Zone as determined by the State Geologist. However, all of Southern California is subject to seismic activity. CFD No. 5 is located in a Zone "X" flood designated area according to Federal Emergency Management Agency Community Panel No. 065074-0030B effective date May 17, 1992 and revised August 18, 2004. This designation references an area that is outside the 500-year flood plain. Flood insurance is not required. No other nuisances or hazards were observed on physical inspection of the subject properties as of the date of value.

Environmental Issues

The subject site had been dry farmed or vacant for many years. The property is reportedly not impacted by any negative environmental issues.

Taxes and Special Assessments

The individual assessor parcels have property taxes as shown on the following tables. Pursuant to Proposition 13, passed in California in 1978, current Assessed Values...
HRA

may or may not have any direct relationship to current Market Value. Real estate tax increases are limited to a maximum of 2% per year plus bonds, if any, according to Proposition 13. If the property is sold, real estate taxes are normally subject to modification to the then current Market Value.

CFD No. 5 will have a special tax of $10,652 per developed acre, which escalates at 2% per year. The total tax rate does not exceed 2.0% of current value.

The office of Harris & Associates has estimated the Special Taxes on the developed commercial land within CFD No. 5. The estimated land values are based, in part, on the Special Taxes estimated for the ultimate build-out. Within the Addenda of this report, is a summary of the special taxes as estimated by Harris & Associates for the developed land. The table which follows lists the 2006-07 assessed values and taxes for each of the assessed parcels in CFD No. 5. All taxes are reported as paid in full.

The subject property falls within the taxing jurisdiction of the Riverside County Assessor's office. The applicable tax rate area is 21-463. The published annual tax rate is 1.055410. In addition to the base tax rate, there is additional bond indebtedness related to school debt service, water districts, and flood control district debt service.

The overall effective tax rate for the proposed shopping center will be approximately 2.0% of our appraised base values, including special taxes for the City of Moreno Valley. This tax burden is uncommon for Riverside County where tax rates in new retail properties typically range from 1.10% to 1.30%. A survey of the subject market area revealed that special Assessment Districts or CFDs encumber few of the competing shopping centers. There does not appear to be a great deal of resistance to the special tax assessments for the subject property. Tenant rents are at the high end of the range for shopping centers in Riverside County. The following tables list the current assessed values and taxes for the individual subject parcels.
**PROPOSED IMPROVEMENT DESCRIPTION**

**General**
The portion of CFN No. 5 subject to Special Tax is proposed for development of a 288,000+ square foot shopping center. In Phase 1, there will be 222,000+ square feet of retail space when built out. No vertical building construction has begun at this time. On-site utility and parking lot construction has begun as of the date of value.

**General**
The buildings are single-tenant and multi-tenant retail buildings configured to accommodate one to multiple users as a retail shopping center. The improvements are designed primarily for retail use.

**General Specifications**

**Foundation:** Concrete slab will be on grade with continuous perimeter and pad footings extending 12 to 24 inches below finished grade. There will be 4 inch to 7 inch reinforced concrete slabs on insulation and 4 inches of aggregate base.

**Structural Frame:** Pre-cast concrete tilt-up panels with 8 inch interior steel-type columns supporting glu-lam beams and roof structures; steel frame interior construction.

**Exterior Finish:** Concrete tilt-up panels will be approximately 20 to 30 feet in height with painted exterior surfaces. Recessed retail entrances will have glass and anodized aluminum frames.

**Roof:** Three-ply, built-up roof system with mineral cap over plywood sheathing.

**Doors:** Retail entrances will be tempered glass in anodized aluminum frames.

**Insulation:** R-11 wall and R-19 fiberglass ceiling insulation adjacent to retail space, with foil ceiling insulation in warehouse area.

**Interior Finish:** General retail areas consist of carpet and vinyl tile on the floors, drywall partitions, suspended acoustic ceiling with flush fluorescent lighting and air conditioning. Ceiling height varies from 8 to 9 feet with pre-finished laminated doors in metal frames.

**Restrooms:** There are adequate restrooms for retail facilities of their size.

**Electrical:** Electrical service will be 200 to 600 amps, which is adequate for these properties.

**Site Improvements:** The sites will be configured with asphalt paved parking areas at the front, side and rear portions of the buildings. Parking is provided for an adequate number of car and truck spaces.

**Condition:** The subject properties will be new and in an excellent condition. Typical life expectancy for good quality retail buildings is 30 to 40 years.

**Functional Adequacy:** The physical characteristics of the improvements will be suited for retail uses.
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HIGHEST AND BEST USE

The term highest and best use is an appraisal concept that has been defined as follows:

The reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are: legal permisibility, physical possibility, financial feasibility, and maximum productivity. 4

The determination of highest and best use, therefore, requires a separate analysis for the land as legally permitted, as if vacant. Next, the highest and best use of the property with its improvements must be analyzed to consider any deviation of the existing improvements from the ideal. *The highest and best use of both land as though vacant and property as improved must meet four criteria. The highest and best use must be: legally permissible, physically possible, financially feasible, and maximally productive. These criteria are often considered sequentially. 5* The four criteria interact and, therefore, may also be considered in concert. A use may be financially feasible, but it is irrelevant if it is physically impossible or legally prohibited.

Legally Permissible Use

The legal factors affecting the site and its potential uses are often the most restrictive. These would typically be government regulations such as zoning and building codes.

CFD No. 5 is located in the City of Moreno Valley. The subject is zoned for commercial development, under the C-C Zone. This designation allows for a shopping center use with a minimum 1.00 acre lot size. The proposed uses are considered legal and conforming uses and have been approved by the City of Moreno Valley.

Physically Possible Use

The site is located in the eastern area of the City of Moreno Valley. The parcels have a level topography. The land was previously used for agriculture or vacant uses. CFD No. 5 is bounded by a freeway, a new shopping center and newer subdivisions.

All normal utilities are available to serve the subject site. Utility and street improvements have been completed to all parcels as of the date of value, except for the most eastern 200+ feet of Eucalyptus Avenue, which lacks paving. Access is considered to be adequate via Eucalyptus Avenue, Fir Avenue, Nason Street, and the S-80 Freeway. This appraisal considers the benefits and/or improvements that are to be funded by CFD No. 5.

The size, access, and topography of the subject property make it physically suited for several types of development; however, the zoning which has occurred on the site is for shopping center use. Additionally, the land has been graded to a finished site condition, with Parcels 1 and 3 (not included in this appraisal) under building construction.

Based on the physical analysis, the subject property appears to be viable for several types of development based on its size and topography; however, the current site condition would suggest that the land has a primary use of a commercial shopping center due to its location and site development.

Market Conditions and Feasibility

It is not within the scope of this appraisal assignment for the appraisers to conduct an extensive independent market study/absorption analysis, but it is the appraisers' responsibility to address the reasonableness of the conclusions of any market study which has been prepared by outside firms for the subject property. For a project the size and complexity of CFD No. 5, Stoneridge Towne Centre, there will be divergent opinions, often based on the same base data, as to the anticipated absorption time-frame of the

undeveloped land within the project. Unforeseen national and regional economic and/or social changes will affect the time-frame of real estate development.

In an attempt to arrive at reasonable and supportable absorption schedules for the retail uses within CFD No. 5, the appraisers reviewed an independently prepared absorption analysis which relates to CFD No. 5 (Stoneridge Ranch). This independent study is titled Market Absorption Study, City of Moreno Valley Community Facilities District No. 5, prepared by Empire Economics, Inc., dated September 2006 and updated March 2007. A copy of a portion of the absorption analysis summary is included in the Addenda of this report.

Following a review of the conclusions of the Empire Economics study, the appraisers have extracted data and prepared a brief analysis as a comparison to the reasonableness of the absorption schedules indicated by Empire Economics. The analysis presented examines the recent historical trends, which are tempered by the appraisers' experience and judgment, to arrive at an estimated absorption schedule.

The following paragraphs will first examine the assumptions, analysis and conclusions of the Empire Economics study. The data contained in this section will assist in estimating the anticipated absorption period and other pertinent characteristics for the subject property. It should be noted that the Empire Economics study is based on the absorption of land and the absorption of product by the end-user, such as the buyer/tenant of retail space. This typically is 12 to 18 months later than land absorption to the builders.

Market Absorption Study, Empire Economics, Inc.

The Empire Economics, Inc. absorption schedule presented for the subject property is predicated on the basic assumption concerning the regional economy and is considered a reasonable blending of the cyclical and structural factors that influence the California economy. The analysis is based on a computer model which uses population and employment as the generators of retail/commercial demand.
The construction commitment of the anchors, Target and Kohl's, are situated immediately to the north of the future buildings in CFD No. 5; the anchors will generate a significant amount of traffic; however, they are not subject to the Special Tax of CFD No. 5 and not included in this appraisal.

The Trade Areas for CFD No. 5, with regards to their population levels at various distances, are not as strong as the Trade Areas for the major retail centers located near the intersection of Routes 215 and 60; furthermore, their freeway accessibility is also not as favorable as the other centers.

For the County of Riverside as well as the City of Moreno Valley, there has been a strong correlation between residential development and the corresponding level of retail development. Accordingly, the recent on-going slowdown for the real estate market result in less residential development, and this will cause a moderation in the amount of retail development as well. With regards to the level of new residential development in the City of Moreno Valley, its most recent peak level was attained in 2004, some 3,514 homes, and since then it has declined, to some 2,100 homes per year for 2005 and 2006.

Additionally, higher level of mortgage payments, due to adjustable rate loans as well as mortgage resets, are expected to dampen the amount of consumer spending for retail products. (Note: A significant amount of demand for retail products during the past several years has been driven by households utilizing their housing equity gains.)

CB Richard Ellis in their 2006 Fourth Quarter Market review summarizes the Inland Empire retail market as follows. CFD No. 5 is located in the East End Market Area.

"The retail market in the Inland Empire continued to be impacted by strong demand and limited existing inventory. The overall vacancy rate fell to 5.32% this quarter, compared to 5.70% in third quarter 2006. The High Desert area remains one of the tightest retail markets in the Inland Empire with a vacancy rate of 2.55% fourth quarter 2006, from 4.35% last quarter. Growth of the residential market in both the High Desert area, and Beaumont have led to an influx of retail development and an increasing demand by tenants looking to locate with those market area with hopes of capitalizing on increased consumer spending among the rising population.

There is virtually no available space in the high-growth region of the Inland Empire with most of the activity in the pre-leasing of retail space that is planned or under construction. As of fourth quarter 2006, there was 14.13 million square feet under construction and an additional 41.47 million square feet of retail space planned. Land available for retail development in the Inland Empire has almost vanished and speculators and land owners continue to exert upward pressure on the price of developable raw land. One of the last large parcels of land sales occurred this quarter in Beaumont with the sale of 90 acres for mixed-use space to PCG Heartland II LP. With limited land available for sale and retail development, land sales in 2007 will significantly decrease.

The overall absorption in the Inland Empire totaled just over 2.15 million square feet this quarter for a year-to-date total of 8.07 million square feet in 2006. The West End retail market continues to dominate with 3.4 million square feet of absorption, followed by 2.5 million square feet of absorption in the East End. Increasing demand for both neighborhood and power centers led to over 1.9 million square feet of absorption for the quarter, slightly above the 1.8 million square feet of absorption for the same retail space in third quarter 2006. Average asking lease rates slightly increased this quarter ranging from $1.64 per square foot to $1.83 per square foot, compared to $1.45 per square foot to $1.74 per square foot in third quarter 2006. Triple net lease rates for planned centers have escalated to an average of $3 per square foot - $4 per square foot per month, and as new product is built, there is a growing risk that these lease rates may come down in order to absorb space that may become available in some markets over the next few years."

<table>
<thead>
<tr>
<th>Area</th>
<th>Vacancy</th>
<th>Lease Rates</th>
<th>Available Space</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>5.32%</td>
<td>$1.64 - $1.83</td>
<td>8.07 million</td>
</tr>
<tr>
<td>West End</td>
<td>3.40%</td>
<td>$1.64 - $1.83</td>
<td>3.4 million</td>
</tr>
<tr>
<td>East End</td>
<td>2.55%</td>
<td>$1.64 - $1.83</td>
<td>2.5 million</td>
</tr>
<tr>
<td>High Desert</td>
<td>4.35%</td>
<td>$1.64 - $1.83</td>
<td>4.3 million</td>
</tr>
</tbody>
</table>

Vacancy
Increased occupancy this quarter led to a declining vacancy rate of 5.32% this quarter, compared to 5.74% last quarter. The decrease in vacancy can be attributed to increased leasing activity in the High Desert area. Community Center, as a retail type also enjoyed a decline in vacancy rates with significant leasing in Chino Hills, Beaumont, Riverside, and Ontario with leases ranging from 30,000 square feet to 40,000 square feet of retail space.

Net Absorption
Overall net absorption for the Inland Empire totaled 2.15 million square feet this quarter, slightly below the 2.2 million square feet of absorption in third quarter 2006.
Demand in the East End continued to increase this quarter with 1.6 million square feet of absorption, almost double the absorption activity of last quarter. Neighborhood centers experienced a surge in activity this year with 2.8 million square feet of absorption, followed by increased demand for power centers with over 3.2 million square feet of absorption for the year.

Construction

New retail construction activity totaled 1.69 million square feet in the fourth quarter of 2006, almost 1.0 million square feet less than the previous quarter. There was 1.2 million square feet of neighborhood centers built out this quarter, slightly below the 1.9 million square feet built out last quarter, mostly in the East End. Despite the decrease in new retail centers completed this quarter there exists 13.0 million square feet of retail space under construction in the Inland Empire and over 41.0 million square feet planned for development over the next 3 years. While construction activity remains strong, construction costs for retail development have increased 20% to 30% over the last two years, a trend that is expected to continue into 2007.

Maximally Productive

In considering what use would be maximally productive for the subject property, we must consider the previously stated legal considerations. We are assuming the land uses allowed under the development agreement with the City are the most productive uses that will be allowed at the present time. Current zoning and approved uses indicate that other alternative uses are not feasible at this time.

Conclusion

Legal, physical, and market considerations have been analyzed to evaluate the highest and best use of the subject property. This analysis is presented to evaluate the type of uses which will generate the greatest level of future benefits possible from the land.

After reviewing the alternatives available and considering this and other information, it is the opinion of the appraisers that the highest and best use for the subject property, as vacant and as improved, is for retail shopping center development. The proposed project appears to have the location, features, and pricing structure to obtain an acceptable rental rate under normal financing and market conditions. The absorption estimate of Empire Economics, Inc. appears reasonable at this time.

As Vacant

After reviewing the alternatives available and considering this and other information, it is these appraisers' opinion that ultimate development of a shopping center, is considered the highest and best use of the subject property.

As Proposed/Built

The proposed and built uses of the properties are legal uses and the value of the properties as improved far exceeds the value of the sites if vacant. This means that the proposed retail improvements would contribute substantial value to the sites. Based on these considerations, it is our opinion that the proposed retail improvements constitute the highest and best use of the subject property.
VALUATION METHODOLOGY

Basis of Valuation
Valuation is based upon general and specific background experience, opinions of qualified informed persons, consideration of all data gathered during the investigative phase of the appraisal, and analysis of all market data available to the appraiser.

Valuation Approaches
Three basic approaches to value are available to the appraiser:

Cost Approach
This approach entails the preparation of a replacement or reproduction cost estimate of the subject property improvements new (maintaining comparable quality and utility) and then deducting for losses in value sustained through age, wear and tear, functionally obsolescent features, and economic factors affecting the property. This is then added to the estimated land value to provide a value estimate.

Income Approach
This approach is based upon the theory that the value of the property tends to be set by the expected net income therefrom to the owner. It is, in effect, the capitalization of expected future income into present worth. This approach requires an estimate of net income, an analysis of all expense items, the selection of a capitalization rate, and the processing of the net income stream into a value estimate.

Direct Comparison Approach
This approach is based upon the principle that the value of a property tends to be set by the price at which comparable properties have recently been sold or for which they can be acquired. This approach requires a detailed comparison of sales of comparable properties with the subject property. One of the main requisites, therefore, is that sufficient transactions of comparable properties be available to provide an accurate indicator of value and that accurate information regarding price, terms, property description, and proposed use be obtained through interview and observation.

For the land, only the Direct Comparison Approach is used in valuing the fee simple estate. The Income Approach is typically used when appraising income producing properties. This approach is not applicable in the valuation of land as land is not typically held to generate monthly income, but rather purchased to construct an end product which may or may not generate income. The Cost Approach is not an appropriate tool in the valuation of land.
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VALUATION UNDEVELOPED COMMERCIAL LAND

General

The undeveloped parcels within CFD No. 5 include land in finished condition, with recorded parcel maps.

Included in this portion of the appraisal is all the undeveloped property owned by Stoneridge Centre Partners, L.P. The buildable net acres total 32.95 acres, within the taxable boundaries of CFD No. 5. Net acreages shown are as reflected on the revised Parcel Map No. 34411.

Parcel Map No. 34411 contains 56.23 acres in its entirety. Parcel 1, containing 15.76 acres has been sold to Target. Parcel 3, containing 7.52 acres has been sold to Kohl’s. Neither of these parcels are included in the valuation of CFD No. 5. The remaining 32.95 acres of Parcel Map No. 34411 are the only portion of Parcel Map No. 34411 subject to the Special Tax of CFD No. 5.

Direct Comparison Approach

The direct comparison approach is based upon the premise that, when a property is replaceable in the market, its value tends to be set by the purchase price necessary to acquire an equally desirable substitute property, assuming no costly delay is encountered in making the decision and the market is reasonably informed. In appraisal practice, this is known as the Principle of Substitution.

This approach is a method of analyzing the subject property by comparison of actual sales of similar properties. These sales are evaluated by weighing both overall comparability and the relative importance of such variables as time, terms of sale, location of sale property, and lot characteristics. For the purpose of this report, the unit of comparison utilized is the price per square foot of net usable area for the commercial land.

CONSULTING REAL ESTATE APPRAISERS

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Commercial Land Sale Summary
CFD No. 5
March-2007

<table>
<thead>
<tr>
<th>Data No. &amp; Location</th>
<th>Sale Date</th>
<th>Intended Use</th>
<th>Acres</th>
<th>Sales Price</th>
<th>Price/S.F.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data No. 1</td>
<td>April-06</td>
<td>Medical Office Retail</td>
<td>19.05</td>
<td>$8,900,000</td>
<td>$903</td>
</tr>
<tr>
<td>Data No. 2</td>
<td>June-06</td>
<td>Retail</td>
<td>13.88</td>
<td>$7,400,000</td>
<td>$12.24</td>
</tr>
<tr>
<td>Data No. 3</td>
<td>July-06</td>
<td>Office</td>
<td>9.29</td>
<td>$6,950,000</td>
<td>$17.17</td>
</tr>
<tr>
<td>Data No. 4</td>
<td>June-06</td>
<td>Retail</td>
<td>8.66</td>
<td>$5,281,000</td>
<td>$14.60</td>
</tr>
<tr>
<td>Data No. 5</td>
<td>May-06</td>
<td>Retail</td>
<td>9.96</td>
<td>$5,200,000</td>
<td>$11.96</td>
</tr>
<tr>
<td>Data No. 6</td>
<td>January-07</td>
<td>Retail</td>
<td>7.84</td>
<td>$4,800,000</td>
<td>$14.52</td>
</tr>
<tr>
<td>Data No. 7</td>
<td>March-06</td>
<td>Retail</td>
<td>8.37</td>
<td>$4,200,000</td>
<td>$11.52</td>
</tr>
</tbody>
</table>

HRA

COMMERCIAL LAND SALE NO. 1

Location: Northwest corner of McCall Boulevard and Aspel Road, Romoland
APN: 333-230-001
Buyer: McCall Center Medical Plaza, LLC.
Seller: Mayer Villa Capri, GP
Site Size: 19.06 acres; 831,125 square feet
Zoning: C-O
Use: Vacant site proposed for medical office and retail uses
Condition of Site: Raw
Recording of Sale: April 17, 2005
Sale Price: $8,600,000
Price/Sq.Ft.: $9.63
Special Taxes: None
Financing: A $2,400,000 cash down payment with the balance carried by a private lender.
Verification: Listing & Selling Broker
Remarks: This property is located east of Sun City adjacent to the Menifee Valley Medical Center.
<table>
<thead>
<tr>
<th>Location:</th>
<th>COMMERCIAL LAND SALE NO. 2</th>
<th>COMMERCIAL LAND SALE NO. 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Location:</td>
<td>East site Haun Road, west side I-215 Freeway, south of La Pizda Road, Menifee Valley.</td>
<td>West side of Valley Springs Parkway, east side I-215 Freeway in the Canyon Crossings Center of Riverside</td>
</tr>
<tr>
<td>APN:</td>
<td>360-110-004 &amp; 007</td>
<td>291-460-020</td>
</tr>
<tr>
<td>Buyer:</td>
<td>Pechanga Development Corporation</td>
<td>Von der Ahe Yorba Canyon Center</td>
</tr>
<tr>
<td>Seller:</td>
<td>Pinnacle Montife, LP</td>
<td>Canyon Crossings, LLC.</td>
</tr>
<tr>
<td>Site Size</td>
<td>13.88 acres; 804,813 square feet</td>
<td>9.29 acres; 404,672 square feet</td>
</tr>
<tr>
<td>Zoning</td>
<td>RR</td>
<td>RS</td>
</tr>
<tr>
<td>Use:</td>
<td>Vacant site, purchased for future retail use.</td>
<td>Vacant site proposed for office use.</td>
</tr>
<tr>
<td>Condition of Site</td>
<td>Raw</td>
<td>Finished site.</td>
</tr>
<tr>
<td>Recording of Sale</td>
<td>June 30, 2006</td>
<td>July 28, 2006</td>
</tr>
<tr>
<td>Sale Price</td>
<td>$7,400,000</td>
<td>$6,950,000</td>
</tr>
<tr>
<td>Price/Sq.Ft.</td>
<td>$12.24</td>
<td>$17.17</td>
</tr>
<tr>
<td>Special Taxes</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Financing:</td>
<td>All cash to seller</td>
<td>All cash to seller</td>
</tr>
<tr>
<td>Verification</td>
<td>Buyer</td>
<td>Seller</td>
</tr>
<tr>
<td>Remarks</td>
<td>This property is adjacent to a proposed large commercial property that is expected to start construction in 2007. This property was purchased for future development of a retail center.</td>
<td>Although located in the City of Riverside, this neighborhood has a Morongo Valley identity. This site is fully improved with streets and utilities.</td>
</tr>
<tr>
<td>Location:</td>
<td>Southeast corner of Scott Road and Zeders Road, Menifee Valley</td>
<td></td>
</tr>
<tr>
<td>-----------------</td>
<td>---------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>APN:</td>
<td>384-180-001</td>
<td></td>
</tr>
<tr>
<td>Buyer:</td>
<td>Spathco</td>
<td></td>
</tr>
<tr>
<td>Seller:</td>
<td>Scott Ventures, Ltd.</td>
<td></td>
</tr>
<tr>
<td>Site Size</td>
<td>8.66 acres; 377,230 square feet</td>
<td></td>
</tr>
<tr>
<td>Zoning</td>
<td>CG</td>
<td></td>
</tr>
<tr>
<td>Use:</td>
<td>Vacant site to be developed with a retail-commercial use</td>
<td></td>
</tr>
<tr>
<td>Condition of Site</td>
<td>Raw</td>
<td></td>
</tr>
<tr>
<td>Recording of Sale</td>
<td>June 14, 2006</td>
<td></td>
</tr>
<tr>
<td>Sale Price</td>
<td>$5,281,500</td>
<td></td>
</tr>
<tr>
<td>Price/Sq.Ft.:</td>
<td>$14.00</td>
<td></td>
</tr>
<tr>
<td>Special Taxes:</td>
<td>None</td>
<td></td>
</tr>
<tr>
<td>Financing:</td>
<td>All cash to seller</td>
<td></td>
</tr>
<tr>
<td>Verification:</td>
<td>Buyer</td>
<td></td>
</tr>
<tr>
<td>Remarks</td>
<td>This property is located on the west side of the I-215 at Scott Road. A rebuilding of this interchange is to occur in 2008-09. Development of the site into a shopping center is proposed.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Location:</th>
<th>Southeast corner of First Street and S-79, Beaumont</th>
</tr>
</thead>
<tbody>
<tr>
<td>APN:</td>
<td>418-310-007</td>
</tr>
<tr>
<td>Buyer:</td>
<td>Thrifty Oil Co.</td>
</tr>
<tr>
<td>Seller:</td>
<td>Cabazon Natural Springs Water</td>
</tr>
<tr>
<td>Site Size</td>
<td>9.96 acres; 434,729 square feet</td>
</tr>
<tr>
<td>Zoning</td>
<td>C-G</td>
</tr>
<tr>
<td>Use:</td>
<td>Vacant land purchased for future use</td>
</tr>
<tr>
<td>Condition of Site</td>
<td>Raw</td>
</tr>
<tr>
<td>Recording of Sale</td>
<td>May 18, 2006</td>
</tr>
<tr>
<td>Sale Price</td>
<td>$6,200,000</td>
</tr>
<tr>
<td>Price/Sq.Ft.:</td>
<td>$11.96</td>
</tr>
<tr>
<td>Special Taxes:</td>
<td>None</td>
</tr>
<tr>
<td>Financing:</td>
<td>All cash to seller</td>
</tr>
<tr>
<td>Verification:</td>
<td>Buyer</td>
</tr>
<tr>
<td>Remarks</td>
<td>This property is located south of the I-10 Freeway on State Highway 79, in an area that is currently mostly rural.</td>
</tr>
</tbody>
</table>
**COMMERCIAL LAND SALE NO. 6**

<table>
<thead>
<tr>
<th>Location:</th>
<th>South side Nuevo Road, east of I-215 Freeway, Perris</th>
</tr>
</thead>
<tbody>
<tr>
<td>APN:</td>
<td>310-050-002 &amp; 037</td>
</tr>
<tr>
<td>Buyer:</td>
<td>Nuevo Road Partners II, LLC</td>
</tr>
<tr>
<td>Site Size</td>
<td>7.84 acre; 341,510 square feet</td>
</tr>
<tr>
<td>Zoning:</td>
<td>C-1</td>
</tr>
<tr>
<td>Use:</td>
<td>Vacant land. Hold for future development.</td>
</tr>
<tr>
<td>Condition of Site</td>
<td>Semi-Raw</td>
</tr>
<tr>
<td>Recording of Sale</td>
<td>January 2, 2007</td>
</tr>
<tr>
<td>Sale Price</td>
<td>$4,960,000</td>
</tr>
<tr>
<td>Price/Sq.Ft.</td>
<td>$14.52</td>
</tr>
<tr>
<td>Special Taxes</td>
<td>None</td>
</tr>
<tr>
<td>Financing:</td>
<td>All cash sale</td>
</tr>
<tr>
<td>Verification</td>
<td>Buyer</td>
</tr>
<tr>
<td>Remarks</td>
<td>This property is adjacent to an older existing neighborhood shopping center. Access is somewhat restrictive.</td>
</tr>
</tbody>
</table>

**COMMERCIAL LAND SALE NO. 7**

<table>
<thead>
<tr>
<th>Location:</th>
<th>Northwest corner Alessandro Boulevard and LaSale Street, Moreno Valley</th>
</tr>
</thead>
<tbody>
<tr>
<td>APN:</td>
<td>478-031-010</td>
</tr>
<tr>
<td>Buyer:</td>
<td>Moe Abourcheo</td>
</tr>
<tr>
<td>Seller:</td>
<td>Moreno Hexagon, LLC</td>
</tr>
<tr>
<td>Site Size</td>
<td>6.37 acres; 394,597 square feet</td>
</tr>
<tr>
<td>Zoning:</td>
<td>C-2</td>
</tr>
<tr>
<td>Use:</td>
<td>Vacant, hold for development of a 75,000± square foot shopping center.</td>
</tr>
<tr>
<td>Condition of Site</td>
<td>Raw</td>
</tr>
<tr>
<td>Recording of Sale</td>
<td>March 10, 2006</td>
</tr>
<tr>
<td>Sale Price</td>
<td>$4,200,000</td>
</tr>
<tr>
<td>Price/Sq.Ft.</td>
<td>$11.52</td>
</tr>
<tr>
<td>Special Taxes</td>
<td>None</td>
</tr>
<tr>
<td>Financing:</td>
<td>All cash to seller</td>
</tr>
<tr>
<td>Verification</td>
<td>Seller</td>
</tr>
<tr>
<td>Remarks</td>
<td>This is a raw vacant site about two miles southwest of the subject. The property is at a signalized intersection. All four corners are raw at this time. Surrounding development is older residential.</td>
</tr>
</tbody>
</table>
HRA

Finished Site Value – Commercial Use

Analysis

We have reviewed and inspected all of the data items. The adjustments considered for the data items were for financing, economic changes between date of value and recorded sale date, location, site characteristics and special taxes.

Property Rights

All the data cited invoke a 100% transfer of the fee interest in the properties from the seller to the buyer. As a result, no adjustment for property rights is necessary to the data.

Financing

All the data cited were cash transactions or cash down payments followed by acquisition and development loans. Those terms result in essentially all cash paid to the seller. Thus, for these transactions, adjustments for financing terms are not required.

Conditions of Sale

Conditions of sale are those motivational factors affecting either the buyer or the seller. Though a transaction may be "arms-length," a buyer or seller may have extenuating circumstances that impact the sales price. No additional adjustments are necessary.

Market Conditions

An investigation into the general market pricing trends and consideration based upon interviews and surveys of developers and other market participants was conducted. All of the sales have occurred within the last year. Based on the overall improvement of the Moreno Valley commercial market, land prices appear to have increased. Upward adjustment of 5% per year over the last 18 months is necessary.

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Location

A review of the sales shows that Data No. 3 is superior to the subject and requires downward adjustment, while Data Nos. 1, 2, and 4 to 7 are inferior and require upward adjustment.

Access and Identity

Adjustments for access and identity are essentially a subset of locational adjustments. Further adjustments were not considered appropriate.

Development Potential and Entitlements

Data Nos. 1 and 3 sold for office use which requires upward adjustment. The remaining sales were for retail use and require no adjustment.

Size

Assuming all other factors are similar, larger sites typically tend to sell for less on a per square foot basis, than smaller sites due to economies of scale. There is also a smaller market for larger and more expensive land parcels, thus limiting the marketability of the site. Data Nos. 2 through 7 require downward adjustment for their smaller size.

Special Taxes

The subject property has special taxes above the typical ad valorem tax. The special taxes are approximately $1.21 per square foot of building which is approximately $0.25 per square foot of land. Since none of the sales are in CFDs, downward adjustment is needed for all seven comparables.

Site Condition

The subject site is in a basically finished site condition. Data Nos. 1, 2, 4 to 7 were in an inferior condition and require upward adjustment.
## Adjustment Grid
**CFU No. 5**
March 2007

<table>
<thead>
<tr>
<th>Data No. &amp; Location</th>
<th>Sale Date</th>
<th>Acres</th>
<th>Price / Acre</th>
<th>Financing</th>
<th>Time</th>
<th>Adj. Price</th>
<th>Location</th>
<th>Development Potential</th>
<th>Special Tax</th>
<th>Site Condition</th>
<th>Size</th>
<th>Adjusted Value / Acre</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data No. 1</td>
<td>April 06</td>
<td>10.00</td>
<td>$20.03</td>
<td>0%</td>
<td>5%</td>
<td>$10.11</td>
<td>10%</td>
<td>11%</td>
<td>-10%</td>
<td>10%</td>
<td>0%</td>
<td>$17.67</td>
</tr>
<tr>
<td>Data No. 2</td>
<td>June 05</td>
<td>12.83</td>
<td>$12.24</td>
<td>0%</td>
<td>5%</td>
<td>$12.24</td>
<td>10%</td>
<td>0%</td>
<td>-10%</td>
<td>30%</td>
<td>-5%</td>
<td>$16.07</td>
</tr>
<tr>
<td>Data No. 3</td>
<td>July 05</td>
<td>9.39</td>
<td>$17.17</td>
<td>0%</td>
<td>5%</td>
<td>$18.03</td>
<td>-15%</td>
<td>15%</td>
<td>-10%</td>
<td>0%</td>
<td>-10%</td>
<td>$19.42</td>
</tr>
<tr>
<td>Data No. 4</td>
<td>June 06</td>
<td>8.00</td>
<td>$14.01</td>
<td>0%</td>
<td>5%</td>
<td>$14.70</td>
<td>-12%</td>
<td>0%</td>
<td>-10%</td>
<td>30%</td>
<td>-10%</td>
<td>$15.84</td>
</tr>
<tr>
<td>Data No. 5</td>
<td>May 06</td>
<td>9.86</td>
<td>$11.36</td>
<td>0%</td>
<td>5%</td>
<td>$12.86</td>
<td>15%</td>
<td>0%</td>
<td>-10%</td>
<td>30%</td>
<td>-10%</td>
<td>$14.72</td>
</tr>
<tr>
<td>Data No. 6</td>
<td>January 07</td>
<td>7.84</td>
<td>$14.62</td>
<td>0%</td>
<td>5%</td>
<td>$14.62</td>
<td>15%</td>
<td>0%</td>
<td>-10%</td>
<td>30%</td>
<td>-10%</td>
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<td>March 06</td>
<td>8.37</td>
<td>$11.82</td>
<td>0%</td>
<td>5%</td>
<td>$12.10</td>
<td>10%</td>
<td>0%</td>
<td>-10%</td>
<td>30%</td>
<td>-10%</td>
<td>$15.11</td>
</tr>
</tbody>
</table>

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**HRA**

Conclusion of Commercial Finished Site Values

Given the comparable sales in 2006 and 2007, and the typical market conditions for commercial land in the southeast, Riverside County area, we have concluded that the undeveloped land within the subject shopping center has an average land value of $15.00 per square foot.

**CFU No. 6**

22.96 acres x $15.00 = $344,400
Less: Cost to Finish
$21,500
= $322,900

HRA

Page 36
HRA

VALUATION CONCLUSION

Based on the investigation and analyses undertaken, our experience as real estate appraisers and subject to all the premises, assumptions and limiting conditions set forth in this report, the following opinion of Market Value is formed as of March 19, 2007.

TWENTY-ONE MILLION DOLLARS
$21,000,000

The estimated value assumes bond proceeds of about $4,000,000 for eligible City of Moreno Valley facilities and/or fees, as described in the Community Facilities Report, are available at the time of sale.

HRA

CERTIFICATION

We hereby certify that during the completion of this assignment, we personally inspected the property that is the subject of this appraisal and that, except as specifically noted:

We have no present or contemplated future interest in the real estate or personal interest or bias with respect to the subject matter or the parties involved in this appraisal.

To the best of our knowledge and belief, the statements of fact contained in this appraisal report, upon which the analyses, opinions, and conclusions expressed herein are based, are true and correct.

Our engagement in this assignment was not contingent upon developing or reporting predetermined results. The compensation is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.

The appraisal assignment was not based on a requested minimum valuation, a specific valuation, or the approval of a loan.

The reported analyses, opinions, and conclusions were developed and this report has been prepared in conformity with the requirements of the Code of Professional Ethics & Standards of Professional Appraisal Practice of the Appraisal Institute, which include the Uniform Standards of Professional Appraisal Practice.

As of the date of this report, James B. Harris has completed the requirements of the continuing education program of the Appraisal Institute.

The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, unbiased professional analyses, opinions, and conclusions.

No one provided professional assistance to the persons signing this report.

The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives. In furtherance of the aims of the Appraisal Institute to develop higher standards of professional performance by its
HRA

Members, we may be required to submit to authorized committees of the Appraisal
Institute copies of this appraisal and any subsequent changes or modifications thereof.

Respectfully submitted,

Berri Cannon Harris
Vice President
A0006147

James B. Harris, MAI
President
A0001546

ADDENDA
QUALIFICATIONS

HARRIS REALTY APPRAISAL
5100 Birch Street, Suite 200
Newport Beach, CA 92660
(949) 851-1227

QUALIFICATIONS
OF
JAMES B. HARRIS, MAI

PROFESSIONAL BACKGROUND

Actively engaged as a real estate analyst and consulting appraiser since 1971. President and Principal of Harris Realty Appraisal, with offices at:

5100 Birch Street, Suite 200
Newport Beach, California 92660

Before forming Harris Realty Appraisal, in 1982, was employed with Real Estate Analysts of Newport, Inc. (REAN) as a Principal and Vice President. Prior to employment with REAN was employed with the Bank of America as the Assistant Urban Appraisal Supervisor. Previously, was employed by the Verne Cox Company as a real estate appraiser.

PROFESSIONAL ORGANIZATIONS

Member of the Appraisal Institute, with MAI designation No. 6508
   Director, Southern California Chapter – 1998, 1999
   Chair, Orange County Branch, Southern California Chapter - 1997
   Vice-Chair, Orange County Branch, Southern California Chapter - 1996
   Member, Southern California Chapter Executive Committee - 1990, 1997 to 1999
   Chairman, Southern California Chapter Seminar Committee - 1991
   Chairman, Southern California Chapter Workshop Committee - 1990
   Member, Southern California Chapter Admissions Committee - 1983 to 1989
   Member, Regional Standards of Professional Practice Committee - 1985 - 1997

Member of the International Right-of-Way Association, Orange County Chapter 67.
California State Certified Appraiser, Number AG001846

EDUCATIONAL ACTIVITIES

B.S., California State Polytechnic University, Pomona, 1972.

Successfully completed the following courses sponsored by the Appraisal Institute and the Right-of-Way Association:

Course I-A  Principles of Real Estate Appraisal
Course I-B  Capitalization Theory
Course II   Urban Properties
Course IV   Litigation Valuation
Course VI   Investment Analysis
Course VIII Single-Family Residential Appraisal
Course SPP  Standards of Professional Practice
Course 401  Appraisal of Partial Acquisitions

Has attended numerous seminars sponsored by the Appraisal Institute and the International Right-of-Way Association.
TEACHING AND LECTURING ACTIVITIES
Seminars and lectures presented to the Appraisal Institute, the University of California-Irvine, UCLA, California Debt and Investment Advisory Commission, Stone & Youngberg and the National Federation of Municipal Analysts.

MISCELLANEOUS
Member of the Advisory Panel to the California Debt and Investment Advisory Commission, regarding Appraisal Standards for Land Secured Financing (March 2003 through June 2004)

LEGAL EXPERIENCE
Testified as an expert witness in the Superior Court of the County of Los Angeles and the County of San Bernardino and in the Federal Bankruptcy Courts five times concerning the issues of eminent domain, Bankruptcy, and Specific Performance. He has been deposed numerous times concerning these and other issues. This legal experience has been for both Plaintiff and Respondent clients. He has prepared numerous appraisals for submission to the IRS, without having values overturned. He has worked closely with numerous Bond Counsel in the completion of 100 Land Secured Municipal Bond Financing appraisals over the last five years.

SCOPE OF EXPERIENCE
Feasibility and Consultive Studies
Feasibility and market analyses, including the use of computer-based economic models for both land developments and investment properties such as shopping centers, industrial parks, mobile home parks, condominium projects, hotels, and residential projects.

Appraisal Projects
Has completed all types of appraisal assignments from San Diego to San Francisco, California. Also has completed out-of-state appraisal assignments in Arizona, Florida, Georgia, Hawaii, Nevada, New Jersey, Oklahoma, Oregon, and Washington.

Residential
Residential subdivisions, condominiums, planned unit developments, mobile home parks, apartment houses, and single-family residences.

Commercial
Office buildings, hotels, motels, retail store buildings, restaurants, power shopping centers, neighborhood shopping centers, and convenience shopping centers.

Industrial
Multi-tenant industrial parks, warehouses, manufacturing plants, and research and development facilities.

Vacant Land
Community Facilities Districts, Assessment Districts, master planned communities, residential, commercial and industrial sites; full and partial takings for public acquisitions.

QUALIFICATIONS OF
BERRI CANNON HARRIS

PROFESSIONAL BACKGROUND
Actively engaged as a real estate appraiser since 1982. Vice President of Harris Realty Appraisal, with offices at:

5100 Birch Street, Suite 200
Newport Beach, California 92660

Before joining Harris Realty Appraisal was employed with Interstate Appraisal Corporation as Assistant Vice President. Prior to employment with Interstate Appraisal was employed with Real Estate Analysis of Newport Beach as a Research Assistant.

PROFESSIONAL ORGANIZATIONS
Candidate of the Appraisal Institute for the MAI designation.
Co-Chair, Southern California Chapter Hospitality Committee - 1994 - 1996
Chair, Southern California Chapter Research Committee - 1992, 1993

Second Vice-President - 1996, 1997
Chair, Network Luncheon Committee - 1991, 1992

California State Certified Appraiser. Number AG000147

EDUCATIONAL ACTIVITIES
B.S.B.A., University of Redlands, Redlands, California
Successfully completed the following courses sponsored by the Appraisal Institute:

- Principles of Real Estate Appraisal
- Basic Valuation Procedures
- Capitalization Theory and Techniques - A
- Capitalization Theory and Techniques - B
- Report Writing and Valuation Analyses
- Standards of Professional Practice
- Case Studies in Real Estate Valuation

Has attended numerous seminars sponsored by the Appraisal Institute. Has also attended real estate related courses through University of California-Irvine.
LECTURING ACTIVITIES

Seminars and lectures presented to UCLA, California Debt and Investment Advisory Commission, and Stone & Youngberg.

MISCELLANEOUS

Member of the Advisory Panel to the California Debt and Investment Advisory Commission, regarding Appraisal Standards for Land Secured Financing (March 2003 through June 2004).

SCOPE OF EXPERIENCE

Appraisal Projects

Has completed all types of appraisal assignments from San Diego to San Francisco, California. Also has completed out-of-state appraisal assignments in Arizona and Hawaii.

Residential

Residential subdivisions, condominiums, planned unit developments, mobile home parks, apartment houses, and single-family residences.

Commercial

Office buildings, retail store buildings, restaurants, neighborhood-shopping centers, strip retail centers.

Industrial

Multi-tenant industrial parks, warehouses, manufacturing plants, and research and development facilities.

Vacant Land

Residential sites, commercial sites, industrial sites, large multi-unit housing, master planned unit developments, and agricultural acreage. Specializing in Community Facilities District and Assessment District appraisal assignments.

PARTIAL LIST OF CLIENTS

Lending Institutions

Bank of America
National Bank
Bank One
Preferred Bank
Commerz Bank
Santa Monica Bank
Downey S&L Assoc
Tokai Bank
Fremont Investment and Loan
Union Bank
Institutional Housing Partners
Wells Fargo Bank

Public Agencies

Army Corps of Engineers
City of Palm Springs
California State University
City of Perris
Califiers
City of Riverside
City of Aliso Viejo
City of San Marcos
City of Beaumont
City of Tustin
City of Corona
City of Vianville
City of Costa Mesa
County of Orange
City of Fullerton
County of Riverside
City of Hesperia
County of San Bernardino
City of Irvine
Eastern Municipal Water District
City of Loma Linda
Orange County Sheriff's Department
City of Moreno Valley
Ramona Municipal Water District
City of Norco
Rancho Santa Fe Comm. Services District
City of Perris
Rancho Santa Margarita
City of诤 Angeles
San Juan Hills Unified School District
City of Moreno Valley
Santa Ana Unified School District
City of Newport Beach
Temecula Unified School District
City of Oceanside
Yorba Linda Unified School District

Developers and Landowners

DMB - Ladera
Lennar Homes
Foothill Ranch Company
Rancho Mission Viejo
Hor Development Co.
Santa Margarita Company
Irvine Apartment Communities
Shapell Industries
The Irvine Company.
Sterling Development

Law Firms

Arter & Hadden
McClintock, Weston, Benshoof,
Brooks, Bronson & McKinnon
Rochford & MacCuish
Bryan, Cave, McFarland &Roberts
Parnell, Tyler, Walden, Wilton, & Waldron
Richard Clements
Sonics, Nancy & Rosenthal
Citro, Castle, Nicholas
Strauss & Troy
Gibson, Dunn & Crutcher
Wyman, Baskin, Rothman, Kuchel &
Hill, Farrer & Burrill
Silbert
### Harris & Associates Tax Study (Portion)

City of Moreno Valley CFD No. 5 (Stoneridge Ranch)

#### Estimated Special Tax Revenue

<p>| Year   | FY | Annual Max. Tax Less $50,000 Annual Coverage Available Annual Tax Service |
|--------|----|---------------------------------------------|-----------------------------|
| 0      | 2006-07 | $351,496.48 | $301,409.48 | $27,400.86 | $247,088.62 |
| 1      | 2007-08 | $358,437.67 | $308,437.67 | $28,039.70 | $280,397.88 |
| 2      | 2008-09 | $365,596.42 | $315,600.42 | $28,691.49 | $286,914.90 |
| 3      | 2009-10 | $372,918.55 | $322,918.55 | $29,350.23 | $293,562.32 |
| 4      | 2010-11 | $380,376.92 | $330,376.92 | $30,034.27 | $300,342.66 |
| 5      | 2011-12 | $387,984.46 | $337,984.46 | $30,725.96 | $307,258.60 |
| 6      | 2012-13 | $395,744.15 | $345,744.15 | $31,431.29 | $314,312.86 |
| 7      | 2013-14 | $403,656.03 | $353,656.03 | $32,160.82 | $321,598.21 |
| 8      | 2014-15 | $411,732.21 | $361,732.21 | $32,884.76 | $323,947.47 |
| 9      | 2015-16 | $419,956.86 | $369,956.86 | $33,633.35 | $336,333.51 |
| 10     | 2016-17 | $428,305.20 | $378,305.20 | $34,389.93 | $343,995.27 |
| 11     | 2017-18 | $436,033.52 | $386,033.52 | $35,175.77 | $351,757.74 |
| 12     | 2018-19 | $445,672.19 | $395,672.19 | $35,870.20 | $355,701.99 |
| 13     | 2019-20 | $454,585.63 | $404,585.63 | $36,760.51 | $367,806.12 |
| 14     | 2020-21 | $463,677.35 | $413,677.35 | $37,667.03 | $376,070.31 |
| 15     | 2021-22 | $472,956.89 | $422,956.89 | $38,560.09 | $385,500.81 |
| 16     | 2022-23 | $482,409.91 | $432,409.91 | $39,409.91 | $392,009.92 |
| 17     | 2023-24 | $492,258.11 | $442,258.11 | $40,167.10 | $401,097.01 |
| 18     | 2024-25 | $501,829.27 | $451,829.27 | $40,917.59 | $409,817.52 |
| 19     | 2025-26 | $511,937.26 | $461,937.26 | $41,664.30 | $419,842.96 |
| 20     | 2026-27 | $522,176.00 | $472,176.00 | $42,425.09 | $420,250.91 |
| 21     | 2027-28 | $532,195.52 | $482,195.52 | $43,184.50 | $430,745.02 |
| 22     | 2028-29 | $543,271.91 | $493,271.91 | $43,842.90 | $438,429.01 |
| 23     | 2029-30 | $554,137.35 | $504,137.35 | $44,500.67 | $445,300.66 |
| 24     | 2030-31 | $565,220.10 | $515,220.10 | $45,138.19 | $451,381.91 |
| 25     | 2031-32 | $576,524.50 | $526,524.50 | $45,765.80 | $457,658.40 |
| 26     | 2032-33 | $588,054.99 | $538,054.99 | $46,394.09 | $463,941.90 |
| 27     | 2033-34 | $599,616.09 | $549,616.09 | $47,003.28 | $470,003.28 |
| 28     | 2034-35 | $611,812.41 | $561,812.41 | $47,613.88 | $476,133.88 |
| 29     | 2035-36 | $624,048.66 | $574,048.66 | $48,216.24 | $482,162.42 |
| 30     | 2036-37 | $636,529.63 | $586,529.63 | $48,818.84 | $488,188.84 |</p>
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APPENDIX D
SUMMARY OF THE FISCAL AGENT AGREEMENT
The following summary discussion of selected provisions of the Fiscal Agent Agreement is made subject to all of the provisions thereof. This summary discussion does not purport to be a complete statement of such provisions and prospective purchasers of the Bonds are referred to the complete text of the Fiscal Agent Agreement, copies of which are available upon request sent to the Fiscal Agent.

Definitions

“Acquisition and Construction Account” means the account by that name within the Improvement Fund established pursuant to the Fiscal Agent Agreement.

“Acquisition/Financing Agreement” means the Acquisition Financing Agreement by and between the City and the Developers named therein, relating to the District, as such agreement may be amended.

“Act” means the Mello-Roos Community Facilities Act of 1982, as amended, Chapter 2.5 (commencing with Section 53311) of Part 1 of Division 2 of Title 5 of the California Government Code.

“Administrative Expenses” means any or all of the following actual or reasonably estimated costs directly related to the administration of the district: 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 City or otherwise); the costs of remitting the Special Taxes to the Fiscal Agent; the costs of the Fiscal Agent (including its legal counsel) in the discharge of the duties required of it under the Fiscal Agent Agreement; the costs to the City, the District or any designee thereof of complying with arbitrage rebate requirements, including but not limited to, any rebate obligation; the costs to the City, the District or any designee thereof of complying with disclosure requirements of the City and/or, the District associated with applicable federal and state securities laws and the Act; the costs associated with preparing Special Tax disclosure statements and responding to public inquiries regarding the Special Taxes; the costs to the City, the District or any designee thereof related to any appeal of the Special Tax; the costs associated with the release of funds from an escrow or appeals account, including appraisal costs; and the other fees and expenses of the City in carrying out its duties under the Fiscal Agent Agreement and in any way related to the administration of the District, an allocable share of the salaries of City staff directly related thereto and a proportionate amount of City general administrative overhead related thereto and any amounts paid by the City from its general fund or other fund pursuant to the Fiscal Agent Agreement. Administrative Expenses shall also include amounts estimated by the City or advanced by the City or the District for any other administrative purposes of the District, including attorney’s fees and other costs related to commencing and pursuing to completion any foreclosure of delinquent Special Taxes.

“Administrative Expense Fund” means the fund by that name established by the Fiscal Agent Agreement.

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

“Annual Administrative Expense Requirement” means an amount equal to $30,000, to be allocated annually as the first priority of Special Taxes received each Fiscal Year and transferred to the Administrative Expense Fund pursuant to the Fiscal Agent Agreement.

“Annual Debt Service” means, for each Bond Year, the sum of (i) the interest due on the Outstanding Bonds in such Bond Year, assuming that the Outstanding Bonds are retired as scheduled, and (ii) the principal amount of the Outstanding Bonds scheduled to be paid.

“Auditor” means the Auditor-Controller of the County of Riverside.

“Authorized Officer” means the City Manager, the Assistant City Manager, the Finance Director and any other officer or employee of the City authorized by the City Council or by an Authorized Officer to undertake the action referenced in the Fiscal Agent Agreement as required to be undertaken by an Authorized Officer.

“Bond Counsel” means any attorney or firm of attorneys acceptable to the City and nationally recognized for expertise in rendering opinions as to the legality and tax-exempt status of securities issued by public entities.

“Bond Fund” means the fund by that name established by the Fiscal Agent Agreement.
“Bond Year” means the period beginning on the Closing Date and ending on September 1, 2007 and thereafter the period beginning on each September 2 and ending on the following September 1.

“Bonds” means, unless otherwise expressly provided, the Community Facilities District No. 5 of the City of Moreno Valley 2007 Special Tax Bonds authorized by and at any time Outstanding pursuant to the Act and the Fiscal Agent Agreement.

“Business Day” means any day other than (i) a Saturday or a Sunday or (ii) a day on which banking institutions in the State of California or in any state in which the Fiscal Agent has its Principal Office are authorized or obligated by law or executive order to be closed.

“City” means the City of Moreno Valley.

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

“Closing Date” means the date upon which there is an exchange of the Bonds for the proceeds representing payment of the purchase price of the Bonds by the Original Purchaser.


“Completion Date” shall mean the earlier of a date that is three years after the Closing Date or a date upon which the City gives notice to the Fiscal Agent that the Project is complete.

“Continuing Disclosure Agreement” means the Continuing Disclosure Agreement between the City and the Fiscal Agent, as Dissemination Agent thereunder, dated as of the Closing Date, as originally executed and as it may be amended from time to time in accordance with the terms of the Fiscal Agent Agreement.

“Costs of Issuance” means items of expense payable or reimbursable directly or indirectly by the City and related to the authorization, sale and issuance of the Bonds, which items of expense shall include, but not be limited to, printing costs, costs of reproducing and binding documents, including but not limited to the preliminary official statement and official statement regarding the Bonds, closing costs, filing and recording fees, initial fees and charges of the Fiscal Agent including its first annual administration fee and the fees of its counsel, expenses incurred by the City in connection with the issuance of the Bonds and the formation of the District, Bond (underwriter’s) discount, legal fees and charges, including the fees of Bond Counsel, disclosure counsel and counsel to the Underwriter, if any, Financial Advisor’s fees, appraiser’s fees and costs, Tax Consultant’s fees and costs, charges for authentication, transportation and safekeeping of the Bonds and other costs, charges and fees in connection with the foregoing.

“Costs of Issuance Fund” means the fund by that name established by the Fiscal Agent Agreement.

“Debt Service” means the amount of interest and principal payable on the Bonds scheduled to be paid during the period of computation, excluding amounts payable during such period which relate to principal of the Bonds which are scheduled to be retired and paid before the beginning of such period.

“Defeasance Securities” means, for purposes of the Fiscal Agent Agreement, the following:

(i) United States Treasury Certificates, Notes and Bonds (including State and Local Government Series - “SLGs”);

(ii) Direct obligations of the United States Treasury which have been stripped by the Treasury itself, CATS, TIGRS and similar securities;

(iii) Resolution Funding Corporation (REFCORP) obligations; provided that only the interest component of REFCORP strips which have been stripped by request of the Federal Reserve Bank of New York in book-entry form are acceptable;

(iv) Pre-refunded municipal bonds rated “Aaa” by Moody’s and “AAA” by Standard & Poor’s; provided, however, that if the issue is only rated by Standard & Poor’s (i.e., there is no Moody’s rating), then the pre-refunded bonds must have been pre-refunded with cash, direct United States or United States guaranteed obligations, or “AAA” rated pre-refunded municipal bonds; and

(v) Obligations issued by the following agencies which are backed by the full faith and credit of the United States of America:

(a) U.S. Export-Import Bank

   Direct obligations or fully guaranteed certificates of beneficial ownership
(b) Farmers Home Administration
Certificates of beneficial ownership
(c) Federal Financing Bank
(d) General Services Administration
Participation certificates
(e) United States Maritime Administration
Guaranteed Title XI financing
(f) United States Department of Housing and Urban Development
Project notes
Local Authority Bonds
New Communities Debentures - United States government guaranteed debentures
United States Public Housing Notes and Bonds - United States government guaranteed public housing notes and bonds.

“Developed Property” has the meaning given to such term in the Rate and Method of Apportionment of Special Taxes adopted on the date the District was formed.

“District” means Community Facilities District No. 5 of the City of Moreno Valley, County of Riverside, State of California.

“EMWD” means Eastern Municipal Water District.

“EMWD Account” means the account by that name within the Improvement Fund established pursuant to the Fiscal Agent Agreement.

“EMWD Acquisition Facilities” shall have the meaning given the term “Acquisition Facilities” in the EMWD JCFA.

“EMWD Fee Facilities” shall have the meaning given such term in the EMWD JCFA.

“EMWD JCFA” means the Joint Community Facilities Agreement entered into effective as of July 18, 2005 by and among the City, EMWD and Stoneridge Centre Partners, L.P.

“Federal Securities” means any of the following which at the time of investment are legal investments under the laws of the State of California for the moneys proposed to be invested therein:

(i) Cash; and

(ii) Direct general obligations of (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America and CATS and TIGRS), or obligations, the payment of principal of and interest on which is unconditionally guaranteed by the United States of America.

“Financial Advisor” means an independent financial consulting firm appointed by the City to advise the City as to financial matters relating to the Bonds.

“Fiscal Agent” means Wells Fargo Bank, National Association, the Fiscal Agent appointed by the City, acting as an independent fiscal agent with the duties and powers provided in the Fiscal Agent Agreement, its successors and assigns, and any other corporation or association which may at any time be substituted in its place, as provided in the Fiscal Agent Agreement.

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

“Improvement Fund” means the fund by that name established by the Fiscal Agent Agreement.

“Independent CPA” means a firm of certified public accountants which is not an employee of, or otherwise controlled by, the City.
“Independent Financial Consultant” means a firm of certified public accountants, a financial consulting firm, a consulting engineering firm or engineer which is not an employee of, or otherwise controlled by, the City.

“Information Services” means Bloomberg Municipal Repositories, P.O. Box 840, Princeton, New Jersey, 08542-0840; DPC Data Inc., One Executive Drive, Fort Lee, New Jersey, 07024; Interactive Data, 100 Williams Street, New York, New York, 10038, Attention: Repository; Standard & Poor’s J. J. Kenny Repository, 55 Water Street, 45th Floor, New York, New York, 10041; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other services providing information with respect to called bonds as the City may designate in an Officer’s Certificate delivered to the Fiscal Agent.

“Interest Account” means the account by that name established in the Bond Fund by the Fiscal Agent Agreement.

“Interest Payment Dates” means March 1 and September 1 of each year, commencing September 1, 2007, until the maturity or redemption of all Outstanding Bonds.

“Investment Earnings” means all interest earned and any gains and losses on the investment of moneys in any fund or account created by the Fiscal Agent Agreement, excluding interest earned and gains and losses on the investment of moneys in the Rebate Fund.

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

“Moody’s” shall mean Moody’s Investors Service, a national rating service with offices in New York, New York.

“Officer’s Certificate” means a written certificate of the City signed by an Authorized Officer of the City.

“Ordinance” means any ordinance of the City or resolution of the City Council levying the Special Taxes.

“Original Purchaser” means the first purchaser of the Bonds from the City.

“Outstanding,” when used as of any particular time with reference to the Bonds, means (subject to the provisions of the Fiscal Agent Agreement) all Bonds except:

(i) Bonds theretofore canceled by the Fiscal Agent or surrendered to the Fiscal Agent for cancellation;
(ii) Bonds called for redemption which, for the reasons specified in the Fiscal Agent Agreement, are no longer entitled to any benefit under the Fiscal Agent Agreement other than the right to receive payment of the redemption price therefor;
(iii) Bonds paid or deemed to have been paid within the meaning of the Fiscal Agent Agreement; and
(iv) Bonds in lieu of or in substitution for which other Bonds shall have been authorized, executed, issued and delivered by the City and authenticated by the Fiscal Agent pursuant to the Fiscal Agent Agreement or any Supplemental Agreement.

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

“Permitted Investments” means:

(i) Federal Securities;
(ii) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):
(a) U.S. Export-Import Bank
Direct obligations or fully guaranteed certificates of beneficial ownership
(b) Farmers Home Administration
Certificates of beneficial ownership
(c) Federal Financing Bank
(d) Federal Housing Administration Debentures
(e) General Services Administration
Participation certificates
(f) Government National Mortgage Association (GNMA)
   GNMA - guaranteed mortgage-backed bonds
   GNMA - guaranteed pass-through obligations
(g) U.S. Maritime Administration
   Guaranteed Title XI financing
(h) U.S. Department of Housing and Urban Development
   Project Notes
Local Authority Bonds
New Communities Debentures - United States government guaranteed debentures
U.S. Public Housing Notes and Bonds - United States government guaranteed public housing notes and bonds;
(iii) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit United States government agencies (stripped securities are only permitted if they have been stripped by the agency itself):
   (a) Federal Home Loan Bank System
      Senior debt obligations
   (b) Federal Home Loan Mortgage Corporation
      Participation Certificates
      Senior debt obligations
   (c) Federal National Mortgage Association
      Mortgage-backed securities and senior debt obligations
   (d) Student Loan Marketing Association
      Senior debt obligations
   (e) Resolution Funding Corporation
      (REFCORP) obligations
   (f) Farm Credit System
      Consolidated systemwide bonds and notes;
   (iv) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by Standard & Poor’s of “AAAm-G,” “AAA-m” or “AA-m” and, if rated by Moody’s, rated “Aaa,” “Aa1” or “Aa2” by Moody’s, including funds for which the Fiscal Agent, its parent holding company, if any, or any affiliates or subsidiaries of the Fiscal Agent or such holding company provide investment management or other management services;
   (v) Certificates of deposit secured at all times by collateral described in clauses (i) and/or (ii) above. Such certificates must be issued by commercial banks, including the Fiscal Agent and its affiliates, savings and loan associations or mutual savings banks. The collateral must be held by a third party and the Fiscal Agent on behalf of the Owners of the Bonds must have a perfected first security interest in the collateral;
(vi) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF including those that may be issued or provided by the Fiscal Agent and its affiliates;

(vii) Investment agreements with domestic or foreign banks, insurance companies or corporations the long-term debt or claims paying ability of which or, in the case of a guaranteed corporation, the long-term debt of the guarantor, or, in the case of a monoline financial guaranty insurance company, the claims paying ability or financial strength, of the guarantor is rated in at least the double A category by Standard & Poor’s and Moody’s; provided that, by the terms of the investment agreement:

(a) interest payments are to be made to the Fiscal Agent at times and in amounts as necessary to pay Debt Service on the Bonds (if the funds invested pursuant to the investment agreement are from the Reserve Fund);

(b) the investment agreement shall provide that the invested funds are available for withdrawal without penalty or premium at any time upon not more than seven (7) days’ prior notice (The City and the Fiscal Agent shall give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium payable.);

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

(d) the City and the Fiscal Agent receive the opinion of domestic counsel (which opinion shall be addressed to the City and the Fiscal Agent) that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and of foreign counsel (if applicable) in form and substance acceptable, and addressed to, the City and the Fiscal Agent;

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

(1) the provider’s (or its guarantor’s) rating by either Standard & Poor’s or Moody’s falls below “AA-” or “Aa3”, respectively, the provider shall, at its option, within ten (10) days of receipt of publication of such downgrade, either (i) collateralize the investment agreement by delivering or transferring in accordance with the applicable state and federal laws (other than by means of entries on the provider’s books) to the City, the Fiscal Agent or a third party acting solely as agent therefor (the “Holder of the Collateral”) collateral free and clear of any third-party liens or claims, the market value of which collateral is maintained at one hundred four percent (104%) of securities identified in clauses (i) and (ii) of this definition; or (ii) assign the investment agreement and all of its obligations thereunder to a financial institution mutually acceptable to the Provider, the City and the Fiscal Agent which is rated either in the first or second highest category by Standard & Poor’s and Moody’s; and

(2) the provider’s (or its guarantor’s) rating by either Standard & Poor’s or Moody’s is withdrawn or suspended or falls below “A-” or “A3”, respectively, the provider must, at the direction of the City or the Fiscal Agent, within ten (10) days of receipt of such direction, repay the principal of and accrued but unpaid interest on the invested funds, in either case with no penalty or premium to the City or the Fiscal Agent; and

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

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

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

(2) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. (“event of insolvency”), the provider’s
obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be paid to the City or the Fiscal Agent, as appropriate;

(viii) Commercial paper rated, at the time of purchase, “Prime - 1” by Moody’s and “A-1” or better by Standard & Poor’s;

(ix) Bonds or notes issued by any state or municipality which are rated by Moody’s or Standard & Poor’s in one of the two highest rating categories assigned by them;

(x) Federal funds or bankers acceptances with a maximum term of one year of any bank, including the Fiscal Agent and its affiliates, which has an unsecured, uninsured and unguaranteed obligation rating of “Prime - 1” or “A3” or better by Moody’s and “A-1” or better by Standard & Poor’s;

(xi) Repurchase agreements which satisfy the following criteria:

(a) Repurchase agreements must be between the City or the Fiscal Agent and an entity which is:

(1) A primary dealer on the Federal Reserve reporting dealer list which is rated “A” or better by Standard & Poor’s and Moody’s; or

(2) A bank rated “A” or above by Standard & Poor’s and Moody’s; or

(3) A corporation the long-term debt or claims paying ability of which, or in the case of a guaranteed corporation, the long-term debt of the guarantor, or, in the case of a monoline financial guaranty insurance company, the claims paying ability or financial strength of the guarantor, is rated in at least the double A category by Standard & Poor’s and Moody’s.

(b) The written agreement must include the following:

(1) securities which are acceptable for transfer are:

(A) direct obligations of the United States government, or

(B) obligations of federal agencies backed by the full faith and credit of the United States of America (or the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC));

(2) the collateral must be delivered to the City or the Fiscal Agent (if the Fiscal Agent is not supplying the collateral) or a third party acting as agent for the Fiscal Agent (if the Fiscal Agent is supplying the collateral) before or simultaneous with payment (perfection by possession of certificated securities);

(3) (A) the securities must be valued weekly, marked-to-market at current market price plus accrued interest; and

(B) the value of the collateral must be at least equal to one hundred four percent (104%) of the amount of money transferred by the Fiscal Agent to the dealer, bank or corporation under the agreement plus accrued interest. If the value of the securities held as collateral is reduced below one hundred four percent (104%) of the value of the amount of money transferred by the Fiscal Agent, then additional acceptable securities and/or cash must be provided as collateral to bring the value of the collateral to one hundred four percent (104%); provided, however, that if the securities used as collateral are those of FNMA or FHLMC, then the value of the collateral must equal to one hundred five percent (105%) of the amount of money transferred by the Fiscal Agent;

(xii) forward delivery agreements (FDA) or forward purchase and sale agreements (FPSA) having as the underlying investment property investments of the type which are identified in clauses (i), (ii), (iii) or (viii) of this definition; and

(xiii) the Local Agency Investment Fund in the State Treasury of the State of California as permitted by the State Treasurer pursuant to Section 16429.1 of the California Government Code.

“Principal Account” means the account by that name established in the Bond Fund by the Fiscal Agent Agreement.
“Principal Office” means the principal corporate trust office of the Fiscal Agent at MAC E2818-176, 707 Wilshire Blvd., 17th floor, Los Angeles CA 90017, or such other addresses may be specified in writing by the Fiscal Agent; provided, however, that for purposes of the transfer, registration, exchange, payment and surrender of Bonds “Principal Office” means the office or agency of the Fiscal Agent at which, at any time, its corporate trust agency business shall be conducted or such other office or address as may be specified in writing by the Fiscal Agent.

“Proceeds,” when used with reference to the Bonds, means the aggregate principal amount of the Bonds, plus accrued interest and premium, if any, less original issue discount, if any.

“Project” means the public facilities which are authorized to be financed with the proceeds of the Special Taxes and the sale of the Bonds of the District (excluding the EMWD Acquisition Facilities and the EMWD Fee Facilities), as described in Resolution No. 2005-104 adopted by the City Council on October 25, 2005.

“Rebate Certificate” means the certificate delivered by the City upon the delivery of the Bonds relating to Section 148 of the Code, or any functionally similar replacement certificate.

“Rebate Fund” means the fund by that name established by the Fiscal Agent Agreement.

“Record Date” means the fifteenth (15th) day of the month next preceding the applicable Interest Payment Date whether or not such day is a Business Day.

“Regulations” means the temporary and permanent regulations of the United States Department of the Treasury promulgated under the Code.

“Representation Letter” means the representation letter which the City has delivered to The Depository Trust Company (“DTC”) with respect to the utilization of the book-entry system maintained by DTC for the issuance and registration of bonds.

“Reserve Fund” means the fund by that name established by the Fiscal Agent Agreement.

“Reserve Requirement” means, as of the date of calculation, the lesser of (i) ten percent (10%) of the Proceeds of the sale of the Bonds; (ii) Maximum Annual Debt Service on the Bonds; or (iii) 125 percent of average Annual Debt Service on the Bonds, as determined by the City.


“Securities Depositories” means The Depository Trust Company, 55 Water Street, 50th Floor, New York, New York, 10041-0099, Call Notification Department, Fax (212) 855-7232, and, in accordance with then current guidelines of the Securities and Exchange Commission, such other securities depositories as the City may designate in an Officer’s Certificate delivered to the Fiscal Agent.

“Special Taxes” or “Special Tax” means the special taxes levied by the City Council in any Fiscal Year on parcels of taxable property within the District pursuant to the Act and the Fiscal Agent Agreement.

“Special Tax Fund” means the fund by that name established by the Fiscal Agent Agreement.

“Special Tax Prepayments” means amounts received by the City as prepayments of all or a portion of the Special Tax obligation of a parcel of property in the District.

“Special Tax Prepayments Account” means the account by that name established by the Fiscal Agent in the Bond Fund pursuant to the Fiscal Agent Agreement.

“Special Tax Revenues” means the proceeds of the Special Taxes received by the City, including any scheduled payments, interest and penalties thereon and proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes in the amount of said lien and interest and penalties thereon.

“Standard & Poor’s” shall mean Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., a national rating service with offices in New York, New York.

“Supplemental Agreement” means an agreement entered into by and between the City and the Fiscal Agent amending and supplementing the Fiscal Agent Agreement as permitted by the Fiscal Agent Agreement.

“Surplus Account” means the account by that name established in the Special Tax Fund by the Fiscal Agent Agreement.
Tax Consultant” means an engineer or financial consultant or other such person or firm with expertise in the apportionment and levy of special taxes in community facilities districts which is employed by the City to assist the City in levying the Special Taxes.

Special Obligation

All obligations of the City and the District under the Fiscal Agent Agreement and the Bonds shall be special obligations of the City and the District, payable solely from the Special Tax Revenues and the funds pledged therefor pursuant to the provisions of the Fiscal Agent Agreement. Neither the faith and credit nor the taxing power of the City, the District (except to the limited extent set forth in the Fiscal Agent Agreement) or the State of California or any political subdivision thereof is pledged to the payment of the Bonds.

Funds And Accounts

Improvement Fund

Establishment of Improvement Fund. The Fiscal Agent Agreement establishes a separate fund designated the Community Facilities District No. 5 of the City of Moreno Valley Special Tax Bonds “Improvement Fund” to be held by the Fiscal Agent, and within such fund two accounts, the “Acquisition and Construction Account” and the “EMWD Account” to the credit of which a deposits shall be made as required by the Fiscal Agent Agreement. In the event that the City or District receive a reimbursement from EMWD for any portion of the cost of the construction of any EMWD Acquisition Facilities the amount of any such reimbursement shall be deposited in the EMWD Account if such account has not been closed and, if the EMWD Account has been closed, to the Acquisition and Construction Account if such account has not been closed and, if the Acquisition and Construction Account has been closed, to the Special Tax Fund.

Moneys in the Acquisition and Construction Account shall be held by the Fiscal Agent for the benefit of the City, and shall be disbursed, except as otherwise provided in the Fiscal Agent Agreement, for the payment or reimbursement of the costs of the design, acquisition and construction of the Project.

Moneys in the EMWD Account shall be held by the Fiscal Agent for the benefit of the EMWD, and shall be disbursed, except as otherwise provided in the Fiscal Agent Agreement, for the payment or reimbursement of the costs of EMWD Fee Facilities and/or EMWD Acquisition Facilities pursuant to the EMWD JCFA.

Procedure for Disbursement

Acquisition and Construction Account. Disbursements from the Acquisition and Construction Account shall be made by the Fiscal Agent in accordance with the Acquisition/Financing Agreement and upon receipt of an Officer’s Certificate which shall:

(a) set forth the amount required to be disbursed, the purpose for which the disbursement is to be made and the person to which the disbursement is to be paid; and

(b) certify that no portion of the amount then being requested to be disbursed was set forth in any Officer’s Certificate previously filed with the Fiscal Agent requesting disbursement, and that the amount being requested is an appropriate disbursement from the Acquisition and Construction Account.

EMWD Account. Disbursements from the EMWD Account shall be made by the Fiscal Agent in accordance with the EMWD JCFA and upon receipt of an Officer’s Certificate which shall:

(a) set forth the amount required to be disbursed, the purpose for which the disbursement is to be made and the person to which the disbursement is to be paid; and

(b) certify that no portion of the amount then being requested to be disbursed was set forth in any Officer’s Certificate previously filed with the Fiscal Agent requesting disbursement, and that the amount being requested is an appropriate disbursement from the EMWD Account.

Investment. Moneys in the Acquisition and Construction Account and the EMWD Account shall be invested and deposited in accordance with the Fiscal Agent Agreement. Investment Earnings with respect to each such account shall be retained by the Fiscal Agent in such account to be used for the purposes of such account.

Closing of Accounts

Acquisition and Construction Account. Upon the filing of an Officer’s Certificate stating that the construction and acquisition of the Project has been completed in accordance with the Acquisition/Financing
The Fiscal Agent Agreement establishes a separate fund designated the Special Tax Fund, after the appropriate transfer to the Administrative Expense Fund, to Special Tax Fund for deposit in the Reserve Fund but shall instead direct the Fiscal Agent to deposit such portion of parcels of taxable property in the District, the City shall not direct the Fiscal Agent to transfer any amount from the collected by the City for any Fiscal Year is less than the total amount of the Special Taxes which were levied on provided in the Fiscal Agent Agreement, the entire remaining balance of the amount then on deposit in the Special Fund. Thereafter, the Fiscal Agent shall deposit in the Interest Account and the Principal Account of the Bond Fund, as provided in the Fiscal Agent Agreement, the Fiscal Agent is authorized to act thereon without further inquiry and shall not be responsible for the accuracy of the statements made in such Officer’s Certificate or the application of the funds disbursed pursuant thereto, and shall be absolutely protected and incur no liability in relying on such Officer’s Certificate.

Special Tax Fund

Establishment of Special Tax Fund. The Fiscal Agent Agreement establishes a separate fund designated the Community Facilities District No. 5 of the City of Moreno Valley Special Tax Bonds “Special Tax Fund” to be held by the Fiscal Agent, to the credit of which the City shall deposit, as provided in the Fiscal Agent Agreement, not later than ten (10) Business Days after receipt, all Special Tax Revenues received by the City. Within such fund there is to be established as a separate account, to be held by the Fiscal Agent, the “Surplus Account” to the credit of which amounts shall be deposited as provided in the Fiscal Agent Agreement. Moneys in the Special Tax Fund, and all accounts therein, shall be held in trust by the Fiscal Agent for the benefit of the City and the Owners of the Bonds, shall be disbursed as provided below and, pending disbursement, shall be subject to a lien in favor of the Owners of the Bonds.

Notwithstanding the foregoing, any amounts received by the City which constitute Special Tax Prepayments shall be transferred by the City not later than ten (10) Business Days after receipt to the Fiscal Agent for deposit by the Fiscal Agent in the Special Tax Prepayments Account established pursuant to the Fiscal Agent Agreement.

Disbursements. As soon as practicable after the receipt from the City of any Special Tax Revenues, but no later than ten (10) Business Days after such receipt, the Fiscal Agent shall withdraw from the Special Tax Fund and deposit in the Administrative Expense Fund, an amount which is estimated by the City, in a written communication from an Authorized Officer delivered to the Fiscal Agent (upon which the Fiscal Agent may conclusively rely) to be sufficient, together with the amount then on deposit in the Administrative Expense Fund, to pay the Administrative Expenses during the current Fiscal Year; provided, however, that the amount deposited in the Administrative Expense Fund prior to the deposits to the Interest Account and the Principal Account of the Bond Fund, as provided below in the Fiscal Agent Agreement, shall not exceed the Annual Administrative Expense Requirement for any Fiscal Year. From the amount then remaining on deposit in the Special Tax Fund, the Fiscal Agent shall, concurrently with the foregoing deposit, deposit in the Reserve Fund the amount, if any, which the City shall direct in an Officer’s Certificate delivered to the Fiscal Agent (upon which the Fiscal Agent may conclusively rely), to be withdrawn from the Special Tax Fund to make the amount on deposit therein equal to the Reserve Requirement. Thereafter, the Fiscal Agent shall deposit in the Interest Account and the Principal Account of the Bond Fund, as provided in the Fiscal Agent Agreement, the entire remaining balance of the amount then on deposit in the Special Tax Fund. Notwithstanding the preceding provisions of this paragraph, if the amount of the Special Tax Revenues collected by the City for any Fiscal Year is less than the total amount of the Special Taxes which were levied on parcels of taxable property in the District, the City shall not direct the Fiscal Agent to transfer any amount from the Special Tax Fund for deposit in the Reserve Fund but shall instead direct the Fiscal Agent to deposit such portion of the amount remaining in the Special Tax Fund, after the appropriate transfer to the Administrative Expense Fund, to
make the deposits to the Interest Account and the Principal Account as provided in the Fiscal Agent Agreement. If after such deposits are made to the Administrative Expense Fund, the Interest Account and the Principal Account there are funds remaining on deposit in the Special Tax Fund, the City shall instruct the Fiscal Agent by an Officer’s Certificate (upon which the Fiscal Agent may conclusively rely) to transfer such amount from the Special Tax Fund to and deposit it in the Reserve Fund to the extent that the amount on deposit therein is less than the Reserve Requirement. Such Officer’s Certificate shall specify the amount which is to be transferred from the Special Tax Fund and deposited in the Reserve Fund.

Notwithstanding the preceding provisions, if prior to the September 1 Interest Payment Date in any Bond Year the City determines that Special Tax Revenues will be sufficient to enable the Fiscal Agent to deposit in the Reserve Fund the amount, if any, which is necessary to make the amount on deposit therein equal to the Reserve Requirement, and deposit in the Bond Fund the full amount required for deposit to the Interest Account and the Principal Account to pay the interest on and principal of the Bonds on such Interest Payment Date, the City may instruct the Fiscal Agent in an Officer’s Certificate, upon which the Fiscal Agent may conclusively rely, to deposit an additional amount in the Administrative Expense Fund before making the required deposit to the Bond Fund, and the Fiscal Agent shall deposit such additional amount in the Administrative Expense Fund before depositing any amount to the Reserve Fund or the Bond Fund.

Prior to the Completion Date, at the end of each Bond Year any remaining funds in the Special Tax Fund, which are not required to cure a delinquency in the payment of principal and interest on the Bonds, to restore the Reserve Fund or to pay current and pending Administrative Expenses as set forth in the above (“Excess Amounts”), shall be deposited in the Acquisition and Construction Account of the Improvement Fund and used in accordance with the Fiscal Agent Agreement and shall be free and clear of any lien thereon or pledge thereunder; provided, any funds which are required to cure any delinquency described above shall be retained in the Special Tax Fund and expended or transferred, at the earliest possible date, for such purpose. After the Completion Date, all Excess Amounts shall be deposited to the Bond Fund.

At the date of the redemption, defeasance or maturity of the last Bonds and after all principal and interest then due on any Bonds has been paid or provided for, all other covenants are complied with and all fees and expenses of the Fiscal Agent have been paid, moneys in the Special Tax Fund, if any, will be transferred to the Improvement Fund by the Fiscal Agent and may be used to fund any remaining Projects authorized by the District.

On or before the March 1 Interest Payment Date in each Bond Year, if the amount of other moneys which is on deposit in the Special Tax Fund is less than the amount of the interest on the Bonds which is due on such Interest Payment Date, the Fiscal Agent shall transfer moneys from the Surplus Account, to the extent of moneys on deposit therein and available for transfer, to and deposit such moneys in the Interest Account of the Bond Fund in an amount not to exceed the deficiency in the amount of other moneys which are on deposit in the Special Tax Fund, and available for transfer to and deposit in the Interest Account to pay the full amount of the interest on the Bonds which is due and payable on such Interest Payment Date. On or before the September 1 Interest Payment Date in each Bond Year, if the amount of other moneys which is on deposit in the Special Tax Fund is less than the amount of the interest on and principal of the Bonds which is due on such Interest Payment Date, the Fiscal Agent shall transfer moneys from the Surplus Account, to the extent of moneys on deposit therein and available for transfer, to and deposit such moneys in the Interest Account and the Principal Account in amounts not to exceed the amount of the deficiency in the amount of other moneys which are on deposit in the Special Tax Fund, and available for transfer, to pay the full amount of the interest on and principal of the Bonds which is due and payable on such Interest Payment Date. On or before May 30 of each year, commencing on May 30, 2007 the Fiscal Agent shall notify the City of the amount which is then on deposit in the Surplus Account and of the aggregate amount of the principal of and interest on the Bonds which will become due and payable on the following September 1.

On September 2 of each year, beginning on September 2, 2007, the amount, if any, on deposit in the Special Tax Fund (including the amount on deposit in the Surplus Account), together with the amount then on deposit in the Bond Fund (including the Principal Account therein but not including, however, the Interest Account or the Special Tax Prepayments Account), as determined by the City, shall not exceed the greater of (i) one year’s earnings on such amounts, or (ii) one-twelfth (1/12th) of Annual Debt Service for the then current Bond Year. If on September 2 of any year the amount on deposit in the Special Tax Fund (including the Surplus Account), together with the amount then on deposit in the Bond Fund (other than such excluded amounts), exceeds the maximum amount allowable pursuant to the preceding sentence, as determined by the City and communicated in writing by an Authorized Officer to the Fiscal Agent (upon which the Fiscal Agent may conclusively rely), shall be transferred from the Special Tax Fund to and deposited in the Reserve Fund to the extent that the amount on deposit therein is
less than the Reserve Requirement. Any such excess remaining in the Special Tax Fund after any such amount is transferred from the Special Tax Fund to the Reserve Fund shall be transferred from the Special Tax Fund to and deposited in the Administrative Expense Fund. On September 2 of each year, after any such excess amount has been transferred as provided above, the amount on deposit in the Special Tax Fund (including the Surplus Account), together with the amount then on deposit in the Bond Fund (other than such excluded amounts), shall not exceed in the aggregate the greater of (i) one year’s earnings thereon, or (ii) one-twelfth (1/12th) of Annual Debt Service for the then current Bond Year. The Fiscal Agent shall have no obligation to monitor the City’s obligations as set forth in this paragraph.

Investment. Moneys in the Special Tax Fund shall be invested and deposited in accordance with the Fiscal Agent Agreement. Investment Earnings shall be retained in the Special Tax Fund to be used for the purposes of such fund.

Administrative Expense Fund.

Establishment of Administrative Expense Fund. The Fiscal Agent Agreement establishes a separate fund designated the Community Facilities District No. 5 of the City of Moreno Valley Special Tax Bonds “Administrative Expense Fund” to be held by the Fiscal Agent, to the credit of which deposits shall be made as required by the Fiscal Agent Agreement. Moneys in the Administrative Expense Fund shall be held in trust by the Fiscal Agent for the benefit of the City, and shall be disbursed as provided below.

Disbursement. Amounts in the Administrative Expense Fund shall be withdrawn by the Fiscal Agent and paid to the City or its order upon receipt by the Fiscal Agent of an Officer’s Certificate stating the amount to be withdrawn, that such amount is to be used to pay an Administrative Expense and the nature of such Administrative Expense.

Investment. Subject to the provisions of the Fiscal Agent Agreement, moneys in the Administrative Expense Fund shall be invested and deposited in accordance with the Fiscal Agent Agreement. Investment Earnings shall be retained by the Fiscal Agent in the Administrative Expense Fund to be used for the purposes of such fund.

Costs of Issuance Fund.

Establishment of Costs of Issuance Fund. The Fiscal Agent Agreement establishes a separate fund designated the Community Facilities District No. 5 of the City of Moreno Valley Special Tax Bonds “Costs of Issuance Fund” to be held by the Fiscal Agent, to the credit of which a deposit shall be made as required by the Fiscal Agent Agreement. Moneys in the Costs of Issuance Fund shall be held in trust by the Fiscal Agent and shall be disbursed as provided in the Fiscal Agent Agreement for the payment or reimbursement of Costs of Issuance.

Disbursement. Amounts in the Costs of Issuance Fund shall be disbursed to pay Costs of Issuance, as set forth in a requisition containing respective amounts to be paid to the designated payees, signed by an Authorized Officer and delivered to the Fiscal Agent concurrently with the delivery of the Bonds. The Fiscal Agent shall pay all Costs of Issuance upon receipt of an invoice from any such payee which requests payment in an amount which is less than or equal to the amount set forth with respect to such payee in such requisition, or upon receipt of an Officer’s Certificate requesting payment of a Cost of Issuance not listed on the initial requisition delivered to the Fiscal Agent on the Closing Date. The Fiscal Agent shall maintain the Costs of Issuance Fund for a period of ninety (90) days from the Closing Date and shall then transfer and deposit any moneys remaining therein, including any Investment Earnings thereon, to the Improvement Fund.

Investment. Moneys in the Costs of Issuance Fund shall be invested and deposited in accordance with the Fiscal Agent Agreement. Investment Earnings shall be retained by the Fiscal Agent in the Costs of Issuance Fund to be used for the purposes of such fund.

SPECIAL TAX REVENUES; BOND FUND; RESERVE FUND

Pledge of Special Tax Revenues.

The Bonds shall be secured by a pledge of and lien upon (which shall be effected in the manner and to the extent provided in the Fiscal Agent Agreement) all of the Special Tax Revenues (except an amount equal to the Annual Administrative Expense Requirement which will be deposited in the Administrative Expense Fund for each Fiscal Year pursuant to the Fiscal Agent Agreement) and all moneys deposited in the Bond Fund and all moneys deposited in the Reserve Fund. The Bonds shall be equally secured by a pledge of and lien upon the Special Tax Revenues and such moneys without priority for number, date of Bond, date of execution or date of delivery; and the payment of the interest on and principal of the Bonds and any premium upon the redemption of any thereof shall be and is
secured by a pledge of and lien upon the Special Tax Revenues and such moneys. The Special Tax Revenues
(except an amount equal to the Annual Administrative Expense Requirement) and all moneys deposited into the
Bond Fund and the Reserve Fund (including all accounts within such funds) are hereby dedicated in their entirety to
the payment of the principal of the Bonds, and interest and any premium on, the Bonds, as provided in the Fiscal
Agent Agreement and in the Act, until all of the Bonds have been paid and retired or until moneys or Defeasance
Securities have been set aside irrevocably for that purpose in accordance with the Fiscal Agent Agreement.

**Bond Fund.**

**Deposits.** The Fiscal Agent Agreement establishes a separate fund designated as the Community Facilities
District No. 5 of the City of Moreno Valley Special Tax Bonds “Bond Fund” to be held by the Fiscal Agent, to the
credit of which deposits shall be made as required by the Fiscal Agent Agreement or the Act. Within the Bond
Fund, there are to be established as separate accounts to be held by the Fiscal Agent, the “Interest Account” and the
“Principal Account.” Also to be established in the Bond Fund, as a separate account to be held by the Fiscal Agent,
is the “Special Tax Prepayments Account” to the credit of which deposits shall be made as required by the Fiscal
Agent Agreement. Moneys in the Bond Fund shall be held, in trust, by the Fiscal Agent for the benefit of the
Owners of the Bonds, shall be disbursed for the payment of the principal of, and interest and any premium on, the
Bonds as provided below, and, pending such disbursement, shall be subject to a lien in favor of the Owners of the
Bonds.

**Disbursements.** On or before each Interest Payment Date, the Fiscal Agent shall transfer from the Special
Tax Fund (including the Surplus Account) and deposit into the following respective accounts in the Bond Fund, the
following amounts in the following order of priority, the requirements of each such account (including the making
up of any deficiencies in any such account resulting from lack of Special Tax Revenues sufficient to make any
earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent
in priority:

**Interest Account.** On or before each Interest Payment Date, except the Interest Payment Dates
which occur on September 1, 2007 and March 1, 2008, the Fiscal Agent shall deposit in the Interest
Account an amount required to cause the aggregate amount on deposit in the Interest Account to equal the
amount of interest becoming due and payable on the Bonds on such date. No deposit need be made into the
Interest Account on any Interest Payment Date if the amount on deposit therein is at least equal to the
interest becoming due and payable on the Bonds on such date. All moneys in the Interest Account shall be
used and withdrawn by the Fiscal Agent solely for the purpose of paying the interest on the Bonds as it
shall become due and payable (including accrued interest on any Bonds redeemed prior to maturity). All
amounts on deposit in the Interest Account on the first day of any Bond Year, to the extent not required to pay any interest then having become
due and payable on the Outstanding Bonds shall be withdrawn therefrom by the Fiscal Agent and
transferred to the Surplus Account.

**Principal Account.** On or before each Interest Payment Date which occurs on September 1, the
Fiscal Agent shall deposit in the Principal Account an amount required to cause the aggregate amount on
deposit in the Principal Account to equal the principal amount of the Bonds becoming due and payable on
such date pursuant to the Fiscal Agent Agreement, or the redemption price of the Bonds (consisting of the
principal amount thereof and any applicable redemption premium) required to be redeemed on such date
pursuant to any of the provisions of the Fiscal Agent Agreement. Except as provided in the Fiscal Agent
Agreement, all moneys in the Principal Account shall be used and withdrawn by the Fiscal Agent solely for
the purpose of (i) paying the principal of the Bonds at the maturity thereof, or (ii) paying the principal of
and premium (if any) on any Bonds upon the redemption thereof pursuant to the Fiscal Agent Agreement.
All amounts on deposit in the Principal Account on the first day of any Bond Year, to the extent not
required to pay the principal of any Outstanding Bonds then having become due and payable, shall be
withdrawn therefrom by the Fiscal Agent and transferred to the Surplus Account.

On the first Business Day following each Interest Payment Date, the Fiscal Agent shall transfer any moneys
remaining on deposit in the Bond Fund (including the Interest Account and the Principal Account) other than
moneys on deposit in the Special Tax Prepayments Account and moneys representing capitalized interest on the
Bonds in the Interest Account, as directed in writing by an Authorized Officer (upon which direction the Fiscal
Agent may conclusively rely), to the Surplus Account.
In the event that moneys on deposit in the Special Tax Fund, including moneys on deposit in the Surplus Account, will be insufficient on any Interest Payment Date for the Fiscal Agent to deposit the required amounts in the Interest Account and the Principal Account, as provided above, the Fiscal Agent shall deposit the available funds first to the Interest Account up to the full amount required to cause the aggregate amount on deposit therein to equal the amount of interest becoming due and payable on the Bonds on the Interest Payment Date, and shall then deposit the remaining available funds in the Special Tax Fund to the Principal Account up to the full amount required to cause the aggregate amount on deposit therein to equal the amount, if any, of principal becoming due and payable on the Bonds on the Interest Payment Date. If, after making such deposits to the Interest Account and the Principal Account, and after transferring moneys from the Reserve Fund to such accounts, as provided in the Fiscal Agent Agreement, the amount on deposit in the Principal Account is insufficient to pay the full amount of the principal of each of the Bonds which is to be redeemed on the Interest Payment Date, the Fiscal Agent shall make a prorated payment of the principal of each of such Bonds as specified in an Officer’s Certificate provided to the Fiscal Agent.

On September 2 of each year, beginning on September 2, 2008, the amount, if any, on deposit in the Bond Fund (including the amount on deposit in the Principal Account but not including, however, the amounts on deposit in the Interest Account and the Special Tax Prepayments Account) as determined by the City, together with the amount then on deposit in the Special Tax Fund (including the Surplus Account), shall not exceed the greater of (i) one year’s earnings on such amounts, or (ii) one-twelfth (1/12th) of Annual Debt Service for the then current Bond Year. If on September 2 of any year the amount on deposit in the Bond Fund (other than such excluded amounts), together with the amounts then on deposit in the Special Tax Fund, exceeds the maximum amount allowable pursuant to the preceding sentence, the excess shall be transferred by the Fiscal Agent, as directed in writing by the City (upon which the Fiscal Agent may conclusively rely), to the Reserve Fund to the extent that the amount on deposit therein is less than the Reserve Requirement, and any such excess remaining thereafter shall be transferred by the Fiscal Agent to the Administrative Expense Fund. On September 2 of each year, after any such excess amount has been transferred as provided above, the amount on deposit in the Bond Fund (other than such excluded amounts), together with the amount then on deposit in the Special Tax Fund, shall not exceed the greater of (i) one year’s earnings thereon, or (ii) one-twelfth (1/12th) of Annual Debt Service for the then current Bond Year. The Fiscal Agent shall have no obligation to monitor the City’s obligations as set forth in this paragraph.

Special Tax Prepayments Account Deposits and Disbursements. Within ten (10) Business Days after receiving a Special Tax Prepayment the City shall deliver the amount thereof to the Fiscal Agent, together with an Officer’s Certificate notifying the Fiscal Agent that the amount being delivered is a Special Tax Prepayment which is to be deposited in the Special Tax Prepayments Account. Upon receiving a Special Tax Prepayment from the City and such an Officer’s Certificate, the Fiscal Agent shall deposit the amount of the Special Tax Prepayment in the Special Tax Prepayments Account. Such an Officer’s Certificate may be combined with the Officer’s Certificate which the City is required to deliver to the Fiscal Agent pursuant to the Fiscal Agent Agreement. Moneys on deposit in the Special Tax Prepayments Account shall be transferred by the Fiscal Agent to the Principal Account on the next date for which notice of the redemption of the Bonds can timely be given under the Fiscal Agent Agreement and shall be used to redeem the Bonds on the redemption date selected in accordance with the Fiscal Agent Agreement. Pending such transfer, the moneys on deposit in the Special Tax Prepayments Account shall be invested in Defeasance Securities at such yield as Bond Counsel shall determine is necessary to preserve the exclusion of interest on the Bonds from gross income for purposes of federal income taxation. Investment earnings on the moneys on deposit in the Special Tax Prepayments Account shall be retained in such account.

Investment. Except as provided above, moneys in the Bond Fund, including all accounts therein, shall be invested and deposited in accordance with the Fiscal Agent Agreement. Investment Earnings shall be retained in the Bond Fund, except to the extent they are required to be deposited by the Fiscal Agent in the Rebate Fund in accordance with the Fiscal Agent Agreement.

Amounts in the Bond Fund, including all accounts therein, shall also be withdrawn and deposited in the Rebate Fund as provided in the Fiscal Agent Agreement.
Reserve Fund.

Establishment of Fund. The Fiscal Agent Agreement establishes a separate fund designated as the Community Facilities District No. 5 of the City of Moreno Valley Special Tax Bonds “Reserve Fund” to be held by the Fiscal Agent, to the credit of which a deposit shall be made as required by the Fiscal Agent Agreement, which deposit is equal to the Reserve Requirement, and to which deposits shall be made as provided in the Fiscal Agent Agreement. Moneys in the Reserve Fund shall be held, in trust, by the Fiscal Agent for the benefit of the Owners of the Bonds as a reserve for the payment of the principal of and interest and any premium on the Bonds and shall be subject to a lien in favor of the Owners of the Bonds.

Use of Fund. Except as otherwise provided in the Fiscal Agent Agreement, (i) all amounts on deposit in the Reserve Fund shall be used and withdrawn by the Fiscal Agent solely for the purpose of making transfers to the Interest Account and the Principal Account of the Bond Fund in the event of any deficiency at any time in either of such accounts of the amount then required for payment of the principal of and interest and any premium on the Bonds or, in accordance with the provisions of the Fiscal Agent Agreement, for the purpose of redeeming Bonds.

Transfer Due to Deficiency in Interest and Principal Accounts. Whenever transfer is made from the Reserve Fund to the Interest Account or the Principal Account due to a deficiency in either such account, the Fiscal Agent shall provide written notice thereof to the City.

Transfer of Excess of Reserve Requirement. Whenever, on any September 1, the amount in the Reserve Fund, less Investment Earnings resulting from the investment of the funds therein which pursuant to the Fiscal Agent Agreement must be rebated to the United States, exceeds the Reserve Requirement, the Fiscal Agent shall provide written notice to the City of the amount of the excess. Upon receiving written direction from an Authorized Officer (upon which the Fiscal Agent may conclusively rely), transfer the amount in the Reserve Fund to the Interest Account and the Principal Account, in the priority specified in the Fiscal Agent Agreement to, be used for the payment of the interest on and principal of the Bonds on the next succeeding Interest Payment Date in accordance with the Fiscal Agent Agreement.

Transfer When Balance Exceeds Outstanding Bonds. Whenever the balance in the Reserve Fund is equal to or exceeds the amount required to redeem or pay the Outstanding Bonds, including interest accrued to the date of payment or redemption and premium, if any, due upon redemption, the Fiscal Agent shall, upon receiving written direction from an Authorized Officer (upon which the Fiscal Agent may conclusively rely), transfer the amount in the Reserve Fund to the Interest Account and the Principal Account, in the priority specified in the Fiscal Agent Agreement, to be applied, on the next succeeding Interest Payment Date, to the payment and redemption, in accordance with the Fiscal Agent Agreement of all of the Outstanding Bonds. In the event that the amount available to be so transferred from the Reserve Fund to the Interest Account and the Principal Account exceeds the amount required to pay and redeem the Outstanding Bonds, the excess shall be transferred to the City to be used for any lawful purpose of the City.

Transfers on Payment of Special Tax Obligations. Whenever the City receives a Special Tax Prepayment for a lot or parcel of property within the District, the City shall by an Officer’s Certificate notify the Fiscal Agent thereof and of the amount by which the Reserve Fund is to be reduced and which is transferable from the Reserve Fund to the Principal Account of the Bond Fund, which amount shall be specified in the Officer’s Certificate. Each such Officer’s Certificate shall be accompanied by a report of an Independent Financial Consultant verifying the accuracy of the calculation of the amount to be transferred from the Reserve Fund to the Principal Account (“Verification”). Upon receipt of each such Officer’s Certificate and Verification, upon which the Fiscal Agent may conclusively rely, the Fiscal Agent shall at such time as the amount of such Special Tax Prepayment will be used to redeem Bonds, as provided in the Fiscal Agent Agreement, transfer the amount specified in such Officer’s Certificate to the Principal Account and use such amount, together with the amount of such Special Tax Prepayment, to redeem Bonds, as provided in the Fiscal Agent Agreement. Notwithstanding the preceding provisions of the Fiscal Agent Agreement, no amount shall be transferred from the Reserve Fund to the Principal Account if the amount on deposit in the Reserve Fund is, or as a result of such transfer would be, less than the Reserve Requirement.

Investment. Moneys on deposit in the Reserve Fund shall be invested in Permitted Investments which do not have maturities extending beyond five (5) years; provided, however, if the Reserve Fund is invested in an investment agreement (as defined in clause (vii) of the definition of Permitted Investments) or a repurchase agreement (as defined in clause (xi) of such definition) such agreement may have a maturity longer than five (5)
years if the Fiscal Agent is authorized by the provisions of such agreement to draw the full amount thereof, without
penalty, if required for the purposes of the Reserve Fund. The City shall cause the Permitted Investments, other than
such investment agreements, in which moneys on deposit in the Reserve Fund are invested to be valued at fair
market value and marked-to-market at least once in each Fiscal Year.

Other Covenants Of The City

Punctual Payment.
The City will punctually pay or cause to be paid the principal of and interest and any premium on the Bonds when
and as due in strict conformity with the terms of the Fiscal Agent Agreement and any Supplemental Agreement to
the extent that the Special Tax Revenues are available therefor, and it will faithfully observe and perform all of the
conditions, covenants and requirements of the Fiscal Agent Agreement and all Supplemental Agreements and of the
Bonds.

Special Obligation.
The Bonds are special obligations of the City and the District and are payable solely from and secured solely by the
Special Tax Revenues and the amounts in the Bond Fund, the Reserve Fund and the Special Tax Fund.

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

Against Encumbrances.
The City shall not encumber, pledge or place any charge or lien upon any of the Special Tax Revenues or other
amounts pledged to the Bonds superior to or on a parity with the pledge and lien in the Fiscal Agent Agreement
created for the benefit of the Bonds, except as permitted by the Fiscal Agent Agreement. Nothing in the Fiscal Agent
Agreement shall prevent the City from issuing and selling, pursuant to law, refunding bonds or other refunding
obligations payable from and having a first lien upon the Special Taxes Revenues on a parity with the Outstanding
Bonds so long as the issuance of such refunding bonds or other refunding obligations results in a reduction in each
Bond Year on the Annual Debt Service on the Bonds when combined with the annual debt service on such refunding
bonds or other refunding obligations following the issuance thereof.

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

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

Collection of Special Tax Revenues.
The City shall comply with all requirements of the Act, including the enactment of necessary Ordinances, so as to
assure the timely collection of Special Tax Revenues, including without limitation, the enforcement of the payment
or collection of delinquent Special Taxes.

On or within five (5) Business Days of May 1 of each year, the Fiscal Agent shall provide the City with a
notice stating the amount then on deposit in the Special Tax Fund, the Bond Fund and the Reserve Fund (including
all accounts and sub-accounts therein), and informing the City that the Special Taxes are to be levied by Ordinance as necessary to provide for Annual Debt Service and Administrative Expenses and replenishment (if necessary) of the Reserve Fund so that the balance therein equals the Reserve Requirement. The receipt of such notice by the City or the failure of the Fiscal Agent to give such notice shall in no way affect the obligations of the City under the following two paragraphs. The Fiscal Agent shall have no liability if it does not provide such notice to the City. Upon receipt of such notice, the City shall communicate with the Auditor to ascertain the relevant parcels on which the Special Taxes are to be levied, taking into account any parcel splits during the preceding and then current Fiscal Year.

The City shall effect the levy of the Special Taxes each Fiscal Year in accordance with the Act by August 10 of each year (or such later date as may be authorized by the Act or any amendment thereof) that the Bonds are Outstanding, such that the computation of the levy is complete before the final date on which the Auditor will accept the transmission of the Special Tax amounts for the parcels within the District for inclusion on the tax roll for the Fiscal Year then beginning. Upon the completion of the computation of the amounts of the levy of the Special Taxes, the City shall prepare or cause to be prepared, and shall transmit to the Auditor, such data as the Auditor requires to include the levy of the Special Taxes on the tax roll. Notwithstanding the preceding provisions of this paragraph, the City Council may elect, as permitted by the Act, to collect the Special Taxes to be levied for any Fiscal Year directly from the owners of the parcels of taxable property upon which the Special Taxes are levied rather than by transmitting the Special Taxes to the Auditor for collection on the tax roll; provided that, in such event, the City shall otherwise comply with the provisions of the Fiscal Agent Agreement.

The City shall fix and levy the amount of Special Taxes within the District required for the payment of the principal of and interest on any Outstanding Bonds becoming due and payable during the ensuing calendar year, including any necessary replenishment or expenditure of the Reserve Fund, and the amount estimated to be sufficient to pay the Administrative Expenses during such calendar year. The Special Taxes so levied shall not exceed the authorized amounts for the District as provided in the proceedings for the establishment of the District.

The Special Taxes shall be payable and be collected (except in the event of judicial foreclosure proceedings pursuant to the Fiscal Agent Agreement) in the same manner and at the same time and in the same installments as the general taxes on real property are payable, and have the same priority, become delinquent at the same times and in the same proportionate amounts and bear the same proportionate penalties and interest after delinquency as do the general taxes on real property.

The City will not, in collecting the Special Taxes or in processing any such judicial foreclosure proceedings, exercise any authority which it has pursuant to Sections 53340, 53344.1, 53344.2, 53356.1 and 53356.5 of the California Government Code in any manner which would materially and adversely affect the interests of the Bondowners and, in particular, will not permit the tender of Bonds in full or partial payment of any Special Taxes except upon receipt of a certificate of an Independent Financial Consultant that to accept such tender will not result in the City having insufficient Special Tax Revenues to pay the principal of and interest on the Bonds and remaining Outstanding following such tender.

Levy of Special Taxes for Administrative Expenses.

The City covenants that, (a) to the extent that it is legally permitted to do so, it will levy the Special Taxes for the payment of the Administrative Expenses which are expected to be incurred in each Fiscal Year, and (b) it will not initiate proceedings under the Act to reduce the Maximum Special Tax rates (the “Maximum Rates”) on then existing Developed Property in the District below the amounts which are necessary to provide Special Tax Revenues in an amount equal to estimated Administrative Expenses for the then current Fiscal Year plus an amount equal to one hundred ten percent (110%) of Maximum Annual Debt Service on the Outstanding Bonds.

The City further covenants that in the event an ordinance is adopted by initiative pursuant to Section 3 of Article XIII C of the California Constitution, which purports to reduce or otherwise alter the Maximum Rates, it will commence and pursue legal action seeking to preserve its ability to comply with its covenant contained in the preceding paragraph.

Further Assurances.

The City will adopt, make, execute and deliver any and all such further ordinances, resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Fiscal Agent Agreement, and for better assuring and confirming unto the Owners of the Bonds of the rights and benefits provided in the Fiscal Agent Agreement.
Tax Covenants.

The City covenants that:

It will not take any action or omit to take any action, which action or omission, if reasonably expected on the date of the initial issuance and delivery of the Bonds, would have caused any of the Bonds to be “arbitrage bonds” within the meaning of Section 103(b) and Section 148 of the Code;

It will not take any action or omit to take any action, which action or omission, if reasonably expected on the date of initial issuance and delivery of the Bonds, would result in loss of exclusion from gross income for purposes of federal income taxation under Section 103(a) of the Code of interest paid with respect to the Bonds;

It will not take any action or omit to take any action, which action or omission, if reasonably expected on the date of initial issuance and delivery of the Bonds, would have caused any of the Bonds to be “private activity bonds” within the meaning of Section 141 of the Code;

It will comply with the Rebate Certificate as a source of guidance for achieving compliance with the Code; and

In order to maintain the exclusion from gross income for purposes of federal income taxation of interest paid with respect to the Bonds, it will comply with each applicable requirement of Section 103 and Sections 141 through 150 of the Code.

The covenants of the City contained in the Fiscal Agent Agreement shall survive the payment, redemption or defeasance of Bonds pursuant to the Fiscal Agent Agreement.

Covenant to Foreclose.

The City covenants with and for the benefit of the Owners of the Bonds that, within sixty (60) days after each Interest Payment Date, it will cause to be commenced, as provided in the Fiscal Agent Agreement, and (unless delinquent Special Taxes are paid) diligently prosecute to judgment, an action in the superior court to foreclose the lien of any Special Taxes, or any installments thereof, which were not paid by the statutory delinquency date (i.e., December 10 or April 10). In furtherance of this covenant, within five (5) Business Days after each Interest Payment Date, the Finance Director, or his or her designee, shall review the most recent Fixed Charge Unpaid List received from the Auditor regarding unpaid property taxes to determine if there are any delinquent installments of Special Taxes levied on property in the District. If there are any such delinquent Special Tax installments, the Finance Director, or his or her designee, shall notify the City Attorney of such delinquencies and, within the previously mentioned sixty (60) days, the City Attorney shall commence, or cause to be commenced, and diligently prosecute such a superior court foreclosure action or actions to collect such delinquent Special Taxes.

Prepayment of Special Taxes.

The City shall cause all applications of owners of property in the District to prepay and satisfy the Special Tax obligation for their property to be reviewed by the Tax Consultant and shall not accept any such prepayment unless such consultant certifies in writing that the Special Tax Prepayment amount has been determined in accordance with the Rate and Method of Apportionment.

Calculation of Prepayments.

The City will cause all Special Tax Prepayments to be calculated to include the amount of the premium on the Outstanding Bonds that will be redeemed with the Special Tax Prepayment and negative arbitrage on the investment of the Special Tax Prepayment from the date of receipt until the Interest Payment Date upon which the Special Tax Prepayment and the amount to be transferred from the Reserve Fund to the Principal Account pursuant to the Fiscal Agent Agreement will be used to redeem Outstanding Bonds pursuant to the Fiscal Agent Agreement. The City will not include in any calculation of the amount of any Special Tax Prepayment for any parcel of taxable property in the District a proportionate amount of the amount then on deposit in the Reserve Fund, if at the time of such calculation the amount on deposit in the Reserve Fund is less than the Reserve Requirement.

Continuing Disclosure.

The City and the Fiscal Agent, as Dissemination Agent, hereby covenant and agree that they will comply with and carry out all of the provisions of the Continuing Disclosure Agreement which are specifically applicable to each of them.
Accountability Measures

The City shall comply with the requirements of Section 53410 of the California Government Code with respect to the deposit and expenditure of the Proceeds of the sale of the Bonds and shall cause the appropriate officer of the City to file a report with the City Council no later than January 2, 2008, and annually thereafter, which shall contain the information required by Section 53411 of the California Government Code with respect to the expenditure of the Proceeds and the status of the construction and acquisition of the Project.

Investments

Deposit and Investment of Moneys in Funds

Subject in all respects to the provisions of the Fiscal Agent Agreement, moneys in any fund or account created or established by the Fiscal Agent Agreement and held by the Fiscal Agent shall be invested by the Fiscal Agent in Permitted Investments, as directed pursuant to an Officer’s Certificate filed with the Fiscal Agent at least two (2) Business Days in advance of the making of such investments. In the absence of any such Officer’s Certificate, the Fiscal Agent shall invest any such moneys in Permitted Investments described in clause (iv) of the definition of Permitted Investments. The Fiscal Agent shall not have any responsibility for determining the legality of any Permitted Investments. The Fiscal Agent shall have no obligation to pay additional interest or maximize investment income on any funds held by it. Neither the City nor the Owners of the Bonds shall have any claim of any kind against the Fiscal Agent in connection with investments properly made pursuant to the Fiscal Agent Agreement. Obligations purchased as an investment of moneys in any fund or account shall be deemed to be part of such fund or account, subject, however, to the requirements of the Fiscal Agent Agreement for transfer of Investment Earnings in funds and accounts.

The Fiscal Agent and its affiliates may act as sponsor, advisor, depository, principal or agent in the holding, acquisition or disposition of any investment. The Fiscal Agent shall not incur any liability for losses arising from any investments made pursuant to the Fiscal Agent Agreement. For purposes of determining the amount on deposit in any fund or account held under the Fiscal Agent Agreement, all Permitted Investments or investments credited to such fund or account shall be valued at the cost thereof (excluding accrued interest and brokerage commissions, if any).

Subject in all respects to the provisions of the Fiscal Agent Agreement, investments in any and all funds and accounts may be commingled in a single fund for purposes of making, holding and disposing of investments, notwithstanding provisions therein for transfer to or holding in or to the credit of particular funds or accounts of amounts received or held by the Fiscal Agent thereunder, provided that the Fiscal Agent shall at all times account for such investments strictly in accordance with the funds and accounts to which they are credited and otherwise as provided in the Fiscal Agent Agreement.

The Fiscal Agent shall sell or present for redemption, any investment security whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such investment security is credited, and the Fiscal Agent shall not be liable or responsible for any loss resulting from the acquisition or disposition of any such investment security in accordance with the Fiscal Agent Agreement.

The City acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the City or the District the right to receive brokerage confirmations of securities transactions as they occur, the City for itself and the District specifically waives receipt of such confirmations to the extent permitted by law. The Fiscal Agent shall furnish the City periodic cash transaction statements which include detail for all investment transactions made by the Fiscal Agent under the Fiscal Agent Agreement.

The Fiscal Agent may make any investments under the Fiscal Agent Agreement through its own bond or investment department or trust investment department, or those of its parent or any affiliate.

Rebate Fund; Rebate to the United States

The Fiscal Agent Agreement establishes a separate fund designated as the “Rebate Fund” to be held by the Fiscal Agent, as a separate fund distinct from all other funds and accounts held by the Fiscal Agent under the Fiscal Agent Agreement. The Fiscal Agent shall, in accordance with written directions received from an Authorized Officer, deposit into the Rebate Fund moneys transferred by the City to the Fiscal Agent pursuant to the Rebate Certificate or moneys transferred by the Fiscal Agent from the Reserve Fund. The Rebate Fund shall be held either uninvested or invested only in Federal Securities at the written direction of the City. Moneys on deposit in the Rebate Fund shall
be applied only to payments made to the United States, to the extent such payments are required by the Rebate Certificate. The Fiscal Agent shall, upon written request and direction of the City, make such payments to the United States.

The Fiscal Agent may rely conclusively upon the City’s determinations, calculations and certifications required by the Fiscal Agent Agreement. The Fiscal Agent shall have no responsibility to independently make any calculation or determination or to review the City’s calculations thereunder. The Fiscal Agent’s sole responsibilities under the Fiscal Agent Agreement are to follow the written instructions of the City pertaining thereto. The City shall be responsible for any fees and expenses incurred by the Fiscal Agent pursuant to these provisions of the Fiscal Agent Agreement.

The Fiscal Agent shall, upon written request and direction from the City, transfer to or upon the order of the City any moneys on deposit in the Rebate Fund in excess of the amount, if any, required to be maintained or held therein in accordance with the Rebate Certificate.

Liability of City

The City shall not incur any responsibility in respect of the Bonds or the Fiscal Agent Agreement other than in connection with the duties or obligations explicitly therein or in the Bonds assigned to or imposed upon it. The City shall not be liable in connection with the performance of its duties under the Fiscal Agent Agreement, except for its own negligence or willful default. The City shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements of the Fiscal Agent in the Fiscal Agent Agreement or of any of the documents executed by the Fiscal Agent in connection with the Bonds.

In the absence of bad faith, the City may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the City and conforming to the requirements of the Fiscal Agent Agreement. The City shall not be liable for any error of judgment made in good faith unless it shall be proved that it was negligent in ascertaining the pertinent facts.

No provision of the Fiscal Agent Agreement shall require the City to expend or risk its own general funds or otherwise incur any financial liability (other than with respect to the Special Tax Revenues) in the performance of any of its obligations under the Fiscal Agent Agreement, or in the exercise of and of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

The City may rely and shall be protected in acting or refraining from acting upon any notice, resolution, request, consent, order, certificate, report, warrant, Bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or proper parties. The City may consult with counsel, who may be counsel to the City, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it under the Fiscal Agent Agreement in good faith and in accordance therewith.

Whenever in the administration of its duties under the Fiscal Agent Agreement the City shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action thereunder, such matter (unless other evidence in respect thereof be therein specifically prescribed) may, in the absence of willful misconduct on the part of the City, be deemed to be conclusively proved and established by a certificate of the Fiscal Agent, and such certificate shall be full warranty to the City for any action taken or suffered under the provisions of the Fiscal Agent Agreement or any Supplemental Agreement upon the faith thereof, but in its discretion the City may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

In order to perform its duties and obligations under the Fiscal Agent Agreement, the City may employ such persons or entities as it deems necessary or advisable. The City shall not be liable for any of the acts or omissions of such persons or entities employed by it in good faith under the Fiscal Agent Agreement, and shall be entitled to rely, and shall be fully protected in doing so, upon the opinions, calculations, determinations and directions of such persons or entities.

Modification Or Amendment

Amendments Permitted

The Fiscal Agent Agreement and the rights and obligations of the District and the City and of the Owners of the Bonds may be modified or amended at any time by a Supplemental Agreement pursuant to the affirmative
vote at a meeting of the Owners, or with the written consent, without a meeting, of the Owners of at least sixty percent (60%) in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Fiscal Agent Agreement. No such modification or amendment shall (i) extend the maturity of any Bond or the time for paying interest thereon, or otherwise alter or impair the obligation of the City on behalf of the District to pay the principal of, and the interest and any premium on, any Bond, without the express consent of the Owner of such Bond; or (ii) permit the creation of any pledge of or lien upon the Special Tax Revenues, or the moneys on deposit in the Special Tax Fund, the Bond Fund or the Reserve Fund, superior to or on a parity with the pledge and lien created for the benefit of the Bonds (except as otherwise permitted by the Act, the laws of the State of California or the Fiscal Agent Agreement); (iii) reduce the percentage of Bonds required for the amendment thereof; or (iv) reduce the principal amount of or redemption premium on any Bond or reduce the interest rate thereon. Any such amendment may not modify any of the rights or obligations of the Fiscal Agent without its written consent. The Fiscal Agent shall be furnished an opinion of counsel that any such Supplemental Agreement entered into by the City and the Fiscal Agent complies with the provisions of the Fiscal Agent Agreement and the Fiscal Agent may conclusively rely on such opinion.

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

(a) to add to the covenants and agreements of the City in the Fiscal Agent Agreement contained, other covenants and agreements thereafter to be observed, or to limit or surrender any right or power therein reserved to or conferred upon the City;

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

(c) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provisions of the Fiscal Agent Agreement, or in regard to questions arising under the Fiscal Agent Agreement, as the City and the Fiscal Agent may deem necessary or desirable and not inconsistent with the Fiscal Agent Agreement, and which shall not adversely affect the rights of the Owners; or

(d) to make such additions, deletions or modifications as may be necessary or desirable to assure compliance with Section 148 of the Code relating to required rebate of moneys to the United States or otherwise as may be necessary to assure exclusion from gross income for federal income tax purposes of interest on the Bonds or to conform with the Regulations.

Owners’ Meetings.

The City may at any time call a meeting of the Owners. In such event, the City is authorized to fix the time and place of any such meeting and to provide for the giving of notice thereof and to fix and adopt rules and regulations for the conduct of the meeting.

Procedure for Amendment with Written Consent of Owners.

The City and the Fiscal Agent may at any time enter into a Supplemental Agreement amending the provisions of the Bonds or of the Fiscal Agent Agreement or any Supplemental Agreement, to the extent that such amendment is permitted by the Fiscal Agent Agreement, to take effect when and as provided in the Fiscal Agent Agreement. A copy of the Supplemental Agreement, together with a request to Owners for their consent thereto, shall be mailed by first class mail, postage prepaid, by the Fiscal Agent to each Owner of Bonds Outstanding, but failure to mail copies of the Supplemental Agreement and request shall not affect the validity of the Supplemental Agreement when assented to as provided in the Fiscal Agent Agreement.

Such a Supplemental Agreement shall not become effective unless there shall be filed with the Fiscal Agent the written consents of the Owners of at least sixty percent (60%) in aggregate principal amount of the Bonds then Outstanding (exclusive of Bonds disqualified as provided in the Fiscal Agent Agreement) and a notice shall have been mailed as provided in the Fiscal Agent Agreement. Each such consent shall be effective only if accompanied by proof of ownership of the Bonds for which such consent is given, which proof shall be such as is permitted by the Fiscal Agent Agreement. Any such consent shall be binding upon the Owner of the Bonds giving such consent and on any subsequent Owner (whether or not such subsequent Owner has notice thereof) unless such consent is revoked in writing by the Owner giving such consent or a subsequent Owner by filing such revocation with the Fiscal Agent prior to the date when the notice provided in the Fiscal Agent Agreement has been mailed.
After the Owners of the required percentage of Bonds shall have filed their consents to the Supplemental Agreement, the City shall mail a notice to the Owners in the manner provided in the Fiscal Agent Agreement for the mailing of the Supplemental Agreement, stating in substance that the Supplemental Agreement has been consented to by the Owners of the required percentage of Bonds and will be effective as provided in the Fiscal Agent Agreement (but failure to mail copies of said notice shall not affect the validity of the Supplemental Agreement or consents thereto). Proof of the mailing of such notice shall be filed with the Fiscal Agent. A record, consisting of the documents required by the Fiscal Agent Agreement to be filed with the Fiscal Agent, shall be proof of the matters therein stated until the contrary is proved. The Supplemental Agreement shall become effective upon the filing with the Fiscal Agent of the proof of mailing of such notice, and the Supplemental Agreement shall be deemed conclusively binding (except as otherwise specifically provided in the Fiscal Agent Agreement) upon the City, the District and the Owners of all Bonds then Outstanding at the expiration of sixty (60) days after such filing, except in the event of a final decree of a court of competent jurisdiction setting aside such consent in a legal action or equitable proceeding for such purpose commenced within such sixty (60)-day period.

Disqualified Bonds.

Bonds owned or held for the account of the City, excepting any pension or retirement fund, shall not be deemed Outstanding for the purpose of any vote, consent or other action or any calculation of Outstanding Bonds provided for in the Fiscal Agent Agreement, and shall not be entitled to vote upon, consent to, or participate in any action provided for in the Fiscal Agent Agreement. Upon request of the Fiscal Agent, the City shall specify to the Fiscal Agent those Bonds disqualified pursuant to the Fiscal Agent Agreement and the Fiscal Agent may conclusively rely on such certificate.

Effect of Supplemental Agreement.

From and after the time any Supplemental Agreement becomes effective pursuant to the Fiscal Agent Agreement, the Fiscal Agent Agreement shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Fiscal Agent Agreement of the City and all Owners of Bonds Outstanding shall thereafter be determined, exercised and enforced thereunder subject in all respects to such modifications and amendments, and all the terms and conditions of any such Supplemental Agreement shall be deemed to be part of the terms and conditions of the Fiscal Agent Agreement for any and all purposes.

Endorsement or Replacement of Bonds Issued After Amendments.

The City may determine that Bonds issued and delivered after the effective date of any action taken as provided in the Fiscal Agent Agreement shall bear a notation, by endorsement or otherwise, in form approved by the City, as to such action. In that case, upon demand of the Owner of any Bond Outstanding at such effective date and upon presentation of his Bond for that purpose at the Principal Office of the Fiscal Agent or at such other office as the City may select and designate for that purpose, a suitable notation shall be made on such Bond. The City may determine that new Bonds, so modified as in the opinion of the City is necessary to conform to such action, shall be prepared, executed and delivered. In that case, upon demand of the Owner of any Bonds then Outstanding, such new Bonds shall be exchanged at the Principal Office of the Fiscal Agent without cost to any Owner, for like Bonds then Outstanding, upon surrender of such Bonds.

Amendatory Endorsement of Bonds.

The provisions of the Fiscal Agent Agreement shall not prevent any Owner from accepting any amendment as to the particular Bonds held by him, provided that due notation thereof is made on such Bonds.

Miscellaneous

Benefits of Agreement Limited to Parties.

Nothing in the Fiscal Agent Agreement, expressed or implied, is intended to give to any person other than the City, the Fiscal Agent and the Owners, any right, remedy or claim under or by reason of the Fiscal Agent Agreement. Any covenants, stipulations, promises or agreements in the Fiscal Agent Agreement contained by and on behalf of the City shall be for the sole and exclusive benefit of the Owners and the Fiscal Agent.

Successor is Deemed Included in All References to Predecessor.

Whenever in the Fiscal Agent Agreement or any Supplemental Agreement either the City or the Fiscal Agent is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in the Fiscal Agent Agreement contained by or on behalf of the City or the Fiscal
Agent shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

**Discharge of Agreement.**

If the City shall pay and discharge the indebtedness on all or a portion (a “Partial Discharge”) of the Outstanding Bonds in any one or more of the following ways:

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

(b) by depositing with the Fiscal Agent, at or before maturity, an amount of money which, together with the amounts then on deposit in the Bond Fund (including all accounts therein), the Special Tax Fund (including the Surplus Account) and the Reserve Fund, or in the event of a Partial Discharge, the appropriate portion of such amounts, as determined by the City and confirmed by an Independent Financial Consultant, is fully sufficient to pay such Bonds, including all principal, interest and redemption premiums, if any; or

(c) by irrevocably depositing with the Fiscal Agent, cash or non-callable Defeasance Securities in such amount as the City shall determine, as confirmed by an Independent CPA, will, together with the interest to accrue thereon and amounts then on deposit in the Bond Fund (including all accounts therein), the Special Tax Fund (including the Surplus Account) and the Reserve Fund, or in the event of a Partial Discharge, the appropriate portion of such amounts, as determined by the City and confirmed by an Independent CPA, be fully sufficient to pay and discharge the indebtedness on such Bonds (including all principal, interest and redemption premiums) at or before their respective maturity dates;

and if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as in the Fiscal Agent Agreement provided or provision satisfactory to the Fiscal Agent shall have been made for the giving of such notice, then, at the election of the City, and notwithstanding that any such Bonds shall not have been surrendered for payment, the pledge of the Special Tax Revenues and other funds provided for in the Fiscal Agent Agreement and all other obligations of the City and the District under the Fiscal Agent Agreement with respect to such Bonds shall cease and terminate, except the obligation of the City to pay or cause to be paid to the Owners of such Bonds not so surrendered and paid all sums due thereon, the obligation of the City to pay all amounts owing to the Fiscal Agent pursuant to the Fiscal Agent Agreement, and the obligations of the City pursuant to the covenants contained in the Fiscal Agent Agreement; and thereafter Special Taxes shall not be payable to the Fiscal Agent. Notice of such election shall be filed with the Fiscal Agent. The satisfaction and discharge of the Fiscal Agent Agreement as to all of the Outstanding Bonds shall be without prejudice to the rights of the Fiscal Agent to charge and be reimbursed by the City for the expenses which it shall thereafter incur in connection therewith.

Any funds held by the Fiscal Agent to pay and discharge the indebtedness on such Bonds, upon payment of all fees and expenses of the Fiscal Agent, which are not required for such purpose, shall be paid over to the City.
This Continuing Disclosure Agreement dated as of May 1, 2007 (the “Disclosure Agreement”) is executed and delivered by the City of Moreno Valley (the “Issuer”) for and on behalf of Community Facilities District No. 5 and Wells Fargo Bank, National Association, as Fiscal Agent (the “Fiscal Agent”) and as dissemination agent (the “Dissemination Agent”), in connection with the issuance and delivery by the Issuer of its $5,870,000 2007 Special Tax Bonds (the “Bonds”). The Bonds are being issued pursuant to a Fiscal Agent Agreement, dated as of May 1, 2007 (the “Fiscal Agent Agreement”), by and between the Issuer and the Fiscal Agent. The Issuer, the Fiscal Agent and the Dissemination Agent covenant as follows:

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

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

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

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

“Disclosure Representative” shall mean the City Manager of the City of Moreno Valley or the Finance Director, or their designee, or such other officer or employee as the Issuer shall designate in writing to the Dissemination Agent from time to time.

“Dissemination Agent” shall mean, initially, Wells Fargo Bank, National Association acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the then current Dissemination Agent a written acceptance of such designation.

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

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

“Official Statement” shall mean the Official Statement dated May 17, 2007 relating to the Bonds.

“Participating Underwriter” shall mean the original Underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds, which is E. J. De La Rosa & Co. Inc.

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

“State Repository” shall mean any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

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

SECTION 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent by written direction to such Dissemination Agent to, not later than April 1 after the end of the Issuer’s fiscal year (which currently ends on June 30), commencing with the report due on April 1, 2008, provide to each Repository, the Fiscal Agent (if the Fiscal Agent is not the Dissemination Agent) and the Participating Underwriter an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Issuer may be submitted separately from and later than the balance of the Annual Report if they are not available by the date required above for the filing of the Annual Report.

An Annual Report shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months. The Issuer’s fiscal year is currently effective from July 1 to the immediately succeeding June 30 of the following year. The Issuer will promptly notify each Repository or the Municipal Securities Rulemaking Board and, in either case, the Fiscal Agent and the Dissemination Agent of a change in the fiscal year dates.

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to Repositories, the Issuer shall provide the Annual Report to the Dissemination Agent and the Fiscal Agent (if the Fiscal Agent is not the Dissemination Agent). If by fifteen (15) Business Days prior to such date the Fiscal Agent has not received a copy of the Annual Report, the Fiscal Agent shall contact the Issuer and the Dissemination Agent to determine if the Issuer is in compliance with subsection (a). The Issuer shall provide a written certification with each Annual Report furnished to the Dissemination Agent and the Fiscal Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder.

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository, in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any; and

(ii) promptly after receipt of the Annual Report, file a report with the Issuer and (if the Dissemination Agent is not the Fiscal Agent) the Fiscal Agent certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories and other parties to which it was provided.
SECTION 4. Content of Annual Report. The Issuer’s Annual Report shall contain or include by reference:

(a) Financial Statements. The audited financial statements of the Issuer for the most recent fiscal year of the Issuer then ended. If the Issuer prepares audited financial statements and if the audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain any unaudited financial statements of the Issuer in a format similar to the financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available. Audited financial statements of the Issuer shall be audited by such auditor as shall then be required or permitted by State law or the Fiscal Agent Agreement. Audited financial statements, if prepared by the Issuer, shall be prepared in accordance with generally accepted accounting principles as prescribed for governmental units by the Governmental Accounting Standards Board; provided, however, that the Issuer may from time to time, if required by federal or state legal requirements, modify the basis upon which its financial statements are prepared. In the event that the Issuer shall modify the basis upon which its financial statements are prepared, the Issuer shall provide the information referenced in Section 8(d) below.

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

(i) the principal amount of Bonds outstanding as of the September 2 preceding the filing of the Annual Report;

(ii) the balance in each fund under the Fiscal Agent Agreement as of the September 2 preceding the filing of the Annual Report;

(iii) a list of the public improvements in Table I in the Official Statement which have been acquired by the City with proceeds of the Bonds;

(iv) any changes to the Rates and Method of Apportionment of the Special Taxes approved or submitted to the qualified electors for approval prior to the filing of the Annual Report and a description of any parcels for which the Special Taxes have been prepaid, including the amount prepaid, since the date of the last Annual Report;

(v) a table setting forth the most recent assessed values of the property and the principal amount of the Bonds and any other land secured debt allocable to parcels within the District by property owner and a statement as to whether any of such taxpayers is delinquent in the payment of Special Taxes;

(vi) any event known to the Issuer which reduces the taxable acreage or which results in a moratorium on future building within the District;

(vii) a table setting forth for the five most recent fiscal years in which Special Taxes were levied, the amount of Special Taxes levied in each fiscal year and the percentage delinquent as of June 30 of such fiscal year and as of the date of the Annual Report, and a description of the status of any foreclosure actions being pursued by the Issuer with respect to delinquent Special Taxes;

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

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

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

(i) principal and interest payment delinquencies;

(ii) an event of default under the Fiscal Agent Agreement other than as described in (i) above;

(iii) unscheduled draws on the Reserve Fund reflecting financial difficulties;

(iv) unscheduled draws on any credit enhancements securing the Bonds reflecting financial difficulties;

(v) any change in the provider of any letter of credit or any municipal bond insurance policy securing the Bonds or any failure by the providers of such letters of credit or municipal bond insurance policies to perform on the letter of credit or municipal bond insurance policy;

(vi) adverse tax opinions or events adversely affecting the tax-exempt status of the Bonds;

(vii) modifications to the rights of Bond Owners;

(viii) unscheduled redemption of any Bond;

(ix) defeasances;

(x) any release, substitution, or sale of property securing repayment of the Bonds; and

(xi) rating changes.

(b) The Fiscal Agent shall, promptly upon obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Issuer pursuant to the Fiscal Agent Agreement, inform such person of the event, and request that the Issuer promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f). For purposes of this Disclosure Agreement, “actual knowledge” of the occurrence of such Listed Events shall mean actual knowledge by the officer at the corporate trust office of the Fiscal Agent with regular responsibility for the administration of matters related to the Fiscal Agent Agreement.

(c) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Fiscal Agent pursuant to subsection (b) or otherwise, the Issuer shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the Issuer has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Issuer shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f).
(e) If in response to a request under subsection (b), the Issuer determines that the Listed Event would not be material under applicable federal securities laws, the Issuer shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f).

(f) If the Dissemination Agent has been instructed by the Issuer to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with (i) the Municipal Securities Rulemaking Board or (ii) each National Repository, and in either case, to each State Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(iv) and (v) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Bonds pursuant to the Fiscal Agent Agreement. In each case of the Listed Event, the Dissemination Agent shall not be obligated to file a notice as required in this subsection (f) prior to the occurrence of such Listed Event.

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

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

SECTION 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the Fiscal Agent shall be the Dissemination Agent. The Dissemination Agent may resign by providing (i) thirty days written notice to the Issuer and the Fiscal Agent (if the Fiscal Agent is other than the Dissemination Agent) and (ii) upon appointment of a new Dissemination Agent hereunder.

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

(b) This Disclosure Agreement may be amended, by written agreement of the parties, upon obtaining consent of Owners in the same manner as provided in the Fiscal Agent Agreement for amendments to the Fiscal Agent Agreement with the consent of the Owners of the Bonds, provided that the conditions set forth in Section 8(a)(i), (ii), (iii) and (iv) have been satisfied.
(c) To the extent any amendment to this Disclosure Agreement results in a change in the type of financial information or operating data provided pursuant to this Disclosure Agreement, the first Annual Report provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change.

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

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

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

SECTION 10. Default. In the event of a failure of the Issuer or the Dissemination Agent to comply with any provision of this Disclosure Agreement, any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Fiscal Agent Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the Issuer or the Fiscal Agent to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Fiscal Agent and Dissemination Agent. Article VII of the Fiscal Agent Agreement is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Fiscal Agent Agreement and the Dissemination Agent and the Fiscal Agent shall be entitled to the same protections, limitations from liability and indemnification hereunder as are afforded the Fiscal Agent hereunder. The Dissemination Agent and the Fiscal Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Issuer agrees to indemnify and save the Dissemination Agent and the Fiscal Agent and their respective officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent’s or the Fiscal Agent’s respective negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the Issuer for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent and the Fiscal Agent shall have no duty or obligation to review any information provided to them hereunder. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and Fiscal Agent and payment of the Bonds. No person shall have any right to
commence any action against the Fiscal Agent or the Dissemination Agent seeking any remedy other than to compel specific performance of this Disclosure Agreement. The Dissemination Agent and the Fiscal Agent shall not be liable under any circumstances for monetary damages to any person for any breach under this Disclosure Agreement. Any company succeeding to all or substantially all of the Dissemination Agent’s corporate trust business shall be the successor to the Dissemination Agent hereunder without the execution or filing of any paper or any further act.

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

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

Disclosure Representative: City Manager  
City of Moreno Valley  
14177 Fredrick Street  
P.O. Box 88005  
Moreno Valley, CA 92552-0805

Dissemination Agent: Wells Fargo Bank, National Association  
707 South Wilshire Boulevard  
Los Angeles, CA 90017

Fiscal Agent: Wells Fargo Bank, National Association  
707 South Wilshire Boulevard  
Los Angeles, CA 90017

Participating Underwriter: E. J. De La Rosa & Co., Inc.  
10866 Wilshire Boulevard, Suite 1650  
Los Angeles, CA 90024
SECTION 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

CITY OF MORENO VALLEY, for and on behalf of COMMUNITY FACILITIES DISTRICT NO. 5 OF THE CITY OF MORENO VALLEY, COUNTY OF RIVERSIDE, STATE OF CALIFORNIA

By: ________________________________

__________________________

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Fiscal Agent and Dissemination Agent

By: ________________________________

Authorized Officer
EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Community Facilities District No. 5 of the City of Moreno Valley, County of Riverside, State of California

Name of Bond Issue: Community Facilities District No. 5 of the City of Moreno Valley 2007 Special Tax Bonds

Date of Issuance:

NOTICE IS HEREBY GIVEN that Community Facilities District No. 5 of the City of Moreno Valley, County of Riverside, State of California (the “District”), has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Agreement, dated as of _______, 2007, by and between the District and Wells Fargo Bank, National Association as Fiscal Agent and Dissemination Agent. [The District anticipates that the Annual Report will be filed by _______.]

Dated: ________________

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Dissemination Agent

cc: City of Moreno Valley
APPENDIX F

FORM OF CONTINUING DISCLOSURE AGREEMENT OF THE DEVELOPER

This Continuing Disclosure Agreement (the “Disclosure Agreement”) dated as of May 1, 2007 is executed and delivered by Stoneridge Centre Partners, L.P., a California limited partnership (the “Landowner”), and Wells Fargo Bank, National Association, as Fiscal Agent (the “Fiscal Agent”) and as dissemination agent (the “Dissemination Agent”), in connection with the execution and delivery by Community Facilities District No. 5 of the City of Moreno Valley, County of Riverside, State of California (the “District”) of $5,870,000 aggregate principal amount of its Community Facilities District No. 5 of the City of Moreno Valley 2007 Special Tax Bonds (the “Bonds”). The Bonds are being executed and delivered pursuant to a Fiscal Agent Agreement dated as of May 1, 2007 by and between the District and Wells Fargo Bank, National Association as Fiscal Agent (the “Agreement”).

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Landowner for the benefit of the Bondowners and Beneficial Owners and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5). Pursuant to this Disclosure Agreement, the Landowner agrees to provide the information required to be provided by the Landowner hereunder at the time and in the manner required hereunder and as otherwise required to comply with the Rule as specified in a written opinion of counsel to the Underwriter or a nationally recognized bond counsel. This Disclosure Agreement does not address additional undertakings, if any, by or with respect to persons other than the Landowner who may be considered obligated persons for purposes of the Rule, which additional undertakings, if any, may be required for the Participating Underwriter to comply with the Rule.

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

“Affiliate” shall mean, with respect to any Person, (a) each Person that, directly or indirectly, owns or controls, whether beneficially or as an agent, guardian or other fiduciary, twenty-five percent (25%) or more of any class of Equity Securities of such Person, (b) each Person that controls, is controlled by or is under common control with such Person or any Affiliate of such Person or (c) each of such Person’s executive officers, directors, joint venturers and general partners; provided, however, that in no case shall the District be deemed to be an Affiliate of the Landowner for purposes of this Agreement. For the purpose of this definition, “control” of a Person shall mean the possession, directly or indirectly, of the power to direct or cause the direction of its management or policies, whether through the ownership of voting securities, by contract or otherwise.

“Annual Report” shall mean any Annual Report provided by the Landowner on or prior to March 1 of each year pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Beneficial Owner” shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of the Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“Development Plan” shall mean, with respect to the Landowner or a Successor, the specific improvements such Person intends to make, or cause to be made, to the portion of the Property owned by such Person in order for such portion of the Property to reach final buildout as planned by the Landowner or Successor, the time frame in which such improvements are intended to be made and the estimated costs of such improvements. As of the date hereof, the development plan for the Property owned by the Landowner and its
Affiliates is described in the Official Statement under the caption “THE DEVELOPMENT AND PROPERTY OWNERSHIP — The Development Plan.”

“Disclosure Representative” shall mean the manager of the general partner of the Landowner or his designee acting on behalf of the Landowner, or such other officer or employee as the Landowner shall designate in writing to the Dissemination Agent from time to time.

“Dissemination Agent” shall mean Wells Fargo Bank, National Association acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Landowner and which has filed with the Landowner and the City a written acceptance of such designation.

“District” shall mean Community Facilities District No. 5 established by the City of Moreno Valley.

“Equity Securities” of any Person shall mean (a) all common stock, preferred stock, participations, shares, general partnership interests or other equity interests in and of such person (regardless of how designated and whether or not voting or non-voting) and (b) all warrants, options and other rights to acquire any of the foregoing.

“Financing Plan” shall mean, with respect to the Landowner or a Successor, the method by which such Person intends to finance its Development Plan, including specific sources of funding for such Development Plan. As of the date hereof, the Financing Plan for the Landowner and its Affiliates is described in the Official Statement under the caption “THE DEVELOPMENT AND PROPERTY OWNERSHIP — Estimated Sources and Uses of Funds and Projected Cash Flow.”

“Fiscal Year” shall mean the period beginning on July 1 of each year and ending on the next succeeding June 30.

“Government Authority” shall mean any national, state or local government, any political subdivision thereof, any department, agency, authority or bureau of any of the foregoing, or any other Person exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

“Landowner Improvements” shall mean those improvements listed on Table 1 of the Official Statement.

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

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.


“Participating Underwriter” shall mean the original Underwriter of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

“Person” shall mean any natural person, corporation, partnership, firm, association, Government Authority or any other Person whether acting in an individual fiduciary, or other capacity.

“Property” shall mean the parcels within the boundaries of the Community Facilities District subject to Special Taxes.

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

“Semiannual Report” shall mean any report to be provided by the Landowner on or prior to September 1 of each year pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“State” shall mean the State of California.

“State Repository” shall mean any public or private repository or entity designed by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

“Successor” shall mean any Person, other than the Landowner, who owns any portion of the Property.

SECTION 3. Provision of Annual Reports.

(a) The Landowner shall (or upon its receipt of the Annual Report the Dissemination Agent shall), not later than March 1 of each year, commencing March 1, 2008, provide to each Repository, the Participating Underwriter and the District an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement provided that the audited financial statements, if any, of the Landowner may be submitted separately from the balance of the Annual Report and later than the date required for the filing of the Annual Report if they are not available by that date. In addition, the Landowner shall, or upon its receipt of the Semiannual Report the Dissemination Agent shall, not later than September 1 of each year, commencing September 1, 2007, provide to each Repository, the Participating Underwriter and the District a Semiannual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement.

(b) Not later than fifteen (15) Business Days prior to the dates specified in subsection (a) for providing the Annual Report and Semiannual Report to Repositories, the Landowner shall provide the Annual Report or the Semiannual Report, as applicable, to the Dissemination Agent or shall provide notification to the Dissemination Agent that the Landowner is preparing, or causing to be prepared, the Annual Report or the Semiannual Report, as applicable, and the date which the Annual Report or the Semiannual Report, as applicable, is expected to be available. The Landowner shall provide a written certification with each Annual Report furnished to the Dissemination Agent and the Fiscal Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. If by such date, the Dissemination Agent has not received a copy of the Annual Report or the Semiannual Report, as applicable, or notification as described in the preceding sentence, the Dissemination Agent shall contact the Landowner to determine if the Landowner is in compliance with the requirements of this subsection (b).

(c) If the Dissemination Agent is unable to provide an Annual Report or Semiannual Report to Repositories by the date required in subsection (a) or to verify that an Annual Report or Semiannual Report has been provided to Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report and the Semiannual Report the name and address of each National Repository and the State Repository, if any; and
(ii) file a report with the Landowner and the City certifying that the Annual Report or the Semiannual Report, as applicable, has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.


(a) The Landowner’s Annual Report and Semiannual Report shall contain or include by reference the information which is available as of the date of the filing of the Annual Report or the Semiannual Report, as applicable, relating to the following:

(i) If information regarding such Person has not previously been included in an Annual Report, a Semi-Annual Report or the Official Statement, the Development Plan of such Person; or, if information regarding such Person has previously been included in an Annual Report, a Semi-Annual Report or the Official Statement, a description of the progress made in the implementation of the Development Plan of such Person since the date of such information and a description of any significant changes in such Development Plan and the causes or rationale for such changes.

(ii) If information regarding such Person has not previously been included in an Annual Report, a Semi-Annual Report or the Official Statement, the Financing Plan of such Person; or, if information regarding such Person has previously been included in an Annual Report, a Semi-Annual Report or the Official Statement, an update to Table 5 and a description of any significant changes in the Financing Plan of such Person and the causes or rationale for such changes.

(iii) A description of any sales of all or any portion of such Person’s Property and of any material leases of space within any of the buildings located on such Person’s portion of the Property during the period covered by such Annual Report or Semi-Annual Report, including the identification of each buyer or lessee and the area that was sold or leased and the length of the applicable lease. (As used herein, “material lease” means a lease of more than 5,000 square feet.)

(iv) With respect to any portion of the Property owned by such Person and any of its Affiliates, a statement as to whether any taxes or assessment installments applicable to such portion of the Property are delinquent.

(v) A description of any change in the ownership structure of such Person and/or the financial condition of such Person or any of its Affiliates if such change in ownership structure and/or financial condition could materially interfere with such Person’s ability to complete its Development Plan.

(vi) Any amendments to land use entitlements for any portion of the Property owned by such Person that could have a material adverse effect on such Person’s most recently disclosed Financing Plan or Development Plan or on the ability of such Person, or any Affiliate of such Person, to pay installments of Special Taxes when due.

(vii) Any precondition to commencement or continuation of development on any portion of the Property owned by such Person imposed by a governmental entity after the date of issuance of the Bonds which has not been previously disclosed and which could have a material adverse affect, or any change in the status of any such precondition that was previously disclosed in the Official Statement, an Annual Report or a Semi-Annual Report, which could have a material adverse effect on such Person’s most recently disclosed Financing Plan or Development Plan or on the ability of such Person, or any Affiliate of such Person, to pay installments of Special Taxes when due.
(viii) Any previously undisclosed legislative, administrative or judicial challenges to
development on any portion of the Property owned by such Person, or any material change in the
status of any such challenge that was previously disclosed in the Official Statement, an Annual Report
or a Semi-Annual Report, that could have a material adverse effect on such Person’s most recently
disclosed Financing Plan or Development Plan or on the ability of such Person, or any Affiliate of
such Person, to pay installments of Special Taxes when due.

(ix) An update of the status of any previously reported Listed Event described in
Section 5.

(b) In the event that as a result of subsequent amendment of the Rule, interpretive releases, no-
action letters or other official guidance from the Securities and Exchange Commission or its staff, the
information required to satisfy the Rule shall differ from the information described above, the Landowner shall
provide to the Dissemination Agent such other information as is available to the Landowner and not otherwise
readily available to the District.

(c) Any and all of the items listed above may be included by specific reference to other
documents, including official statements of debt issues which have been submitted to each of the Repositories
or the Securities and Exchange Commission. If the document included by reference is a final official
statement, it must be available from the Municipal Securities Rulemaking Board. The Landowner shall clearly
identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Landowner shall give, or cause to be given,
notice of the occurrence of any of the following events with respect to the Bonds, if material under paragraphs
(b) and (c):

(i) failure to pay any real property taxes, special taxes or assessments levied within the
District on a parcel owned by the Landowner or any Affiliate;

(ii) damage to or destruction of any of the Landowner Improvements or the District
Improvements which has a material adverse effect on the value of the parcels owned by the
Landowner or any Affiliate;

(iii) material default by the Landowner or any Affiliate on any loan with respect to the
construction or permanent financing of the Landowner Improvements;

(iv) material default by the Landowner or any Affiliate on any loan secured by property
within the District owned by the Landowner or any Affiliate;

(v) payment default by the Landowner or any Affiliate located in the United States on
any loan of the Landowner or any Affiliate (whether or not such loan is secured by property within the
District) which is beyond any applicable cure period in such loan;

(vi) the filing of any proceedings with respect to the Landowner or any Affiliate, in which
the Landowner or any Affiliate, may be adjudicated as bankrupt or discharged from any or all of their
respective debts or obligations or granted an extension of time to pay debts or a reorganization or
readjustment of debts; and

(vii) the filing of any lawsuit against the Landowner or any of its Affiliates located in the
United States which, in the reasonable judgment of the Landowner, will adversely affect the
completion of the District Improvements, the Landowner Improvements or the development of parcels owned by the Landowner or its Affiliates within the District, or litigation which if decided against the Landowner, or any of its Affiliates, in the reasonable judgment of the Landowner, would materially adversely affect the financial condition of the Landowner or its Affiliates.

(viii) the assumption of any obligation by a Successor pursuant to Section 6 hereof.

(b) Whenever the Landowner obtains knowledge of the occurrence of a Listed Event, the Landowner shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the Landowner determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Landowner shall promptly file a notice of such occurrence with the Dissemination Agent which shall then distribute such notice to the Municipal Securities Rulemaking Board and each State Repository, with a copy to the City.

(d) The Landowner shall also give notice immediately upon the occurrence of any of the following events (to the extent the Landowner has actual knowledge thereof) in accordance with the procedures set forth in (c) above: (i) a sale or transfer of all or substantially all of the Landowner’s assets, and (ii) a change in the identity of the managing member of the Landowner.

SECTION 6. Termination of Reporting Obligation. The Landowner’s obligations hereunder shall terminate (except as provided in Section 12) upon the earlier to occur of (a) the legal defeasance, prior redemption or payment in full of all the Bonds or (b) the date on which those portions of the Rule which require this written undertaking are held to be invalid by a court of competent jurisdiction in a non-appealable action, have been repealed retroactively or otherwise do not apply to the Bonds. The Landowner’s obligations hereunder shall terminate with respect to any portion of the Property on the date such obligations have been assumed by one or more Successors or Affiliates thereof pursuant to an Assumption Agreement. The Landowner’s obligations under this Disclosure Agreement with respect to a Person that purchased Property from the Landowner shall terminate upon the earlier to occur of (i) the date on which the Landowner’s obligations with respect to such Person are assumed under an Assumption Agreement entered into pursuant to Section 6 or (ii) the date on which all Special Taxes applicable to the portion of the Property owned by such Person and its Affiliates are prepaid in full; provided, however, until the occurrence of either of the events described in clauses (i) and (ii), the Landowner’s obligations hereunder with respect to each Successor, if any, shall remain in full force and effect. Upon the occurrence of any such termination prior to the final maturity of the Bonds, the Landowner shall cause the Dissemination Agent to give notice of such termination in the same manner as for a Listed Event under Section 5(c). Notwithstanding the foregoing, the Landowner shall have no obligation to provide Semi-Annual Reports pursuant to Section 3 subsequent to the date on which it provides an Annual Report or a Semi-Annual Report which indicates that the then-applicable Development Plan for each portion of the Property has been fully implemented and such subsequent Annual Report shall be limited to the items listed under Section 4(iii), (iv), (v) and (ix) hereof.

SECTION 7. Dissemination Agent. The Landowner may from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. If the Dissemination Agent is not the Landowner, the Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Landowner pursuant to this Disclosure Agreement. The Dissemination Agent may resign (i) by providing thirty days written notice to the Landowner, the City, the Participating Underwriter and the Fiscal Agent (if the Fiscal Agent is other than the Dissemination Agent) and (ii) upon appointment of a new Dissemination Agent hereunder.
SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Landowner may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) this Disclosure Agreement, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel addressed to the City, the Fiscal Agent and the Participating Underwriter, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances;

(c) the amendment or waiver either (i) is approved by the Bondowners in the same manner as provided in the Agreement for amendments to the Agreement with the consent of Bondowners, or (ii) does not, in the opinion of nationally recognized bond counsel addressed to the Authority and the Fiscal Agent, materially impair the interests of the Bondowners or Beneficial Owners of the Bonds; and

(d) the Landowner, or the Dissemination Agent, shall have delivered copies of the amendment and any opinions delivered under (b) and (c) above to the City and the Participating Underwriter.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Landowner shall describe such amendment in the next Annual Report or Semiannual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Landowner. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given to the Municipal Securities Rulemaking Board, the State Repository, if any, and the Repositories; and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison of financial data described in clause (ii) of the preceding sentence shall be provided at the time financial statements, if any, are filed under Section 4(a)(viii) hereof.

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

The Landowner acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Landowner, and that under some circumstances compliance with this Disclosure Agreement, without additional disclosures or other action, may not fully discharge all duties and obligations of the Landowner under such laws.
SECTION 10. Default. In the event of a failure of the Landowner to comply with any provision of this Disclosure Agreement, any Participating Underwriter or any Bondowner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Landowner or the Dissemination Agent to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Landowner to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement and the Landowner agrees to indemnify, defend and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of theirs powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the Landowner, the Participating Underwriter, Bondowners or Beneficial Owners or any other party. The Dissemination Agent may rely and shall be protected in acting or refraining from acting upon a direction from the Landowner or an opinion of nationally recognized bond counsel. The obligations of the Landowner under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. No person shall have any right to commence any action against the Dissemination Agent seeking any remedy other than to compel specific performance of this Disclosure Agreement. Any company succeeding to all or substantially all of the Dissemination Agent’s corporate trust business shall be the successor to the Dissemination Agent hereunder without the execution or filing of any paper or any further act.

The Dissemination Agent will not, without the Landowner’s prior written consent, settle, compromise or consent to the entry of any judgment in any pending or threatened claim, action or proceeding in respect of which indemnification may be sought hereunder unless such settlement, compromise or consent includes an unconditional release of the Landowner and its controlling persons from all liability arising out of such claim, action or proceedings. If a claim, action or proceeding is settled with the consent of the Landowner or if there is a final judgment (other than a stipulated final judgment without the approval of the Landowner) for the plaintiff in any such claim, action or proceeding, with or without the consent of the Landowner, the Landowner agrees to indemnify and hold harmless the Dissemination Agent to the extent described herein.

SECTION 12. Landowner as Independent Contractor. In performing under this Disclosure Agreement, it is understood that the Landowner is an independent contractor and not an agent of the City.

SECTION 13. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.
SECTION 14. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Landowner, the City, the Dissemination Agent, the Participating Underwriter and Bondowners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

STONERIDGE CENTRE PARTNERS, L.P., a California limited partnership

By: ________________________________
Name: ______________________________
Title: ______________________________

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Dissemination Agent

By: ______________________________
   Authorized Officer
EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of the Issuer: Community Facilities District No. 5 of the City of Moreno Valley, County of Riverside, State of California

Name of Bond Issue: Community Facilities District No. 5 of the City of Moreno Valley 2007 Special Tax Bonds

Date of Issuance: May 17, 2007

NOTICE IS HEREBY GIVEN that __________ has not provided an [Annual Report or Semiannual Report] with respect to the above-named Bonds as required by the Continuing Disclosure Agreement of the Developer. [The Landowner anticipates that such [Annual Report or Semiannual Report] will be filed not later than __________, ____.]

Dated: ____________________

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Dissemination Agent

cc: City of Moreno Valley
May 31, 2007

Mayor and City Council
City of Moreno Valley
14177 Frederick Street
Moreno Valley, California

BOND OPINION

$5,870,000
COMMUNITY FACILITIES DISTRICT NO. 5
OF THE CITY OF MORENO VALLEY
2007 SPECIAL TAX BONDS

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the City of Moreno Valley (the “City”) for and on behalf of Community Facilities District No. 5 of the City of Moreno Valley (the “District”) situated in and formed by the City, of $5,870,000 aggregate principal amount of the Community Facilities District No. 5 of the City of Moreno Valley 2007 Special Tax Bonds (the “Bonds”). The Bonds are issued pursuant to the provisions of the Mello-Roos Community Facilities Act of 1982, as amended, being Chapter 2.5 (commencing with Section 53311) of Part 1 of Division 2 of Title 5 of the Government Code of the State of California (the “Act”), a resolution adopted by the City Council on May 8, 2007 (the “Resolution”), and a Fiscal Agent Agreement, dated as of May 1, 2007 (the “Fiscal Agent Agreement”), between the City and Wells Fargo, National Association, as fiscal agent (the “Fiscal Agent”).

We have examined the Act, the Resolution, the Fiscal Agent Agreement and certified copies of the proceedings taken for the issuance and sale of the Bonds. As to questions of fact which are material to our opinion, we have relied upon the representations of the City without having undertaken to verify the accuracy of any such representations by independent investigation.

Based upon such examination, we are of the opinion, as of the date hereof, that the proceedings referred to above have been taken in accordance with the laws and the Constitution of the State of California, and that the Bonds, having been issued in duly authorized form and executed by the proper officials and delivered to and paid for by the purchaser thereof, and the Fiscal Agent Agreement having been duly authorized and executed by the proper official, constitute the legally valid and binding obligations of the City, for and on behalf of the District, enforceable in accordance with their terms subject to the qualifications specified below. Except where funds are otherwise available, as may be permitted by law, the Bonds are payable, as to both principal and interest, solely from certain special taxes to be levied and collected within the District and other funds available therefor held under the Fiscal Agent Agreement.
The Internal Revenue Code of 1986, as amended (the “Code”), sets forth certain investment, rebate and related requirements which must be met subsequent to the issuance and delivery of the Bonds for the interest on the Bonds to be and remain exempt from federal income taxation. Noncompliance with such requirements could cause the interest on the Bonds to be subject to federal income taxation retroactive to the date of issuance of the Bonds. Pursuant to the Fiscal Agent Agreement, the City has covenanted to comply with the requirements of the Code and applicable regulations promulgated thereunder.

We are of the opinion that, under existing statutes, regulations, rulings and court decisions, and assuming compliance by the District with the aforementioned covenant, the interest on the Bonds is excluded from gross income for purposes of federal income taxation and is exempt from personal income taxation imposed by the State of California.

We are further of the opinion that interest on the Bonds is not a specific preference item for purposes of the alternative minimum tax provisions of the Code. However, interest on the Bonds received by corporations will be included in corporate adjusted current earnings, a portion of which may increase the alternative minimum taxable income of such corporations.

The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of the same maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Bond constitutes original issue discount, and the amount of original issue discount that accrues to the owner of the Bond is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

Although interest on the Bonds is excluded from gross income for purposes of federal income taxation, the accrual or receipt of interest on the Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these tax consequences will depend on the recipient’s particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

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

The rights of the owners of the Bonds and the enforceability of the Bonds and the Fiscal Agent Agreement may be subject to bankruptcy, insolvency, moratorium and other similar laws affecting creditors’ rights heretofore or hereafter enacted, and their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity.

Respectfully submitted,

BEST BEST & KRIEGER LLP
APPENDIX H
BOOK-ENTRY-ONLY SYSTEM

The information in this section concerning DTC and DTC’s book-entry only system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, premium, if any, accreted value, if any, and interest on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.

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

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

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

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

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

Principal, redemption price and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from the District or the Fiscal Agent, on payable date in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC, the Fiscal Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption price and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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