

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions and assuming certain representations and compliance with certain covenants and requirements described herein, the interest on the 2003 Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, the interest on the 2003 Bonds is exempt from State of California personal income tax. In addition, the difference between the issue price of a 2003 Bond (the first price at which a substantial amount of the 2003 Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to a 2003 Bond constitutes original issue discount and the amount of original issue discount that accrues to the owner of the 2003 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. See "LEGAL MATTERS – Tax Exemption" herein.

\$7,505,000

**REDWOOD SHORES COMMUNITY FACILITIES DISTRICT NO. 99-1
(SHORES TRANSPORTATION IMPROVEMENT PROJECT)
OF THE CITY OF REDWOOD CITY
SPECIAL TAX BONDS, SERIES 2003B**

Dated: Date of Delivery

Due: September 1, as shown below

The Special Tax Bonds, Series 2003B (the "2003 Bonds") are being issued under the Mello-Roos Community Facilities Act of 1982 (the "Act") and a Fiscal Agent Agreement dated as of February 1, 2001 and a First Supplemental Fiscal Agent Agreement dated as of August 1, 2003 (together, the "Fiscal Agent Agreement"), by and between the Redwood Shores Community Facilities District No. 99-1 (Shores Transportation Improvement Project) of the City of Redwood City (the "District") and BNY Western Trust Company, as fiscal agent (the "Fiscal Agent"). The 2003 Bonds are payable, on a parity with bonds issued in 2001, from a portion of the proceeds of Special Taxes (as defined herein) levied on property within the District according to the rate and method of apportionment of special tax approved by the qualified electors of the District and by the City Council of the City of Redwood City (the "City"), acting as legislative body of the District.

The 2003 Bonds are being issued to (i) finance improvements which are a part of the Redwood Shores Traffic Improvement Project, which consists of the acquisition and construction of certain streets, freeway interchanges, and other public improvements (the "Project") of benefit to the District, (ii) increase the amount in a reserve fund for the 2003 Bonds and the bonds issued in 2001, and (iii) pay the costs of issuing the 2003 Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" and "THE PROJECT" herein.

Interest on the 2003 Bonds is payable on March 1, 2004 and semiannually thereafter on each September 1 and March 1. The 2003 Bonds will be issued in denominations of \$5,000 or integral multiples thereof. The 2003 Bonds, when delivered, will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the 2003 Bonds as described herein under "THE 2003 BONDS—Book-Entry Only System."

The 2003 Bonds are subject to optional and mandatory redemption as described herein.

THE 2003 BONDS DO NOT CONSTITUTE OBLIGATIONS FOR WHICH THE CITY OR THE DISTRICT IS OBLIGATED TO LEVY OR PLEDGE, OR HAS LEVIED OR PLEDGED, GENERAL OR SPECIAL TAXES, OTHER THAN THE SPECIAL TAXES DESCRIBED HEREIN. THE 2003 BONDS ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE FROM PROCEEDS OF THE SPECIAL TAXES AND OTHER AMOUNTS PLEDGED UNDER THE FISCAL AGENT AGREEMENT BUT ARE NOT A DEBT OF THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION OR RESTRICTION.

MATURITY SCHEDULE

Maturity (Sept. 1)	Principal Amount	Interest Rate	Price	CUSIP⁽¹⁾ 757893	Maturity (Sept. 1)	Principal Amount	Interest Rate	Price	CUSIP⁽¹⁾ 757893
2004	\$ 85,000	2.000%	100.000	BK7	2014	\$115,000	5.300	100.000	BV3
2005	85,000	2.500	100.000	BL5	2015	120,000	5.400	100.000	BW1
2006	85,000	3.000	100.000	BM3	2016	125,000	5.500	100.000	BX9
2007	90,000	3.500	100.000	BN1	2017	135,000	5.600	100.000	BY7
2008	95,000	3.900	100.000	BP6	2018	140,000	5.700	100.000	BZ4
2009	90,000	4.300	100.000	BQ4	2019	145,000	5.800	100.000	CA8
2010	95,000	4.650	100.000	BR2	2020	155,000	5.850	100.000	CB6
2011	100,000	4.800	100.000	BS0	2021	165,000	5.875	100.000	CC4
2012	105,000	5.000	100.000	BT8	2022	175,000	5.900	100.000	CD2
2013	110,000	5.150	100.000	BU5					

\$1,625,000 5.950% Term 2003 Bonds due September 1, 2028; Price: 100.00; CUSIP 757893CE0⁽¹⁾

\$3,665,000 6.000% Term 2003 Bonds due September 1, 2033; Price: 100.00; CUSIP 757893CF7⁽¹⁾

⁽¹⁾ CUSIP Copyright 2003, American Bankers Association. CUSIP data herein is provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc.

This cover page contains certain information for quick reference only. It is not a summary of the issue. Potential investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. Investment in the 2003 Bonds involves risks which may not be appropriate for some investors. See "BONDOWNERS' RISKS" herein for a discussion of special risk factors that should be considered in evaluating the investment quality of the 2003 Bonds.

The 2003 Bonds are offered when, as and if issued and accepted by the Underwriter, subject to approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, Bond Counsel, and subject to certain other conditions. Jones Hall, A Professional Law Corporation, San Francisco, California is Disclosure Counsel to the District. Certain legal matters will be passed on for the City and the District by the City Attorney. It is anticipated that the 2003 Bonds, in book-entry form, will be available for delivery on or about September 3, 2003.

Stone & Youngberg LLC

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

No Offering May Be Made Except by this Official Statement. This Official Statement is submitted in connection with the sale of the 2003 Bonds referred to in this Official Statement and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not a contract with the purchasers of the 2003 Bonds. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations with respect to the 2003 Bonds other than as contained in this Official Statement, and if given or made, such other information or representation must not be relied upon as having been authorized. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

Involvement of Underwriter. The Underwriter has submitted the following statement for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as a 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.

Preparation of this Official Statement. The information contained in this Official Statement has been obtained from sources that are believed to be reliable, but this information is not guaranteed as to accuracy or completeness. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or any other entity described or referenced herein since the date hereof. This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. All summaries of the documents referred to in this Official Statement 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.

2003 Bonds Exempt from Securities Laws Registration. The issuance and sale of the 2003 Bonds have not been registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, in reliance upon exemptions for the issuance and sale of municipal securities provided under Section 3(a)(2) of the Securities Act of 1933 and Section 3(a)(12) of the Securities Exchange Act of 1934.

Estimates and Projections. Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words.

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 THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.

CITY OF REDWOOD CITY

CITY COUNCIL

Richard S. Claire, *Mayor*
Jeff Ira, *Vice Mayor*
Jim Hartnett, *Councilmember*
Diane Howard, *Councilmember*
Colleen Jordan, *Councilmember*
Barbara Pierce, *Councilmember*
Ira Ruskin, *Councilmember*

CITY STAFF

Edward P. Everett, *City Manager*
Brian J. Ponty, *Director of Finance and Financial Planning*
Alison Freeman, *Financial Services Manager*
Stan Yamamoto, Esq., *City Attorney*
Patricia Howe, *City Clerk*

BOND COUNSEL

Stradling Yocca Carlson & Rauth, a Professional Corporation
San Francisco, California

FINANCIAL ADVISOR and SPECIAL TAX CONSULTANT

William Euphrat Municipal Finance, Inc.
San Francisco, California

FISCAL AGENT

BNY Western Trust Company
San Francisco, California

DISCLOSURE COUNSEL

Jones Hall, A Professional Law Corporation
San Francisco, California

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OFFICIAL STATEMENT

\$7,505,000
REDWOOD SHORES COMMUNITY FACILITIES DISTRICT NO. 99-1
(SHORES TRANSPORTATION IMPROVEMENT PROJECT)
OF THE CITY OF REDWOOD CITY
SPECIAL TAX BONDS, SERIES 2003B

This Official Statement, including the cover page and appendices hereto, is provided to furnish information regarding the Redwood Shores Community Facilities District No. 99-1 (Shores Transportation Improvement Project) of the City of Redwood City Special Tax Bonds, Series 2003B (the "2003 Bonds").

INTRODUCTION

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. Defined terms used and not defined herein shall have the meanings ascribed to them in the Fiscal Agent Agreement, or, as to descriptions of the Special Tax, in the Rate and Method. A full review should be made of the entire Official Statement. The offering of the 2003 Bonds to potential investors is made only by means of the entire Official Statement.

The City. The City of Redwood City (the "City") is located on the west shore of the San Francisco Bay midway between San Francisco (25 miles to the north) and San Jose (17 miles to the south) in San Mateo County (the "County"). The City was incorporated as a charter city in 1929. It maintains a council-manager form of government, with the Mayor and Council Members elected at-large for four-year overlapping terms. The City Council serves as the legislative body of the District. See "APPENDIX A – City of Redwood City General Information."

The District. The Redwood Shores Community Facilities District No. 99-1 (Shores Transportation Improvement Project) of the City of Redwood City (the "District") was formed and established by the City in 1999 pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (the "Act"), following a public hearing and a landowner election at which the qualified electors of the District, by more than a two-thirds vote, authorized the District to incur bonded indebtedness in the aggregate not-to-exceed amount of \$13,535,000 and approved the levy of special taxes (the "Special Taxes") to pay debt service on such bonded indebtedness.

Only parcels in the District with developed commercial square footage thereon or on which the City has approved the construction of commercial square footage (the "Taxable Parcels") are subject to the levy of special taxes of the District. Based on City and County records and including the Oracle Parcels (defined in the following paragraph) which are no longer subject to the annual Special Tax levy due to a prepayment, a total of 6,158,921 commercial square feet in the District meets this criteria. All of the property in the District is improved. The District includes 74 parcels totaling approximately 300.55 acres, owned or controlled by long-term leases with an option to purchase by 26 separate entities. Only parcels used for commercial purposes are included in the District.

Fifty-six parcels in the District totaling approximately 262.2 acres have been developed as commercial office space/hotel. Ten parcels totaling 16.115 acres are used in a capacity that excludes them from being subject to Special Taxes under the Rate and Method (such as open space, parking lots, common areas or publicly owned). See "REDWOOD SHORES COMMUNITY FACILITIES DISTRICT NO. 99-1" herein.

In November 2000, Oracle Systems Corporation ("Oracle"), an entity owning or controlling (as lessee under long-term leases with an option to purchase) eight parcels totaling 1,819,310 commercial square feet (the "Oracle Parcels") in the District which were allocated approximately 30% of the District's Special Tax burden, prepaid in full the District's Special Taxes attributable to such parcels. Accordingly, 2003 Bonds are not being issued with regard to the Special Taxes so prepaid and the security for the 2003 Bonds does not include these parcels. Taxable Parcels in the District other than the Oracle Parcels are referred to herein as the "Remaining Taxable Parcels." The Remaining Taxable Parcels are improved with 4,339,611 square feet of commercial space and subject to the Special Tax. *The Special Taxes prepaid by Oracle are not pledged for payment of the Bonds and the Oracle Parcels are not security for the Bonds.*

Authority for Issuance of the 2003 Bonds. The 2003 Bonds are issued pursuant to the Act and a Fiscal Agent Agreement, dated as of February 1, 2001, as supplemented by a First Supplemental Fiscal Agent Agreement dated as of August 1, 2003 (together, the "Fiscal Agent Agreement"), by and between the City and BNY Western Trust Company, as fiscal agent (the "Fiscal Agent"). See "THE 2003 BONDS - Authority for Issuance" herein.

2001 Parity Bonds. Under the Resolution of Formation, the District is authorized to issue bonds in an aggregate principal amount of not-to-exceed \$13,535,000. In February 2001, the District issued its \$5,045,000 principal amount of Special Tax Bonds, Series 2001A (the "2001 Bonds") to finance a portion of the Phase I improvements. The 2001 Bonds are secured by and payable from a first pledge of Net Taxes on a parity with the 2003 Bonds. After issuance of the 2003 Bonds, no additional bonds will be issued pursuant to the authorization. The 2001 Bonds and the 2003 Bonds are collectively referred to herein as the "Bonds."

Purpose of the 2003 Bonds. The net proceeds of the 2003 Bonds will be used to finance certain improvements ("the Phase II Facilities") of the Redwood Shores Traffic Improvement District Project, as described herein. Phase II Facilities include improvements to the U.S. Highway 101 Ralston Avenue/Marine Parkway freeway interchange. Phase I facilities of the Project were financed with proceeds of the 2001 Bonds, described herein. See "THE PROJECT." Proceeds of the 2003 Bonds, plus a portion of the interest earned thereon, will also be used to pay costs of issuance of the 2003 Bonds and certain administrative expenses of the District.

Sources of Payment for the 2003 Bonds. The 2003 Bonds are secured by and payable, on a parity with the 2001 Bonds (described herein) from a first pledge of "Net Taxes", generally defined in the Fiscal Agent Agreement as Gross Taxes less amounts set aside to pay administrative expenses of the District. "Gross Taxes" include all Special Taxes received by the District (but excluding the Special Taxes prepaid by Oracle), together with the proceeds

collected from the sale of property pursuant to the foreclosure provisions of the Fiscal Agent Agreement for any delinquencies. "Special Taxes" are defined in the Fiscal Agent Agreement as the taxes authorized to be levied by the District in accordance with the Resolution of Formation (as defined herein), the Act and the voter approval obtained at the July 30, 1999 election in the District, excluding the Special Taxes prepaid by Oracle, and any additional special taxes authorized to be levied by the District from time to time which are pledged by the District to the repayment of the 2001 Bonds and the 2003 Bonds. The 2001 Bonds and the 2003 Bonds are collectively referred to herein as the "Bonds."

Pursuant to the Act, the Rate and Method of Apportionment, Redwood Shores Community Facilities District No. 99-1 (Shores Transportation Improvement Project) of the City of Redwood City (the "Rate and Method"), the Resolution of Formation (as defined herein) and the Fiscal Agent Agreement, so long as any Bonds are outstanding, the legislative body of the District will in each Fiscal Year thereafter so long as any Bonds issued under the Fiscal Agent Agreement are Outstanding, levy the Special Tax in an amount sufficient, together with other amounts on deposit in the Special Tax Fund, to pay (1) the principal (including Sinking Fund Payments) of and interest on the Bonds when due, (2) to the extent permitted by law, the Administrative Expenses (defined in the Rate and Method), and (3) any amounts required to replenish the Reserve Account of the Special Tax Fund to the Reserve Requirement (as described herein).

Pursuant to the Act, all lands owned by a public entity are omitted from the levy of the Special Tax, *unless* the public entity acquires the property after the levy of the Special Tax, in which case the public entity will be obligated to pay the Special Tax, subject to certain limitations. The Rate and Method exempts from the Special Tax all publicly owned parcels which are normally exempt from ad valorem taxes under California law, including public streets, schools, school district administrative offices, police and fire facilities, parks, and public drainage ways, rights-of-way, landscaping, greenbelts and open space ("Public Parcels"), as well as any parcel zoned for single or multi-family residential use ("Residential Parcels"). See "SECURITY FOR THE BONDS – Rate and Method" and "BONDOWNERS' RISKS - Exempt Properties."

The District has also covenanted in the Fiscal Agent Agreement to cause foreclosure proceedings to be commenced and prosecuted under certain conditions against parcels with certain delinquent installments of the Special Tax. For a more detailed description of the foreclosure covenant see "SECURITY FOR THE BONDS - Proceeds of Foreclosure Sales."

THE BONDS DO NOT CONSTITUTE OBLIGATIONS OF THE CITY OR OF THE DISTRICT FOR WHICH THE CITY OR THE DISTRICT IS OBLIGATED TO LEVY OR PLEDGE, OR HAS LEVIED OR PLEDGED, GENERAL OR SPECIAL TAXES, OTHER THAN THE SPECIAL TAXES REFERENCED HEREIN. THE BONDS ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE FROM PROCEEDS OF THE SPECIAL TAXES AND OTHER AMOUNTS PLEDGED UNDER THE FISCAL AGENT AGREEMENT BUT ARE NOT A DEBT OF THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION OR RESTRICTION.

Risk Factors Associated with Purchasing the 2003 Bonds. Investment in the 2003 Bonds involves risks that may not be appropriate for some investors. See the section of this Official Statement entitled "BONDOWNERS' RISKS" for a discussion of certain risk factors which should be considered, in addition to the other matters set forth herein, in considering the investment quality of the 2003 Bonds.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds from the sale of the 2003 Bonds are anticipated to be deposited into the following respective accounts and funds established under the Fiscal Agent Agreement:

<u>SOURCES</u>	
Principal Amount of Bonds	\$7,505,000.00
Less: Underwriter's Discount	<u>88,183.75</u>
<i>Total Sources</i>	7,416,816.25

<u>USES</u>	
Deposit into Reserve Account ⁽¹⁾	375,250.00
Deposit into Costs of Issuance Account ⁽²⁾	229,350.00
Deposit into Project Account	<u>6,812,216.25</u>
<i>Total Uses</i>	\$7,416,816.25

- (1) Equal to the initial deposit; interest earnings to accumulate up to the amount of the Reserve Requirement.
- (2) Includes the fees and expenses of Bond Counsel and Disclosure Counsel, the cost of printing the preliminary and final Official Statements, fees and expenses of the Fiscal Agent, and the fees of the Financial Advisor.

THE PROJECT

The rapid increase in development of the Redwood Shores area during the mid 1990's, along with the corresponding growth in jobs, created traffic congestion in the area and the need for roadway improvements. In order to address the traffic problems, in April 1998 the engineering firm of Brian Kangas Foulk, Redwood City, California, was retained by the Cities of Redwood City, Belmont and San Carlos to assess and recommend necessary transportation improvements. The resultant report, as supplemented on June 10, 1998, identified the specific improvements and developed preliminary cost estimates for what is referred to as the Redwood Shores Traffic Improvement Project (the "Project").

The Project involves the construction of improvements to several intersections in and around the commercial area of Redwood Shores and the reconfiguration of the Marina Parkway/Ralston Avenue U.S. 101 interchange to a partial cloverleaf design. These improvements include the construction, purchase, modification, expansion, improvement or rehabilitation of sanitary sewers, streets, storm drainage facilities, utilities, parks, landscaping, and other infrastructure improvements and relocations, including traffic signalization and improvements to street intersections and freeway interchanges, for the following projects:

1. The Marine Parkway intersection at or near Twin Dolphin Parkway;
2. The Marine Parkway intersection at or near Bridge Parkway;
3. The Redwood Shores Parkway intersection at or near Bridge Parkway;
4. The Marine Parkway intersection at or near Oracle West/Shoreway Road;
5. The Ralston Avenue intersection at or near Hiller Street;
6. The northbound U.S. 101 on-ramp at the Marine Parkway/Ralston Avenue interchange;
7. The HOV bypass lanes at the northbound U.S. 101 on-ramp at the Ralston Avenue interchange; and
8. The reconfiguration of the U.S. 101/Marina Parkway/Ralston Avenue interchange to a partial cloverleaf design.

The net proceeds of the 2001 Bonds were used to finance certain improvements ("the Phase I Facilities"), which included the first three projects listed above, and to finance the costs

of forming the District and a pro rata share of certain other incidental expenses related to the Project. Phase I Facilities included various intersection and street widening improvements designed to improve traffic circulation at peak commute hours. The net proceeds of the 2003 Bonds will be used to finance certain Phase II improvements of the Project, which will include improvements to the U.S. Highway 101 Ralston Avenue/Marine Parkway freeway interchange.

The Project additionally includes certain incidental expenses, including the cost of engineering, planning and designing the improvements and all costs associated with the creation of the District, the issuance of the Bonds, the determination of the amount of Special Taxes to be levied, and costs otherwise incurred in order to carry out the authorized purposes of the District and administering the District.

The Project is being constructed jointly with the neighboring City of Belmont. Belmont's portion of the improvements includes a direct-access freeway exchange leading to the business and residential area in Belmont adjacent to Redwood Shores known as Island Park. Belmont is financing the direct-access improvements of benefit to Island Park through a combination of its own resources and federal grants administered by the California Transportation Commission ("CTC"). None of the proceeds of the Bonds will be applied to the direct-access improvements serving Island Park.

In addition to proceeds of the Bonds, financing of the Project is derived from proceeds of the Special Tax prepaid by Oracle and from federal grant proceeds (in addition to those secured for Belmont's portion of the improvements) administered by the CTC. Redwood City has secured a grant allocation for \$3.1 million from CTC for the fiscal year 2002-03 and a grant allocation from CTC in the amount of \$4.5 million from CTC for the fiscal year 2004-05. These grants will be applied to both the direct-access improvements and the Project.

In the event the City is unable to complete the Project due to the unwillingness or inability of the sources of grant money to provide grant moneys, the City may elect to terminate the Project or reduce its scope. In such event, the City may elect to redeem Bonds prior to maturity. See "THE 2003 BONDS - Redemption - Mandatory Redemption From Special Tax Prepayments and Transfers From the Acquisition and Construction Fund" below.

Portions of the funding for the Project and the direct-access improvements for Island Park are being provided by the State and federal grants through the State Transportation Program. Although these funds have been programmed and allocated to the Project, the State's obligation to the Project is subject to the appropriation of resources by the State Legislature. The State's proposed budget for FY 2003-04 has a large unresolved deficit which the State is required by its constitution to eliminate prior to adoption of its budget. There is some risk that grant funds may not be appropriated by the State as the State struggles to resolve its deficit. In case the City determines or is notified by the CTC that the State will not reimburse the City for those portions of the Project and the direct-access improvements for which the City has obtained grant funding from CTC, the City has reserved the right to terminate the contract for completion of the Project. Failure to complete the project will not alleviate owners of the Remaining Taxable Parcels of the obligation to pay Special Taxes. However, traffic congestion and delays caused by incomplete construction to the Ralston Avenue/Marine Parkway freeway exchange that persist for an extended period could adversely affect the market value of properties in the District, and therefore have an adverse effect on the security for the Bonds.

THE 2003 BONDS

General Provisions

The 2003 Bonds will be dated their date of delivery and will bear interest at the rates per annum set forth on the cover page hereof, payable semiannually on each March 1 and September 1, commencing on March 1, 2004 (each, an "Interest Payment Date"), and will mature in the amounts and on the dates set forth on the cover page hereof. The 2003 Bonds will be issued in fully registered form in denominations of \$5,000 each or any integral multiple thereof.

The 2003 Bonds will bear interest at the rates set forth on the cover page hereof payable on the Interest Payment Dates in each year. Interest will be calculated on the basis of a 360-day year composed of twelve 30-day months. Interest on any 2003 Bond will be payable from the Interest Payment Date next preceding the date of authentication of that 2003 Bond, unless (i) such date of authentication is an Interest Payment Date in which event interest shall be payable from such date of authentication, (ii) the date of authentication is after a Record Date (a "Record Date" being the 15th day of the month preceding an Interest Payment Date, regardless of whether such day is a Business Day) but prior to the immediately succeeding Interest Payment Date, in which event interest shall be payable from the Interest Payment Date immediately succeeding the date of authentication, or (iii) the date of authentication is prior to the close of business on the first Record Date occurring after the issuance of such 2003 Bond, in which event interest shall be payable from the dated date of such 2003 Bond; provided, however, that if at the time of authentication of such 2003 Bond interest is in default, interest on that 2003 Bond shall be payable from the last Interest Payment Date to which the interest has been paid or made available for payment or, if no interest has been paid or made available for payment on that 2003 Bond, interest on that 2003 Bond shall be payable from its dated date.

Interest on any 2003 Bond will be paid to the person whose name appears in the 2003 Bond Register as the Owner of such 2003 Bond as of the close of business on the Record Date. Such interest shall be paid by check of the Fiscal Agent mailed by first class mail, postage prepaid, to such 2003 Bondowner at his or her address as it appears on the 2003 Bond Register. In addition, upon a request in writing received by the Fiscal Agent on or before the applicable Record Date from an Owner of \$1,000,000 or more in principal amount of the 2003 Bonds, payment will be made on the Interest Payment Date by wire transfer in immediately available funds to an account within the United States designated by such Owner. The principal of the 2003 Bonds and any premium on the 2003 Bonds are payable by check in lawful money of the United States of America upon surrender of the 2003 Bonds at the Principal Office of the Fiscal Agent in San Francisco, California.

Authority for Issuance

The 2003 Bonds are issued pursuant to the Act and the Fiscal Agent Agreement. In addition, as required by the Act, the City Council of the City has taken the following actions with respect to establishing the District and authorizing issuance of the 2003 Bonds:

On March 22, 1999, the City Council adopted Resolution No. 13590 stating its intention to establish the District and to authorize the levy of a special tax therein for the purpose of financing certain facilities and incidental expenses. See "THE PROJECT" herein.

After a noticed public hearing, on April 26, 1999, the City Council adopted Resolution Nos. 13610 and 13611, which established the District, authorized the levy of a special tax within the District and called for an election within the District for July 30,

1999 on the proposition of levying a special tax, authorizing the issuance of bonds in a principal amount not to exceed \$13,535,000 and establishing an appropriations limit.

On August 9, 1999, the City Council, acting as legislative body of the District, adopted Resolution No. 13693 certifying the results of the July 30, 1999 election conducted by the City Clerk, which results showed that more than two-thirds of the votes cast were in favor of the proposition.

On August 23, 1999, the City Council, acting as the legislative body of the District, adopted Ordinance No. 2180 authorizing the levy of a special tax within the District.

On December 18, 2000, the City Council, acting as the legislative body of the District, adopted Resolution No. 14112 approving the issuance of the 2001 Bonds and approving certain financing documents relating to the issuance of the 2001 Bonds.

On July 28, 2003, the City Council, acting as the legislative body of the District, adopted a resolution approving the issuance of the 2003 Bonds and approving certain financing documents relating to the issuance of the 2003 Bonds.

Debt Service Schedule

The following table presents the annual debt service on the 2001 Bonds and 2003 Bonds (including sinking fund redemptions), assuming that there are no optional redemptions. Debt service on the Bonds has been calculated to provide 110% coverage based on Net Taxes to be collected in each year.

Period Ending (Sept. 1)	2003 Bonds <u>Principal</u>	2003 Bonds <u>Interest</u>	2003 Bonds <u>Total</u>	2001 Bonds <u>Total</u>	2001 & 2003 <u>Bonds Total</u>
2003				\$376,602.50	\$376,602.50
2004	\$85,000	\$423,937.89	\$508,937.89	377,402.50	\$886,340.39
2005	85,000	424,606.26	509,606.26	377,782.50	887,388.76
2006	85,000	422,481.26	507,481.26	377,722.50	885,203.76
2007	90,000	419,931.26	509,931.26	377,322.50	887,253.76
2008	95,000	416,781.26	511,781.26	376,635.00	888,416.26
2009	90,000	413,076.26	503,076.26	380,590.00	883,666.26
2010	95,000	409,206.26	504,206.26	379,010.00	883,216.26
2011	100,000	404,788.76	504,788.76	377,050.00	881,838.76
2012	105,000	399,988.76	504,988.76	379,700.00	884,688.76
2013	110,000	394,738.76	504,738.76	376,700.00	881,438.76
2014	115,000	389,073.76	504,073.76	378,202.50	882,276.26
2015	120,000	382,978.76	502,978.76	379,015.00	881,993.76
2016	125,000	376,498.76	501,498.76	379,025.00	880,523.76
2017	135,000	369,623.76	504,623.76	378,300.00	882,923.76
2018	140,000	362,063.76	502,063.76	376,820.00	878,883.76
2019	145,000	354,083.76	499,083.76	379,672.50	878,756.26
2020	155,000	345,673.76	500,673.76	376,562.50	877,236.26
2021	165,000	336,606.26	501,606.26	377,762.50	879,368.76
2022	175,000	326,912.50	501,912.50	378,100.00	880,012.50
2023	185,000	316,587.50	501,587.50	377,575.00	879,162.50
2024	190,000	305,580.00	495,580.00	381,187.50	876,767.50
2025	200,000	294,275.00	494,275.00	378,650.00	872,925.00
2026	210,000	282,375.00	492,375.00	380,250.00	872,625.00
2027	225,000	269,880.00	494,880.00	380,700.00	875,580.00
2028	615,000	256,492.50	871,492.50		871,492.50
2029	650,000	219,900.00	869,900.00		869,900.00
2030	690,000	180,900.00	870,900.00		870,900.00
2031	730,000	139,500.00	869,500.00		869,500.00
2032	775,000	95,700.00	870,700.00		870,700.00
22033	820,000	49,200.00	869,200.00		869,200.00

Redemption

Optional Redemption. At the option of the District, and subject to the limitations set forth below, the 2003 Bonds shall be subject to redemption, in whole, or in part in the order of maturity selected by the District and by lot within a maturity, on any Interest Payment Date on or after September 1, 2011, from any source of available funds, at the following redemption prices, expressed as a percentage of the principal amount to be redeemed, plus accrued interest thereon to the redemption date:

<u>Redemption Date</u>	<u>Redemption Price</u>
September 1, 2011 and March 1, 2012	102%
September 1, 2012 and March 1, 2013	101
September 1, 2013 and any Interest Payment Date thereafter	100

In the event the District elects to redeem 2003 Bonds as provided above, the District is required to give written notice to the Fiscal Agent of its election to so redeem, the redemption date, and the principal amount of the 2003 Bonds to be redeemed. The notice to the Fiscal Agent shall be given at least 60 but no more than 90 days prior to the redemption date, or such shorter period as is acceptable to the Fiscal Agent.

Mandatory Sinking Payment Redemption. The 2003 Bonds maturing on September 1, 2028 and September 1, 2033 (the respective "Term 2003 Bonds") shall be called before maturity and redeemed, from the Sinking Fund Payments that have been deposited into the Redemption Account, on September 1, 2023 and September 1, 2029 respectively, and on each September 1 thereafter prior to maturity, in accordance with the schedule of Sinking Fund Payments set forth below. The 2003 Bonds so called for redemption shall be selected by the Fiscal Agent by lot and shall be redeemed at a redemption price for each redeemed 2003 Bond equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

2003 Bonds Maturing September 1, 2028

<u>Sinking Fund Redemption Date (September 1)</u>	<u>Sinking Payment Amount</u>
2023	\$185,000
2024	190,000
2025	200,000
2026	210,000
2027	225,000
2028 (maturity)	615,000

2003 Bonds Maturing September 1, 2033

Sinking Fund Redemption Date <u>(September 1)</u>	Sinking Payment <u>Amount</u>
2029	\$650,000
2030	690,000
2031	730,000
2032	775,000
2033 (maturity)	820,000

If during the Fiscal Year immediately preceding one of the redemption dates specified above the District purchases 2003 Bonds of such maturities, at least 45 days prior to the redemption date the District shall notify the Fiscal Agent as to the principal amount purchased and the amount of 2003 Bonds so purchased shall be credited at the time of purchase, to the extent of the full principal amount thereof, to reduce such upcoming Sinking Fund Payment for the applicable maturity of the 2003 Bonds.

In the event of a partial redemption of the Term Bonds maturing on September 1, 2033 pursuant to optional redemption, each of the remaining Sinking Fund Payments for such Term Series B Bonds, as described above, will be reduced, as nearly as practicable, on a pro rata basis in amounts of \$5,000 or integral multiples thereof, as determined by the Fiscal Agent, notice of which determination shall be given by the Fiscal Agent to the District.

Mandatory Redemption From Special Tax Prepayments and Transfers From the Acquisition and Construction Fund. The 2003 Bonds shall be subject to mandatory redemption, in whole, or in part on a pro rata basis among maturities and by lot within a maturity, on any Interest Payment Date on or after September 1, 2004, from and to the extent of either (i) any prepayment of Special Taxes or (ii) transfers of surplus amounts in the Acquisition and Construction Fund pursuant to the Fiscal Agent Agreement, at the following redemption prices, expressed as a percentage of the principal amount to be redeemed, plus accrued interest thereon to the redemption date:

<u>Redemption Date</u>	<u>Redemption Price</u>
March 1, 2004 through March 1, 2011	103%
September 1, 2011 and March 1, 2012	102
September 1, 2012 and March 1, 2013	101
September 1, 2013 and any Interest Payment Date thereafter	100

Purchase In Lieu of Redemption. If during the Fiscal Year immediately preceding one of the redemption dates specified in the tables above the District purchases 2003 Bonds of such maturities, at least 45 days prior to the redemption date the District is required to notify the Fiscal Agent as to the principal amount purchased and the amount of 2003 Bonds so purchased shall be credited at the time of purchase, to the extent of the full principal amount thereof, to reduce such upcoming Sinking Fund Payment for the applicable maturity of the 2003 Bonds. All 2003 Bonds purchased pursuant to this clause will be cancelled pursuant to the Fiscal Agent Agreement.

Selection of 2003 Bonds for Redemption. If less than all of the 2003 Bonds Outstanding are to be redeemed, the portion of any 2003 Bond of a denomination of more than \$5,000 to be redeemed shall be in the principal amount of \$5,000 or an integral multiple thereof. In selecting portions of such 2003 Bonds for redemption, the Fiscal Agent shall treat such 2003 Bonds as

representing that number of 2003 Bonds of \$5,000 denominations which is obtained by dividing the principal amount of such 2003 Bonds to be redeemed in part by \$5,000.

Notice of Redemption. When 2003 Bonds are due for redemption, the Fiscal Agent is required to give notice, in the name of the District, of the redemption of such 2003 Bonds; provided, however, that a notice of a redemption to be made from other than from Sinking Fund Payments shall be conditioned on there being on deposit on the redemption date sufficient money to pay the redemption price of the 2003 Bonds to be redeemed.

Such notice of redemption must (a) specify the CUSIP numbers (if any), the 2003 Bond numbers and the maturity date or dates of the 2003 Bonds selected for redemption, except that where all of the 2003 Bonds are subject to redemption, or all the 2003 Bonds of one maturity are to be redeemed, the 2003 Bond numbers of such issue need not be specified; (b) state the date fixed for redemption and surrender of the 2003 Bonds to be redeemed; (c) state the redemption price; (d) state the place or places where the 2003 Bonds are to be redeemed; (e) in the case of 2003 Bonds to be redeemed only in part, state the portion of such 2003 Bond which is to be redeemed; (f) state the date of issue of the 2003 Bonds as originally issued; (g) state the rate of interest borne by each 2003 Bond being redeemed; and (h) state any other descriptive information needed to identify accurately the 2003 Bonds being redeemed as shall be specified by the Fiscal Agent. Such notice shall further state that on the date fixed for redemption, there shall become due and payable on each 2003 Bond or portion thereof called for redemption, the principal thereof, together with any premium, and interest accrued to the redemption date, and that from and after such date, interest thereon shall cease to accrue and be payable. At least 30 days but no more than 60 days prior to the redemption date, the Fiscal Agent shall mail a copy of such notice, by first class mail, postage prepaid, to the respective Owners thereof at their addresses appearing on the 2003 Bond Register, to the original purchaser of any 2003 Bonds. The actual receipt by the Owner of any 2003 Bond or the original purchaser of any 2003 Bond of notice of such redemption shall not be a condition precedent to redemption, and neither the failure to receive nor any defect in such notice shall affect the validity of the proceedings for the redemption of such 2003 Bonds, or the cessation of interest on the redemption date. A certificate by the Fiscal Agent that notice of such redemption has been given as herein provided shall be conclusive as against all parties and the Owner shall not be entitled to show that he or she failed to receive notice of such redemption.

Partial Redemption. Upon surrender of any 2003 Bond to be redeemed in part only, the District shall execute and the Fiscal Agent shall authenticate and deliver to the 2003 Bondowner, at the expense of the District, a new 2003 Bond or 2003 Bonds of authorized denominations equal in aggregate principal amount to the unredeemed portion of the 2003 Bonds surrendered, with the same interest rate and the same maturity.

Effect of Redemption. When notice of redemption has been duly given, as provided in the Fiscal Agent Agreement, and the amount necessary for the redemption has been made available for that purpose and is available therefor on the date fixed for such redemption, (a) the 2003 Bonds or portions thereof, designated for redemption shall, on the date fixed for redemption, become due and payable at the redemption price thereof as provided in the Fiscal Agent Agreement, anything in the Fiscal Agent Agreement or in the 2003 Bonds to the contrary notwithstanding; (b) upon presentation and surrender thereof at the office of the Fiscal Agent, the redemption price of such 2003 Bonds shall be paid to the Owners thereof; (c) as of the redemption date the 2003 Bonds, or portions thereof so designated for redemption shall be deemed to be no longer Outstanding and such 2003 Bonds, or portions thereof, shall cease to bear further interest; and (d) as of the date fixed for redemption no Owner of any of the Bonds or portions thereof so designated for redemption shall be entitled to any of the benefits of the Fiscal Agent Agreement, or to any other rights, except with respect to payment of the

redemption price and interest accrued to the redemption date from the amounts so made available.

Registration, Transfer and Exchange

The Fiscal Agent will keep or cause to be kept, at its office, sufficient books for the registration and transfer of the 2003 Bonds which shall upon reasonable prior notice be open to inspection by the District during all regular business hours.

The District and the Fiscal Agent may treat the Owner of any 2003 Bond whose name appears on the 2003 Bond Register as the absolute Owner of that 2003 Bond for any and all purposes, and the District and the Fiscal Agent shall not be affected by any notice to the contrary. The District and the Fiscal Agent may rely on the address of the 2003 Bondowner as it appears in the 2003 Bond Register for any and all purposes. It shall be the duty of the 2003 Bondowner to give written notice to the Fiscal Agent of any change in the 2003 Bondowner's address so that the 2003 Bond Register may be revised accordingly.

Subject to the limitations set forth in the following paragraph, the registration of any 2003 Bond may, in accordance with its terms, be transferred upon the 2003 Bond Register by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such 2003 Bond for cancellation at the office of the Fiscal Agent, accompanied by delivery of written instrument of transfer in a form approved by the Fiscal Agent and duly executed by the 2003 Bondowner or his or her duly authorized attorney.

2003 Bonds may be exchanged at the office of the Fiscal Agent for a like aggregate principal amount of 2003 Bonds for other authorized denominations of the same maturity and issue. The Fiscal Agent shall not collect from the Owner any charge for any new 2003 Bond issued upon any exchange or transfer, but shall require the 2003 Bondowner requesting such exchange or transfer to pay any tax or other governmental charge required to be paid with respect to such exchange or transfer. Whenever any 2003 Bonds shall be surrendered for registration of transfer or exchange, the District shall execute and the Fiscal Agent shall authenticate and deliver a new 2003 Bond or 2003 Bonds, of the same issue and maturity, for a like aggregate principal amount; provided that the Fiscal Agent shall not be required to register transfers or make exchanges of (i) 2003 Bonds for a period of 15 days next preceding any selection of the 2003 Bonds to be redeemed, or (ii) any 2003 Bonds chosen for redemption.

Book-Entry Only System

The following description of The Depository Trust Company ("DTC"), the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest 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. Accordingly, no representations can be made by the District or the City concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the laws of the State of New York, a Banking organization within the meaning of the laws of the State of New York, 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, as amended. DTC holds securities of its participants ("DTC Participants") and facilitates the clearance and settlement of securities transactions among DTC Participants in such securities through electronic book-entry changes in accounts of DTC Participants, thereby eliminating the need for physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its DTC Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the Book-Entry System is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly (the "Indirect Participants"). The rules applicable to DTC and for DTC Participants are on file with the Securities and Exchange Commission.

Purchases of Bonds under the DTC System must be made by or through DTC Participants, which will receive a credit balance in the records of DTC. The ownership interest of each actual purchaser of each Bond (the "Beneficial Owner") will be recorded through the records of a DTC Participant. Beneficial Owners are expected to receive a written confirmation of their purchase providing certain details of the Bonds acquired. Transfers of ownership interests in the Bonds will be accomplished by book entries made by DTC and, in turn, by the DTC Participants who act on behalf of the Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in the Bonds, except as specifically provided in the Fiscal Agent Agreement in the event participation in the Book-Entry System is discontinued (see "Discontinuance of DTC Services" below).

To facilitate subsequent transfers, all Bonds deposited by participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and the registration in the name of Cede & Co. effect no 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 DTC Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The DTC and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the holders or registered owners of the Bonds will mean Cede & Co. and will not mean the Beneficial Owners of the Bonds.

DTC may determine to discontinue providing its service with respect to the Bonds at any time by giving notice to the District and discharging its responsibilities with respect thereto under applicable law. Under such circumstances, Bond certificates are required to be delivered as described in the Fiscal Agent Agreement. The Beneficial Owner, upon registration of certificates held in the Beneficial Owner's name, will become the registered owner of the Bonds.

The District may determine that continuation of the system of book-entry transfers through DTC (or a successor securities depository) is not in the best interest of the Beneficial Owners. In such event, Bonds will be delivered as described in the Fiscal Agent Agreement.

Conveyances of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants, and by DTC Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory and regulatory requirements as may be in effect from time to time.

Redemption notices and all other notices to Bondowners shall be sent only to Cede & Co., as registered owner of the Bonds. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each DTC Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent to vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer of the Bonds as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those DTC Participants to whose accounts the Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made solely to DTC or its nominee, Cede & Co., as registered owner of the Bonds. Upon receipt of monies, DTC's current practice is to immediately credit the accounts of the DTC Participants in accordance with their respective holdings shown on the records of DTC. Payments by DTC Participants and Indirect Participants to Beneficial Owners will be governed by standing rules and regulations governing municipal securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such DTC Participant or Indirect Participant and not of DTC, the Fiscal Agent or the District, subject to any statutory and regulatory requirements as may be in effect from time to time.

The District, the City, the Underwriter and the Fiscal Agent do not have any responsibility or obligation to DTC Participants, to the persons for whom they act as nominees, to Beneficial Owners, or to any other person who is not shown on the registration books as being an owner of the Bonds, with respect to (i) the accuracy of any records maintained by DTC or any DTC Participants; (ii) the payment by DTC or any DTC Participant of any amount in respect of the principal of, redemption price of or interest on the Bonds; (iii) the delivery of any notice which is permitted or required to be given to registered owners under the Fiscal Agent Agreement; (iv) the selection by DTC or any DTC Participant of any person to receive payment in the event of a partial redemption of the Bonds; (v) any consent given or other action taken by DTC as registered owner; or (vi) any other matter arising with respect to the Bonds or the Fiscal Agent Agreement. The District, the City, the Underwriter and the Fiscal Agent cannot and do not give any assurances that DTC Participants or others will distribute payments of principal of or interest on the Bonds paid to DTC or its nominee, as the registered owner, or any notices to the Beneficial Owners or that they will do so on a timely basis or will serve and act in a manner described in this Official Statement. The District and the Fiscal Agent are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner in respect to the Bonds or any error or delay relating thereto.

Discontinuance of DTC Services. In the event that (a) DTC determines not to continue to act as securities depository for the Bonds, or (b) the District determines that DTC shall no longer so act and delivers a written certificate to the Fiscal Agent to that effect, then the District will discontinue the Book-Entry System with DTC for the Bonds. If the District determines to replace DTC with another qualified securities depository, the District will prepare or direct the preparation of a new single separate, fully registered Bond for each maturity of the Bonds registered in the name of such successor or substitute securities depository as are not inconsistent with the terms of the Fiscal Agent Agreement. If the District fails to identify another qualified securities depository to replace the incumbent securities depository for the Bonds, then the Bonds shall no longer be restricted to being registered in the Bond registration books in the name of the incumbent securities depository or its nominee, but shall be registered in whatever name or names the incumbent securities depository or its nominee transferring or exchanging the Bonds shall designate.

In the event that the Book-Entry System is discontinued, the following provisions would also apply: (i) the Bonds will be made available in physical form, (ii) principal of, and redemption premiums, if any, on, the Bonds will be payable upon surrender thereof at the corporate trust office of the Fiscal Agent in San Francisco, California, (iii) interest on the Bonds will be payable by check mailed by first-class mail or, upon the written request of any Owner of \$1,000,000 or more in aggregate principal amount of Bonds received by the Fiscal Agent on or prior to the 15th day of the calendar month immediately preceding the interest payment date, by wire transfer in immediately available funds to an account with a financial institution within the continental United States of America designated by such Owner, and (iv) the Bonds will be transferable and exchangeable as provided in the Fiscal Agent Agreement.

SECURITY FOR THE BONDS

General

The Bonds are secured by a first pledge of all of the Net Taxes, and all amounts in the Special Tax Fund (other than amounts in the Administrative Expense Account of the Special Tax Fund). The Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) are pledged in the Fiscal Agent Agreement to the payment of the principal of, premium, if any, and interest on the Bonds. Such pledge constitutes a first lien on such assets. Amounts in the Special Tax Fund (other than the Administrative Expense Account therein) constitutes a trust fund held for the benefit of the Owners to be applied to the payment of the interest on and principal of the Bonds and so long as any of the Bonds or interest thereon remains outstanding. Pursuant to the Act and the Fiscal Agent Agreement, the District covenants to levy the Special Tax in an amount sufficient, together with other amounts on deposit in the Special Tax Fund, to pay (1) the principal (including Sinking Fund Payments) of and interest on the Bonds when due, (2) to the extent permitted by law, the Administrative Expenses, and (3) any amounts required to replenish the Reserve Account of the Special Tax Fund to the Reserve Requirement.

"Net Taxes" are defined in the Fiscal Agent Agreement to mean Gross Taxes (exclusive of any penalties and interest accruing with respect to delinquent Special Tax installments) minus amounts set aside to pay Administrative Expenses. "Gross Taxes" means the amount of all Special Taxes received by the District, excluding the Special Taxes prepaid by Oracle, together with the proceeds collected from the sale of property pursuant to the foreclosure provisions of the Fiscal Agent Agreement for the delinquency of such Special Taxes remaining after the payment of all the costs related to such foreclosure actions, including, but not limited to, all legal fees and expenses, court costs, consultant and title insurance fees and expenses.

Amounts in the Administrative Expense Fund, the Rebate Fund, the Costs of Issuance Account, and the Project Account are not pledged to the repayment of the Bonds. The portion of the Project acquired with the proceeds of the Bonds is not in any way pledged to pay the debt service on the Bonds. Any proceeds of condemnation or destruction of any facilities financed with the proceeds of the Bonds are not pledged to pay the debt service on the Bonds and are free and clear of any lien or obligation imposed under the Fiscal Agent Agreement.

THE BONDS DO NOT CONSTITUTE OBLIGATIONS OF THE CITY OR OF THE DISTRICT FOR WHICH THE CITY OR THE DISTRICT IS OBLIGATED TO LEVY OR PLEDGE, OR HAS LEVIED OR PLEDGED, GENERAL OR SPECIAL TAXES, OTHER THAN THE SPECIAL TAXES REFERENCED HEREIN. THE BONDS ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE FROM PROCEEDS OF THE SPECIAL TAXES AND OTHER AMOUNTS PLEDGED UNDER THE FISCAL AGENT AGREEMENT

BUT ARE NOT A DEBT OF THE CITY OF REDWOOD CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION OR RESTRICTION.

Special Taxes

The District has covenanted in the Fiscal Agent Agreement that in Fiscal Year 2002-03 and in each Fiscal Year thereafter so long as any Bonds issued under the Fiscal Agent Agreement are outstanding, the legislative body of the District will levy the Special Tax in an amount sufficient, together with other amounts on deposit in the Special Tax Fund, to pay (1) the principal (including Sinking Fund Payments) of and interest on the Bonds when due, (2) to the extent permitted by law, the Administrative Expenses, and (3) any amounts required to replenish the Reserve Account of the Special Tax Fund to the Reserve Requirement.

The Special Taxes prepaid by Oracle are not pledged for payment of the Bonds and the Oracle Parcels are not security for the Bonds.

Because the Special Tax levy is limited to the maximum Special Tax rates set forth in the Rate and Method, no assurance can be given that, in the event of Special Tax delinquencies, the receipts of Special Taxes will, in fact, be collected in sufficient amounts in any given year to pay debt service on the Bonds.

Rate and Method

General. The Special Tax is levied and collected according to the Rate and Method set forth in "APPENDIX B - Rate and Method of Apportionment for District No. 99-1." The qualified electors of the District approved the Rate and Method on July 30, 1999. The following is a brief summary of the Rate and Method. Capitalized terms used in the following paragraphs but not defined herein have the meanings given them in the Rate and Method.

The Rate and Method provides the means by which the City Council may annually levy the Special Taxes on parcels within the District (each, a "Parcel") up to the Maximum Special Tax. The Rate and Method provides that the Annual Special Tax may not be levied after June 30, 2036.

Classification of Parcels. On each June 1 of the Fiscal Years that the Special Taxes are to be levied, each Parcel within the District's boundaries is classified as a (i) "Residential Parcel", which means any Parcel zoned for single or multi-family residential use or (ii) "Commercial Parcel", which means any Parcel which is designated for commercial use pursuant to the land use approved for such Parcel by the Redwood Shores Specific Plan or other land use planning document approved by the City (in the event the City has no official land use designation for a Parcel, the land use code on the secured tax rolls of the County may be used to classify such Parcel). Residential Parcels are further classified as "Tax-Exempt Parcels." Tax-Exempt Parcels are not subject to the levy of Special Taxes.

Each Commercial Parcel in the District is further classified in one of the following categories:

Developed Commercial Parcel - any Commercial Parcel for which a building permit has been issued by the City. Under the Rate and Method, a Developed Commercial Parcel is a "Taxable Parcel."

Approved Commercial Parcel - any Commercial Parcel that has been approved for commercial development by the City pursuant to a vested Development Agreement or a

recorded final map approved by the City and is not a Developed Parcel. Under the Rate and Method, an Approved Commercial Parcel is a "Taxable Parcel."

Public Parcel – any Parcel that is, or intended to be publicly owned and which is normally exempt from ad valorem taxes under California law, including public streets, schools, school district administrative offices, police and fire facilities, parks and public drainage ways, rights-of-way, landscaping, greenbelts and open space. Under the Rate and Method, a Public Parcel is a "Tax-Exempt Parcel."

Inactive Parcel – a Parcel which is not classified as a Developed Commercial Parcel, Approved Commercial Parcel, Residential Parcel or Public Parcel. Commercial Parcels without Developed Commercial Square Feet or Approved Commercial Square Feet (as both terms are defined in the Rate and Method) will be classified as Inactive Parcels. Under the Rate and Method, an Inactive Parcel is a "Tax-Exempt Parcel."

Levy of Special Taxes. The Special Tax will be levied *only* on Taxable Parcels. The amount of the Special Tax levied on each Taxable Parcel is based on Approved Commercial Square Feet (for Approved Commercial Parcels) or Developed Commercial Square Feet (for Developed Commercial Parcels).

For each Approved Commercial Parcel, "Approved Commercial Square Feet" means the maximum amount of commercial square feet that could be constructed on an Approved Commercial Parcel pursuant to a vested Development Agreement or a recorded final map approved by the City. If an Approved Commercial Parcel is subdivided, the City Manager may assign Approved Commercial Square Feet to successor Parcels provided that the total number of Approved Commercial Square Feet on such successor Parcels may not exceed the Approved Commercial Square Feet assigned to the predecessor Parcel.

For each Developed Commercial Parcel, "Developed Commercial Square Feet" means the number of square feet approved for construction as shown on a building permit that has been issued by the City for any Developed Commercial Parcel.

The amount of the Special Tax for each Taxable Parcel is determined as follows:

Step 1: The total Annual Costs for such Fiscal Year is projected. "Annual Costs" include (i) an amount sufficient to pay debt service on Bonds in a timely manner, (ii) Administrative Expenses and (iii) any amounts needed to replenish Bond reserve funds and to make up for any deficit caused by actual or estimated delinquencies in Special Taxes for the previous or current Fiscal Year.

Step 2: The sum of unexpended fund balances (including amounts collected in the prior Fiscal Year to be applied to Debt Service in such Fiscal Year) held under the fiscal agent agreement securing outstanding Bonds that is available to pay Debt Service in such Fiscal Year shall be determined.

Step 3: The amount of Debt Service due in such Fiscal Year payable from Annual Tax Revenues collected in the prior Fiscal Year shall be determined.

Step 4: The amounts calculated in Steps 1 and 3 above shall be added together and the amount determined in Step 2 above shall be subtracted from such sum to arrive at the Annual Tax Revenues to be collected in such Fiscal Year.

Step 5: The Maximum Annual Special Tax Rate (or rates, as the case may be) applicable to each Taxable Parcel shall be multiplied by the taxable commercial square feet corresponding to such rate(s).

Step 6: If the total of the amounts calculated in Step 5 is greater than the Annual Costs, all Special Tax rates shall be decreased by equal proportions of the applicable Maximum Annual Special Tax Rates until the Special Tax rates on all Taxable Parcels produces scheduled Annual Tax Revenue equal to the projected Annual Costs.

Step 7: An annual Special Tax shall be determined for each Taxable Parcel by multiplying the Special Tax rate(s) identified in Step 6 above times the number of commercial square feet taxable at such Special Tax rate(s) on each such Taxable Parcel.

Maximum Annual Special Tax Rate. For each Taxable Parcel, the Maximum Annual Special Tax Rate shall be established for both Developed Commercial Square Feet and Approved Commercial Square Feet as that Maximum Annual Special Tax Rate applicable in the year in which such commercial square footage first becomes subject to taxation. The Maximum Annual Special Tax Rate applicable to particular Developed Commercial Square Feet or Approved Commercial Square Feet shall not increase after the year in which it is first so applied. A Taxable Parcel may have more than one Maximum Annual Special Tax Rate applicable to it. For Taxable Parcels first so classified in Fiscal Year 1999-2000, the Maximum Annual Special Tax Rate has been set at 23.2 cents per square foot of Commercial Square Feet thereon. For Commercial Square Feet becoming taxable on a Taxable Parcel in subsequent years, the Maximum Annual Special Tax Rate on such Commercial Square Feet will be established based upon the fiscal year in which such Commercial Square Feet was first subject to taxation, ranging from 24.4 cents per square foot for Commercial Square Feet first becoming taxable in fiscal year 2000-2001 to a maximum of 49 cents per square foot for property first becoming taxable in 2013 or thereafter. See "APPENDIX B – Rate and Method of Apportionment for District No. 99-1." All parcels which are currently classified as Taxable Parcels received their classification in fiscal year 1999-2000 and the applicable Maximum Annual Special Tax has been set at 23.2 cents per square foot of Commercial Square Feet thereon.

Prepayment of Annual Special Taxes. The owner of any Taxable Parcel may prepay the Special Taxes to be levied against such Parcel, in whole but not in part. The Prepayment Amounts for a Parcel either (i) before the issuance of the Bonds or (ii) after the issuance of Bonds are calculated based on various factors, all as specified in "APPENDIX B - Rate and Method of Apportionment for District No. 99-1 – Section G" herein. Upon prepayment of the Special Tax, the parcel for which the prepayment was made will no longer be security for the Bonds. Oracle Corporation prepaid the Special Taxes on parcels owned or controlled by it prior to the sale of the Bonds and the Oracle Parcels are not security for the Bonds. See "REDWOOD SHORES COMMUNITY FACILITIES DISTRICT NO. 99-1 – Major Land Owners."

Proceeds of Foreclosure Sales

Pursuant to Section 53356.1 of the Act, in the event of any delinquency in the payment of the Special Tax, the District may order the institution of a Superior Court action to foreclose the lien therefor within specified time limits. In such an action, the real property subject to the unpaid amount may be sold at judicial foreclosure sale. Such judicial foreclosure action is not mandatory.

However, in the Fiscal Agent Agreement the District has covenanted for the benefit of the Owners of the Bonds that it (i) will commence judicial foreclosure proceedings against all parcels owned by a property owner that are delinquent in the payment of Special Taxes by the

October 1 following the close of each Fiscal Year in which such Special Taxes were due and (ii) will diligently pursue such foreclosure proceedings until the delinquent Special Taxes are paid; provided that, notwithstanding the foregoing, the District may elect to defer foreclosure proceedings on any parcel of Developed Commercial Parcel which is owned by a delinquent property owner whose property is not, in the aggregate, delinquent in the payment of Special Taxes for a period of two years or more or in an amount in excess of \$5,000 so long as (i) the amount in the Reserve Account of the Special Tax Fund is at least equal to the Reserve Requirement, and (ii) with respect to the Bonds, the District is not in default in the payment of the principal of or interest on the Bonds. The District may, but shall not be obligated to, advance funds from any source of legally available funds in order to maintain the Reserve Account of the Special Tax Fund at the Reserve Requirement or to avoid a default in payment on the Bonds.

Any foreclosure proceedings commenced as described above could be stayed by the commencement of bankruptcy proceedings by or against the owner of the delinquent property. See "BONDOWNERS' RISKS – Bankruptcy Proceedings."

No assurances can be given that the real property subject to foreclosure and sale at a judicial foreclosure sale for nonpayment of Special Taxes will be sold or, if sold, that the proceeds of such sale will be sufficient to pay any delinquent Special Tax installment.

Special Tax Fund

Pursuant to the Fiscal Agent Agreement, all Net Taxes received by the District will be deposited in the Special Tax Fund, which will be held by the Fiscal Agent on behalf of the District. Moneys in the Special Tax Fund shall be held in trust by the Fiscal Agent for the benefit of the District and the owners of the Bonds. Pending disbursement, moneys in the Special Tax Fund will be subject to a lien in favor of the Bondowners and the District established under the Fiscal Agent Agreement.

Disbursements. Moneys in the Special Tax Fund will be disbursed as needed to pay the obligations of the District in the following priority:

- (i) The Administrative Expense Account of the Special Tax Fund;
- (ii) The Interest Account of the Special Tax Fund;
- (iii) The Principal Account of the Special Tax Fund;
- (iv) The Redemption Account of the Special Tax Fund;
- (v) The Reserve Account of the Special Tax Fund;
- (vi) The Rebate Fund; and
- (vii) The Surplus Fund.

Investment. Moneys in the Special Tax Fund will be invested and deposited by the Authorized District Representative as described in "Investment of Moneys in Funds" below. Any loss resulting from such Authorized Investments shall be credited or charged to the Fund, Account or Subaccount from which such investment was made, and any investment earnings on a Fund, Account or Subaccount shall be applied as follows: (i) investment earnings on amounts on deposit in the Acquisition and Construction Fund, the Reserve Account, and the Rebate Fund and each Account therein shall be deposited in those respective Funds and Accounts, and (ii) all other investment earnings shall be deposited in the Acquisition and Construction Fund until the balance therein equals zero and thereafter shall be deposited in the Interest Account of the Special Tax Fund.

Administrative Expense Account

In addition to proceeds of Bonds deposited therein, the Fiscal Agent shall transfer from the Special Tax Fund to the Administrative Expense Account of the Special Tax Fund from time to time amounts necessary to make timely payment of Administrative Expenses upon the written direction of the District. The total amount transferred from the Special Tax Fund to the Administrative Expense Account in any Bond Year shall not exceed \$25,000 (with such amount escalating at a compounded rate of 2% per Bond Year beginning with the Bond Year commencing September 2, 2001) until such time as there has been deposited to the Interest Account and the Principal Account an amount, together with any amounts already on deposit therein, sufficient to pay the principal of and interest on all Bonds due in such Bond Year. Moneys in the Administrative Expense Account of the Special Tax Fund may be invested in any Authorized Investments as directed by an Authorized District Representative.

Interest Account and Principal Account

The principal of and interest due on the Bonds until maturity, other than principal due upon redemption, shall be paid by the Fiscal Agent from the Principal Account and the Interest Account of the Special Tax Fund, respectively.

The Redemption Account

Before each September 1 on which a Sinking Fund Payment is due, after the deposits have been made to the Interest Account and the Principal Account of the Special Tax Fund as required by the Fiscal Agent Agreement, the Fiscal Agent shall next transfer into the Redemption Account of the Special Tax Fund from the Special Tax Fund the amount needed to make the balance in the Redemption Account (excluding prepaid Special Taxes in the Redemption Account that are to be applied to the mandatory redemption of Bonds) five Business Days prior to each September 1 equal to the Sinking Fund Payment due on any Outstanding Bonds on such September 1.

After making the deposits to the Interest Account, the Principal Account and to the Redemption Account for Sinking Fund Payments then due as described above, and if the District elects to call Bonds for optional redemption pursuant to the Fiscal Agent Agreement, the Fiscal Agent shall transfer from the Special Tax Fund and deposit in the Redemption Account moneys available for the purpose and sufficient to pay the interest, the principal and the premiums, if any, payable on the Bonds called for optional redemption; provided, however, that amounts in the Special Tax Fund (other than the Administrative Expense Account therein) may be applied to optionally redeem Bonds only if immediately following such redemption the amount in the Reserve Account will equal the Reserve Requirement.

Prepaid Special Taxes deposited in the Redemption Account shall be applied to the mandatory redemption of Bonds pursuant to the Fiscal Agent Agreement, on the first allowable date for such mandatory redemption.

Moneys set aside in the Redemption Account will be used solely for the purpose of redeeming Bonds and will be applied on or after the redemption date to the payment of the principal of and premium, if any, on the Bonds to be redeemed upon presentation and surrender of such Bonds and in the case of an optional redemption to pay the interest thereon; provided, however, that in lieu or partially in lieu of such call and redemption, moneys deposited in the Redemption Account as set forth above may be used to purchase Outstanding Bonds in the manner provided in the Fiscal Agent Agreement. Purchases of Outstanding Bonds may be made by the District at public or private sale as and when and at such prices as the District may in its discretion determine but only at prices (including brokerage or other

expenses) not more than par plus accrued interest, plus, in the case of moneys set aside for an optional redemption or a mandatory redemption from prepaid Special Taxes, the premium applicable at the next following call date according to the premium schedule established pursuant to the Fiscal Agent Agreement. Any accrued interest payable upon the purchase of Bonds may be paid from the amount reserved in the Interest Account of the Special Tax Fund for the payment of interest on the next following Interest Payment Date.

The Reserve Account

In order to further secure the payment of principal of and interest on the Bonds, a portion of 2001 Bond proceeds were deposited into the Reserve Account in an amount equal to \$252,250.00 (the "2001 Reserve Account Deposit"). Interest earnings on amounts on deposit in the Reserve Account (which are to be retained therein) increased the amount on deposit in the Reserve Account to \$264,579.40 (as of July 31, 2003) and will continue to accumulate until the amount therein reaches the Reserve Requirement. "Reserve Requirement" is defined in the Fiscal Agent Agreement to mean, as of any date of calculation by the District, an amount equal to the lowest of (i) 10% of the original proceeds of the Bonds and each issue of Parity Bonds, less original issue discount, if any, plus original issue premium, if any, (ii) Maximum Annual Debt Service of the Bonds, and (iii) 125% of the average Annual Debt Service of the Bonds. Upon issuance of the 2003 Bonds, the amount in the Reserve Account will be increased by the amount of \$375,250.00. Interest earnings will accrue on the combined Reserve Account balance until the Reserve Requirement is met.

Moneys in the Reserve Account are available to be used for paying the principal of, including Sinking Fund Payments, and interest on the 2001 Bonds and 2003 Bonds when due in the event that the moneys in the Interest Account and the Principal Account of the Special Tax Fund are insufficient therefor or moneys in the Redemption Account of the Special Tax Fund are insufficient to make a Sinking Fund Payment when due and for the purpose of making any required transfer to the Rebate Fund pursuant to the Fiscal Agent Agreement. If the amounts in the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund are insufficient to pay the principal of, including Sinking Fund Payments, or interest on any Bonds when due, or amounts in the Special Tax Fund are insufficient to make transfers to the Rebate Fund when required, the Fiscal Agent shall withdraw from the Reserve Account for deposit in the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund or the Rebate Fund, as applicable, moneys necessary for such purposes. In the event of prepayment of the Special Tax, moneys in the Reserve Account will be reduced by the pro-rata share of such moneys allocable to the Bonds to be redeemed with such prepaid Special Taxes.

If moneys are withdrawn from the Reserve Account for the purpose described in the preceding paragraph, or if the value of the amount on deposit in the Reserve Account is decreased due to a loss on amounts invested in the Reserve Account, then the Fiscal Agent shall, after making the transfers required by the Fiscal Agent Agreement, transfer to the Reserve Account from available moneys in the Special Tax Fund, or from any other legally available funds that the District elects to apply to such purpose, an amount equal to the lesser of (i) the sum of the amount of such withdrawal plus the amount of any such decrease in value and (ii) the amount needed to restore the amount in the Reserve Account to the Reserve Requirement. Moneys in the Special Tax Fund shall be deemed available for transfer to the Reserve Account only if the Fiscal Agent determines that such amounts will not be needed to make the deposits required to be made to the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund. If amounts in the Special Tax Fund or otherwise transferred to replenish the Reserve Account are inadequate to make the transfer to the Reserve Account required by this paragraph, then the District shall include in the next annual Special Tax levy

(to the extent permitted by the maximum Special Tax rates) an amount sufficient to make such transfer.

In connection with an optional redemption of the Bonds under the Fiscal Agent Agreement, or a partial defeasance of the Bonds in accordance with the Fiscal Agent Agreement, amounts in the Reserve Account may be applied to such optional redemption or partial defeasance so long as the amount on deposit in the Reserve Account following such optional redemption or partial defeasance is at least equal to the Reserve Requirement. Amounts in the Reserve Account may be applied to pay the principal of and interest on the Bonds in the final Bond Year for the Bonds, then amounts in the Reserve Account may be applied to pay the principal of and interest on the Bonds in the final Bond Year for such issue so long as the amount on deposit in the Reserve Account following such payment of principal and interest is at least equal to the Reserve Requirement. On the fifth Business Day before each March 1 and September 1, moneys in the Reserve Account in excess of the Reserve Requirement, and not to be transferred in accordance with the preceding paragraphs of this Section, shall be withdrawn from the Reserve Account and transferred to the Interest Account of the Special Tax Fund.

The Rebate Fund

The Fiscal Agent will establish and maintain a fund separate from any other fund designated as the Rebate Fund and will establish a separate Rebate Account and Alternative Penalty Account therein. All money at any time deposited in the Rebate Account or the Alternative Penalty Account of the Rebate Fund shall be held by the Fiscal Agent in trust, for payment to the United States Treasury. A separate subaccount of the Rebate Account and the Alternate Penalty Account shall be established for each issue of Bonds the interest on which is excluded from gross income for federal income tax purposes.

Surplus Fund

After making the transfers as required to the Administrative Expense Account, Interest Account, Principal Account, Redemption Account, Reserve Account and the Rebate Fund, as soon as practicable after each September 1, and in any event prior to each October 1, the Fiscal Agent shall transfer all remaining amounts in the Special Tax Fund, if any, to the Surplus Fund, pursuant to the terms of the Fiscal Agent Agreement. Moneys deposited in the Surplus Fund may, at the written direction of the District, be used for any lawful purpose of the District permitted under the Rate and Method, the Resolution of Formation (as defined in the Fiscal Agent Agreement), and the Act, including, without limitation, (i) payment of principal, redemption premium, and interest with respect to the Bonds, (ii) deposit to the Reserve Account the amount necessary to meet the Reserve Requirement, (iii) payment of Administrative Expenses, (iv) payment of Project Costs, (v) deposit in the Special Tax Fund for the purpose of reducing the next fiscal year's Special Tax levy, and (vi) to pay refunds of Special Taxes in accordance with the Rate and Method.

The amounts in the Surplus Fund are not pledged to the repayment of the Bonds and may be used by the District for any lawful purpose in the manner described in the Fiscal Agent Agreement. If the District reasonably expects to use moneys on deposit in the Surplus Fund to pay debt service on Outstanding Bonds, then the District shall provide the Fiscal Agent with written direction to segregate the amount expected to be used to pay debt service into a separate subaccount of the Surplus Fund and to invest such amount in (i) Authorized Investments the interest on which is excludable from gross income under Section 103 of the Code (other than Bonds the interest on which is a tax preference item for purposes of computing the alternative minimum tax of individuals and corporations under the Code), (ii) Authorized Investments at a yield not in excess of the yield on the issue of Bonds to which such

amount is expected to be applied, or (iii) Authorized Investments at a yield in excess of the yield on the issue of Bonds to which such amount is expected to be applied; provided, however, that investment at such higher yield shall only be made if the Fiscal Agent is first provided an opinion of Bond Counsel, to the effect that investment at such higher yield will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds which were issued on a tax-exempt basis for federal income tax purposes.

Investment of Moneys in Funds

Moneys in any fund or account created or established by the Fiscal Agent Agreement and held by the Fiscal Agent will be invested by the Fiscal Agent in Authorized Investments, as directed by an Authorized District Representative, that mature, or, in the case of investment agreements or repurchase agreements, that may be withdrawn at the par value thereof and without penalty, prior to the date on which such moneys are required to be paid out under the Fiscal Agent Agreement. See "APPENDIX C - Summary the of Fiscal Agent Agreement - Investments." In the absence of any direction from an Authorized District Representative, the Fiscal Agent will invest, to the extent reasonably practicable, any such moneys in money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, and having a rating by Standard & Poor's of AAAm-G, AAAm or AAm, and, if rated by Moody's, rated Aaa, Aa1 or Aa2 (including those of the Fiscal Agent and its affiliates or funds for which the Fiscal Agent or affiliates provide investment advisory or other management services). See "APPENDIX C - Summary of the Fiscal Agent Agreement" for a definition of "Authorized Investments."

REDWOOD SHORES COMMUNITY FACILITIES DISTRICT NO. 99-1

Location and Description

Redwood Shores is a master-planned community located in the northeastern portion of the City. It comprises approximately 1,500 acres, and is surrounded by Highway 101 on the west, San Francisco Bay on the east, Belmont Slough on the north, and Steinberger Slough on the south. The site was originally part of a marshland system that bordered the Bay along what is now San Mateo County.

The District comprises the commercial portion of Redwood Shores, and consists of 74 fully subdivided parcels totaling approximately 300.55 acres. The 74 parcels are owned or controlled by 26 commercial entities. Sixty-four of the parcels were initially classified as Taxable Parcels subject to the lien of Special Taxes. Oracle Corporation, the owner or controlling entity of eight Taxable Parcels, prepaid its Special Taxes prior to the issuance of the 2001 Bonds. Special Taxes are apportioned among the Remaining Taxable Parcels in proportion to commercial square feet. A total of 6,158,921 commercial square feet has been constructed in the District and is used as the basis for levying Special Taxes on Taxable Parcels. Oracle prepaid Special Taxes applicable to 1,819,310 commercial square feet. The commercial square feet on the Taxable Parcels that were prepaid by Oracle is no longer subject to the lien of the Special Taxes and is not available to secure the Bonds. The remaining 4,339,611 commercial square feet is fully improved and subject to the lien of the Special Taxes. Ten of the 74 parcels, which are used as open space, parking areas, or other uses that exclude them from being subject to Special Taxes under the Rate and Method, are not Taxable Parcels.

The first major commercial development in Redwood Shores, a corporate complex called the Shores Center, was completed in 1979, and attracted companies like DHL, Oral-B Labs, Fluor Mining & Metals, Hotel Sofitel, and many high-tech companies. In 1989 Oracle Corporation moved its finance and administration departments to Redwood Shores, and subsequently purchased a number of office buildings it was then occupying as well as a number of building sites, and established its corporate headquarters there. Oracle presently occupies approximately 1.8 million square feet in nine office buildings within the District, or approximately 30 percent of the approximately 6.15 million commercial square feet in the District. By 1995 the last commercial property still retained by the Redwood Shores master developer was sold for commercial development. Electronic Arts now occupies approximately 575,000 square feet as its corporate headquarters on that site.

Major property owners in the District include Oracle Corporation, Peery Public Investment Corporation, Flatirons Funding LTD Partnership (lessor of property to Electronic Arts Inc.), Equity Office Properties, Miotel Corporation (lessor of property to Sofitel), and Metropolitan Life Insurance Corporation (see "Major Land Owners" and "Current Development and Significant Land Uses" herein.)

The District was formed to provide a method of funding projects that were identified in the Shores Transportation Improvement District Final Report – Phase I and Final Report – Phase II, which were prepared to identify solutions for the traffic congestion problems that were occurring in the area. See "THE PROJECT" herein.

Valuation and Value-to-Debt Burden

Assessed Value of Land in the District. The City has obtained the assessed value on the County's secured tax roll for land and improvements of all of the Remaining Taxable Parcels in the District (56 parcels in total), as established by the County Assessor for Fiscal Year 2002-03. Such assessed value of these parcels, as shown on the FY 2002-03 secured tax

roll, total approximately \$894,616,233. The owners of eight of these parcels have filed assessment appeals that have not yet been resolved. If the appellants' values are granted in their entirety, the fiscal year 2002-03 assessed value of all Remaining Taxable Parcels would be reduced by approximately \$128,770,954. See "Assessment Appeals."

Assessment Appeals. Property assessed valuation appeals are listed in the following table.

<u>Appl Year</u>	<u>APN</u>	<u>Tax Year</u>	<u>Owner</u>	<u>Owner Statement Value</u>	<u>Assessed Value</u>	<u>Difference</u>
2002	095-221-120	2002	Equity Office Properties	\$46,000,000	\$61,000,000	(\$15,000,000)
2002	095-222-330	2002	Redwood Suites LLC	7,500,000	11,322,500	(3,822,500)
2002	095-232-020	2002	Equity Office Properties	16,000,000	22,000,000	(6,000,000)
2002	095-233-180	2002	Miotel Corporation Lessee	21,800,000	59,385,868	(37,585,868)
2002	095-242-260	2002	Redwood Shores Pavilion Office	7,000,000	12,100,000	(5,100,000)
2002	095-481-040	2002	Flatirons Funding Ltd Pship ⁽¹⁾	28,000,000	56,166,318	(28,166,318)
2002	095-481-050	2002	Flatirons Funding Ltd Pship ⁽¹⁾	21,700,000	41,150,268	(19,450,268)
2002	095-481-070	2002	Selco Service Corporation ⁽¹⁾	30,000,000	58,646,000	(28,646,000)
						<u>(\$128,770,954)</u>

(1) Owner of property, property leased to Electronic Arts with an option to purchase.

General Improvement District 1-64. General Improvement District 1-64 ("Improvement District 1-64") is a 4,686-acre improvement district formed in 1964, for the purpose of facilitating the development of the Redwood Shores area. All of the Remaining Taxable Parcels in the District are included in Improvement District 1-64. The landowners in Improvement District 1-64 authorized the issuance of facilities and reclamation Bonds between 1966 and 1979 to fund infrastructure in Redwood Shores. The Bonds were approved before Proposition 13 became effective, and the debt service on the Bonds is funded through property taxes levied on parcels in the Improvement District 1-64 based on the appraised value of such property. The outstanding balance of the Improvement District 1-64 improvement Bonds on June 30, 2002 was \$8,655,000. Remaining Taxable Parcels are responsible for approximately 23% of the total Fiscal Year 2002-03 Improvement District 1-64 levy.

The table below compares the aggregate assessed value for the Taxable Parcels in the District, with estimates of (i) the annual ad valorem property taxes levied against Remaining Taxable Parcels (based upon Fiscal Year 2002-03 assessed value), the Maximum Fiscal Year 2002-03 Special Taxes expected to be levied, and (iii) the estimate of the annual assessment of the overlapping Improvement District 1-64 on Remaining Taxable Parcels in the District.

Table 1
COMMUNITY FACILITIES DISTRICT NO. 99-1
Remaining Taxable Parcels - Ad Valorem Property Taxes, Maximum Annual Special
Taxes and Existing Assessments As a Percentage of Assessed Value
(For Fiscal Year 2002-03)

Assessed Value of Remaining Taxable Parcels in District ⁽¹⁾	Ad Valorem Taxes Against Remaining Taxable Parcels in District	Remaining Parcels Maximum Annual Special Taxes ⁽²⁾	Special Charge Assessments ⁽³⁾	Total Tax and Special Assessment Burden (as % of A.V.)
\$ 765,845,299	\$ 8,976,613	\$ 1,018,033	\$ 466,231	1.37%

⁽¹⁾ Lesser of fiscal year 2002-03 assessed value or appellant statement of value.

⁽²⁾ Less portion of annual administration charge prior to debt service.

⁽³⁾ Includes debt service and administrative expense levy for General Improvement District 1-64 general obligation bonds and other minor fees and assessments of overlapping tax jurisdictions.

Source: County of San Mateo.

Value-to-Debt Burden. The value-to-debt burden of the Remaining Taxable Parcels in the District, based on assessed valuation of \$765,845,299, reflecting the 2002-03 assessed value adjusted for the appellant statement of value with regard to properties subject to assessed valuation, and Bonds in the amount of \$12,550,000, equals 61.02:1.

Value-to-Debt Burden Distribution. The following table describes the number of parcels in certain value-to-debt burden categories as of fiscal year 2002-03. Approximately 87 percent of the total assessed value (less that portion of the fiscal year 2002-03 assessed value appealed by property owners) of the Remaining Taxable Parcels in the District have a value-to-debt burden ratio of greater than 40 to 1, based on the lien of both the 2001 Bonds and 2003 Bonds. See "Value-to-Debt Burden" above.

Table 2
COMMUNITY FACILITIES DISTRICT NO. 99-1
Assessed Value-to-Debt Burden Ratios
of District Parcels Subject to the Lien of the Special Tax

Value-to-Debt Burden Category	Number of Parcels	FY 2002-03 Land Assessed Value (1)	FY 2002-03 Improvements Assessed Value (1)	Total FY 2002-03 Assessed Value (1)	% of Total Assessed Value	Lien of Bonds	Percent of Bond Lien	Value: Lien
60:1 or more	44	\$144,786,020	\$290,246,892	\$435,032,912	56.80%	\$5,277,899	42.05%	82.43
40:1 - 59.9:1	8	39,942,017	211,070,370	251,012,387	32.78%	4,449,112	35.45	56.42
1:1 - 39.9:1	4	<u>22,371,161</u>	<u>57,428,839</u>	<u>79,800,000</u>	<u>10.42%</u>	<u>2,822,990</u>	<u>22.49</u>	<u>28.27</u>
Total	56	207,099,198	558,746,101	765,845,299	100.00%	12,550,000	100.00%	61.02

(1) Lesser of FY 2002-03 assessed value or appellant determination of value.

Source: County of San Mateo; table prepared by William Euphrat Municipal Finance, Inc.

Major Land Owners

The following table sets forth certain information with respect to the ten largest payers of Special Taxes in the District for fiscal year 2002-03, including, for each property owner, the fiscal year 2002-03 assessed value, the pro-rata portion of Bonds attributable to the property owner's parcels and the resultant value-to-debt burden ratio. The largest landowner in the District is Oracle Systems Corporation, whose eight parcels in the District were allocated

approximately 30% of the District's Special Tax burden; however, Oracle has prepaid in full the District's Special Taxes attributable to such parcels. Accordingly, the Oracle holdings are not included in the table below. Information about the use of the property owned by the various property owners is set forth in "Current Development and Significant Land Uses" below.

Table 3
COMMUNITY FACILITIES DISTRICT NO. 99-1
Summary of Remaining Taxable Property Owners with Largest Special Tax Liability
(Fiscal Year 2002-03)

<u>Property Owners</u> ⁽¹⁾	<u>No. of Taxable Parcels</u>	<u>2002-03 Assessed Value (Land and Improvements)</u> ⁽²⁾	<u>Pro Rata Portion of District Bonds</u>	<u>Value to Lien</u>	<u>Percent of Total Lien</u>
Peery Public Investment Co.	3	\$159,841,417	\$2,800,012	57.1	22.31%
Electronic Arts Inc. Lessee	3	79,700,000	2,147,009	37.1	17.11
Equity Office Partners	4	154,959,955	1,779,852	87.1	14.18
Miotel Corp. Lessee	1	21,800,000	810,964	26.9	6.46
Metropolitan Life Ins. Co.	1	40,269,323	692,711	58.1	5.52
Shorebreeze Associates	2	49,766,058	636,577	78.2	5.07
ERI Dolphin, Inc.	1	44,011,382	529,516	83.1	4.22
Provident Central Credit Union	1	29,665,827	477,433	62.1	3.80
Franklin RE Income Fund	2	38,182,680	390,595	97.8	3.11
Shapell Industries of N. CA	<u>1</u>	<u>21,451,583</u>	<u>358,743</u>	<u>59.8</u>	<u>2.86</u>
Sub-total	19	639,648,225	10,623,412	60.2	84.65
All Others	<u>37</u>	<u>126,197,074</u>	<u>1,926,588</u>	<u>65.5</u>	<u>15.35</u>
Total	56	765,845,299	12,550,000	61.0	100.00%

(1) Developed Oracle properties have had their special taxes prepaid and are not included in these figures.

(2) Lesser of fiscal year 2002-03 assessed value or appellant determination of value.

Source: Assessed Values – San Mateo County Assessor's 2002-03 Secured Property Roll and assessment appeal data; table prepared by William Euphrat Municipal Finance, Inc.

Current Development and Significant Land Uses

Peery Public Investment Co. Peery Public Investment Co ("Peery") is responsible for approximately 22% of the current annual Special Tax liability. Peery owns three Taxable Parcels which are the sites for two- and three-story office buildings. All of the buildings have been completed and are being leased to tenants.

Peery is a privately-held company, based in Santa Clara, California. Peery is in the business of developing/owning/operating/managing properties throughout northern California.

Electronic Arts Inc. Electronic Arts Inc. ("Electronic Arts") is responsible for approximately 17% of the annual Special Taxes. Electronic Arts owns three Taxable Parcels in the District. Two of these parcels comprise sites on which facilities are leased to Electronic Arts. In February 1995, Electronic Arts entered into a build-to-suit lease with a financial institution for the Company's headquarters facility in the District, which was extended in July 2001 and expires in July 2006. Electronic Arts accounted for this arrangement as an operating lease in accordance with SFAS No. 13, "Accounting for Leases", as amended. The facilities developed on this site comprise a total of 369,204 square feet and provide space for sales, marketing, administration and research and development functions. Electronic Arts has an option to purchase the property (land and facilities) for \$145,000,000 or, at the end of the lease, to arrange for (1) an additional extension of the lease or (2) sale of the property to a third

party with Electronic Arts retaining an obligation to the owner for the difference between the sale price and the guaranteed residual value of up to \$128,900,000 if the sales price is less than this amount, subject to certain provisions of the lease.

In December 2000, Electronic Arts entered into a second build-to-suit lease with a financial institution for a five year term from December 2000 to expand the Company's headquarters facilities and develop an adjacent property adding 326,149 square feet to its campus. Construction was completed in June 2002. Electronic Arts accounted for this arrangement as an operating lease in accordance with SFAS No. 13, as amended. The facilities provide space for marketing, sales and research and development. The Company has an option to purchase the property for \$127,000,000 or, at the end of the lease, to arrange for (1) an extension of the lease or (2) sale of the property to a third party with the Company retaining an obligation to the owner for the difference between the sale price and the guaranteed residual value of up to \$118,800,000 if the sales price is less than this amount, subject to certain provisions of the lease.

Electronic Arts also owns a 49,000 square foot conference center that is subject to the lien of the special taxes.

Electronic Arts creates, markets and distributes interactive entertainment software. Since its inception in 1982, Electronic Arts has developed products for 38 different computer hardware platforms, including IBM PC-CD and compatibles, 16-bit Sega Genesis video game systems, 16-bit Super Nintendo Entertainment System, Playstation, Nintendo 64 and Playstation II.

Additional financial information for Electronic Arts can be found on its Form 10-K filed with the SEC for the year ended March 31, 2003. Electronic Arts is traded on the NASDAQ (under the symbol "ERTS").

Equity Office Properties. Equity Office Properties ("Equity") owns four Taxable Parcels in the District and is responsible for approximately 14% of the annual Special Taxes. One of the parcels contains a 200,000 square-foot office building known as Twin Dolphin Plaza, which was constructed in 1992 and is a six-story Class A office building managed by Equity. The second parcel is the site of a 74,114 office building which is fully leased to Sega Inc. Equity additionally owns a 145,288 square foot, six story office building and a 194,712 square foot, eight-story office building on the remaining two parcels.

Equity, a Maryland real estate investment trust, together with its consolidated subsidiaries, including EOP Operating Limited Partnership, a Delaware limited partnership ("EOP Partnership"), was organized in 1996 and began operations in 1997. Equity owns substantially all of its assets and conduct all of its operations through EOP Partnership, which, though its various subsidiaries, is principally engaged in owning, managing, leasing, acquiring and developing office properties. Equity is the sole general partner of, and owned, at December 31, 2002, an approximate 89.1% interest in, EOP Partnership.

At December 31, 2002, Equity had a portfolio of 734 office properties comprising approximately 125.7 million square feet of commercial office space in 20 states and the District of Columbia, 77 industrial properties comprising approximately 6.0 million square feet and approximately 1.5 million square feet of office properties under development.

Equity's internet site is at www.equityoffice.com. The website address is given for reference and convenience only, the information on the website may be incomplete or inaccurate and has not been reviewed by the City or the Underwriter. Nothing on the website is a part of

this Official Statement or incorporated into this Official Statement by reference. Equity will provide to the public on its website, free of charge, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) of the Exchange Act as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC.

Miotel Hotel, Inc. Miotel Hotel Inc. ("Miotel") owns one Taxable Parcel in the District and is responsible for approximately 6.4% of the annual Special Taxes. The parcel is the site for Sofitel San Francisco Bay, a 415-room luxury hotel constructed in the late 1980's. The Sofitel includes two restaurants, a piano bar, fitness facilities and over 6,500 square feet of meeting and banquet facilities. Ninety-six of the rooms were added in 1999. Sofitel leases the site from Miotel under a long-term operating lease.

Sofitel's parent company, ACCOR, Inc., is headquartered in Paris, France. ACCOR, Inc. is the world's third largest hotel chain and owns and operates hotels in Europe, Asia, North America and South America. Sofitel is also a subsidiary of ACCOR, Inc. Sofitel, which has participated in the in the United States hotel market since approximately 1985, operates hotels in Chicago, Houston, Los Angeles, Minneapolis, Miami, New York, Philadelphia and Washington DC. Additional information about Sofitel can be found on the Internet at www.sofitel.com. The website address is given for reference and convenience only, the information on the website may be incomplete or inaccurate and has not been reviewed by the City or the Underwriter. Nothing on the website is a part of this Official Statement or incorporated into this Official Statement by reference.

Metropolitan Life Insurance Company. Metropolitan Life Insurance Company ("MetLife") is responsible for approximately 5.4% of the annual Special Taxes MetLife owns property on which two four-story office buildings totaling 239,400 square feet were constructed in the mid 1980's. The office buildings are both Class A, water-front properties that are typically fully occupied. Tenants in the MetLife building, which generally are a variety of smaller-sized businesses, include Emory Worldwide, Charles Schwab & Company, New Rivers, Oracle, and Patio Life.

MetLife and its affiliates provide life, health, disability, auto, and homeowner's insurance, as well as retirement plans and related services to individual and group clients. MetLife is also involved in a wide range of office buildings, hotels, and industrial properties, the direct acquisition of real estate, and the financing of existing properties on an intermediate term basis. Additional information can be found at its homepage on the Internet at www.metlife.com. The website address is given for reference and convenience only, the information on the website may be incomplete or inaccurate and has not been reviewed by the City or the Underwriter. Nothing on the website is a part of this Official Statement or incorporated into this Official Statement by reference.

Oracle Systems Corporation. The largest landowner in the District is Oracle Systems Corporation ("Oracle"), whose eight parcels in the District were allocated approximately 30% of the District's Special Tax burden, however in November 2000 Oracle prepaid in full the District's Special Taxes attributable to such parcels. Accordingly, Bonds are not being issued with regard to the Special Taxes so prepaid and the security for the Bonds does not include these parcels. The information presented below concerning Oracle is presented only for the purpose of providing information on development and business activity in the District.

Oracle's headquarters facilities are on property it owns (or controls pursuant to sale-leaseback arrangements or real estate partnerships) within the District. The Oracle complex, which include administrative, marketing and research and development facilities, are housed in seven fully-occupied office buildings and a conference center. The sites underneath the

headquarters and conference center consist of the parcels in the District which Oracle and its affiliates owns, and one of which Oracle has full effective control pursuant to a sale-leaseback arrangement.

Oracle is the world's second largest software company and the leading provider of state-of-the-art global e-business solutions for internet commerce and Web-based applications. Oracle designs, develops, markets and supports computer software products with a wide variety of uses, including database management and network products, applications development productivity tools, and end user applications. With annual revenues exceeding \$9.1 billion, the company offers its internet platform, tools, and internet-enabled applications, along with related consulting, education and support services, in more than 145 countries around the world.

Delinquencies

No parcels in the District are delinquent in the payment of secured taxes as of the date of this Official Statement.

Although the County bills for special taxes along with general taxes and will not accept a partial payment of taxes, there is no assurance that property owners will pay future special taxes regardless of the historical record of the payment of general taxes. See "BONDOWNER'S RISKS - Levy and Collection of Special Tax" herein.

Direct and Overlapping Governmental Obligations

Overlapping local agencies provide public services within the District, and such agencies have issued general obligation Bonds and other types of indebtedness. The direct and overlapping tax and assessment debt in the District (excluding the Oracle parcel and the lien of the 2001 Bonds) is approximately \$5.4 million. The largest lien is due to the lien due to the Improvement District 1-64 improvement Bonds; see "Valuation and Value to Debt Burden - General Improvement District 1-64" above. Overlapping general fund obligation debt in the District (excluding the Oracle parcel) amounts to approximately \$6.7 million.

BONDOWNERS' RISKS

The purchase of the Bonds described herein involves a degree of risk that may not be appropriate for some investors. The following includes a discussion of some of the risks which should be considered prior to making an investment decision.

Possible Claims Upon the Value of Taxable Parcels

While the Special Taxes are secured by the Taxable Parcels, the security only extends to the value of such Taxable Parcels that is not subject to priority and parity liens and similar claims. In addition, other governmental obligations may be authorized and undertaken or issued in the future, the tax, assessment or charge for which may become an obligation of one or more of the Taxable Parcels and may be secured by a lien on a parity with the lien of the Special Tax securing the Bonds.

In general, as long as the Special Tax is collected on the County tax roll, the Special Tax and all other taxes, assessments and charges also collected on the tax roll are on a parity, that is, are of equal priority. Questions of priority become significant when collection of one or more of the taxes, assessments or charges is sought by some other procedure, such as foreclosure and sale. In the event of proceedings to foreclose for delinquency of Special Taxes securing the Bonds, the Special Tax will be subordinate only to existing prior governmental liens, if any. Otherwise, in the event of such foreclosure proceedings, the Special Taxes will generally be on a parity with the other taxes, assessments and charges, and will share the proceeds of such foreclosure proceedings on a pro-rata basis. Although the Special Taxes will generally have priority over non-governmental liens on a parcel of Taxable Property, regardless of whether the non-governmental liens were in existence at the time of the levy of the Special Tax or not, this result may not apply in the case of bankruptcy.

While governmental taxes, assessments and charges are a common claim against the value of a parcel of Taxable Property, other less common claims may be relevant. One of the most serious in terms of the potential reduction in the value that may be realized to pay the Special Tax is a claim with regard to a hazardous substance. See "Hazardous Substances" below.

Disclosure to Future Purchasers

The District has recorded a notice of the Special Tax lien in the Office of the San Mateo County Recorder. While title companies normally refer to such notices in title reports, there can be no guarantee that such reference will be made or, if made, that a prospective purchaser or lender will consider such Special Tax obligation in the purchase of a parcel in the District or the lending of money thereon. The Act requires the subdivider (or its agent or representative) of a subdivision to notify a prospective purchaser or long-term lessor of any lot, parcel, or unit subject to a Mello-Roos special tax of the existence and maximum amount of such special tax using a statutorily prescribed form. California Civil Code Section 1102.6(b) 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. It will not, however, affect the validity of the lien of the Special Tax.

Hazardous Substances

While governmental taxes, assessments, and charges are a common claim against the value of a taxed parcel, other less common claims may be relevant. One of the most serious in terms of the potential reduction in the value that may be realized to pay the Special Tax is a claim with regard to hazardous substances. In general, the owners and operators of parcels within the District may be required by law to remedy conditions of the parcels related to the 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 substances condition of a property whether or not the owner (or operator) has anything to do with creating or handling the hazardous substance. The effect, therefore, should any parcel within the District be affected by a hazardous substance, would be to reduce the marketability and value of the parcel by the costs of remedying the condition, because the owner (or operator) is obligated to remedy the condition. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling or disposing of it. All of these possibilities could significantly affect the financial and legal ability of a property owner to develop the affected parcel or other parcels, as well as the value of the property that is realizable upon a delinquency and foreclosure.

The assessed values set forth above do not take into account the possible reduction in marketability and value of any of the Taxable Parcels by reason of the possible liability of the owner (or operator) for the remedy of a hazardous substance condition of the parcel. The District is not aware that the owner (or operator) of any of the taxed parcels has such a current liability with respect to any of the Taxable Parcels, except as expressly noted. However, it is possible that such liabilities do currently exist and that the District is not aware of them.

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

Levy and Collection of the Special Tax

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

The levy of the Special Tax will rarely, if ever, result in a uniform relationship between the value of particular taxed parcels and the amount of the levy of the Special Tax against such parcels. Thus, there will rarely, if ever, be a uniform relationship between the value of such

parcels and the proportionate share of debt service on the Bonds, and certainly not a direct relationship.

Except as set forth above under "SECURITY FOR THE BONDS - Special Taxes" and " - Rate and Method" herein, the Fiscal Agent Agreement provides that the Special Tax is to be collected in the same manner as ordinary ad valorem property taxes are collected and, except as provided in the special covenant for foreclosure described in "SECURITY FOR THE BONDS - Proceeds of Foreclosure Sales" and in the Act, is subject to the same penalties and the same procedure, sale and lien priority in case of delinquency as is provided for ad valorem property taxes. Pursuant to these procedures, if taxes are unpaid for a period of five years or more, the property is deeded to the State and then is subject to sale by the County.

The County of San Mateo County utilizes the alternative method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), as provided for in Section 4701 *et seq.* of the California Revenue and Taxation Code. Generally, the Teeter Plan provides for a tax distribution procedure in which secured roll taxes are distributed to taxing agencies within the County on the basis of the tax levy, rather than on the basis of actual tax collections, and the County then receives all future delinquent tax payments and penalties. It is the County's policy to exclude 1913 Act special assessments and special taxes authorized pursuant to the Act from participation in the Teeter Plan. **The District and the Special Taxes to be levied by the District will not be included within the Teeter Plan.**

In the event that sales or foreclosures of property are necessary, there could be a delay in payments to owners of the Bonds pending such sales or the prosecution of foreclosure proceedings and receipt by the City of the proceeds of sale if the Reserve Account is depleted. See "SECURITY FOR THE BONDS - Proceeds of Foreclosure Sales."

In addition, the Rate and Method limits the increase of Special Taxes levied on Taxable Parcels in the District to cure delinquencies of other property owners in the District. See "SECURITY FOR THE BONDS - Rate and Method" herein.

Exempt Properties

Certain properties are exempt from the Special Tax in accordance with the Rate and Method (see "SECURITY FOR THE BONDS - Rate and Method" herein). In addition, the Act provides that properties or entities of the state, federal or local government are exempt from the Special Tax; provided, however, that property within the District acquired by a public entity through a negotiated transaction or by gift or devise, which is not otherwise exempt from the Special Tax, will continue to be subject to the Special Tax. It is possible that property acquired by a public entity following a tax sale or foreclosure based upon failure to pay taxes could become exempt from the Special Tax. In addition, although the Act provides that if property subject to the Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Tax with respect to that property is to be treated as if it were a special assessment, the constitutionality and operation of these provisions of the Act have not been tested, meaning that such property could become exempt from the Special Tax. In the event that additional property is dedicated to the City or other public entities, this additional property might become exempt from the Special Tax.

The Act further provides that no other properties or entities are exempt from the Special Tax unless the properties or entities are expressly exempted in a resolution of consideration to levy a new special tax or to alter the rate or method of apportionment of an existing special tax.

Depletion of Reserve Account

The Reserve Account is to be maintained at an amount equal to the Reserve Requirement (see "SECURITY FOR THE BONDS – Reserve Account" herein). Funds in the Reserve Account may be used to pay principal of and interest on the Bonds in the event the proceeds of the levy and collection of the Special Tax against property within the District are insufficient. If funds in the Reserve Account for the Bonds are depleted, the funds can be replenished from the proceeds of the levy and collection of the Special Tax that are in excess of the amount required to pay all amounts to be paid to the Bondholders pursuant to the Fiscal Agent Agreement. However, no replenishment from the proceeds of a Special Tax levy can occur if the proceeds that are collected from the levy of the Special Tax against property within the District at the maximum tax rates, together with other available funds, remains insufficient to pay all such amounts. Thus it is possible that the Reserve Account could be depleted and not be replenished by the levy of the Special Tax.

Bankruptcy Proceedings

The payment of the Special Tax and the ability of the City to foreclose the lien of a delinquent unpaid tax, as discussed in "SECURITY FOR THE BONDS," may be limited by bankruptcy, insolvency or other laws generally affecting creditors' rights or by the laws of the State of California relating to judicial foreclosure. The various legal opinions to be delivered concurrently with the delivery of the Bonds (including Bond Counsel's approving legal opinion) will be qualified as to the enforceability of the various legal instruments by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights, by the application of equitable principles and by the exercise of judicial discretion in appropriate cases.

Although bankruptcy proceedings would not cause the Special Taxes to become extinguished, bankruptcy of a property owner could result in a delay in prosecuting superior court foreclosure proceedings and could result in the possibility of delinquent Special Tax installments not being paid in full. Such a delay would increase the likelihood of a delay or default in payment of the principal of and interest on the Bonds. To the extent that property in the District continues to be owned by a limited number of property owners, the chances are increased that the Reserve Account established for the Bonds could be fully depleted during any such delay in obtaining payment of delinquent Special Taxes. As a result, sufficient moneys would not be available in the Reserve Account for transfer to the Bond Fund to make up shortfalls resulting from delinquent payments of the Special Tax and thereby to pay principal of and interest on the Bonds on a timely basis.

On July 30, 1992 the United States Court of Appeals for the Ninth Circuit issued an opinion in a bankruptcy case entitled *In re Glasply Marine Industries*, holding that ad valorem property taxes levied by a county in the State of Washington after the date that the property owner filed a petition for bankruptcy would not be entitled to priority over the claims of a secured creditor with a prior lien on the property. Although the court upheld the priority of unpaid taxes imposed before the bankruptcy petition, unpaid taxes imposed subsequent to the filing of the bankruptcy petition were declared to be "administrative expenses" of the bankruptcy estate, payable after the claims of all secured creditors. As a result, the secured creditor was able to foreclose on the subject property and retain all the proceeds from the sale thereof except the amount of the pre-petition taxes. Pursuant to this holding, post-petition taxes would be paid only as administrative expenses and only if a bankruptcy estate has sufficient assets to do so. In certain circumstances, payment of such administrative expenses may be allowed to be deferred. Once the property is transferred out of the bankruptcy estate (through foreclosure or otherwise) it would be subject only to current ad valorem taxes (i.e., not those accruing during the bankruptcy proceeding).

The *Glasply* decision is controlling precedent in bankruptcy court in the State of California. If *Glasply* were held to be applicable to Special Taxes, a bankruptcy petition filing would prevent the lien for Special Taxes levied in subsequent fiscal years from attaching so long as the property was part of the estate in bankruptcy, which could reduce the amount of Special Taxes available to pay debt service on the Bonds. However, *Glasply* speaks as to ad valorem taxes, and not Special Taxes, and no case law exists with respect to how a bankruptcy court would treat the lien for Special Taxes levied after the filing of a petition in bankruptcy.

It should also be noted that on October 22, 1994, Congress enacted 11 U.S.C. § 362(b)(18), which added a new exception to the automatic stay for ad valorem property taxes imposed by a political subdivision after the filing of a bankruptcy petition. Pursuant to this new provision of law, in the event of a bankruptcy petition filed on or after October 22, 1994, the lien for ad valorem taxes in subsequent fiscal years will attach even if the property is part of the bankruptcy estate. Bondowners should be aware that the potential effect of 11 U.S.C. § 362(b)(18) on the Special Taxes also depends upon whether a court were to determine that the Special Taxes should be treated like ad valorem taxes for this purpose.

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

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

Factors Affecting Parcel Values and Aggregate Value

Geologic, Topographic and Climatic Conditions. The value of the Taxable Parcels in the District in the future can be adversely affected by a variety of additional factors, particularly those which may affect infrastructure and other public improvements and private improvements on the Taxable Parcels and the continued habitability and enjoyment of such private improvements. Such additional factors include, without limitation, geologic conditions such as earthquakes and volcanic eruptions, topographic conditions such as earth movements, landslides and floods, and climatic conditions such as tornadoes, droughts, and the possible reduction in water allocation or availability. It can be expected that one or more of such conditions may occur and may result in damage to improvements of varying seriousness, that the damage may entail significant repair or replacement costs and that repair or replacement may never occur either because of the cost or because repair or replacement will not facilitate habitability or other use, or because other considerations preclude such repair or replacement. Under any of these circumstances, the value of the Taxable Parcels may well depreciate or disappear.

Seismic Conditions. The District, like all California communities, may be subject to unpredictable seismic activity. The occurrence of seismic activity in the District could result in substantial damage to properties in the District which, in turn, could substantially reduce the value of such properties and could affect the ability or willingness of the property owners to pay their Special Taxes. Any major damage to structures as a result of seismic activity could result in greater reliance on undeveloped property in the payment of Special Taxes. In addition, the District is situated on parcels that were once used as a landfill. This could contribute to increased settling and movement in the event of an earthquake.

Flooding. The Redwood Shores development is surrounded by a perimeter levee system. According to the City, the crest of some levee reaches adjacent to areas not yet developed ranges from approximately two feet to a few tenths of a foot lower than the FEMA 100-year

flood protection standard of 9.5 feet above mean sea level. Although the City is currently improving sub-standard reaches of the levee perimeter system to comply with the FEMA 100-year flood protection standard, certain portions of the levee that have settled may remain a few tenths of a foot lower than the FEMA 100-year flood protection standard. Should a 100-year tide event occur, the tide would overflow those reaches lower than the FEMA 100-year flood protection standard. However, due to the short duration of that crest, flooding would be limited and shallow, provided that the levees themselves do not fail from the overtopping.

Legal Requirements. Other events which may affect the value of a Taxable Parcel in the District include changes in the law or application of the law. Such changes may include, without limitation, local growth control initiatives, local utility connection moratoriums and local application of statewide tax and governmental spending limitation measures.

Risks Associated with Commercial Real Estate Properties

Dependence on Tenants. The ability of certain property owners within the District to pay the Special Taxes which will be levied on their property to pay debt service on the Bonds may depend primarily on the ability of their tenants to meet their financial obligations under their leases. In the event of defaults by tenants, delays may be experienced in enforcing rights and substantial costs may be incurred in protecting the property owner's investment. Furthermore, at any time, a tenant could seek protection under bankruptcy laws, which could result in the termination of the tenant's lease and an interruption or loss of rental income. The bankruptcy of a major tenant, followed by the closing of its business or the leasing of its space to a different tenant or for a different use, could adversely affect the desirability of the District as a location and result in a decrease in consumer traffic and sales income which would adversely affect the ability of the other tenants to meet their obligations under their leases.

Tenant Lease Expiration and Reletting of Space. No assurance can be given that tenants whose leases expire will renew their leases or that replacement tenants will be found. Consequently, there is a risk that expired leases may not be renewed, that the space may not be relet and that the terms of renewal or reletting (including the cost of required renovations or concessions to tenants) may be less favorable than under expired leases. The occurrence of any, or a combination, of these factors would have an adverse effect on the revenues which will be available to the property owner for the payment of Special Taxes.

Factors Affecting Economic Performance and Value of Commercial Properties. The economic performance and value of properties within the District will be affected by a number of factors, including national economic conditions, regional economic conditions (which may be adversely effected by plant closings, industry slow-downs and other factors), local real estate conditions such as an oversupply of commercial (i.e., office and retail) space or a reduction in the demand for commercial space in the area, the attractiveness of the commercial space to tenants, competition from other commercial centers, the quality of maintenance, the cost of insurance and management services, and increased operating costs. Other factors which may adversely affect the economic performance and value of properties within the District include changes in government regulations and other laws, rules and regulations governing real estate, zoning or taxes, increases in interest rates, the availability of financing and potential liability under environmental and other laws.

Due to these factors and other risks, there can be no assurance that the developments within the District will remain economically viable throughout the term of the Bonds, or that the owners of the Taxable Parcels will continue to have the ability throughout the term of the Bonds to pay the Special Taxes which will be levied on their property.

No Acceleration Provisions

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 terms of the Bonds or the Fiscal Agent Agreement. Pursuant to the Fiscal Agent Agreement, a Bondholder is given the right for the equal benefit and protection of all Bondholders similarly situated to pursue certain remedies (see "APPENDIX C - Summary of the Fiscal Agent Agreement" herein). So long as the Bonds are in book-entry form, DTC is expected to be the sole Bondholder and will be entitled to exercise all rights and remedies of Bondholders.

Loss of Tax Exemption

As discussed under the caption "LEGAL MATTERS – Tax Exemption," interest on the Bonds might become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued as a result of future acts or omissions of the District in violation of its covenants in the Fiscal Agent Agreement. The Fiscal Agent Agreement does not contain a special redemption feature triggered by the occurrence of an event of taxability. As a result, if interest on the Bonds were to be includable in gross income for purposes of federal income taxation, the Bonds would continue to remain outstanding until maturity unless earlier redeemed pursuant to optional or mandatory redemption or redemption upon prepayment of the Special Tax. See "THE BONDS - Redemption."

Limited Obligation Of the District to Pay Debt Service

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

Proposition 218

Under the California Constitution, the power of initiative is reserved to the voters for the purpose of enacting statutes and constitutional amendments. Over the past 25 years, the voters have exercised this power through the adoption of Proposition 13 and similar measures, including Proposition 218 which was approved in the general election held on November 5, 1996.

Any such initiative may affect the collection of fees, taxes and other types of revenue by local agencies such as the City. Subject to overriding federal constitutional principles, such collection may be materially and adversely affected by voter-approved initiatives, possibly to the extent of creating cash-flow problems in the payment of outstanding obligations such as the Bonds.

Proposition 218—Voter Approval for Local Government Taxes—Limitation on Fees, Assessments, and Charges—Initiative Constitutional Amendment, added Articles XIII C and XIII D to the California Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges. Proposition 218 states that all taxes imposed by local governments shall be deemed to be either general taxes or special taxes. Special purpose districts, including assessment districts, have no power to levy general taxes. No local government may impose, extend or increase any general tax unless and until such tax is submitted to the electorate and approved by a majority vote. No local government may impose, extend or increase any special tax unless and until such tax is submitted to the electorate and approved by a two-thirds vote.

Proposition 218 also provides that no tax, assessment, fee or charge shall be assessed by any agency upon any parcel of property or upon any person as an incident of property ownership except: (i) the ad valorem property tax imposed pursuant to Article XIII and Article XIII A of the California Constitution, (ii) any special tax receiving a two-thirds vote pursuant to the California Constitution, and (iii) assessments, fees and charges for property related services as provided in Proposition 218. Proposition 218 then goes on to add voter requirements for assessments and fees and charges imposed as an incident of property ownership, other than fees and charges for sewer, water, and refuse collection services. In addition, all assessments and fees and charges imposed as an incident of property ownership, including sewer, water, and refuse collection services, are subjected to various additional procedures, such as hearings and stricter and more individualized benefit requirements and findings. The effect of such new provisions will presumably be to increase the difficulty a local agency will have in imposing, increasing or extending such assessments, fees and charges.

Proposition 218 also provides that the constitutional initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local taxes, assessments, fees and charges. This provision with respect to the initiative power is not limited to taxes imposed on or after November 6, 1996, the effective date of Proposition 218. However, on July 1, 1997, a bill was signed into law by the Governor of the State enacting Government Code 5854, which states:

Section 3 of Article XIIC 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 protection by Section 10 of Article I of the United States Constitution.

The Special Taxes and the Bonds were each authorized by not less than a two-thirds vote of the landowners within the District who constituted the qualified electors of the District at the time of such voted authorization. The District believes, therefore, that issuance of the Bonds does not require the conduct of further proceedings under the Act or Proposition 218.

Proposition 218 may need to undergo both judicial and legislative scrutiny before its impact on the District and its obligations can be determined. Certain provisions of Proposition 218 may be examined by the courts for their constitutionality under both State and federal constitutional law. The District is not able to predict the outcome of any such examination.

The foregoing discussion of Proposition 218 should not be considered an exhaustive or authoritative treatment of the issues. The District does not expect to be in a position to control the consideration or disposition of these issues and cannot predict the timing or outcome of any judicial or legislative activity in this regard. Interim rulings, final decisions, legislative proposals and legislative enactments may all affect the impact of Proposition 218 on the Bonds as well as the market for the Bonds. Legislative and court calendar delays and other factors may prolong any uncertainty regarding the effects of Proposition 218.

LEGAL MATTERS

Legal Opinion

The legal opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, Bond Counsel, approving the validity of the 2003 Bonds will be made available to purchasers at the time of original delivery of the 2003 Bonds. The form of such opinion is attached hereto as Appendix E, and will be attached to each 2003 Bond. Jones Hall, A Professional Law Corporation, San Francisco, California is serving as Disclosure Counsel. Stan Yamamoto, Esq., City Attorney will also pass upon certain legal matters for the District and the City as counsel to these entities.

Payment of the fees and expenses of Bond Counsel and Disclosure Counsel is contingent upon the sale and delivery of the 2003 Bonds.

Tax Exemption

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel ("Bond Counsel"), under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described herein, the interest on the 2003 Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, the interest on the 2003 Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, the interest on the 2003 Bonds may be included as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of such corporations. In addition, the difference between the issue price of a 2003 Bond (the first price at which a substantial amount of the 2003 Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to a 2003 Bond constitutes original issue discount, and the amount of original issue discount that accrues to a 2003 Bond owner 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. A complete copy of the proposed opinion of Bond Counsel is set forth in "APPENDIX E –Form of Opinion of Bond Counsel."

Bond Counsel's opinion as to the exclusion from gross income of the interest on the 2003 Bonds (and original issue discount) is based upon certain representations of fact and certifications made by the City and others and is subject to the condition that the City complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the execution and delivery of the 2003 Bonds to assure that the interest on the 2003 Bonds (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the interest on the 2003 Bonds (and original issue discount) to be included in gross income for federal income tax purposes retroactive to the date of execution and delivery of the 2003 Bonds. The City has covenanted to comply with all such requirements.

Although Bond Counsel has rendered an opinion that the interest on the 2003 Bonds (and original issue discount) is excluded from gross income for federal income tax purposes provided that the City continues to comply with certain requirements of the Code, the ownership of the 2003 Bonds and the accrual or receipt of interest (and original issue discount) with respect to the 2003 Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before

purchasing any of the 2003 Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2003 Bonds.

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Fiscal Agent Agreement and the Tax Certificate relating to the 2003 Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the exclusion from gross income of the interest on the 2003 Bonds (and original issue discount) for federal income tax purposes if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

No Litigation

At the time of delivery of the 2003 Bonds, the City and the District will certify that there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court or regulatory agency, public board or body pending or threatened against the City or the District affecting their existence, or the titles of their respective officers, or seeking to restrain or to enjoin the issuance, sale or delivery of the 2003 Bonds, the application of the proceeds thereof in accordance with the Fiscal Agent Agreement, or the collection or application of the Special Tax to pay the principal of and interest on the 2003 Bonds, or in any way contesting or affecting the validity or enforceability of the 2003 Bonds, the Fiscal Agent Agreement or any other applicable agreements or any action of the City or the District contemplated by any of said documents, or in any way contesting the completeness or accuracy of this Official Statement or any amendment or supplement thereto, or contesting the powers of the City or the District or their authority with respect to the 2003 Bonds or any action of the City or the District contemplated by any of said documents, nor, to the knowledge of the City, is there any basis therefor.

No General Obligation of City or District

The Bonds are not general obligations of the City or the District, but are limited obligations of the District payable solely from proceeds of the Special Tax and proceeds of the Bonds, including amounts in the Reserve Account, the Special Tax Fund and the Bond Fund and investment income on funds held pursuant to the Fiscal Agent Agreement (other than as necessary to be rebated to the United States of America pursuant to Section 148(f) of the Code and any applicable regulations promulgated pursuant thereto). Any tax levied for the payment of the Bonds shall be limited to the Special Taxes to be collected within the jurisdiction of the District.

NO RATINGS

The District has not applied for any ratings for the 2003 Bonds.

PROFESSIONALS INVOLVED IN THE OFFERING

BNY Western Trust Company, San Francisco, California, will serve as the fiscal agent, paying agent, registrar, authentication and transfer agent for the 2003 Bonds and will perform the functions required of it under the Fiscal Agent Agreement for the payment of the principal of and interest and any premium on the 2003 Bonds and all activities related to the redemption of the 2003 Bonds. Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco,

California is serving as Bond Counsel to the District. Jones Hall, A Professional Law Corporation, San Francisco, California, is acting as Disclosure Counsel to the District. William Euphrat Municipal Finance, Inc., San Francisco, California is serving as financial advisor to the District and the City and as special tax consultant to the District.

Payment of the fees of Bond Counsel, Disclosure Counsel and the Financial Advisor/Special Tax Consultant is contingent upon the sale and delivery of the 2003 Bonds.

CONTINUING DISCLOSURE

The District will covenant in a Continuing Disclosure Certificate, the form of which is set forth in "APPENDIX D - Form of Continuing Disclosure Certificate" (the "Continuing Disclosure Certificate"), for the benefit of holders and beneficial owners of the 2003 Bonds, to provide certain financial information and operating data relating to the District and the 2003 Bonds by not later than 270 days after the end of the District's fiscal year (i.e. April 1) in each year commencing on April 1, 2004 (the "District Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material.

The District Annual Report will be filed by the District, or the Dissemination Agent (as defined in the Continuing Disclosure Certificate) on behalf of the District, with each Nationally Recognized Municipal Securities Information Repository, and with the appropriate State repository, if any (collectively, the "Repositories"). Any notice of a specified material event will be filed by or on behalf of the District with the Municipal Securities Rulemaking Board and the appropriate State repository, if any, with a copy to the Fiscal Agent (if different than the Dissemination Agent) and the Underwriter. The specific nature of the information to be contained in the District Annual Report or any notice of a material event is set forth in the Continuing Disclosure Certificate. The covenants of the District in the Continuing Disclosure Certificate have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule").

Neither the City nor the District has ever failed to comply, in any material respect, with an undertaking under the Rule.

UNDERWRITING

The 2003 Bonds are being purchased by Stone & Youngberg LLC at a purchase price of \$7,416,816.25 (which represents the aggregate principal amount of the 2003 Bonds (\$7,505,000), less an Underwriter's discount of \$88,173.25).

The purchase agreement relating to the 2003 Bonds provides that the Underwriter will purchase all of the 2003 Bonds, if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in such purchase agreement.

The Underwriter may offer and sell 2003 Bonds to certain dealers and others at prices lower than the offering price stated on the cover page hereof. The offering prices may be changed from time to time by the Underwriter.

APPENDIX A

CITY OF REDWOOD CITY GENERAL INFORMATION

General

The City of Redwood City (the "City") is located in the Bay Area 25 miles south of San Francisco in San Mateo County. The county seat was established in 1856 in the location that came to be known as, and was incorporated in 1867 as, the City of Redwood City. The City combines residential, industrial, and commercial elements in a largely urban environment. Its waterfront provides a yacht harbor and the only deep-water port in the South Bay. A wide variety of housing types are available. Services and trade, the County's two largest industry divisions, are expected to provide close to two-thirds of anticipated growth in the next two years.

Municipal Government

The City Council consists of seven members, elected by the voters of the City to staggered terms of four years each.

The City Council is the only body elected directly by the residents of Redwood City. As the legislative branch of the government, it makes final decisions on all major city matters. The Council adopts ordinances and resolutions necessary for efficient governmental operations, approves the budget, and acts as a board of appeals. It appoints the City Manager, City Attorney, and City Clerk and also most members of the City's boards, committees and commissions.

The current members of the City Council are as follows:

<u>Name and Office</u>	<u>Current Term Expires</u>
Richard S. Claire – <i>Mayor</i>	November 2003
Jeff Ira – <i>Vice Mayor</i>	November 2005
Jim Hartnett, <i>Councilmember</i>	November 2005
Diane Howard, <i>Councilmember</i>	November 2005
Colleen Jordan, <i>Councilmember</i>	November 2003
Barbara Pierce, <i>Councilmember</i>	November 2003
Ira Ruskin, <i>Councilmember</i>	November 2003

Population

Population figures for the City, the County and the State of California for the last five years are shown in the following table.

CITY OF REDWOOD CITY Population Estimates

<u>Year</u>	<u>City of Redwood City</u>	<u>County of San Mateo</u>	<u>State of California</u>
1999	76,700	724,400	33,766,000
2000	78,000	730,000	34,336,000
2001	75,800	712,400	34,385,000
2002	76,100	714,400	35,000,000
2003	76,000	717,000	35,591,000

Source: State Department of Finance estimates (as of January 1)

Employment

The County is included in the San Francisco Metropolitan Statistical Area (MSA). The following table summarizes the civilian labor force, employment and unemployment in the County for the calendar years 1998 through 2002. These figures are county-wide statistics and may not necessarily accurately reflect employment trends in the City.

SAN FRANCISCO COUNTY METROPOLITAN STATISTICAL AREA (Including Marin, San Francisco and San Mateo Counties) Civilian Labor Force, Employment and Unemployment (Annual Averages)

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Civilian Labor Force ⁽¹⁾	944,800	954,400	978,200	972,700	939,600
Employment	916,800	931,200	957,200	934,800	884,100
Unemployment	28,000	23,200	21,000	37,900	55,500
Unemployment Rate	3.0%	2.4%	2.1%	3.9%	5.9%
<u>Wage and Salary Employment:</u> ⁽²⁾					
Agriculture	3,600	3,600	3,700	3,500	3,400
Natural Resources, Mining and Construction	40,000	43,200	45,800	47,600	45,500
Construction	39,600	42,900	45,900	47,600	45,500
Manufacturing	64,900	63,100	61,400	56,100	50,100
Wholesale Trade	34,400	33,000	32,100	31,100	29,400
Retail Trade	94,400	97,600	101,000	100,800	97,000
Transportation, Warehousing and Utilities	59,300	57,100	57,800	54,800	48,700
Information	40,700	48,500	63,300	60,000	49,500
Finance and Insurance	71,900	73,200	73,400	78,800	74,600
Real Estate and Rental and Leasing	24,200	23,800	23,800	23,200	22,300
Professional and Business Services	211,600	223,700	241,900	219,200	190,000
Educational and Health Services	98,200	99,400	95,300	96,000	97,600
Leisure and Hospitality	109,300	111,700	114,800	115,700	112,000
Other Services	40,700	40,300	40,300	40,300	39,200
Federal Government	24,400	24,300	25,400	22,300	22,200
State Government	23,400	23,600	27,200	29,000	29,800
Local Government	74,900	77,600	78,600	79,000	80,700
Total, All Industries	1,015,900	1,043,600	1,085,800	1,057,400	992,000

(1) Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

(2) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

Source: State of California Employment Development Department.

Largest Employers

The following table lists the major employers within the County as of January 2002.

SAN MATEO COUNTY Major Employers As of January 2002

Employer Name	Location	Industry
Applied Biosystems Group	Foster City	Professional & Commercial Equipment
DPR Construction Inc.	Redwood City	Nonresidential Building Construction
Electronic Arts Inc.	Redwood City	Computer Programming, Data Processing, and Other Computer Related Services
Franklin Templeton	San Mateo	Security Brokers & Dealers
Genentech Inc.	S San Francisco	Drugs, Proprietaries, & Sundries
Mills-Peninsula Medical Center	Burlingame	Hospitals
Oracle Corporation	Redwood City	Computer Programming, Data Processing, and Other Computer Related Services
Raychem Corporation	Menlo Park	Electronic Components & Accessories
Sequoia Hospital	Redwood City	Hospitals
Seton Medical Center	Daly City	Hospitals
Siebel Systems Inc.	San Mateo	Computer Programming, Data Processing, and Other Computer Related Services
SRI International Inc.	Menlo Park	Research & Testing Services
United Airlines	S. San Francisco	Air Transportation, Scheduled, and Air Courier Services
UPS	S. San Francisco	Freight Transportation Arrangement
Visa International	Foster City	Business Credit Institutions

Source: State of California Employment Development Department.

Commercial Activity

Total taxable transactions reported in the City during the first two quarters of calendar year 2002 amounted to \$713,185,000, a 20% decrease over the total taxable transactions of \$893,967,000 that were reported for the first two quarters of calendar year 2001. A summary of historic taxable sales within the City is shown in the following table.

CITY OF REDWOOD CITY Taxable Retail Sales Number of Permits and Valuation of Taxable Transactions (Dollars in Thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
1997	654	\$829,614	2,272	\$1,243,687
1998	688	873,262	2,248	1,395,600
1999	752	1,022,765	2,296	1,572,666
2000	794	1,205,497	2,278	1,931,727
2001	800	1,057,252	2,182	1,611,644

Source: State Board of Equalization.

Total taxable transactions reported in the County during the first two quarters of calendar year 2002 amounted to \$5,726,325,000, a 13.5% decrease over the total taxable

transactions of \$6,617,982,000 that were reported for the first two quarters of calendar year 2001. A summary of historic taxable sales within the County is shown in the following table.

SAN MATEO COUNTY
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
(Dollars in Thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
1997	6,416	\$6,346,995	22,394	\$10,733,816
1998	6,706	6,609,248	21,774	11,035,003
1999	7,156	7,516,398	21,586	12,130,051
2000	7,392	8,596,944	21,173	14,044,016
2001	7,813	8,215,567	21,287	12,859,589

Source: State Board of Equalization.

Median Effective Buying Income

Effective buying income ("EBI") is designated by Sales and Marketing Management Magazine as personal income less personal tax and non-tax payments. Personal income is the aggregate of wages and salaries, other labor income (such as employer contributions to private pension funds), proprietor's income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, personal interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local, non-tax payments (such as fines, fees, penalties), and personal contributions for social insurance. Effective buying income is a bulk measure of market potential. It indicates the general ability to buy and is essential in comparing, selecting and grouping markets on that basis. The following table demonstrates the growth in annual estimated EBI for the City, County, the State of California and the United States.

SAN MATEO COUNTY
Median Effective Buying Income
As of January 1, 1997 through 2001

<u>Year</u>	<u>Area</u>	<u>Total Effective Buying Income (000's Omitted)</u>	<u>Median Household Effective Buying Income</u>
1997	County of San Mateo	\$ 14,862,432	\$47,876
	California	492,516,991	35,216
	United States	4,161,512,384	33,482
1998	County of San Mateo	\$ 16,207,690	\$50,511
	California	524,439,600	36,483
	United States	4,399,998,410	34,618
1999	County of San Mateo	\$ 18,721,334	\$56,433
	California	590,376,663	39,492
	United States	4,877,786,658	37,233
2000	County of San Mateo	\$ 20,511,353	\$65,565
	California	652,190,282	44,464
	United States	5,230,824,904	39,129
2001	County of San Mateo	\$ 21,193,515	\$64,766
	California	650,521,407	43,532
	United States	5,303,481,498	38,365

(1) Not comparable with prior years. Effective Buying Income is now based on money income (which does not take into account sale of property, taxes and social security paid, receipt of food stamps, etc.) versus personal income.
Source: Sales & Marketing Management Survey of Buying Power.

Construction Activity

Building activity for the calendar years 1998 through 2002 in the County and the City is shown in the following table.

SAN MATEO COUNTY Building Permit Valuation (Valuation in Thousands of Dollars)

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
<u>Permit Valuation</u>					
New Single-family	\$254,469.0	\$213,773.2	\$241,236.0	\$234,590.9	\$267,726.9
New Multi-family	132,511.1	15,134.7	131,048.5	83,237.9	97,883.9
Res. Alterations/ Additions	<u>158,723.0</u>	<u>205,843.2</u>	<u>189,917.6</u>	<u>197,900.1</u>	<u>221,181.8</u>
Total Residential	545,703.1	434,751.2	562,202.2	515,728.9	586,792.7
New Commercial	184,348.4	307,010.3	423,976.5	362,812.6	185,884.1
New Industrial	8,527.0	33,386.2	27,891.0	29,624.3	12,420.5
New Other	37,461.3	56,629.1	34,524.6	31,456.6	76,717.2
Com. Alterations/ Additions	<u>191,504.8</u>	<u>217,028.4</u>	<u>252,911.0</u>	<u>215,062.2</u>	<u>241,587.7</u>
Total Nonresidential	421,841.5	614,053.9	739,303.1	638,955.8	516,609.5
<u>New Dwelling Units</u>					
Single Family	988	768	846	722	653
Multiple Family	<u>1,187</u>	<u>133</u>	<u>1,471</u>	<u>719</u>	<u>770</u>
TOTAL	2,175	901	2,317	1,441	1,423

Source: Construction Industry Research Board, Building Permit Summary.

CITY OF REDWOOD CITY Building Permit Valuation (Valuation in Thousands of Dollars)

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
<u>Permit Valuation</u>					
New Single-family	\$43,301.6	\$12,871.0	\$1,677.0	\$3,319.0	\$2,506.3
New Multi-family	40,706.5	584.0	35,486.0	2,325.0	1,399.4
Res. Alterations/ Additions	<u>12,154.9</u>	<u>23,670.8</u>	<u>18,784.2</u>	<u>19,827.0</u>	<u>20,719.8</u>
Total Residential	96,163.0	37,125.8	55,947.2	25,471.0	24,625.6
New Commercial	64,035.0	39,705.0	164,660.0	130,716.0	3,985.0
New Industrial	0.0	2,751.0	2,074.0	700.0	350.0
New Other	2,502.6	1,859.5	1,568.8	4,166.0	751.5
Com. Alterations/ Additions	<u>55,605.7</u>	<u>58,355.6</u>	<u>74,530.3</u>	<u>68,654.0</u>	<u>42,871.0</u>
Total Nonresidential	122,143.3	102,674.1	242,833.1	204,236.0	47,957.6
<u>New Dwelling Units</u>					
Single Family	201	59	13	18	11
Multiple Family	<u>371</u>	<u>6</u>	<u>220</u>	<u>24</u>	<u>8</u>
TOTAL	572	65	233	42	19

Source: Construction Industry Research Board, Building Permit Summary.

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APPENDIX B

RATE AND METHOD OF APPORTIONMENT FOR DISTRICT NO. 99-1

Section 1. Definitions

The defined terms below shall apply wherever such terms are used in this Rate and Method of Apportionment.

“Act” means the Mello-Roos Community Facilities Act of 1982 (Chapter 2.5, Part 1, Division 2, Title 5 of the California Government Code), as amended from time to time.

“Administrative Expenses” means the actual or estimated costs incurred by the City to determine, levy and collect the Special Taxes, including salaries of City employees and the fees of consultants, corporate Bond paying agents, fiscal agents and Bond trustees; the costs of collecting installments of the Special Taxes; preparation and maintenance of required records and reports; preparation of financial audits; and any other costs required to administer the CFD.

“Annual Costs” means, for each Fiscal Year, the total of 1) an amount sufficient to pay Debt Service in a timely manner, 2) Administrative Expenses, and 3) any amounts needed to replenish Bond reserve funds and to make up for any deficit caused by actual or estimated delinquencies in Special Taxes for the previous or current Fiscal Year.

“Annual Tax Revenues” means the amount of Special Taxes collected each Fiscal Year to pay the Annual Costs.

“Approved Commercial Parcel” means a Commercial Parcel that has been approved for commercial development by the City pursuant to a vested Development Agreement or a recorded final map approved by the City and is not a Developed Commercial Parcel.

“Approved Commercial Square Feet” means the maximum amount of commercial square feet that could be constructed on an Approved Commercial Parcel pursuant to a vested Development Agreement or a recorded final map approved by the City. If an Approved Commercial Parcel is subdivided, the City Manager may assign Approved Commercial Square Feet to successor Parcels provided that the total number of Approved Commercial Square Feet on such successor Parcels may not exceed the Approved Commercial Square Feet assigned to the predecessor Parcel.

“Auditor” means the Auditor for the County or his or her designee.

“CFD” means Redwood Shores Community Facilities District No. 99-1 (Shores Transportation Improvement Project) of the City of Redwood City.

“Classification Date” means each June 1.

“City” means the City of Redwood City, California.

“City Council” means the elected legislative body of the City.

“City Manager” means the city manager of the City.

“Commercial Parcel” means a Parcel which is designated for commercial use pursuant to the land use approved for such Parcel by the Redwood Shores Specific Plan or other land use planning document approved by the City. In the event the City has no official land use designation for a Parcel, the land use code on the secured tax rolls of the County may be used to classify such Parcel.

“County” means County of San Mateo, California.

“Coverage Factor” means a percentage rate equal to ten (10) percent.

“Debt Service” means the total amount of principal and interest due on outstanding Bonds of the CFD that must be collected by the County in any Fiscal Year in order to make timely payments of principal and interest on such outstanding Bonds.

“Developed Commercial Parcel” means any Commercial Parcel for which a building permit has been issued by the City.

“Developed Commercial Square Feet” means the number of square feet approved for construction as shown on a building permit that has been issued by the City for any Developed Commercial Parcel.

“Development Agreement” means a development agreement approved by the City which allows commercial development of one or more Parcels within the boundaries of the CFD.

“Fiscal Year” means the period beginning July 1 and ending the following June 30.

“Inactive Parcel” means a Parcel which is not classified as a Developed Commercial Parcel, Approved Commercial Parcel, Residential Parcel, or Public Parcel.

“Maximum Annual Special Tax Rate” means the maximum amount of Special Taxes per Approved Commercial Square Foot and Developed Commercial Square Foot that may be levied against a Taxable Parcel.

“Net Taxable Square Feet” means the total amount of Developed Commercial Square Feet and Approved Commercial Square Feet subject to taxation in any given Fiscal Year.

“Parcel” means any Parcel within the boundaries of the CFD that is identified by an Assessor’s parcel number on the secured tax rolls of the County as of the January 1 lien date (or such other lien date as may be established by the Assessor) of each Fiscal Year.

“Parcel Classification” means the placement of each Parcel into its respective classification as such parcel exists each Classification Date.

“Prepaid Parcel” means any Parcel that has prepaid in full pursuant to this Rate and Method of Apportionment the Special Taxes to be levied against such Parcel in satisfaction of its pro rata share of Annual Costs.

“Principal Prepayment Amount” means the amount of unpaid outstanding Bond principal and authorized but unissued Bond principal allocable to each Taxable Parcel as of the date of such calculation.

“Public Parcel” means any Parcel that is, or is intended to be, publicly owned and which is normally exempt from ad valorem taxes under California law, including public streets,

schools, school district administrative offices, police and fire facilities, parks, and public drainage ways, rights-of-way, landscaping, greenbelts and open space.

“Residential Parcel” means any Parcel zoned for single or multi-family residential use.

“Special Tax” or “Special Taxes” means any tax levy with respect to the CFD under the Act on Taxable Parcels.

“Special Tax Report” means the report prepared annually pursuant to Section 3 hereof.

“Tax Collection Schedule” means the document prepared by the City Manager for use by the Auditor in collecting the Special Taxes each Fiscal Year pursuant to Section 6 hereof.

“Taxable Classification Date” means the date on which a Parcel is first classified as a Taxable Parcel.

“Taxable Parcel” means any Developed Commercial Parcel or Approved Commercial Parcel which is not a Prepaid Parcel.

“Tax-Exempt Parcel” means any Parcel that is a Public Parcel or Residential Parcel. However, Taxable Parcels that are acquired by a public entity shall remain subject to the applicable Special Tax pursuant to Section 53317.4 of the Act.

Section 2. Basis of Special Tax Levy

A Special Tax under the Act applicable to each Taxable Parcel shall be levied and collected according to the tax liability determined by the City through the application of the procedures described below.

Section 3. Determination and Classification of Parcels Subject to Special Tax

Prior to the first issuance of Bonds, and thereafter prior to July 1 of each Fiscal Year, the City Manager shall cause to be prepared a Special Tax Report setting forth: 1) the classification as of the Classification Date applicable for such Fiscal Year of each Parcel within the boundaries of the CFD, 2) a projected sources and uses of funds for the CFD in such Fiscal Year showing that projected Annual Tax Revenues are sufficient to pay projected Annual Costs, 3) the total number of Developed Commercial Square Feet attributable to Developed Commercial Parcels and Approved Commercial Square Feet attributable to Approved Commercial Parcels for such Fiscal Year and, in each case, the Maximum Annual Special Tax Rate applicable to such commercial square feet 4) the total number of Developed Commercial Square Feet and Approved Commercial Square Feet allocable to Prepaid Parcels, 5) the net taxable Developed Commercial Square Feet and Approved Commercial Square Feet allocable to Taxable Parcels for such Fiscal Year, 6) the Special Tax rate necessary to satisfy Annual Costs applicable to such Developed Commercial Square Feet and Approved Commercial Square Feet allocable to each Taxable Parcel for such Fiscal Year, 7) the amount of Special Taxes to be levied on each Taxable Parcel in the next ensuing Fiscal Year, 8) the annual Principal Prepayment Amount allocable to each Taxable Parcel, and 9) a Tax Collection Schedule.

Parcels shall be classified as of their status applicable in the next Fiscal Year on each Classification Date. The secured property tax roll, land use codes and plot map books maintained by the County Assessor of the County, in combination with official records maintained by the City regarding Development Agreements, recorded final maps, building permits issued, and other changes in parcel development status, will be the basis for classifying

the Parcels in the CFD. If the land use code on the secured property tax roll is incorrect, the City may assign the appropriate code based on its review of the status of the property.

Commercial Parcels without Developed Commercial Square Feet or Approved Commercial Square Feet shall be classified as Inactive Parcels. Developed Commercial Parcels and Approved Commercial Parcels shall be classified as either Taxable Parcels or, if the Special Taxes for such Parcels have been prepaid, Prepaid Parcels. Residential Parcels and Public Parcels shall be classified as Tax-Exempt Parcels.

Once a Parcel is classified as a Taxable Parcel it may not be removed from such classification unless i) Special Taxes allocable to such Parcel have been prepaid pursuant to Section 7 hereof, in which case such Parcel shall be reclassified as a Prepaid Parcel, or ii) the City Manager determines that such removal shall not cause the Special Tax rate per commercial square foot on remaining Taxable Parcels to exceed their respective Maximum Annual Special Tax Rates. Once the number of Approved Commercial Square Feet and Developed Commercial Square Feet has been initially allocated to a Taxable Parcel (provided such initial allocation is not in error), such number may not be reduced unless the City Manager determines that such reduction shall not cause the Special Tax rate per commercial square foot on remaining Taxable Parcels to exceed their respective Maximum Annual Special Tax Rates. Approved Commercial Parcels may be reclassified as Developed Commercial Parcels and, if warranted, their taxable commercial square feet reduced subject to the preceding sentence.

The Special Tax shall be levied only on Taxable Parcels. The amount of the Special Tax for each Taxable Parcel shall be determined in accordance with the provisions of Section 6 hereof. Each Taxable Parcel's Special Tax for the next Fiscal Year shall be levied against such Parcel's assessor's parcel number as it was shown on the County Assessor's records of Parcels in the CFD as of the prior January 1 lien date, or such other lien date established by the County Assessor.

Section 4. Termination of the Special Tax

When all of the CFD's Administrative Expenses and Debt Service obligations are satisfied and no Bonds authorized for issuance by the CFD remain either unissued or outstanding, the City Council shall determine that the Special Tax shall cease to be levied. The City Council shall then direct the City Clerk to record a Notice of Cessation of Special Tax as provided by law. Notwithstanding the foregoing, in no event shall the Special Tax be levied after the Fiscal Year ending June 30, 2036.

Section 5. Maximum Annual Special Tax Rate

For each Taxable Parcel, the Maximum Annual Special Tax Rate shall be established for both Developed Commercial Square Feet and Approved Commercial Square Feet as that Maximum Annual Special Tax Rate applicable in the year in which such commercial square footage first becomes subject to taxation. The Maximum Annual Special Tax Rate applicable to particular Developed Commercial Square Feet or Approved Commercial Square Feet shall not increase after the year in which it is first so applied. A Taxable Parcel may have more than one Maximum Annual Special Tax Rate applicable to it. Maximum Annual Special Tax Rates shall be established in accordance with the following schedule.

If the fiscal year beginning 7/1 in which commercial square footage first becomes subject to taxation is:	Then for as long as the Parcel on which such commercial square feet is located is a Taxable Parcel, such commercial square feet shall thereafter be taxed at:	
1999	\$0.232	per square foot
2000	\$0.244	per square foot
2001	\$0.258	per square foot
2002	\$0.272	per square foot
2003	\$0.287	per square foot
2004	\$0.303	per square foot
2005	\$0.319	per square foot
2006	\$0.337	per square foot
2007	\$0.355	per square foot
2008	\$0.375	per square foot
2009	\$0.395	per square foot
2010	\$0.417	per square foot
2011	\$0.440	per square foot
2012	\$0.464	per square foot
2013	\$0.490	per square foot
Thereafter	\$0.490	per square foot

Inactive Parcels, Prepaid Parcels and Tax-Exempt Parcels shall not be subject to the levy of Special Taxes.

Section 6. Apportionment, Levy and Selection of Special Tax Rates

A Special Tax rate per Developed Commercial Square Foot or Approved Commercial Square Foot allocable to each Taxable Parcel in the CFD shall be established annually by the City Council. The Special Tax rate or rates per Developed Commercial Square Foot or Approved Commercial Square Foot allocable to each Taxable Parcel shall then be multiplied by the Developed Commercial Square Feet or Approved Commercial Square Feet on each such Taxable Parcel to determine the Special Tax applicable to each such Taxable Parcel.

Prior to July 1 of each Fiscal Year for which Annual Costs are payable, the Special Tax rate per Developed Commercial Square Foot or Approved Commercial Square Foot allocable to each Taxable Parcel in the CFD shall be established as follows:

- Step 1 The total Annual Costs for such Fiscal Year shall be projected.
- Step 2 The sum of unexpended fund balances (including amounts collected in the prior Fiscal Year to be applied to Debt Service in such Fiscal Year) held under the fiscal agent agreement securing outstanding Bonds that is available to pay Debt Service in such Fiscal Year shall be determined.
- Step 3 The amount of Debt Service due in such Fiscal Year payable from Annual Tax Revenues collected in the prior Fiscal Year shall be determined.
- Step 4 The amounts calculated in steps 1 and 3 above shall be added together and the amount determined in step 2 above shall be subtracted from such sum to arrive at the Annual Tax Revenues to be collected in such Fiscal Year.

- Step 5 The Maximum Annual Special Tax Rate (or rates, as the case may be) applicable to each Taxable Parcel shall be multiplied by the taxable commercial square feet corresponding to such rate(s).
- Step 6 If the total of the amounts calculated in Step 5 is greater than the Annual Costs, all Special Tax rates shall be decreased by equal proportions of the applicable Maximum Annual Special Tax Rates until the Special Tax rates on all Taxable Parcels produces scheduled Annual Tax Revenue equal to the projected Annual Costs.
- Step 7 An annual Special Tax shall be determined for each Taxable Parcel by multiplying the Special Tax rate(s) identified in Step 6 above times the number of commercial square feet taxable at such Special Tax rate(s) on each such Taxable Parcel.

After each Parcel has been annually classified, the annual Special Tax and Principal Prepayment Amount for each Taxable Parcel has been calculated, and a Special Tax Report for such Fiscal Year has been approved by resolution of the City Council in July of each Fiscal Year, the City Manager shall forward a Tax Collection Schedule showing the annual Special Tax liability for each Taxable Parcel to the County Auditor, requesting that the Tax Collection Schedule be placed on the secured property tax roll for the applicable Fiscal Year. The Tax Collection Schedule shall be sent not later than August 10 or such other date required by the County Auditor for such placement.

The City shall make every effort to correctly assign the Special Tax rates and calculate the annual Special Tax liability for each Taxable Parcel and the annual Principal Prepayment Amount for each Taxable Parcel. It shall be the burden of the taxpayer to correct any errors in the determination and classification of the Parcels subject to the Special Tax and their respective Special Tax and Principal Prepayment Amount liabilities.

Section 7. Prepayment of Special Taxes

Prepayment Prior to the Initial Sale of Bonds. Prior to the sale of Bonds secured by the Special Taxes, the owner of each Taxable Parcel shall have the option to prepay future Special Taxes to be levied against such Taxable Parcel with a single cash payment. The amount of such optional cash payment shall be determined as follows:

- Step 1 Prior to the sale of Bonds, the total number of Developed Commercial Square Feet and Approved Commercial Square Feet allocable to all Taxable Parcels in the CFD shall be determined as of the applicable Classification Date.
- Step 2 The maximum approved Bonded indebtedness of the CFD as specified in Resolution No. 13610 adopted on April 26, 1999 shall be determined. From such amount shall be deducted the following Bond financing costs: the projected cost of financing Bond debt service reserve funds, interest projected to be capitalized from the proceeds of Bonds, and any projected underwriter’s discount and Bond insurance premiums, all as identified in the revised Report caused to be prepared by the City Manager in connection with the formation of the CFD as required under Sections 53321.5 and 53325 of the Act. All other budgeted costs of creating the CFD and issuing Bonds approved by the City shall be included as project costs.
- Step 3 The net amount determined in step 2 above shall be divided by the total Net Taxable Commercial Square Feet determined in step 1 above.

Step 4 The quotient resulting from step 3 above shall, for each Taxable Parcel, be multiplied by the total number of Developed Commercial Square Feet and Approved Commercial Square Feet allocable to each such Taxable Parcel. The product of such multiplication shall be the optional cash payment amount assigned to each such Taxable Parcel.

Notice shall be given by mail to each owner of Taxable Parcels within the CFD of a 30-day period prior to the initial sale of Bonds within which cash payments may be made. Only cash payments in whole may be accepted in lieu of the payment of annual Special Taxes. Parcels for which the prepayment of Special Taxes in whole has been made shall be reclassified as Prepaid Parcels and shall no longer be subject to the levy of Special Taxes.

Prepayment Subsequent to the Initial Sale of Bonds. The owner of any Taxable Parcel may prepay the Special Taxes to be levied against such Parcel through the term to maturity of outstanding Bonds and authorized but unissued Bonds. Special Taxes may not be prepaid in part. Optional prepayment amounts for each Taxable Parcel subsequent to the sale of Bonds shall be determined annually for each Fiscal Year at the same time annual Special Taxes are determined as follows.

Step 1 The total number of Developed Commercial Square Feet and Approved Commercial Square Feet allocable to Taxable Parcels in the CFD as of the Classification Date for such Fiscal Year shall be determined.

Step 2 The total amount of unpaid Bond principal outstanding at the beginning of each Fiscal Year plus authorized and unissued Bond principal shall be determined, from which amount shall be subtracted any principal coming due in such Fiscal Year, the payment of which was provided for in the collection of the prior Fiscal Year's Annual Tax Revenues.

Step 3 The net amount determined in step 2 above shall be divided by the total Net Taxable Square Feet for such Fiscal Year as determined in step 1 above to arrive at the unpaid authorized Bond principal per Net Taxable Square Foot for such Fiscal Year.

Step 4 For each Taxable Parcel, the unpaid authorized Bond principal per Net Taxable Square Foot for such Fiscal Year as determined in step 3 above shall be multiplied by the total number of Net Taxable Square Feet allocable to such Taxable Parcel to arrive at the Principal Prepayment Amount allocable to each such Taxable Parcel.

In each Fiscal Year, the owner of a Taxable Parcel may prepay the future Special Tax obligations of such Parcel by paying in cash the sum of i) the amount of any delinquent and unpaid installments of Special Taxes levied against such Parcel, together with any penalties, interest and costs due thereon, ii) the Special Taxes levied against such Parcel in such Fiscal Year, iii) the Principal Prepayment Amount allocable to such Taxable Parcel in such Fiscal Year, iv) a prepayment premium in an amount equal to the prepayment premium required under the fiscal agent agreement to be paid on outstanding Bonds to be called on the next permissible call date times the ratio that such Parcel's number of taxable commercial square feet bears to the total taxable commercial square feet in such Fiscal Year times the unpaid Bond principal outstanding at the beginning of such Fiscal Year, v) a reasonable fee, fixed by the City, for the cost of administering the prepayment and the advance redemption of Bonds, and vi) a credit for such Taxable Parcel's pro rata share of the reserve fund balance (if any) established under the fiscal agent agreement.

Section 8. Application of Surplus Tax Revenues

Any amounts collected in excess of Annual Costs shall be applied as stipulated in the fiscal agent agreement securing outstanding Bonds of the CFD.

Section 9. Administrative Changes

The City Manager has the authority to make necessary administrative adjustments to the Rate and Method of Apportionment in order to remedy any portions of this Rate and Method of Apportionment that require clarification, provided that no such adjustment shall result in a tax levy on any Taxable Parcel in excess of the applicable Maximum Annual Special Tax Rate for such Taxable Parcel.

Any taxpayer that believes that the amount or formula of the Special Tax is in error may file a written notice with the City Manager appealing the Special Tax. Any such notice of appeal must be filed by January 1 of the fiscal year for which the Special Tax in question has been levied. The City Manager or his designee will then promptly review all such timely-filed appeals, and if necessary, meet with the appellant. If the findings of the City Manager verify that the Special Tax should be modified, a recommendation at that time will be made to the City Council and, as appropriate, the Special Tax shall be corrected and, if applicable, a refund shall be granted from such fund or account established under the fiscal agent agreement securing outstanding Bonds of the CFD for which the payment of such refunds is authorized. The City Manager, in his sole discretion, may review appeals filed after the January 1 deadline, regardless of the merit of any such appeals. Under no circumstances will the City be obligated to grant refunds for a fiscal year extending beyond the fiscal year immediately preceding the fiscal year in which an appeal was filed.

Interpretations may be made by resolution of the City Council for purposes of clarifying any vagueness or ambiguity as it relates to the Special Tax or the Maximum Annual Special Tax Rates, the method of apportionment, the classification of properties, or any definition applicable to the CFD.

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE FISCAL AGENT AGREEMENT

The following is a summary of certain provisions of the Fiscal Agent Agreement which are not described elsewhere in the Official Statement. This summary does not purport to be comprehensive and reference should be made to the Fiscal Agent Agreement for a full and complete statement of their provisions. All capitalized terms not defined in the body of the Official Statement have the meanings set forth in the Fiscal Agent Agreement.

DEFINITIONS

The terms set forth below shall have the meanings ascribed to them as follows for all purposes of this Appendix D unless the context clearly indicates some other meaning:

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

“Administrative Expenses” means the administrative costs incurred by the City staff on behalf of the District with respect to the calculation and collection of the Special Taxes, including fees of attorneys, accountants, and consultants and other costs related thereto, the fees and expenses of the Fiscal Agent, the fees for credit enhancement for the Bonds or any Parity Bonds that are not otherwise paid as Costs of Issuance, the costs related to the District’s compliance with State and federal laws requiring continuing disclosure of information concerning the Bonds, any Parity Bonds, and the District and arbitrage rebate, the costs incurred by the District in pursuit of State funding, and any other costs otherwise incurred by the City on behalf of the District in order to carry out the purposes of the District as set forth in the Resolution of Formation and any obligation of the District under the Fiscal Agent Agreement.

“Administrative Expense Account” means the account by such name in the Special Tax Fund created and established pursuant to the Fiscal Agent Agreement.

“Alternative Penalty Account” means the account by such name created and established in the Rebate Fund pursuant to the Fiscal Agent Agreement.

“Authorized Investments” means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein:

(1) Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury, and CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America (“Direct Obligations”).

(2) 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 (Eximbank)

Direct obligations or fully guaranteed certificates of beneficial ownership

- (b) Farmers Home Administration (FmHA)

Certificates of beneficial ownership

- (c) Federal Financing Bank

- (d) Federal Housing Administration Debentures (FHA)

- (e) General Services Administration

Participation certificates

- (f) Government National Mortgage Association (“GNMA” or “Ginnie Mae”)

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 (HUD)

Project Notes

Local Authority Bonds

New Communities Debentures - U.S. government guaranteed debentures

U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds

(3) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. 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 (“FHLMC” or “Freddie Mac”)

Participation certificates

Senior debt obligations

- (c) Federal National Mortgage Association (“FNMA” or “Fannie Mae”)

Mortgage-backed securities and senior debt obligations

- (d) Student Loan Marketing Association (“SLMA” or “Sallie Mae”)

Senior debt obligations

- (e) Resolution Funding Corp. (REFCORP) obligations

- (f) Farm Credit System Corp. - Consolidated system-wide bonds and notes

(4) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, and having a rating by Standard & Poor’s of AAAM-G, AAAM or AAM, and, if rated by Moody’s, rated Aaa, Aa1 or Aa2 (including those of the Fiscal Agent and its affiliates) or funds for which the Fiscal Agent or affiliates provide investment advisory or other management services.

(5) Certificates of deposit secured at all times by collateral described in (1) and/or (2) above. Such certificates must be issued by commercial banks, 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 Bondholders must have a perfected first security interest in the collateral.

(6) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC or which are with a bank rated AA or better by Standard & Poor’s and Aa or better by Moody’s (including those of the Fiscal Agent and its affiliates).

(7) Investment Agreements with any corporation, including banking or financial institutions, provided that

- (a) the long-term debt of the provider of any such investment agreement is rated, at the time of investment, in one of the two highest rating categories offered by each Rating Agency (without regard to gradations of plus or minus, or numerical gradations, within such category), and
- (b) any such agreement shall include a provision to the effect that if (a) the long-term debt rating of the provider of such agreement is downgraded below the second highest rating category offered by any Rating Agency (without regard to gradations of plus or minus, or numerical gradations, within such category), (b) such provider shall default under such Investment Agreement, or (c) there shall be an event of bankruptcy of such provider, then the District shall have the right to withdraw or cause the Fiscal Agent to withdraw all funds invested in such agreement and thereafter to invest such funds pursuant to the Fiscal Agent Agreement, and

- (c) any such investment agreement permits withdrawal upon reasonable notice for any purpose authorized for the use of the invested funds under the Fiscal Agent Agreement.
- (8) Commercial paper rated, at the time of purchase, "Prime - 1" by Moody's and "A-1" or better by Standard & Poor's.
- (9) Bonds or notes issued by any state or municipality which are rated by Moody's and Standard & Poor's in one of the two highest rating categories assigned by such agencies.
- (10) Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured or unguaranteed obligation rating of "Prime - 1" or "A3" or better by Moody's and "A-1" or "A" or better by Standard & Poor's.
- (11) Repurchase agreements collateralized by Direct Obligations, GNMMAs, FNMMAs or FHLMMCs with any registered broker/dealer subject to the Securities Investors' Protection Corporation jurisdiction or any commercial bank insured by the FDIC, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed obligation rated "P-1" or "A3" or better by Moody's, and "A-1" or "A-" by Standard & Poor's; provided:
 - (a) a master repurchase agreement or specific written repurchase agreement governs the transaction; and
 - (b) the securities are held free and clear of any lien by the Fiscal Agent or an independent third party acting solely as agent ("Agent") for the Fiscal Agent, and such third party is (i) a Federal Reserve Bank, (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$50 million, and the Fiscal Agent shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Fiscal Agent; and
 - (c) a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1, *et seq.*, or 31 C.F.R. 350.0, *et seq.*, in such securities is created for the benefit of the Fiscal Agent; and
 - (d) the repurchase agreement has a term of 180 days or less, or the Fiscal Agent has the right to make withdrawals upon notice at any time for any reason allowed or required pursuant to this Fiscal Agent Agreement, and the Agent will value the collateral securities no less frequently than weekly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two Business Days of such valuation; and
 - (e) the fair market value of the securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 104%, provided, however, if such securities are cash, such ratio may be 100%.

(12) The Local Agency Investment Fund or other similar pooled investment fund administered by the State of California, provided that deposits and withdrawals may be made directly by and in the name of the Fiscal Agent.

(13) A pooled investment fund administered by the County of San Mateo in which the District is legally permitted or required to invest.

(14) Shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State of California which invests exclusively in investments permitted by Section 53635 of Title 5, Division 2, Chapter 4 of the Government Code of the State of California, as it may be amended.

(15) Any other investment that the District is permitted by law to make.

“Authorized District Representative” means the City Manager, Director of Finance, or any other person or persons designated by the Council of the City and authorized to act on behalf of the District by a written certificate signed on behalf of the City by the City Manager of the City and containing the specimen signature of each such person.

“Bond Counsel” means an attorney at law or a firm of attorneys selected by the District of nationally recognized standing in matters pertaining to the tax-exempt nature of interest on bonds issued by states and their political subdivisions duly admitted to the practice of law before the highest court of any state of the United States of America or the District of Columbia.

“Bond Register” means the books which the Fiscal Agent shall keep or cause to be kept on which the registration and transfer of the Bonds and any Parity Bonds shall be recorded.

“Bondowner” or “Owner” means the person or persons in whose name or names any Bond or Parity Bond is registered.

“Bonds” means the Series A Bonds and the Series B Bonds.

“Bond Year” means the twelve month period commencing on September 2 of each year and ending on September 1 of the following year, except that the first Bond Year for the Bonds or an issue of Parity Bonds shall begin on the Delivery Date and end of the first September 1 after the Delivery Date.

“Business Day” means a day which is not a Saturday or Sunday or a day of the year on which banks in New York, New York, San Francisco, California, or the city where the Principal Office of the Fiscal Agent is located, are not required or authorized to remain closed.

“Certificate of the District” means a written certificate or request executed by an Authorized District Representative on behalf of the District.

“Code” means the Internal Revenue Code of 1986, as amended, and any Regulations, rulings, judicial decisions, and notices, announcements, and other releases of the United States Treasury Department or Internal Revenue Service interpreting and construing it.

“Costs of Issuance” means the costs and expenses incurred in connection with the issuance and sale of the Series B Bonds or any Parity Bonds, including the acceptance and initial annual fees

and expenses of the Fiscal Agent, legal fees and expenses, costs of printing the Series B Bonds and Parity Bonds and the preliminary and final official statements for the Series B Bonds, Parity Bonds, fees of financial and other consultants and all other related fees and expenses, Bonds, as set forth in a Certificate of the District.

“Delivery Date” means, with respect to the Series B Bonds and each issue of Parity Bonds, the date on which the bonds of such issue were issued and delivered to the initial purchasers thereof.

“District” means Redwood Shores Community Facilities District No. 99-1 (Shores Transportation Improvement Project) of the City of Redwood City established pursuant to the Act and the Resolution of Formation.

“Federal Securities” means any of the following:

- (a) Cash
- (b) United States Treasury Certificates, Notes and Bonds (including State and Local Government Series -- “SLGS”)
- (c) Direct obligations of the U.S. Treasury which have been stripped by the U.S. Treasury itself, *e.g.*, CATS, TIGRS and similar securities
- (d) The interest component of Resolution Funding Corp. strips which have been stripped by request to the Federal Reserve Bank of New York and are in book-entry form.
- (e) Pre-refunded municipal bonds rated “Aaa” by Moody’s and “AAA” by Standard & Poor’s.
- (f) Obligations issued by the following agencies which are backed by the full faith and credit of the United States:
 - (i) U.S. Export-Import Bank - direct obligations or fully guaranteed certificates of beneficial ownership
 - (ii) Farmers Home Administration - certificates of beneficial ownership
 - (iii) Federal Financing Bank
 - (iv) General Services Administration - participation certificates
 - (v) U.S. Maritime Administration - guaranteed Title XI financing
 - (vi) U.S. Department of Housing and Urban Development (HUD) - Project Notes, Local Authority Bonds, New Communities Debentures - U.S. government guaranteed debentures, U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds.

“First Supplemental Fiscal Agent Agreement” means the First Supplemental Fiscal Agent Agreement, dated as of August 1, 2003, authorizing the issuance of the Series B Bonds.

“Fiscal Agent” means BNY Western Trust Company, a banking corporation duly organized and existing under and by virtue of the laws of the State of California, at its principal corporate trust office in San Francisco, California, and its successors or assigns, or any other bank or trust company which may at any time be substituted in its place as provided in the Fiscal Agent Agreement and any successor thereto.

“Fiscal Agent Agreement” means the Fiscal Agent Agreement, between the District and the Fiscal Agent, dated as of February 1, 2001, together with any Supplemental Fiscal Agent Agreement.

“Fiscal Year” means the period beginning on July 1 of each year and ending on the next following June 30.

“Gross Taxes” means the amount of all Special Taxes received by the District, together with the proceeds collected from the sale of property pursuant to the foreclosure provisions of the Fiscal Agent Agreement for the delinquency of such Special Taxes remaining after the payment of all the costs related to such foreclosure actions, including, but not limited to, all legal fees and expenses, court costs, consultant and title insurance fees and expenses.

“Independent Financial Consultant” means a financial consultant or firm of such consultants generally recognized to be well qualified in the financial consulting field, appointed and paid by the District, who, or each of whom:

- (1) is in fact independent and not under the domination of the District;
- (2) does not have any substantial interest, direct or indirect, in the District; and
- (3) is not connected with the District as a member, officer or employee of the District, but who may be regularly retained to make annual or other reports to the District.

“Interest Account” means the account by such name created and established in the Special Tax Fund pursuant to the Fiscal Agent Agreement.

“Interest Payment Date” means each March 1 and September 1, commencing March 1, 2004; provided, however, that, if any such day is not a Business Day, interest up to the Interest Payment Date will be paid on the Business Day next preceding such date.

“Investment Agreement” means one or more agreements for the investment of funds of the District complying with the criteria therefor as set forth in clause (7) of the definition of Authorized Investments.

“Maximum Annual Debt Service” means the maximum sum obtained for any Bond Year prior to the final maturity of the Bonds and any Parity Bonds by adding the following for each Bond Year:

- (1) the principal amount of all Outstanding Bonds and Parity Bonds payable in such Bond Year either at maturity or pursuant to a Sinking Fund Payment; and

(2) the interest payable on the aggregate principal amount of all Bonds and Parity Bonds Outstanding in such Bond Year if the Bonds and Parity Bonds are retired as scheduled.

“Moody’s” means Moody’s Investors Service, its successors and assigns.

“Net Taxes” means Gross Taxes (exclusive of any penalties and interest accruing with respect to delinquent Special Tax installments) minus amounts set aside to pay Administrative Expenses.

“Outstanding” or “Outstanding Bonds and Parity Bonds” means all Bonds and Parity Bonds theretofore issued by the District, except:

(1) Bonds and Parity Bonds theretofore cancelled or surrendered for cancellation in accordance with the Fiscal Agent Agreement;

(2) Bonds and Parity Bonds for payment or redemption of which monies shall have been theretofore deposited in trust (whether upon or prior to the maturity or the redemption date of such Bonds or Parity Bonds), provided that, if such Bonds or Parity Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Fiscal Agent Agreement or any applicable Supplemental Fiscal Agent Agreement for Parity Bonds; and

(3) Bonds and Parity Bonds which have been surrendered to the Fiscal Agent for transfer or exchange or for which a replacement has been issued pursuant to the Fiscal Agent Agreement.

“Parity Bonds” means all bonds, notes or other similar evidences of indebtedness thereafter issued, payable out of the Net Taxes and which, as provided in the Fiscal Agent Agreement or any Supplemental Fiscal Agent Agreement, rank on a parity with the Bonds.

“Person” means natural persons, firms, corporations, partnerships, associations, trusts, public bodies and other entities.

“Principal Office of the Fiscal Agent” means the office of the Fiscal Agent located in San Francisco, California or such other office or offices as the Fiscal Agent may designate from time to time, or the office of any successor Fiscal Agent where it principally conducts its business of serving as trustee under indentures pursuant to which municipal or governmental obligations are issued.

“Project” means those public facilities described in the Resolution of Formation which are to be acquired or constructed within and outside of the District, including all engineering, planning and design services and other incidental expenses related to such facilities and other facilities, if any, authorized by the qualified electors within the District from time to time.

“Project Costs” means the amounts necessary to finance the Project, to create and replenish any necessary reserve funds, to pay the initial and annual costs associated with the Bonds or any Parity Bonds, including, but not limited to, remarketing, credit enhancement, Fiscal Agent and other fees and expenses relating to the issuance of the Bonds or any Parity Bonds and the formation of the District, and to pay any other “incidental expenses” of the District, as such term is defined in the Act.

“Rating Agency” means Moody’s and Standard & Poor’s, or both, as the context requires.

“Rebate Account” means the account by such name created and established in the Rebate Fund pursuant to the Fiscal Agent Agreement.

“Rebate Fund” means the fund by such name created and established pursuant to the Fiscal Agent Agreement.

“Rebate Regulations” means any final, temporary or proposed Regulations promulgated under Section 148(f) of the Code.

“Record Date” means the fifteenth day of the month preceding an Interest Payment Date, regardless of whether such day is a Business Day.

“Redemption Account” means the account by such name created and established in the Special Tax Fund pursuant to the Fiscal Agent Agreement.

“Regulations” means the regulations adopted or proposed by the Department of Treasury from time to time with respect to obligations issued pursuant to Section 103 of the Code.

“Reserve Account” means the account by such name created and established in the Special Tax Fund pursuant to the Fiscal Agent Agreement.

“Reserve Requirement” means, as of any date of calculation by the District, an amount equal to the lowest of (1) 10% of the original proceeds of the Bonds and each issue of Parity Bonds, less original issue discount, if any, plus original issue premium, if any, (2) Maximum Annual Debt Service of the Outstanding Bonds and Parity Bonds, and (3) 125% of the average Annual Debt Service of the Outstanding Bonds and Parity Bonds; except that the initial deposit to the Reserve Account shall be the Initial Reserve Account Deposit.

“Resolution of Formation” means Resolution No. 13611 adopted by the Council of the City on April 26, 1999, pursuant to which the City formed the District.

“RMA” means the Rate and Method of Apportionment approved by the qualified electors of the District at the July 30, 1999 election, as amended from time to time.

“Series A Bonds” means the District’s \$5,045,000 Special Tax Bonds, Series 2001A issued pursuant to the Fiscal Agent Agreement.

“Series B Bonds” means the District’s \$7,505,000 Special Tax Bonds, Series 2001B issued pursuant to the First Supplemental Fiscal Agent Agreement.

“Sinking Fund Payment” means the annual payment to be deposited in the Redemption Account to redeem a portion of the Term Bonds in accordance with the schedule set forth in the Fiscal Agent Agreement or a Supplemental Fiscal Agent Agreement to retire any Parity Bonds which are designated as Term Bonds.

“Six-Month Period” means the period of time beginning on the Delivery Date of each issue of Bonds or Parity Bonds, as applicable, and ending six consecutive months thereafter, and each

six-month period thereafter until the latest maturity date of the Bonds and the Parity Bonds (and any obligations that refund an issue of the Bonds or Parity Bonds).

“Special Taxes” means the taxes authorized to be levied by the District in accordance with the Resolution of Formation, the Act and the voter approval obtained at the July 30, 1999 election in the District and any additional special taxes authorized to be levied by the District from time to time which are pledged by the District to the repayment of the Bonds and any Parity Bonds.

“Special Tax Fund” means the fund by such name created and established pursuant to the Fiscal Agent Agreement.

“Standard & Poor’s” means Standard & Poor’s Ratings Group, a Division of McGraw-Hill, its successors and assigns.

“Supplemental Fiscal Agent Agreement” means any supplemental fiscal agent agreement amending or supplementing the Fiscal Agent Agreement.

“Tax Certificate” means the certificate by that name to be executed by the District on a Delivery Date to establish certain facts and expectations and which contains certain covenants relevant to compliance with the Code.

“Term Series B Bonds” means the Term Bonds maturing September 1, 28 and September 1, 2033 and any term maturities of an issue of Parity Bonds as specified in the First Supplemental Fiscal Agent Agreement.

“Underwriter” means the institution or institutions, if any, with whom the District enters into a purchase contract for the sale of the Bonds or an issue of Parity Bonds.

GENERAL AUTHORIZATION AND BOND TERMS

Type and Nature of Bonds and Parity Bonds.

Neither the faith and credit nor the taxing power of the City, the State of California or any political subdivision thereof other than the District is pledged to the payment of the Bonds or any Parity Bonds. Except for the Special Taxes, no other taxes are pledged to the payment of the Bonds or any Parity Bonds. The Bonds and any Parity Bonds are not general or special obligations of the City nor general obligations of the District, but are limited obligations of the District payable solely from certain amounts deposited by the District in the Special Tax Fund (exclusive of the Administrative Expense Account), as more fully described in the Fiscal Agent Agreement. The District’s limited obligation to pay the principal of, premium, if any, and interest on the Bonds and any Parity Bonds from amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) is absolute and unconditional, free of deductions and without any abatement, offset, recoupment, diminution or set-off whatsoever. No Owner of the Bonds or any Parity Bonds may compel the exercise of the taxing power by the District (except as pertains to the Special Taxes) or the City or the forfeiture of any of their property. The principal of and interest on the Bonds and any Parity Bonds and premiums upon the redemption thereof, if any, are not a debt of the City, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory limitation or restriction. The Bonds and any Parity Bonds are not a legal or equitable pledge, charge, lien, or encumbrance upon any of the District’s property, or upon any of its income, receipts or

revenues, except the Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) which are, under the terms of the Fiscal Agent Agreement and the Act, set aside for the payment of the Bonds, any Parity Bonds and interest thereon and neither the members of the legislative body of the District or the Council of the City nor any persons executing the Bonds or any Parity Bonds, are liable personally on the Bonds or any Parity Bonds, by reason of their issuance.

Notwithstanding anything to the contrary contained in the Fiscal Agent Agreement, the District shall not be required to advance any money derived from any source of income other than the Net Taxes for the payment of the interest on or the principal of the Bonds or any Parity Bonds, or for the performance of any covenants contained in the Fiscal Agent Agreement. The District may, however, advance funds for any such purpose, provided that such funds are derived from a source legally available for such purpose.

Equality of Bonds and Parity Bonds and Pledge of Net Taxes.

Pursuant to the Act and the Fiscal Agent Agreement, the Bonds and any Parity Bonds shall be equally payable from the Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) without priority for number, date of the Bonds or Parity Bonds, date of sale, date of execution, or date of delivery, and the payment of the interest on and principal of the Bonds and any Parity Bonds and any premiums upon the redemption thereof, shall be exclusively paid from the Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account), which are set aside for the payment of the Bonds and any Parity Bonds. The Net Special Taxes and other amounts in the Special Tax Fund (other than the Administrative Expense Account therein) shall constitute a trust fund held for the benefit of the Owners to be applied to the payment of the interest on and principal of the Bonds and any Parity Bonds and so long as any of the Bonds and any Parity Bonds or interest thereon remain Outstanding shall not be used for any other purpose, except as permitted by the Fiscal Agent Agreement or any Supplemental Fiscal Agent Agreement. Notwithstanding any provision contained in the Fiscal Agent Agreement to the contrary, Special Taxes deposited in the Administrative Expense Account of the Special Tax Fund, the Rebate Fund and the Surplus Fund shall no longer be considered to be pledged to the Bonds or any Parity Bonds, and none of the Rebate Fund, the Surplus Fund or the Administrative Expense Account of the Special Tax Fund nor the Acquisition and Construction Fund shall be construed as a trust fund held for the benefit of the Owners.

Nothing in the Fiscal Agent Agreement or any Supplemental Fiscal Agent Agreement shall preclude: (a) subject to the limitations contained under the Fiscal Agent Agreement, the redemption prior to maturity of any Bonds or Parity Bonds subject to call and redemption and payment of said Bonds or Parity Bonds from proceeds of refunding bonds issued under the Act as the same now exists or as amended, or under any other law of the State of California; or (b) the issuance, subject to the limitations contained in the Fiscal Agent Agreement, of Parity Bonds which shall be payable from Net Taxes.

Place and Form of Payment.

The Bonds and Parity Bonds shall be payable both as to principal and interest, and as to any premiums upon the redemption thereof, in lawful money of the United States of America. The principal of the Bonds and Parity Bonds and any premiums due upon the redemption thereof shall be payable upon presentation and surrender thereof at the Principal Office of the Fiscal Agent, or at the

designated office of any successor Fiscal Agent. Interest on any Bond or Parity Bond shall be payable from the Interest Payment Date next preceding the date of authentication of that Bond or Parity Bond, unless (i) such date of authentication is an Interest Payment Date in which event interest shall be payable from such date of authentication, (ii) the date of authentication is after a Record Date but prior to the immediately succeeding Interest Payment Date, in which event interest shall be payable from the Interest Payment Date immediately succeeding the date of authentication, or (iii) the date of authentication is prior to the close of business on the first Record Date occurring after the issuance of such Bond or Parity Bond, in which event interest shall be payable from the dated date of such Bond or Parity Bond, as applicable; provided, however, that if at the time of authentication of such Bond or Parity Bond, interest is in default, interest on that Bond or Parity Bond shall be payable from the last Interest Payment Date to which the interest has been paid or made available for payment or, if no interest has been paid or made available for payment on that Bond or Parity Bond, interest on that Bond or Parity Bond shall be payable from its dated date. Interest on any Bond or Parity Bond shall be paid to the person whose name shall appear in the Bond Register as the Owner of such Bond or Parity Bond as of the close of business on the Record Date. Such interest shall be paid by check of the Fiscal Agent mailed by first class mail, postage prepaid, to such Bondowner at his or her address as it appears on the Bond Register. In addition, upon a request in writing received by the Fiscal Agent on or before the applicable Record Date from an Owner of \$1,000,000 or more in principal amount of the Bonds or of \$1,000,000 or more in principal amount of any issue of Parity Bonds, payment shall be made on the Interest Payment Date by wire transfer in immediately available funds to an account within the United States designated by such Owner.

Form of Bonds and Parity Bonds.

The definitive Bonds may be printed from steel engraved or lithographic plates or may be typewritten. The Bonds and the certificate of authentication shall be substantially in the form attached to the Fiscal Agent Agreement, which forms are approved and adopted as the forms of such Bonds and of the certificate of authentication.

Notwithstanding any provision in the Fiscal Agent Agreement to the contrary, the District may, in its sole discretion, elect to issue the Bonds and any Parity Bonds in book entry form. Each issue of Parity Bonds and the certificate of authentication therefor shall be in the form provided in the Supplemental Fiscal Agent Agreement for such issue of Parity Bonds.

Until definitive Bonds or Parity Bonds, as applicable, shall be prepared, the District may cause to be executed and delivered in lieu of such definitive Bonds or Parity Bonds temporary bonds in typed, printed, lithographed or engraved form and in fully registered form, subject to the same provisions, limitations and conditions as are applicable in the case of definitive Bonds or Parity Bonds, except that they may be in any denominations authorized by the District. Until exchanged for definitive Bonds or Parity Bonds, as applicable, any temporary bond shall be entitled and subject to the same benefits and provisions of the Fiscal Agent Agreement as definitive Bonds and Parity Bonds. If the District issues temporary Bonds or Parity Bonds, it shall execute and furnish definitive Bonds or Parity Bonds, as applicable, without unnecessary delay and thereupon any temporary Bond or Parity Bond may be surrendered to the Fiscal Agent at its office, without expense to the Owner, in exchange for a definitive Bond or Parity Bond of the same issue, maturity, interest rate and principal amount in any authorized denomination. All temporary Bonds or Parity Bonds so surrendered shall be cancelled by the Fiscal Agent and shall not be reissued.

Execution and Authentication.

The Bonds and Parity Bonds shall be signed on behalf of the District by the manual or facsimile signature of the Mayor of the City and by the manual or facsimile signature of the Clerk of the City, or any duly appointed deputy clerk, in their capacity as officers of the District, and the seal of the City (or a facsimile thereof) shall be impressed, imprinted, engraved or otherwise reproduced thereon, and attested by the signature of the Clerk of the City. In case any one or more of the officers who shall have signed or sealed any of the Bonds or Parity Bonds shall cease to be such officer before the Bonds or Parity Bonds so signed and sealed have been authenticated and delivered by the Fiscal Agent (including new Bonds or Parity Bonds delivered pursuant to the provisions of the Fiscal Agent Agreement with reference to the transfer and exchange of Bonds or Parity Bonds or to lost, stolen, destroyed or mutilated Bonds or Parity Bonds), such Bonds and Parity Bonds shall nevertheless be valid and may be authenticated and delivered as provided in the Fiscal Agent Agreement, and may be issued as if the person who signed or sealed such Bonds or Parity Bonds had not ceased to hold such office.

Only the Bonds as shall bear thereon such certificate of authentication in the form set forth in the Fiscal Agent Agreement and Parity Bonds as shall bear thereon the certificate of authentication in the form set forth in the Supplemental Fiscal Agent Agreement pursuant to which such Parity Bonds are authorized shall be entitled to any right or benefit under the Fiscal Agent Agreement, and no Bond or Parity Bond shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Fiscal Agent.

Bond Register.

The Fiscal Agent will keep or cause to be kept, at its office, sufficient books for the registration and transfer of the Bonds and any Parity Bonds which shall upon reasonable prior notice be open to inspection by the District during all regular business hours, and, subject to the limitations set forth in the Fiscal Agent Agreement, upon presentation for such purpose, the Fiscal Agent shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be transferred on said Bond Register, Bonds and any Parity Bonds as provided in the Fiscal Agent Agreement.

The District and the Fiscal Agent may treat the Owner of any Bond or Parity Bond whose name appears on the Bond Register as the absolute Owner of that Bond or Parity Bond for any and all purposes, and the District and the Fiscal Agent shall not be affected by any notice to the contrary. The District and the Fiscal Agent may rely on the address of the Bondowner as it appears in the Bond Register for any and all purposes. It shall be the duty of the Bondowner to give written notice to the Fiscal Agent of any change in the Bondowner's address so that the Bond Register may be revised accordingly.

Registration of Exchange or Transfer.

Subject to the limitations set forth in the following paragraph, the registration of any Bond or Parity Bond may, in accordance with its terms, be transferred upon the Bond Register by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such Bond or Parity Bond for cancellation at the office of the Fiscal Agent, accompanied by delivery of written instrument of transfer in a form approved by the Fiscal Agent and duly executed by the Bondowner or his or her duly authorized attorney.

Bonds or Parity Bonds may be exchanged at the office of the Fiscal Agent for a like aggregate principal amount of Bonds or Parity Bonds for other authorized denominations of the same maturity and issue. The Fiscal Agent shall not collect from the Owner any charge for any new Bond or Parity Bond issued upon any exchange or transfer, but shall require the Bondowner requesting such exchange or transfer to pay any tax or other governmental charge required to be paid with respect to such exchange or transfer. Whenever any Bonds or Parity Bonds shall be surrendered for registration of transfer or exchange, the District shall execute and the Fiscal Agent shall authenticate and deliver a new Bond or Bonds or a new Parity Bond or Parity Bonds, as applicable, of the same issue and maturity, for a like aggregate principal amount; provided that the Fiscal Agent shall not be required to register transfers or make exchanges of (i) Bonds or Parity Bonds for a period of 15 days next preceding any selection of the Bonds or Parity Bonds to be redeemed, or (ii) any Bonds or Parity Bonds chosen for redemption.

Mutilated, Lost, Destroyed or Stolen Bonds or Parity Bonds.

If any Bond or Parity Bond shall become mutilated, the District shall execute, and the Fiscal Agent shall authenticate and deliver, a new Bond or Parity Bond of like tenor, date, issue and maturity in exchange and substitution for the Bond or Parity Bond so mutilated, but only upon surrender to the Fiscal Agent of the Bond or Parity Bond so mutilated. Every mutilated Bond or Parity Bond so surrendered to the Fiscal Agent shall be cancelled by the Fiscal Agent pursuant to the Fiscal Agent Agreement. If any Bond or Parity Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Fiscal Agent and, if such evidence is satisfactory to the Fiscal Agent and, if any indemnity satisfactory to the District and the Fiscal Agent shall be given, the District shall execute and the Fiscal Agent shall authenticate and deliver, a new Bond or Parity Bond, as applicable, of like tenor, maturity and issue, numbered and dated as the Fiscal Agent shall determine in lieu of and in substitution for the Bond or Parity Bond so lost, destroyed or stolen. Any Bond or Parity Bond issued in lieu of any Bond or Parity Bond alleged to be mutilated, lost, destroyed or stolen, shall be equally and proportionately entitled to the benefits of the Fiscal Agent Agreement with all other Bonds and Parity Bonds issued under the Fiscal Agent Agreement. The Fiscal Agent shall not treat both the original Bond or Parity Bond and any replacement Bond or Parity Bond as being Outstanding for the purpose of determining the principal amount of Bonds or Parity Bonds which may be executed, authenticated and delivered under the Fiscal Agent Agreement or for the purpose of determining any percentage of Bonds or Parity Bonds Outstanding under the Fiscal Agent Agreement, but both the original and replacement Bond or Parity Bond shall be treated as one and the same. Notwithstanding any other provision of the Fiscal Agent Agreement, in lieu of delivering a new Bond or Parity Bond which has been mutilated, lost, destroyed or stolen, and which has matured, the Fiscal Agent may make payment with respect to such Bonds or Parity Bonds.

Validity of Bonds and Parity Bonds.

The validity of the authorization and issuance of the Bonds and any Parity Bonds shall not be affected in any way by any defect in any proceedings taken by the District, or by the invalidity, in whole or in part, of any contracts made by the District in connection therewith, and the recital contained in the Bonds or any Parity Bonds that the same are issued pursuant to the Act and other applicable laws of the State shall be conclusive evidence of their validity and of the regularity of their issuance.

CREATION OF FUNDS AND APPLICATION OF REVENUES AND GROSS TAXES

Creation of Funds; Application of Proceeds.

There is created and established and shall be maintained by the Fiscal Agent the following funds and accounts:

(a) The Community Facilities District No. 99-1 (Shores Transportation Improvement Project) Special Tax Fund (the "Special Tax Fund") (in which there shall be established and created an Interest Account (and a Capitalized Interest Subaccount therein), a Principal Account, a Redemption Account, a Reserve Account and an Administrative Expense Account).

(b) The Community Facilities District No. 99-1 (Shores Transportation Improvement Project) Rebate Fund (the "Rebate Fund") (in which there shall be established a Rebate Account and an Alternative Penalty Account).

(c) The Community Facilities District No. 99-1 (Shores Transportation Improvement Project) Surplus Fund (the "Surplus Fund").

(d) The Community Facilities District No. 99-1 (Shores Transportation Improvement Project) Acquisition and Construction Fund (the "Acquisition and Construction Fund") (in which there shall be established a Costs of Issuance Account and a Project Account).

The amounts on deposit in the foregoing funds, accounts and subaccounts shall be held by the Fiscal Agent and the Fiscal Agent shall invest and disburse the amounts in such funds, accounts and subaccounts in accordance with the provisions of the Fiscal Agent Agreement and shall disburse investment earnings thereon in accordance with the provisions of the Fiscal Agent Agreement.

In connection with the issuance of any Parity Bonds, the Fiscal Agent, at the direction of an Authorized District Representative, may create new funds, accounts or subaccounts, or may create additional accounts and subaccounts within any of the foregoing funds and accounts for the purpose of separately accounting for the proceeds of the Bonds and any Parity Bonds.

(e) The proceeds of the sale of the Bonds shall be received by the Fiscal Agent on behalf of the District and deposited and transferred as shown in the Fiscal Agent Agreement.

Deposits to and Disbursements from Special Tax Fund.

The Fiscal Agent shall, on each date on which the Special Taxes are received from the District, deposit the Special Taxes in the Special Tax Fund in accordance with the terms of the Fiscal Agent Agreement. The Fiscal Agent shall transfer the amounts on deposit in the Special Tax Fund on the dates and in the amounts set forth in the Fiscal Agent Agreement, in the following order of priority, to:

- (a) The Administrative Expense Account of the Special Tax Fund;
- (b) The Interest Account of the Special Tax Fund;

- (c) The Principal Account of the Special Tax Fund;
- (d) The Redemption Account of the Special Tax Fund;
- (e) The Reserve Account of the Special Tax Fund;
- (f) The Rebate Fund; and
- (g) The Surplus Fund.

At the maturity of all of the Bonds and Parity Bonds and, after all principal and interest then due on the Bonds and Parity Bonds then Outstanding has been paid or provided for and any amounts owed to the Fiscal Agent have been paid in full, moneys in the Special Tax Fund and any accounts therein may be used by the District for any lawful purpose.

Administrative Expense Account of the Special Tax Fund.

The Fiscal Agent shall transfer from Special Tax Fund and deposit in the Administrative Expense Account of the Special Tax Fund from time to time amounts necessary to make timely payment of Administrative Expenses, which shall be disbursed by the Fiscal Agent upon the written direction of the District. The total amount transferred from the Special Tax Fund to the Administrative Expense Account in any Bond Year shall not exceed \$25,000 (with such amount escalating at a compounded rate of 2% per Bond Year) until such time as there has been deposited to the Interest Account and the Principal Account an amount, together with any amounts already on deposit therein, sufficient to pay the principal of and interest on all Bonds and Parity Bonds due in such Bond Year. Moneys in the Administrative Expense Account of the Special Tax Fund may be invested in any Authorized Investments as directed by an Authorized District Representative.

Interest Account and Principal Account of the Special Tax Fund.

The principal of and interest due on the Bonds and any Parity Bonds until maturity, other than principal due upon redemption, shall be paid by the Fiscal Agent from the Principal Account and the Interest Account of the Special Tax Fund, respectively. For the purpose of assuring that the payment of principal of and interest on the Bonds and any Parity Bonds will be made when due, after making the transfer required by the Fiscal Agent Agreement, at least five Business Days prior to each March 1 and September 1, the Fiscal Agent shall make the following transfers from the Special Tax Fund first to the Interest Account and then to the Principal Account; provided, however, that to the extent that deposits have been made in the Interest Account or the Principal Account from the proceeds of the sale of an issue of the Bonds, any Parity Bonds, or otherwise, the transfer from the Special Tax Fund need not be made; and provided, further, that, if amounts in the Special Tax Fund accounts are inadequate to make the foregoing transfers, then any deficiency shall be made up by an immediate transfer from the Reserve Account:

- (a) To the Interest Account, an amount such that the balance in the Interest Account five Business Days prior to each Interest Payment Date shall be equal to the installment of interest due on the Bonds and any Parity Bonds on said Interest Payment Date and any installment of interest due on a previous Interest Payment Date which remains unpaid. Moneys in the Interest Account shall be used for the payment of interest on the Bonds and any Parity Bonds as the same become due.

(b) To the Principal Account, an amount such that the balance in the Principal Account five Business Days prior to September 1 of each year, commencing September 1, 2003, shall equal the principal payment due on the Bonds and any Parity Bonds maturing on such September 1 and any principal payment due on a previous September 1 which remains unpaid. Moneys in the Principal Account shall be used for the payment of the principal of such Bonds and any Parity Bonds as the same become due at maturity.

Redemption Account of the Special Tax Fund.

(a) Before each September 1 on which a Sinking Fund Payment is due, after the deposits have been made to the Interest Account and the Principal Account of the Special Tax Fund as required by the Fiscal Agent Agreement, the Fiscal Agent shall next transfer into the Redemption Account of the Special Tax Fund from the Special Tax Fund the amount needed to make the balance in the Redemption Account five Business Days prior to each September 1 equal to the Sinking Fund Payment due on any Outstanding Parity Bonds on such September 1; provided, however, that, if amounts in the Special Tax Fund are inadequate to make the foregoing transfers, then any deficiency shall be made up by an immediate transfer from the Reserve Account, if funded, pursuant to the Fiscal Agent Agreement. Moneys so deposited in the Redemption Account shall be used and applied by the Fiscal Agent to call and redeem Term Bonds in accordance with the Sinking Fund Payment schedule set forth in any Supplemental Fiscal Agent Agreement for such Term Bonds.

(b) After making the deposits to the Interest Account and the Principal Account of the Special Tax Fund pursuant to the Fiscal Agent Agreement and to the Redemption Account for Sinking Fund Payments then due pursuant to subparagraph (a), and in accordance with the District's election to call Bonds for optional redemption as set forth in the Fiscal Agent Agreement, or to call Parity Bonds for optional redemption as set forth in any Supplemental Fiscal Agent Agreement for Parity Bonds, the Fiscal Agent shall transfer from the Special Tax Fund and deposit in the Redemption Account moneys available for the purpose and sufficient to pay the interest, the principal and the premiums, if any, payable on the Bonds or Parity Bonds called for optional redemption; provided, however, that amounts in the Special Tax Fund (other than the Administrative Expense Account therein) may be applied to optionally redeem Bonds and Parity Bonds only if immediately following such redemption the amount in the Reserve Account will equal the Reserve Requirement.

(c) Prepaid Special Taxes deposited in the Redemption Account shall be applied to the mandatory redemption of Bonds pursuant to the Fiscal Agent Agreement, or to the mandatory redemption of Parity Bonds pursuant to the relevant provision of any Supplemental Fiscal Agent Agreement, on the first allowable date for such mandatory redemption.

(d) Moneys set aside in the Redemption Account shall be used solely for the purpose of redeeming Bonds and Parity Bonds and shall be applied on or after the redemption date to the payment of the principal of and premium, if any, on the Bonds or Parity Bonds to be redeemed upon presentation and surrender of such Bonds or Parity Bonds and in the case of an optional redemption to pay the interest thereon; provided, however, that in lieu or partially in lieu of such call and redemption, moneys deposited in the Redemption Account as set forth above may be used to purchase Outstanding Bonds or Parity Bonds in

the manner provided in the Fiscal Agent Agreement. Purchases of Outstanding Bonds or Parity Bonds may be made by the District at public or private sale as and when and at such prices as the District may in its discretion determine but only at prices (including brokerage or other expenses) not more than par plus accrued interest, plus, in the case of moneys set aside for an optional redemption, the premium applicable at the next following call date according to the premium schedule established pursuant to the Fiscal Agent Agreement, or in the case of Parity Bonds the premium established in any Supplemental Fiscal Agent Agreement. Any accrued interest payable upon the purchase of Bonds or Parity Bonds may be paid from the amount reserved in the Interest Account of the Special Tax Fund for the payment of interest on the next following Interest Payment Date.

Reserve Account of the Special Tax Fund.

On the delivery date of the Bonds, there shall be deposited in the Reserve Account of the Special Tax Fund an amount equal to the Initial Reserve Fund Deposit. Notwithstanding any provision hereof to the contrary, the amounts in the Reserve Account shall be applied as follows:

(a) Moneys in the Reserve Account shall be used to pay the principal of, including Sinking Fund Payments, and interest on any Bonds and Parity Bonds when due in the event (i) that the moneys in the Interest Account and the Principal Account of the Special Tax Fund are insufficient therefor or moneys in the Redemption Account of the Special Tax Fund are insufficient to make a Sinking Fund Payment when due and for the purpose of making any required transfer to the Rebate Fund pursuant to the Fiscal Agent Agreement upon written direction from the District, and (ii) of a prepayment of Special Taxes the proportionate share of amounts in the Reserve Account shall be reduced in accordance with the RMA. If the amounts in the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund are insufficient to pay the principal of, including Sinking Fund Payments, or interest on any Bonds and Parity Bonds when due, or amounts in the Special Tax Fund are insufficient to make transfers to the Rebate Fund when required, the Fiscal Agent shall withdraw from the Reserve Account for deposit in the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund or the Rebate Fund, as applicable, moneys necessary for such purposes.

(b) If moneys are withdrawn from the Reserve Account for the purpose described in the Fiscal Agent Agreement, or if the value of the amount on deposit in the Reserve Account is decreased due to a loss on amounts invested in the Reserve Account, then the Fiscal Agent shall, after making the transfers required by the Fiscal Agent Agreement, transfer to the Reserve Account from available moneys in the Special Tax Fund, or from any other legally available funds that the District elects to apply to such purpose, an amount equal to the lesser of (i) the sum of the amount of such withdrawal plus the amount of any such decrease in value and (ii) the amount needed to restore the amount in the Reserve Account to the Reserve Requirement. Moneys in the Special Tax Fund shall be deemed available for transfer to the Reserve Account only if the Fiscal Agent determines that such amounts will not be needed to make the deposits required to be made to the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund. If amounts in the Special Tax Fund or otherwise transferred to replenish the Reserve Account are inadequate to make the transfer to the Reserve Account required by this paragraph, then the District shall include in the next annual Special Tax levy (to the extent permitted by the maximum Special Tax rates) an amount sufficient to make such transfer to the extent of the maximum permitted Special Tax rates.

(c) In connection with any redemption of the Bonds under Section 4.01(A) or (C) of the Fiscal Agent Agreement or any Parity Bonds in accordance with any Supplemental Fiscal Agent Agreement, or a partial defeasance of the Bonds or any Parity Bonds in accordance with the Fiscal Agent Agreement, amounts in the Reserve Account may be applied to such redemption or partial defeasance so long as the amount on deposit in the Reserve Account following such redemption or partial defeasance equals the Reserve Requirement. To the extent that the Reserve Account is at the Reserve Requirement as of the first day of the final Bond Year for the Bonds or an issue of Parity Bonds, amounts in the Reserve Account may be applied to pay the principal of and interest due on the Bonds or an issue of Parity Bonds in the final Bond Year for such issue.

(d) On the fifth Business Day before each March 1 and September 1, moneys in the Reserve Account in excess of the Reserve Requirement, and not required to be transferred in accordance with the Fiscal Agent Agreement, shall be withdrawn from the Reserve Account and transferred to the Project Account of the Acquisition and Construction Fund until the conditions set forth in the Fiscal Agent Agreement are satisfied, and thereafter to the Interest Account of the Special Tax Fund.

Rebate Fund.

The Fiscal Agent shall establish and maintain a fund separate from any other fund established and maintained under the Fiscal Agent Agreement designated as the Rebate Fund and shall establish a separate Rebate Account and Alternative Penalty Account therein. All money at any time deposited in the Rebate Account or the Alternative Penalty Account of the Rebate Fund shall be held by the Fiscal Agent in trust, for payment to the United States Treasury. A separate subaccount of the Rebate Account and the Alternate Penalty Account shall be established for each issue of Bonds the interest on which is excluded from gross income for federal income tax purposes. All amounts on deposit in the Rebate Fund with respect to an issue of Parity Bonds shall be governed by the Fiscal Agent Agreement and the Tax Certificate for such issue, unless the District obtains an opinion of Bond Counsel acceptable or reasonably acceptable to Fiscal Agent that the exclusion from gross income for federal income tax purposes of interest payments on such Bonds will not be adversely affected if such requirements are not satisfied.

Surplus Fund.

After making the transfers required by the Fiscal Agent Agreement, as soon as practicable after each September 1, and in any event prior to each October 1, the Fiscal Agent shall transfer all remaining amounts in the Special Tax Fund to the Surplus Fund, other than amounts in the Special Tax Fund which the District has included as being available in the Special Tax Fund in calculating the amount of the levy of Special Taxes for such Fiscal Year pursuant to the Fiscal Agent Agreement. Moneys deposited in the Surplus Fund may, at the written direction of the District, be used for any lawful purpose of the District permitted under the RMA, the Resolution of Formation, and the Act, including, without limitation, (i) payment of principal, redemption premium, and interest with respect to the Bonds and any Parity Bonds, (ii) deposit to the Reserve Account up to the Reserve Requirement, (iii) payment of Administrative Expenses, (iv) payment of Project Costs, (v) deposit in the Special Tax Fund for the purpose of reducing the next fiscal year's Special Tax levy, and (vi) to pay refunds of Special Taxes in accordance with the RMA.

The amounts in the Surplus Fund are not pledged to the repayment of the Bonds or the Parity Bonds and may be used by the District for any lawful purpose. In the event that the District

reasonably expects to use any portion of the moneys in the Surplus Fund to pay debt service on any Outstanding Bonds or Parity Bonds, upon the written direction of the District, the Fiscal Agent will segregate such amount into a separate subaccount and the moneys on deposit in such subaccount of the Surplus Fund shall be invested in Authorized Investments, the interest on which is excludable from gross income under Section 103 of the Code (other than bonds the interest on which is a tax preference item for purposes of computing the alternative minimum tax of individuals and corporations under the Code), or in Authorized Investments at a yield not in excess of the yield on the issue of Bonds or Parity Bonds to which such amounts are to be applied, unless, in the opinion of Bond Counsel, investment at a higher yield will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or any Parity Bonds.

Acquisition and Construction Fund.

The moneys in the Acquisition and Construction Fund shall be applied exclusively to pay the Project Costs or Costs of Issuance. Amounts for Project Costs and Costs of Issuance shall be disbursed by the Fiscal Agent from the account in the Acquisition and Construction Fund designated in a requisition signed by an Authorized District Representative, substantially in the form in the Fiscal Agent Agreement, which must be submitted in connection with each requested disbursement.

Upon receipt of a Certificate of the District that all or a specified portion of the amount remaining in the Acquisition and Construction Fund is no longer needed to pay Project Costs or Costs of Issuance, the Fiscal Agent shall transfer all or such specified portion of the moneys remaining on deposit in one or more of the accounts in the Acquisition and Construction Fund to the Redemption Account of the Special Tax Fund.

Investments.

Moneys held in any of the Funds, Accounts and Subaccounts under the Fiscal Agent Agreement shall be invested at the direction of an Authorized District Representative in accordance with the limitations set forth below only in Authorized Investments which shall be deemed at all times to be a part of such Funds, Accounts and Subaccounts. Any loss resulting from such Authorized Investments shall be credited or charged to the Fund, Account or Subaccount from which such investment was made, and any investment earnings on a Fund, Account or Subaccount shall be applied as follows: (i) investment earnings on all amounts deposited in the Project Account of the Acquisition and Construction Fund, Reserve Account and the Rebate Fund and each Account therein shall be deposited in those respective Funds and Accounts, and (ii) investment earnings on amounts on deposit in the Capitalized Interest Subaccount shall be deposited in the Acquisition and Construction Fund, and (iii) all other investment earnings shall be deposited in the Acquisition and Construction Fund until the balance therein equals zero and thereafter shall be deposited in the Interest Account of the Special Tax Fund. Moneys in the Funds, Accounts and Subaccounts held under the Fiscal Agent Agreement may be invested by the Fiscal Agent on the written direction of the District, from time to time, in Authorized Investments subject to the following restrictions:

(a) Moneys in the Interest Account, the Principal Account and the Redemption Account of the Special Tax Fund shall be invested only in Authorized Investments which will by their terms mature, or in the case of an Investment Agreement or Repurchase Agreement are available for withdrawal without penalty, on such dates so as to ensure the payment of principal of, premium, if any, and interest on the Bonds and any Parity Bonds as the same become due.

(b) Moneys in the Acquisition and Construction Fund shall be invested in Authorized Investments which will by their terms mature, or in the case of an Investment Agreement or Repurchase Agreement are available without penalty, as close as practicable to the date the District estimates the moneys represented by the particular investment will be needed for withdrawal from the Acquisition and Construction Fund.

(c) One-half of the amount in the Reserve Account of the Special Tax Fund may be invested only in Authorized Investments which mature not later than two years from their date of purchase by the Fiscal Agent, and one-half of the amount in the Reserve Account may be invested only in Authorized Investments which mature not more than five years from the date of purchase by the Fiscal Agent; provided that such amounts may be invested in an Investment Agreement or Repurchase Agreement to the final maturity of any Parity Bonds so long as such amounts may be withdrawn at any time, without penalty, for application in accordance with the Fiscal Agent Agreement; and provided that no such Authorized Investment of amounts in the Reserve Account allocable to the Bonds or an issue of Parity Bonds shall mature later than the respective final maturity date of the Bonds or issue of Parity Bonds to which such amounts relate.

(d) Moneys in the Rebate Fund shall be invested only in Authorized Investments of the type described in clause (1) of the definition thereof which by their terms will mature, as nearly as practicable, on the dates such amounts are needed to be paid to the United States Government pursuant to the Fiscal Agent Agreement or in Authorized Investments of the type described in clause (4) of the definition thereof.

(e) In the absence of written investment directions from the District, the Fiscal Agent shall invest solely in Authorized Investments specified in clause (4) of the definition thereof.

The Fiscal Agent shall sell or present for redemption, any Authorized Investment whenever it may be necessary to do so in order to provide moneys to meet any payment or transfer to such Funds and Accounts or from such Funds and Accounts. For the purpose of determining at any given time the balance in any such Funds and Accounts, any such investments constituting a part of such Funds and Accounts shall be valued at their cost, except that amounts in the Reserve Account shall be valued at the fair market value thereof and marked to market at least annually. In making any valuations of investments hereunder, the Fiscal Agent may utilize computerized securities pricing services that may be available to it, including those available through its regular accounting system, and rely thereon. Notwithstanding anything in the Fiscal Agent Agreement to the contrary, the Fiscal Agent shall not be responsible for any loss from investments, sales or transfers undertaken in accordance with the provisions of the Fiscal Agent Agreement. The Fiscal Agent may act as principal, agent, sponsor or manager in connection with the acquisition of any Authorized Investments. Any Authorized Investments that are registrable securities shall be registered in the name of the Fiscal Agent.

COVENANTS AND WARRANTY

Warranty.

The District shall preserve and protect the security pledged under the Fiscal Agent Agreement to the Bonds and any Parity Bonds against all claims and demands of all persons.

Covenants.

So long as any of the Bonds or Parity Bonds issued under the Fiscal Agent Agreement are Outstanding and unpaid, the District makes the following covenants with the Bondowners under the provisions of the Act and the Fiscal Agent Agreement (to be performed by the District or its proper officers, agents or employees), which covenants are necessary and desirable to secure the Bonds and Parity Bonds and tend to make them more marketable; provided, however, that said covenants do not require the District to expend any funds or moneys other than the Special Taxes and other amounts deposited to the Special Tax Fund:

(a) Punctual Payment; Against Encumbrances. The District covenants that it will receive all Special Taxes in trust and will immediately deposit such amounts with the Fiscal Agent, and the District shall have no beneficial right or interest in the amounts so deposited except as provided by the Fiscal Agent Agreement. All such Special Taxes shall be disbursed, allocated and applied solely to the uses and purposes set forth in the Fiscal Agent Agreement, and shall be accounted for separately and apart from all other money, funds, accounts or other resources of the District.

The District covenants that it will duly and punctually pay or cause to be paid the principal of and interest on every Bond and Parity Bond issued under the Fiscal Agent Agreement, together with the premium, if any, thereon on the date, at the place and in the manner set forth in the Bonds and the Parity Bonds and in accordance with the Fiscal Agent Agreement to the extent that Net Taxes are available therefor, and that the payments into the Funds and Accounts created under the Fiscal Agent Agreement will be made, all in strict conformity with the terms of the Bonds, any Parity Bonds, and the Fiscal Agent Agreement, and that it will faithfully observe and perform all of the conditions, covenants and requirements of the Fiscal Agent Agreement and all Supplemental Fiscal Agent Agreements and of the Bonds and any Parity Bonds issued under the Fiscal Agent Agreement.

The District will not mortgage or otherwise encumber, pledge or place any charge upon any of the Net Taxes except as provided in the Fiscal Agent Agreement, and will not issue any obligation or security having a lien or charge upon the Net Taxes superior to or on a parity with the Bonds, other than Parity Bonds. Nothing in the Fiscal Agent Agreement shall prevent the District from issuing or incurring indebtedness which is payable from a pledge of Net Taxes which is subordinate in all respects to the pledge of Net Taxes to repay the Bonds and the Parity Bonds.

(b) Levy of Special Tax. So long as any Bonds or Parity Bonds issued under the Fiscal Agent Agreement are Outstanding, the legislative body of the District covenants to levy the Special Tax in an amount sufficient, together with other amounts on deposit in the Special Tax Fund and available for such purpose, to pay (1) the principal of and interest on the Bonds and any Parity Bonds when due, (2) the Administrative Expenses (including Sinking Fund payments), and (3) any amounts required to replenish the Reserve Account of the Special Tax Fund as required by the Fiscal Agent Agreement.

(c) Commence Foreclosure Proceedings. The District covenants for the benefit of the Owners of the Bonds and any Parity Bonds that it (i) will commence judicial foreclosure proceedings against all parcels owned by a property owner that is delinquent in the payment of Special Taxes by the October 1 following the close of each Fiscal Year in which such

Special Taxes were due and (ii) will diligently pursue such foreclosure proceedings until the delinquent Special Taxes are paid; provided that, notwithstanding the foregoing, the District may elect to defer foreclosure proceedings on any parcel of Developed Commercial Parcel which is owned by a delinquent property owner whose property is not, in the aggregate, delinquent in the payment of Special Taxes for a period of two years or more or in an amount in excess of \$5,000 so long as (1) the amount in the Reserve Account of the Special Tax Fund is at least equal to the Reserve Requirement, and (2) with respect to the Bonds, or any Parity Bonds, the District is not in default in the payment of the principal of or interest on the Bonds or any such Parity Bonds. The District may, but shall not be obligated to, advance funds from any source of legally available funds in order to maintain the Reserve Account of the Special Tax Fund at the Reserve Requirement or to avoid a default in payment on the Bonds and any Parity Bonds.

The District covenants that it will deposit the proceeds of any foreclosure which constitute Net Taxes in the Special Tax Fund.

(d) Payment of Claims. The District will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the Net Taxes or other funds in the Special Tax Fund (other than the Administrative Expense Account therein), or which might impair the security of the Bonds or any Parity Bonds then Outstanding; provided that nothing in the Fiscal Agent Agreement contained shall require the District to make any such payments so long as the District in good faith shall contest the validity of any such claims.

(e) Books and Accounts. The District will keep proper books of records and accounts, separate from all other records and accounts of the District, in which complete and correct entries shall be made of all transactions relating to the levy of the Special Tax and the deposits to the Special Tax Fund. Such books of records and accounts shall at all times during business hours be subject to the inspection of the Fiscal Agent or of the Owners of not less than 10% of the principal amount of the Bonds or the Owners of not less than 10% of any issue of Parity Bonds then Outstanding or their representatives authorized in writing.

(f) Federal Tax Covenants. Notwithstanding any other provision of the Fiscal Agent Agreement, absent an opinion of Bond Counsel that the exclusion from gross income of interest on any Parity Bonds issued on a tax-exempt basis for federal income tax purposes and the Bonds will not be adversely affected for federal income tax purposes, the District covenants to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income.

(g) Reduction of Maximum Special Taxes. The District finds and determines that, historically, delinquencies in the payment of special taxes authorized pursuant to the Act in community facilities districts in California have from time to time been at levels requiring the levy of special taxes at the maximum authorized rates in order to make timely payment of principal of and interest on the outstanding indebtedness of such community facilities districts. For this reason, the District determines that a reduction in the maximum Special Tax rates authorized to be levied on parcels in the District below the levels provided in the Fiscal Agent Agreement would interfere with the timely retirement of the District Bonds. The District determines it to be necessary in order to preserve the security for the District Bonds to covenant, and, to the maximum extent that the law permits it to do so, the District

does covenant, that it will take no action that would discontinue or cause the discontinuance of the Special Tax levy or the District's authority to levy the Special Tax, including the initiation of proceedings to reduce the maximum Special Tax rates for the District, unless, in connection therewith, (i) the District receives a certificate from one or more Independent Financial Consultants which, when taken together, certify that, on the basis of the parcels of land and improvements existing in the District as of the July 1 preceding the reduction, the maximum amount of the Special Tax which may be levied on then existing Developed Property (as defined in the Rate and Method of Apportionment of Special Taxes then in effect in the District) in each Bond Year for any Bonds and Parity Bonds Outstanding will equal at least 115% of the sum on the estimated Administrative Expenses and gross debt service in that Bond Year on all Bonds and Parity Bonds to remain Outstanding after the reduction is approved, and (ii) the District finds that any reduction made under such conditions will not adversely affect the interests of the Owners of the Bonds and Parity Bonds. For purposes of estimating Administrative Expenses for the foregoing calculation, the Independent Financial Consultant shall compute the Administrative Expenses for the current Fiscal Year and escalate that amount by two percent (2%) in each subsequent Fiscal Year.

(h) Covenants to Defend. The District covenants that in the event that any initiative is adopted by the qualified electors in the District which purports to reduce the maximum Special Tax below the levels specified in the Fiscal Agent Agreement or to limit the power of the District to levy the Special Taxes for the purposes set forth in the Fiscal Agent Agreement, it will commence and pursue legal action in order to preserve its ability to comply with such covenants.

(i) Continuing Disclosure. The District covenants to comply with the term of the Continuing Disclosure Certificate executed by it with respect to the Bonds.

AMENDMENTS TO FISCAL AGENT AGREEMENT

Supplemental Fiscal Agent Agreements or Orders Not Requiring Bondowner Consent.

The District and the Fiscal Agent may from time to time, and at any time, without notice to or consent of any of the Bondowners, enter into Supplemental Fiscal Agent Agreements for any of the following purposes:

(a) to cure any ambiguity, to correct or supplement any provisions in the Fiscal Agent Agreement which may be inconsistent with any other provision in the Fiscal Agent Agreement, or to make any other provision with respect to matters or questions arising under the Fiscal Agent Agreement or in any additional resolution or order, provided that such action is not materially adverse to the interests of the Bondowners;

(b) to add to the covenants and agreements of and the limitations and the restrictions upon the District contained in the Fiscal Agent Agreement, other covenants, agreements, limitations and restrictions to be observed by the District which are not contrary to or inconsistent with the Fiscal Agent Agreement as theretofore in effect or which further secure Bond or Parity Bond payments;

(c) to provide for the issuance of any Parity Bonds, and to provide the terms and conditions under which such Parity Bonds may be issued, subject to and in accordance with the provisions of the Fiscal Agent Agreement;

(d) to modify, amend or supplement the Fiscal Agent Agreement in such manner as to permit the qualification under the Trust Indenture Act of 1939, as amended, or any similar federal statute thereafter in effect, or to comply with the Code or regulations issued thereunder, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially adversely affect the interests of the Owners of the Bonds or any Parity Bonds then Outstanding; or

(e) to modify, alter or amend the Rate and Method of Apportionment of the Special Taxes in any manner so long as such changes do not reduce the maximum Special Taxes that may be levied in each year on property within the District to an amount which is less than that permitted under the Fiscal Agent Agreement; or

(f) to modify, alter, amend or supplement the Fiscal Agent Agreement in any other respect which is not materially adverse to the Bondowners.

Supplemental Fiscal Agent Agreements or Orders Requiring Bondowner Consent.

Exclusive of the Supplemental Fiscal Agent Agreements described in the Fiscal Agent Agreement, the Owners of not less than a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding shall have the right to consent to and approve the adoption by the District of such Supplemental Fiscal Agent Agreements as shall be deemed necessary or desirable by the District for the purpose of waiving, modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Fiscal Agent Agreement; provided, however, that nothing in the Fiscal Agent Agreement shall permit, or be construed as permitting, (a) an extension of the maturity date of the principal, or the payment date of interest on, any Bond or Parity Bond, (b) a reduction in the principal amount of, or redemption premium on, any Bond or Parity Bond or the rate of interest thereon, (c) a preference or priority of any Bond or Parity Bond over any other Bond or Parity Bond, or (d) a reduction in the aggregate principal amount of the Bonds and Parity Bonds the Owners of which are required to consent to such Supplemental Fiscal Agent Agreement, without the consent of the Owners of all Bonds and Parity Bonds then Outstanding.

If at any time the District shall desire to adopt a Supplemental Fiscal Agent Agreement, which pursuant to the terms of the Fiscal Agent Agreement shall require the consent of the Bondowners, the District shall so notify the Fiscal Agent and shall deliver to the Fiscal Agent a copy of the proposed Supplemental Fiscal Agent Agreement. The Fiscal Agent shall, at the expense of the District, cause notice of the proposed Supplemental Fiscal Agent Agreement to be mailed, by first class mail, postage prepaid, to all Bondowners at their addresses as they appear in the Bond Register. Such notice shall briefly set forth the nature of the proposed Supplemental Fiscal Agent Agreement and shall state that a copy thereof is on file at the office of the Fiscal Agent for inspection by all Bondowners. The failure of any Bondowners to receive such notice shall not affect the validity of such Supplemental Fiscal Agent Agreement when consented to and approved by the Owners of not less than a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding as required by the Fiscal Agent Agreement. Whenever at any time within one year after the date of the first mailing of such notice, the Fiscal Agent shall receive an instrument or instruments purporting to

be executed by the Owners of a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding, which instrument or instruments shall refer to the proposed Supplemental Fiscal Agent Agreement described in such notice, and shall specifically consent to and approve the adoption thereof by the District substantially in the form of the copy referred to in such notice as on file with the Fiscal Agent, such proposed Supplemental Fiscal Agent Agreement, when duly adopted by the District, shall thereafter become a part of the proceedings for the issuance of the Bonds and any Parity Bonds. In determining whether the Owners of a majority of the aggregate principal amount of the Bonds and Parity Bonds have consented to the adoption of any Supplemental Fiscal Agent Agreement, Bonds or Parity Bonds which are owned by the District or by any person directly or indirectly controlling or controlled by or under the direct or indirect common control with the District shall be disregarded and shall be treated as though they were not Outstanding for the purpose of any such determination.

Upon the adoption of any Supplemental Fiscal Agent Agreement and the receipt of consent to any such Supplemental Fiscal Agent Agreement from the Owners of not less than a majority in aggregate principal amount of the Outstanding Bonds and Parity Bonds in instances where such consent is required pursuant to the provisions of the Fiscal Agent Agreement, the Fiscal Agent Agreement shall be, and 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 District and all Owners of Outstanding Bonds and Parity Bonds shall thereafter be determined, exercised and enforced under the Fiscal Agent Agreement, subject in all respects to such modifications and amendments.

Notation of Bonds or Parity Bonds; Delivery of Amended Bonds or Parity Bonds.

After the effective date of any action taken as provided in the Fiscal Agent Agreement, the District may determine that the Bonds or any Parity Bonds may bear a notation, by endorsement in form approved by the District, as to such action, and in that case upon demand of the Owner of any Outstanding Bond or Parity Bond at such effective date and presentation of his Bond or Parity Bond for the purpose at the office of the Fiscal Agent or at such additional offices as the Fiscal Agent may select and designate for that purpose, a suitable notation as to such action shall be made on such Bonds or Parity Bonds. If the District shall so determine, new Bonds or Parity Bonds so modified as, in the opinion of the District, shall be necessary to conform to such action shall be prepared and executed, and in that case upon demand of the Owner of any Outstanding Bond or Parity Bond at such effective date such new Bonds or Parity Bonds shall be exchanged at the office of the Fiscal Agent or at such additional offices as the Fiscal Agent may select and designate for that purpose, without cost to each Owner of Outstanding Bonds or Parity Bonds, upon surrender of such Outstanding Bonds or Parity Bonds.

FISCAL AGENT

Fiscal Agent.

BNY Western Trust Company shall be the Fiscal Agent for the Bonds and any Parity Bonds, except as provided pursuant to the Fiscal Agent Agreement, for the purpose of receiving all money which the District is required to deposit with the Fiscal Agent under the Fiscal Agent Agreement and to allocate, use and apply the same as provided in the Fiscal Agent Agreement.

The Fiscal Agent is authorized to and shall mail by first class mail, postage prepaid, or wire transfer in accordance with the Fiscal Agent Agreement, interest payments to the Bondowners, to select Bonds and Parity Bonds for redemption, and to maintain the Bond Register. The Fiscal Agent is authorized to pay the principal of and premium, if any, on the Bonds and Parity Bonds when the same are duly presented to it for payment at maturity or on call and redemption, to provide for the registration of transfer and exchange of Bonds and Parity Bonds presented to it for such purposes, to provide for the cancellation of Bonds and Parity Bonds all as provided in the Fiscal Agent Agreement, and to provide for the authentication of Bonds and Parity Bonds, and shall perform all other duties assigned to or imposed on it as provided in the Fiscal Agent Agreement; provided, however, that no duties of the Fiscal Agent shall be implied under the Fiscal Agent Agreement. The Fiscal Agent shall keep accurate records of all funds administered by it and all Bonds and Parity Bonds paid, discharged and cancelled by it.

The Fiscal Agent is authorized to redeem the Bonds and Parity Bonds when duly presented for payment at maturity, or on redemption prior to maturity. The Fiscal Agent shall cancel all Bonds and Parity Bonds upon payment thereof in accordance with the provisions of the Fiscal Agent Agreement.

The District shall from time to time, subject to any agreement between the District and the Fiscal Agent then in force, pay to the Fiscal Agent compensation for its services, reimburse the Fiscal Agent for all its advances and expenditures, including, but not limited to, advances to and fees and expenses of independent accountants or counsel employed by it in the exercise and performance of its powers and duties under the Fiscal Agent Agreement, and indemnify, defend (using counsel reasonably satisfactory to the Fiscal Agent) and save the Fiscal Agent and its officers, directors and employees harmless against expenses and liabilities not arising from its own negligence or willful misconduct which it may incur in the exercise and performance of its powers and duties under the Fiscal Agent Agreement. The foregoing obligation of the District to indemnify the Fiscal Agent shall survive the removal, resignation or reorganization of the Fiscal Agent or the discharge of the Bonds.

Removal of Fiscal Agent.

The District may at any time at its sole discretion remove the Fiscal Agent initially appointed, and any successor thereto, by delivering to the Fiscal Agent a written notice of its decision to remove the Fiscal Agent and may appoint a successor or successors thereto; provided that any such successor, other than the Fiscal Agent, shall be a bank or trust company having a combined capital (exclusive of borrowed capital) and surplus of at least \$50,000,000, and subject to supervision or examination by federal or state authority. Any removal shall become effective only upon acceptance of appointment by the successor Fiscal Agent. If any bank or trust company appointed as a successor publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of this section the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. Any removal of the Fiscal Agent and appointment of a successor Fiscal Agent shall become effective only upon acceptance of appointment by the successor Fiscal Agent and notice being sent by the successor Fiscal Agent to the Bondowners of the successor Fiscal Agent's identity and address.

Resignation of Fiscal Agent.

The Fiscal Agent may at any time resign by giving written notice to the District and by giving to the Owners notice of such resignation, which notice shall be mailed to the Owners at their addresses appearing in the registration books in the office of the Fiscal Agent. Upon receiving such notice of resignation, the District shall promptly appoint a successor Fiscal Agent satisfying the criteria in the Fiscal Agent Agreement by an instrument in writing. Any resignation or removal of the Fiscal Agent and appointment of a successor Fiscal Agent shall become effective only upon acceptance of appointment by the successor Fiscal Agent.

Liability of Fiscal Agent.

The recitals of fact and all promises, covenants and agreements contained in the Fiscal Agent Agreement and in the Bonds and any Parity Bonds shall be taken as statements, promises, covenants and agreements of the District, and the Fiscal Agent assumes no responsibility for the correctness of the same and makes no representations as to the validity or sufficiency of the Fiscal Agent Agreement, the Bonds or any Parity Bonds, and shall incur no responsibility in respect thereof, other than in connection with its duties or obligations specifically set forth in the Fiscal Agent Agreement, in the Bonds and any Parity Bonds, or in the certificate of authentication assigned to or imposed upon the Fiscal Agent. The Fiscal Agent shall be under no responsibility or duty with respect to the issuance of the Bonds or any Parity Bonds for value. The Fiscal Agent shall not be liable in connection with the performance of its duties under the Fiscal Agent Agreement, except for its own negligence or willful misconduct.

The Fiscal Agent shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, requisition, direction, Bond, Parity Bond, certificate of an independent Financial Consultant or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Fiscal Agent may consult with counsel, who may be counsel to the District, 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 under the Fiscal Agent Agreement in good faith and in accordance therewith.

The Fiscal Agent shall not be bound to recognize any person as the Owner of a Bond or Parity Bond unless and until such Bond or Parity Bond is submitted for inspection, if required, and his title thereto satisfactorily established, if disputed.

Whenever in the administration of its duties under the Fiscal Agent Agreement, the Fiscal Agent shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Fiscal Agent Agreement, such matter (unless other evidence in respect thereof be specifically prescribed in the Fiscal Agent Agreement) may, in the absence of negligence or bad faith on the part of the Fiscal Agent, be deemed to be conclusively proved and established by a written certificate of the District, and such certificate shall be full warrant to the Fiscal Agent for any action taken or suffered under the provisions of the Fiscal Agent Agreement upon the faith thereof, but in its discretion the Fiscal Agent may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

The Fiscal Agent shall have no duty or obligation whatsoever to enforce the collection of Special Taxes or other funds to be deposited with it under the Fiscal Agent Agreement, or as to the correctness of any amounts received, but its liability shall be limited to the proper accounting for

such funds as it shall actually receive. No provision in the Fiscal Agent Agreement shall require the Fiscal Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Fiscal Agent Agreement, or in the exercise of its rights or powers.

Merger or Consolidation.

Any company into which the Fiscal Agent may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Fiscal Agent may sell or transfer all or substantially all of its corporate trust business, shall be the successor to the Fiscal Agent without the execution or filing of any paper or further act, anything in the Fiscal Agent Agreement to the contrary notwithstanding.

EVENTS OF DEFAULT; REMEDIES

Events of Default.

Any one or more of the following events shall constitute an “event of default”:

(a) Default in the due and punctual payment of the principal of or redemption premium, if any, on any Bond or Parity Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by declaration or otherwise;

(b) Default in the due and punctual payment of the interest on any Bond or Parity Bond, when and as the same shall become due and payable; or

(c) Except as described in (a) or (b), default shall be made by the District in the observance of any of the agreements, conditions or covenants on its part contained in the Fiscal Agent Agreement, the Bonds or any Parity Bonds, and such default shall have continued for a period of 30 days after the District shall have been given notice in writing of such default by the Fiscal Agent or the Owners of 25% in aggregate principal amount of the Outstanding Bonds and Parity Bonds.

The District agrees to give written notice to a Responsible Officer of the Fiscal Agent immediately upon the occurrence of an event of default under (a) or (b) above and within 30 days of the District’s knowledge of an event of default under (c) above.

Remedies of Owners.

Following the occurrence of an event of default, any Owner shall have the right for the equal benefit and protection of all Owners similarly situated:

(a) By mandamus or other suit or proceeding at law or in equity to enforce his rights against the District and any of the members, officers and employees of the District, and to compel the District or any such members, officers or employees to perform and carry out their duties under the Act and their agreements with the Owners as provided in the Fiscal Agent Agreement;

(b) By suit in equity to enjoin any actions or things which are unlawful or violate the rights of the Owners; or

(c) By a suit in equity to require the District and its members, officers and employees to account as the trustee of an express trust.

Nothing in the Fiscal Agent Agreement, the Bonds or any Parity Bonds shall affect or impair the obligation of the District, which is absolute and unconditional, to pay the interest on and principal of the Bonds and any Parity Bonds to the respective Owners thereof at the respective dates of maturity, as provided in the Fiscal Agent Agreement, out of the Net Taxes and other amounts pledged for such payment, or affect or impair the right of action, which is also absolute and unconditional, of such Owners to institute suit to enforce such payment by virtue of the contract embodied in the Bonds or any Parity Bonds and in the Fiscal Agent Agreement.

A waiver of any default or breach of duty or contract by any Owner shall not affect any subsequent default or breach of duty or contract, or impair any rights or remedies on any such subsequent default or breach. No delay or omission by any Owner to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein, and every power and remedy conferred upon the Owners by the Act or by the Fiscal Agent Agreement may be enforced and exercised from time to time and as often as shall be deemed expedient by the Owners.

If any suit, action or proceeding to enforce any right or exercise any remedy is abandoned or determined adversely to the Owners, the District and the Owners shall be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

No remedy in the Fiscal Agent Agreement conferred upon or reserved to the Owners is intended to be exclusive of any other remedy. Every such remedy shall be cumulative and shall be in addition to every other remedy given under the Fiscal Agent Agreement or now or thereafter existing, at law or in equity or by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law.

In case the moneys held by the Fiscal Agent after an event of default pursuant to the Fiscal Agent Agreement shall be insufficient to pay in full the whole amount so owing and unpaid upon the Outstanding Bonds and Parity Bonds, then all available amounts shall be applied to the payment of such principal and interest without preference or priority of principal over interest, or interest over principal, or of any installment of interest over any other installment of interest, ratably to the aggregate of such principal and interest.

DEFEASANCE

Defeasance.

If the District shall pay or cause to be paid, or there shall otherwise be paid, to the Owner of an Outstanding Bond or Parity Bond the interest due thereon and the principal thereof, at the times and in the manner stipulated in the Fiscal Agent Agreement or any Supplemental Fiscal Agent Agreement, then the Owner of such Bond or Parity Bond shall cease to be entitled to the pledge of Net Taxes, and, other than as set forth below, all covenants, agreements and other obligations of the District to the Owner of such Bond or Parity Bond under the Fiscal Agent Agreement and any

Supplemental Fiscal Agent Agreement relating to such Parity Bond shall thereupon cease, terminate and become void and be discharged and satisfied. In the event of a defeasance of all Outstanding Bonds and Parity Bonds pursuant to the Fiscal Agent Agreement, the Fiscal Agent shall execute and deliver to the District all such instruments as may be desirable to evidence such discharge and satisfaction, and the Fiscal Agent shall pay over or deliver to the District's general fund all money or securities held by it pursuant to the Fiscal Agent Agreement which are not required for the payment of the principal of, premium, if any, and interest due on such Bonds and Parity Bonds.

Any Outstanding Bond or Parity Bond shall be deemed to have been paid within the meaning expressed in the Fiscal Agent Agreement if such Bond or Parity Bond is paid in any one or more of the following ways:

(a) by paying or causing to be paid the principal of, premium, if any, and interest on such Bond or Parity Bond, as and when the same become due and payable;

(b) by depositing with the Fiscal Agent, in trust, at or before maturity, money which, together with the amounts then on deposit in the Special Tax Fund (exclusive of the Administrative Expense Account) and available for such purpose, is fully sufficient to pay the principal of, premium, if any, and interest on such Bond or Parity Bond, as and when the same shall become due and payable; or

(c) by depositing with the Fiscal Agent or another escrow bank appointed by the District, in trust, noncallable Federal Securities, in which the District may lawfully invest its money, in such amount as will be sufficient, together with the interest to accrue thereon and moneys then on deposit in the Special Tax Fund (exclusive of the Administrative Expense Account) and available for such purpose, together with the interest to accrue thereon, to pay and discharge the principal of, premium, if any, and interest on such Bond or Parity Bond, as and when the same shall become due and payable;

then, at the election of the District, and notwithstanding that any Outstanding Bonds and Parity Bonds shall not have been surrendered for payment, all obligations of the District under the Fiscal Agent Agreement and any Supplemental Fiscal Agent Agreement with respect to such Bond or Parity Bond shall cease and terminate, except for the obligation of the Fiscal Agent to pay or cause to be paid to the Owners of any such Bond or Parity Bond not so surrendered and paid, all sums due thereon and except for the covenants of the District contained in the Fiscal Agent Agreement or any covenants in a Supplemental Fiscal Agent Agreement relating to compliance with the Code. Notice of such election shall be filed with the Fiscal Agent not less than ten days prior to the proposed defeasance date, or such shorter period of time as may be acceptable to the Fiscal Agent. In connection with a defeasance under (b) or (c) above, there shall be provided to the District a verification report from an independent nationally recognized certified public accountant stating its opinion as to the sufficiency of the moneys or securities deposited with the Fiscal Agent or the escrow bank to pay and discharge the principal of, premium, if any, and interest on all Outstanding Bonds and Parity Bonds to be defeased in accordance with the Fiscal Agent Agreement, as and when the same shall become due and payable, and an opinion of Bond Counsel (which may rely upon the opinion of the certified public accountant), to the effect that the Bonds or Parity Bonds being defeased have been legally defeased in accordance with the Fiscal Agent Agreement and any applicable Supplemental Fiscal Agent Agreement. If a forward supply contract is employed in connection with an advance refunding to be effected under (c) above, (i) such verification report shall expressly state that the adequacy of the amounts deposited with the bank under (c) above to

accomplish the refunding relies solely on the initial escrowed investments and the maturity principal thereof and interest income thereon and does not assume performance under or compliance with the forward supply contract, and (ii) the applicable escrow agreement executed to effect an advance refunding in accordance with (c) above shall provide that, in the event of any discrepancy or difference between the terms of the forward supply contract and the escrow agreement, the terms of the escrow agreement shall be controlling.

Upon a defeasance, the Fiscal Agent, upon request of the District, shall release the rights of the Owners of such Bonds and Parity Bonds which have been defeased under the Fiscal Agent Agreement and any Supplemental Fiscal Agent Agreement and execute and deliver to the District all such instruments as may be desirable to evidence such release, discharge and satisfaction. In the case of a defeasance under the Fiscal Agent Agreement of all Outstanding Bonds and Parity Bonds, the Fiscal Agent shall pay over or deliver to the District any funds held by the Fiscal Agent at the time of a defeasance, which are not required for the purpose of paying and discharging the principal of or interest on the Bonds and Parity Bonds when due. The Fiscal Agent shall, at the written direction of the District, mail, first class, postage prepaid, a notice to the Bondowners whose Bonds or Parity Bonds have been defeased, in the form directed by the District, stating that the defeasance has occurred.

MISCELLANEOUS

Cancellation of Bonds and Parity Bonds.

All Bonds and Parity Bonds surrendered to the Fiscal Agent for payment upon maturity or for redemption shall be upon payment therefor, and any Bond or Parity Bond purchased by the District as authorized in the Fiscal Agent Agreement and delivered to the Fiscal Agent for such purpose shall be, cancelled forthwith and shall not be reissued. The Fiscal Agent shall destroy such Bonds and Parity Bonds, as provided by law, and, upon request of the District, furnish to the District a certificate of such destruction.

Execution of Documents and Proof of Ownership.

Any request, direction, consent, revocation of consent, or other instrument in writing required or permitted by the Fiscal Agent Agreement to be signed or executed by Bondowners may be in any number of concurrent instruments of similar tenor may be signed or executed by such Owners in person or by their attorneys appointed by an instrument in writing for that purpose, or by the bank, trust company or other depository for such Bonds. Proof of the execution of any such instrument, or of any instrument appointing any such attorney, and of the ownership of Bonds or Parity Bonds shall be sufficient for the purposes of the Fiscal Agent Agreement (except as otherwise provided in the Fiscal Agent Agreement), if made in the following manner:

- (a) The fact and date of the execution by any Owner or his or her attorney of any such instrument and of any instrument appointing any such attorney, may be proved by a signature guarantee of any bank or trust company located within the United States of America. Where any such instrument is executed by an officer of a corporation or association or a member of a partnership on behalf of such corporation, association or partnership, such signature guarantee shall also constitute sufficient proof of his authority.

(b) As to any Bond or Parity Bond, the person in whose name the same shall be registered in the Bond Register shall be deemed and regarded as the absolute owner thereof for all purposes, and payment of or on account of the principal of any such Bond or Parity Bond, and the interest thereon, shall be made only to or upon the order of the registered Owner thereof or his or her legal representative. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond or Parity Bond and the interest thereon to the extent of the sum or sums to be paid. Neither the District nor the Fiscal Agent shall be affected by any notice to the contrary.

Nothing contained in the Fiscal Agent Agreement shall be construed as limiting the Fiscal Agent or the District to such proof, it being intended that the Fiscal Agent or the District may accept any other evidence of the matters stated in the Fiscal Agent Agreement which the Fiscal Agent or the District may deem sufficient. Any request or consent of the Owner of any Bond or Parity Bond shall bind every future Owner of the same Bond or Parity Bond in respect of anything done or suffered to be done by the Fiscal Agent or the District in pursuance of such request or consent.

Unclaimed Moneys.

Anything in the Fiscal Agent Agreement to the contrary notwithstanding, any money held by the Fiscal Agent in trust for the payment and discharge of any of the Outstanding Bonds and Parity Bonds which remain unclaimed for a period ending at the earlier of two Business Days prior to the date such funds would escheat to the State or two years after the date when such Outstanding Bonds or Parity Bonds have become due and payable, if such money was held by the Fiscal Agent at such date, or for a period ending at the earlier of two Business Days prior to the date such funds would escheat to the State or two years after the date of deposit of such money if deposited with the Fiscal Agent after the date when such Outstanding Bonds or Parity Bonds become due and payable, shall be repaid by the Fiscal Agent to the District, as its absolute property and free from trust, and the Fiscal Agent shall thereupon be released and discharged with respect thereto and the Owners shall look only to the District for the payment of such Outstanding Bonds or Parity Bonds; provided, however, that, before being required to make any such payment to the District, the Fiscal Agent at the written request of the District or the Fiscal Agent shall, at the expense of the District, cause to be mailed by first-class mail, postage prepaid, to the registered Owners of such Outstanding Bonds or Parity Bonds at their addresses as they appear on the registration books of the Fiscal Agent a notice that said money remains unclaimed and that, after a date named in said notice, which date shall not be less than 30 days after the date of the mailing of such notice, the balance of such money then unclaimed will be returned to the District.

Provisions Constitute Contract.

The provisions of the Fiscal Agent Agreement shall constitute a contract between the District and the Bondowners and the provisions of the Fiscal Agent Agreement shall be construed in accordance with the laws of the State of California.

In case any suit, action or proceeding to enforce any right or exercise any remedy shall be brought or taken and, should said suit, action or proceeding be abandoned, or be determined adversely to the Bondowners or the Fiscal Agent, then the District, the Fiscal Agent and the Bondowners shall be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

After the issuance and delivery of the Bonds the Fiscal Agent Agreement shall be irrevocable, but shall be subject to modifications to the extent and in the manner provided in the Fiscal Agent Agreement, but to no greater extent and in no other manner.

Future Contracts.

Nothing contained in the Fiscal Agent Agreement shall be deemed to restrict or prohibit the District from making contracts or creating bonded or other indebtedness payable from a pledge of the Gross Taxes which is subordinate to the pledge under the Fiscal Agent Agreement, or which is payable from the general fund of the District or from taxes or any source other than the Gross Taxes and other amounts pledged under the Fiscal Agent Agreement.

Further Assurances.

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

Severability.

If any covenant, agreement or provision, or any portion thereof, contained in the Fiscal Agent Agreement, or the application thereof to any person or circumstance, is held to be unconstitutional, invalid or unenforceable, the remainder of the Fiscal Agent Agreement and the application of any such covenant, agreement or provision, or portion thereof, to other persons or circumstances, shall be deemed severable and shall not be affected thereby, and the Fiscal Agent Agreement, the Bonds and any Parity Bonds issued pursuant to the Fiscal Agent Agreement shall remain valid and the Bondholders shall retain all valid rights and benefits accorded to them under the laws of the State of California.

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

REDWOOD SHORES COMMUNITY FACILITIES DISTRICT NO. 99-1 (SHORES TRANSPORTATION IMPROVEMENT PROJECT) OF THE CITY OF REDWOOD CITY SPECIAL TAX BONDS, SERIES 2003B

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Redwood Shores Community Facilities District No. 99-1 (Shores Transportation Improvement Project) of the City of Redwood City (the "District"), in connection with the issuance of \$7,505,000 Redwood Shores Community Facilities District No. 99-1 (Shores Transportation Improvement Project) of the City of Redwood City Special Tax Bonds, Series 2003B (the "Bonds"). The Bonds are being issued pursuant to a Fiscal Agent Agreement, dated as of February 1, 2001 and First Supplemental Fiscal Agent Agreement dated as of August 1, 2003 (collectively, the "Fiscal Agent Agreement"), by and between the City of Redwood City (the "City") and BNY Western Trust Company, as fiscal agent (the "Fiscal Agent"). The City, acting on behalf of the District hereby covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City, acting on behalf of the District for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

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 Certificate 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 City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"*Dissemination Agent*" shall mean the City, or any successor Dissemination Agent designated in writing by the City.

"*Listed Events*" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"*National Repository*" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. Information on the National Repositories as of a particular date is available on the Internet at www.sec.gov/consumer/nrmsir.htm.

"*Participating Underwriter*" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"*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 Certificate, there is no State Repository.

Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than 270 days after the end of the City's fiscal year (i.e., April 1), commencing April 1, 2004 with the report for the 2002-03 Fiscal Year, provide to each Repository and the Participating Underwriter an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than fifteen (15) Business Days prior to said date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). 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 Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date. If the City's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) If the City is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the City shall send a notice to the Municipal Securities Rulemaking Board and the appropriate State Repository, if any, in substantially the form attached as Exhibit A.

(c) 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) if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

Section 4. Content of Annual Reports. The City's Annual Report shall contain or incorporate by reference the City's audited financial statements (prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board) as well as the following information:

(a) Assessed value information (per the San Mateo County Assessor's last equalized tax roll prior to the September next preceding the Annual Report Date) with respect to each parcel, on a parcel by parcel basis, currently subject to the Special Tax within the District, showing the assessed valuation of the real property component of the parcel and the assessed valuation of the improvements on the parcel;

(b) In the event there are total delinquencies within the District as of October 1 in any year, delinquency information, including a list of all parcels delinquent in the payment of the Special Tax, amounts of delinquencies, length of delinquency and status of any foreclosure proceedings for each parcel listed;

(c) The amount of prepayments of the Special Tax with respect to the District for the prior Fiscal Year;

(d) A parcel-by-parcel breakdown of the Special Tax levy as shown on the San Mateo County Assessor's last equalized tax roll prior to the September next preceding the Annual Report Date;

(e) The principal amount of Bonds Outstanding and the balance in the Reserve Fund as of the September 30 next preceding the Annual Report Date;

(f) A copy of the annual information required to be filed by the City on behalf of the District with the California Debt and Investment Advisory Commission (the "CDIAC Report"); and

(g) In addition to any of the information expressly required to be provided under paragraphs (a) through (e) of this Section, the City shall 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.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City 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 City 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 City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (1) Principal and interest payment delinquencies.
- (2) Non-payment related defaults.
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (5) Substitution of credit or liquidity providers, or their failure to perform.
- (6) Adverse tax opinions or events affecting the tax-exempt status of the security.
- (7) Modifications to rights of security holders.
- (8) Contingent or unscheduled Bond calls.
- (9) Defeasances.
- (10) Release, substitution, or sale of property securing repayment of the securities.
- (11) Rating changes.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall as soon as possible determine if such event would be material under applicable Federal securities law.

(c) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the City shall promptly file a notice of such

occurrence with the Municipal Securities Rulemaking Board and each State Repository with a copy to the Fiscal Agent and the Participating Underwriter. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds pursuant to the Fiscal Agent Agreement.

Section 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate 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 City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent will be MuniFinancial.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate 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(a), 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 type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized Bond Counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Fiscal Agent Agreement for amendments to the Fiscal Agent Agreement with the consent of holders, or (ii) does not, in the opinion of the Fiscal Agent or nationally recognized Bond Counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information 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. The comparison shall include a 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, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the Repositories in the same manner as for a Listed Event under Section 5(c).

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate 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 Certificate. If the City 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 Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate the Fiscal Agent may (and, at the request of any Participating Underwriter or the holders of at least 25% aggregate principal amount of Outstanding Bonds, shall), or any holder 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 City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Fiscal Agent Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate 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 Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its 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 misconduct. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Fiscal Agent, the Dissemination Agent, the Participating Underwriters and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: _____, 2003

CITY OF REDWOOD CITY

By: _____

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Redwood City,
for and on behalf of the Redwood Shores Community Facilities District
No. 99-1 (Shores Transportation Improvement Project) of the City of
Redwood City

Name of Bond Issue: Redwood Shores Community Facilities District No. 99-1 (Shores
Transportation Improvement Project) of the City of Redwood City
Special Tax Bonds, Series 2003B

Date of Issuance: September 3, 2003

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Bonds as required by Section 5.03 of the Fiscal Agent Agreement dated as of February 1, 2001 between the City and BNY Western Trust Company. The City anticipates that the Annual Report will be filed by_____.

Dated:_____

CITY OF REDWOOD CITY, for and on
behalf of the REDWOOD SHORES
COMMUNITY FACILITIES DISTRICT NO.
99-1 (SHORES TRANSPORTATION
IMPROVEMENT PROJECT) OF THE CITY
OF REDWOOD CITY

By: _____

APPENDIX E

STRADLING YOCCA CARLSON & RAUTH

A PROFESSIONAL CORPORATION

ATTORNEYS AT LAW

44 MONTGOMERY STREET, SUITE 4200

SAN FRANCISCO, CA 94104

TELEPHONE (415) 283-2240

FACSIMILE (415) 283-2255

SANTA BARBARA OFFICE
302 OLIVE STREET
SANTA BARBARA, CALIFORNIA 93101
TELEPHONE (805) 584-0085
FACSIMILE (805) 584-1044

NEWPORT BEACH OFFICE
660 NEWPORT CENTER DRIVE, SUITE 1600
NEWPORT BEACH, CALIFORNIA 92660
TELEPHONE (949) 725-4000
FACSIMILE (949) 725-4100

August __, 2003

City Council
City of Redwood City
Redwood City, California

Re: \$7,505,000 *Redwood Shores Community Facilities District No. 99-1*
(*Shores Transportation Improvement Project*) of the City of Redwood City
Special Tax Bonds, Series 2003B

Members of the City Council:

We have examined the Constitution and the laws of the State of California, a certified record of the proceedings of the City of Redwood City (the "City") taken in connection with the formation of the Redwood Shores Community Facilities District No. 99-1 (Shores Transportation Improvement Project) of the City of Redwood City (the "District") and the authorization and issuance of the District's Special Tax Bonds Series 2003B in the aggregate principal amount of \$7,505,000 (the "Series B Bonds") and such other information and documents as we consider necessary to render this opinion. In rendering this opinion, we have relied upon certain representations of fact and certifications made by the City, the District, the initial purchasers of the Series B Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The Series B Bonds have been issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (comprising Chapter 2.5 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California), a Resolution authorizing issuance of the Series B Bonds, adopted by the City Council of the City of Redwood City, acting in its capacity as the legislative body of the District (the "City Council") on July 28, 2003 and that certain Fiscal Agent Agreement dated as of February 1, 2001 between the District and BNY Western Trust Company, as fiscal agent, as supplemented by the First Supplemental Fiscal Agent Agreement, dated as of August 1, 2003 between the District and the Fiscal Agent, together, the Fiscal Agent Agreement. All capitalized terms not defined herein shall have the meaning set forth in the Fiscal Agent Agreement.

The Fiscal Agent Agreement provides for the Series B Bonds to be issued and to be payable from Net Taxes. The Series B Bonds are dated their date of original issuance and mature on the dates and in the amounts set forth in the Fiscal Agent Agreement. The Series B Bonds bear interest

payable semiannually on each March 1 and September 1, commencing on March 1, 2004, at the rates per annum set forth in the Fiscal Agent Agreement. The Series B Bonds are registered Series B Bonds in the form set forth in the Fiscal Agent Agreement, redeemable in the amounts, at the times and in the manner provided for in the Fiscal Agent Agreement.

Based upon our examination of the foregoing, and in reliance thereon and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

(1) The Series B Bonds have been duly and validly authorized by the District and are legal, valid and binding limited obligations of the District, enforceable in accordance with their terms and the terms of the Fiscal Agent Agreement, except as the same may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium or other similar laws affecting creditors' rights generally or by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases; provided, however, we express no opinion as to the enforceability of the covenant of the District contained in the Fiscal Agent Agreement to levy Special Taxes (as defined in the Fiscal Agent Agreement) for the payment of Administrative Expenses. The Series B Bonds are limited obligations of the District but are not a debt of the City, the State of California or any other political subdivision thereof within the meaning of any constitutional or statutory limitation, and, except as to the Special Taxes, neither the faith and credit nor the taxing power of the City, the State of California, or any of its political subdivisions is pledged for the payment thereof.

(2) The Fiscal Agent Agreement has been duly approved by the City Council on behalf of the District. The Fiscal Agent Agreement creates a valid pledge of, and the Series B Bonds are secured by, the Net Taxes and the amounts on deposit in certain funds and accounts established under the Fiscal Agent Agreement, as and to the extent provided in the Fiscal Agent Agreement.

(3) Under existing statutes, regulations, rulings and judicial decisions, interest on the Series B Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that, with respect to corporations, such interest will be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of corporations.

(4) Interest on the Series B Bonds is exempt from State of California personal income tax.

(5) The difference between the issue price of a Bond (the first price at which a substantial amount of the Series B Bonds of a maturity are to be sold to the public) and the stated redemption price at maturity with respect to such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bond owner will increase the Bond owner's basis in the applicable Bond. Original issue discount that accrues to the Bond owner 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 (as described in paragraph (3) above), and is exempt from State of California personal income tax.

The opinions expressed in paragraphs (3) and (5) above as to the exclusion from gross income for federal income tax purposes of interest and original issue discount on the Series B Bonds is subject to the condition that the District complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Series B Bonds to assure that such interest and original issue discount will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest and original issue discount on the Series B Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series B Bonds. The District has covenanted to comply with all such requirements. Except as set forth in paragraphs (3), (4) and (5) above, we express no opinion as to any tax consequences related to the Series B Bonds.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Series B Bonds, and purchasers of the Series B Bonds should not assume that we have reviewed the Official Statement on their behalf.

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

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

Respectfully submitted,

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