

APPENDIX A

RATE AND METHOD OF APPORTIONMENT

Special Taxes applicable to each Assessor's Parcel in Community Facilities District No. 2006-1 of the City of Dana Point (herein "CFD") shall be levied and collected according to the tax liability determined by the City Council or its designee, through the application of the appropriate amount or rate for Taxable Property, as described below. All of the property in the CFD, unless exempted by law or by the provisions of Section F below, shall be taxed for the purposes, to the extent, and in the manner herein provided.

A. DEFINITIONS

The terms hereinafter set forth have the following meanings:

"Acre" means each acre of the land area of an Assessor's Parcel as shown on an Assessor's Parcel Map, or if the land area is not shown on an Assessor's Parcel Map, the land area shown on the applicable Final Map or other parcel map recorded with the County.

"Act" means the Mello Roos Community Facilities Act of 1982, as amended, being Chapter 2.5, (commencing with Section 53311), Division 2 of Title 5 of the California Government Code.

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

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

"Association Property" means any property within the CFD that is owned by a homeowners association, excluding such property under the pad or footprint of a residential building. Association Property shall also include property, other than Public Property, designated as open space in a recorded Final Map whether or not such property has yet been dedicated to a homeowners association or private land trust.

"Authorized Facilities" means those public facilities authorized to be funded by the CFD as set forth in the formation documents of the CFD.

"Base Year" means Fiscal Year ending June 30, 2007.

"Bonds" means bonds or other debt (as defined in the Act), whether in one or more series, issued, insured or assumed by the CFD related to public infrastructure and/or improvements that are authorized to be funded by the CFD.

"Capitalized Interest" means funds in any capitalized interest account available to pay debt service on Bonds.

"CFD" means the City of Dana Point Community Facilities District No. 2006-1.

"CFD Administrator" means an official of the City, or designee thereof, responsible for determining the Special Tax Requirement and providing for the levy and collection of the Special Taxes according to this Rate and Method of Apportionment.

“City” means the City of Dana Point.

“City Council” or **“Council”** means the City Council of the City of Dana Point, acting as the legislative body of the CFD.

“County” means the County of Orange.

“Custom Lot Property” means, for each Fiscal Year, any Custom Lot (a) that has been conveyed by HR LLC to an unrelated third party prior to May 1 of the prior Fiscal Year or (b) for which a building permit for new construction was issued prior to May 1 of the prior Fiscal Year.

“Custom Lot(s)” means the property identified as lots 1 through 58 and lots 60 through 119 as shown on the Final Map, any Assessor Parcel created by a consolidation or a subdivision of any of these lots, or a custom lot shown on any amended Final Map which is subsequently approved by the City and recorded with the County.

“Developed Property” means, in any Fiscal Year, the following:

- ♦ All Custom Lot Property.
- ♦ for Non-Residential Property, all Parcels for which a building permit was issued for a non-residential structure prior to May 1 of the preceding Fiscal Year

“Exempt Property” means an Assessor's Parcel not subject to the Special Tax. Exempt Property includes: (i) Public Property, (ii) Assessor's Parcels used exclusively by a homeowners' association, or (iii) Assessor's Parcels with public or utility easements making impractical their utilization for other than the purposes set forth in the easement; provided that no such classification would reduce the sum of all Taxable Property to less than 29.768 Acres for Tax Zone #1 or 3.86 Acres for Tax Zone #2 within the CFD.

“Facilities Administrative Expenses” means any or all of the following: the costs of computing the Facilities Maximum Annual Special Tax and preparing the annual Facilities Maximum Annual Special Tax collection schedules (whether by the City or designee thereof or both) including the proportionate amount of the salaries and benefits of City employees whose duties are directly related to the administration of the CFD, the fees and expenses of any fiscal agent or trustee (including any fees or expenses of its counsel) employed in connection with any Bonds, and the expenses of the CFD carrying out its duties with respect to the CFD and the Bonds and the Facilities Maximum Annual Special Tax, including, but not limited to, levying and collecting the Facilities Maximum Annual Special Tax, the fees and expenses of legal counsel, charges levied by the County Auditor's Office, Tax Collector's Office, and/or Treasurer's Office, costs related to property owner inquiries regarding the Facilities Maximum Annual Special Tax, amounts needed to calculate and pay rebate to the federal government with respect to the Bonds, costs associated with complying with any continuing disclosure requirements for the Bonds and the Facilities Maximum Annual Special Tax, and all other costs and expenses of the CFD in any way related to the establishment or administration of the CFD.

“Facilities Maximum Annual Special Tax” means the special tax authorized to be levied by the CFD to fund the Facilities Special Tax Requirement.

“Facilities Special Tax Requirement” means the amount necessary in any Fiscal Year to: (i) pay principal and interest on Bonds which is due in the calendar year that begins in such Fiscal Year; (ii) create and/or replenish reserve funds for the Bonds; (iii) cure any

delinquencies in the payment of principal or interest on Bonds which have occurred in the prior Fiscal Year and, based on existing delinquencies in the payment of Special Taxes, are expected to occur in the Fiscal Year in which the tax will be collected; (iv) pay directly for acquisition and/or construction of public improvements which are authorized to be financed by the CFD provided that the inclusion of such amount does not cause an increase in the levy of the Facilities Maximum Annual Special Tax on Final Map Property; (v) pay for reserve funds for repair and replacement costs associated with the funicular provided that the inclusion of such amount does not cause an increase in the levy of the Facilities Maximum Annual Special Tax on Final Map Property; and (vi) pay Facilities Administrative Expenses. The amounts referred to in clauses (i), and (ii), of the preceding sentence may be reduced in any Fiscal Year, provided that any such reduction is determined based on funds which have been received by the CFD and is not based on projected receipt of funds by the CFD, by: (a) interest earnings on or surplus balances in funds and accounts for the Bonds to the extent that such earnings or balances are available to apply against debt service pursuant to a fiscal agent agreement, Bond resolution, or other legal document that sets forth these terms; (b) proceeds received by the CFD from the collection of penalties associated with delinquent Facilities Maximum Annual Special Taxes; and (c) any other revenues available to pay debt service on the Bonds as determined by the CFD Administrator.

“Final Map” means the final map for Tract No. 16331, as approved by the City of Dana Point on November 30, 2005, and recorded with the County of Orange on December 19, 2005, on Book 875, pages 22-32, as Instrument No. 2005-001011565; or any amended or new final map for the property within the CFD which is subsequently approved by the City and recorded with the County.

“Final Map Property” means, in any Fiscal Year, all Taxable Property within the last Final Map which has been approved by the City and recorded with the County, which is not classified as Developed Property.

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

“HR LLC” means the Headlands Reserve LLC, and its successors and assignees.

“HR LLC Property” means, in any Fiscal Year, Custom Lot Property or Final Map Property in the CFD that is owned by HR LLC or its successors and assignees thereof against which the Custom Lot Property Special Tax or the Final Map Property Special Tax can be assigned in accordance with Section C.

“Land Use Class” means any of the classes listed in Section C, Table 1, Table 2, Table 3 and Table 4, including Custom Lot Property, Final Map Property and Non-Residential Property.

“Maintenance Administrative Expenses” means any or all of the following: the costs of computing the Maintenance Maximum Annual Special Tax and preparing the annual Maintenance Maximum Annual Special Tax collection schedules (whether by the City or designee thereof or both) including the proportionate amount of the salaries and benefits of City employees whose duties are directly related to administration of Maintenance Services for the CFD; the fees of consultants and legal counsel; the costs of placing and collecting installments of the Maintenance Maximum Annual Special Tax on the County property tax rolls; preparation of required reports; and any other costs required to administer the District as determined by the City.

“Maintenance Services” means Landscape Maintenance, Storm Water Maintenance, and Funicular Maintenance as described below within the areas shown in Exhibit 1.

- ♦ "Funicular Maintenance" means the labor, material, administration, personnel, equipment and utilities necessary to repair, replace, operate and maintain funicular improvements within a public park or right-of-way as shown in Exhibit 1.
- ♦ "Landscape Maintenance" means the labor, material, administration, personnel, equipment and utilities necessary to repair, replace and maintain landscaping, slopes, open spaces, parks, revetments and related landscape improvements within the areas shown in Exhibit 1.
- ♦ "Revetment Maintenance" means the labor, material, administration, personnel, equipment and utilities necessary to monitor, repair, replace and maintain the revetment walkway and rip-rap stone structure within or immediately adjacent to Lot N of the Final Map.
- ♦ "Storm Water Quality Maintenance" means the labor, material, administration, personnel, equipment and utilities necessary to operate, monitor, repair, replace and maintain the storm screens, storm filters and other storm water quality improvements identified in Exhibit 1 on property owned by the County.

“Maintenance Maximum Annual Special Tax” means the special tax authorized to be levied by the CFD to fund the Maintenance Special Tax Requirement.

“Maintenance Special Tax Requirement” means that amount required in any Fiscal Year for the CFD to: (i) pay for Maintenance Services; (ii) pay reasonable Maintenance Administrative Expenses; (iii) pay any amounts required to establish or replenish any repair or replacement reserve funds; and (iv) pay for reasonably anticipated delinquent Maintenance Maximum Annual Special Taxes based on the delinquency rate for Maintenance Maximum Annual Special Taxes levied in the previous Fiscal Year; less (i) the amount of funicular usage fees or tolls collected by the City in the preceding fiscal year and (ii) any surplus of funds available from the previous Fiscal Year's Maintenance Maximum Annual Special Tax levy, as determined by the CFD Administrator.

“Maximum Annual Special Tax” means the greatest amount of Special Tax that can be levied on an Assessor's Parcel in any Fiscal Year determined in accordance with Section C below.

“Non-Residential Property” means all Parcels of Taxable Property in the CFD for which a building permit has been issued for construction of a structure that will serve as a retail, office or other commercial establishment, including hotel property. A temporary, portable structure which is used as part of the HR LLC's sales operations shall not be categorized as Non-Residential Property and, therefore, shall not be subject to the Special Tax levy as Developed Property.

“Proportionately” means, for Developed Property, that the ratio of the actual Special Tax levied in any Fiscal Year to the Maximum Annual Special Tax authorized to be levied in that Fiscal Year is equal for all Assessor's Parcels of Developed Property. For Final Map Property, Proportionately means that the ratio of the actual Special Tax levied in any Fiscal

Year to the Maximum Annual Special Tax authorized to be levied in that Fiscal Year is equal for all Assessor's Parcels of Final Map Property.

"Public Property" means any property within the boundaries of the CFD that is owned by the federal government, the State of California, the County, the CFD, or other public agency.

"Special Tax" means, collectively, the special tax levied in any Fiscal Year to pay the Facilities Special Tax Requirement and the special tax levied in any Fiscal Year to pay the Maintenance Special Tax Requirement.

"Special Tax Requirement" means in any Fiscal Year the sum of the Facilities Special Tax Requirement and the Maintenance Special Tax Requirement.

"Tax Zone" means one of the two mutually exclusive geographic areas defined below and identified in Exhibit 2 of this Rate and Method of Apportionment of Special Tax.

- ♦ "Tax Zone #1" means the geographic area identified as Lot Numbers 1 through 58 and Lot Numbers 60 through 119 on the Final Map.
- ♦ "Tax Zone #2" means the geographic area identified as Lot Numbers 120 through 125 on the Final Map.

"Taxable Association Property" means all Assessor's Parcel(s) within the CFD defined as Public Property that are not classified as Exempt Property under Section F. Taxable Association Property shall be taxed at the Final Map Property rate defined in Section C.

"Taxable Property" means all of the Assessor's Parcels within the boundaries of the CFD which are not exempt from the Special Tax pursuant to law or Section F below.

"Taxable Public Property" means all Assessor's Parcel(s) within the CFD defined as Public Property that are not classified as Exempt Property under Section F. Taxable Public Property shall be taxed at the Final Map Property rate defined in Section C.

B. ASSIGNMENT TO LAND USE CLASSES AND DETERMINATION OF SPECIAL TAX REQUIREMENT

On or about July 1 of each Fiscal Year, the CFD Administrator shall identify the current Assessor's Parcel numbers for all Assessor's Parcels of Taxable Property. The CFD Administrator shall also determine: (i) the Tax Zone in which the Assessor's Parcel is located, (ii) whether each Assessor's Parcel of Taxable Property is Developed Property or Final Map Property, (iii) for Developed Property, which Parcels are Custom Lot Property and Non-Residential Property, and (iv) the Special Tax Requirement.

For Custom Lots and Custom Lot Property, the total number of Custom Lots which are taxed within the CFD may be reduced to below 118. If one or more of the Custom Lots are combined on or after January 1, 2006 to create a new single Custom Lot and Assessor's Parcel, the CFD Administrator shall calculate the Special Tax for the consolidated property and newly created Assessor's Parcel by determining the Special Tax that would have applied separately to each original individual Assessor's Parcel, then applying the sum of the individual Special Taxes to the newly created Assessor's Parcel that was created by the consolidation of the original Assessor's Parcels so as to provide the same amount of

aggregate Special Tax. If one or more of the Custom Lots are subdivided to create new Assessor's Parcels, the new Assessor's Parcels will be assigned a Land Use Class and the CFD Administrator shall calculate the Special Tax for the newly created Assessor's Parcels in accordance with Section C below.

If the Land Use Class of an Assessor's Parcel of Taxable Property is proposed to be changed to a Land Use Class different from the current existing Land Use Class for that Assessor's Parcel and a Land Use Class that is different from any which currently exists for that Tax Zone as a result of the recordation of the original Final Map, then the Facilities Maximum Annual Special Tax and the Maintenance Maximum Annual Special Tax for that Assessor's Parcel shall be prepaid in full pursuant to Section G by the owner who is proposing the Land Use Class change prior to its classification into the proposed new Land Use Class.

Each Assessor's Parcel of Taxable Property within the CFD may be prepaid in full only one time prior to its conversion into a new Land Use Class and conversion to another Land Use Class may cause neither a requirement for additional prepayment nor a refunding of any prepayment amount previously calculated and paid (unless due to an error in calculation).

G. MAXIMUM ANNUAL SPECIAL TAX**1. DEVELOPED PROPERTY**

The Facilities Maximum Annual Special Tax and Maintenance Maximum Annual Special Tax for Developed Property are shown in **Table 1** and **Table 2** below:

**TABLE 1
FACILITIES MAXIMUM ANNUAL SPECIAL TAX
DEVELOPED PROPERTY**

Table 1: Facilities Maximum Annual Special Tax - Developed Property

<u>Land Use Class</u>	<u>Tax Zone #1</u> ^{(1) (2)}	<u>Tax Zone #2</u> ^{(3) (4) (5)}
	<u>Annual Tax</u>	<u>Annual Tax</u>
Custom Lot Property	\$25,700 per custom lot	-
Non-Residential Property		\$15,000 per acre

¹ Tax Zone #1. The amount per Custom Lot is subject to increase with respect to Custom Lots that are combined or consolidated after January 1, 2006 in accordance with Section B

² If the Land Use of an Assessor's Parcel of Taxable Property within Tax Zone #1 is proposed to be changed to a Land Use not contemplated at the time of recordation of the original Final Map recorded in December 2005, then that Assessor's Parcel shall be prepaid in full pursuant to Section G by the owner who is proposing the Land Use Class change prior to its classification into the proposed new Land Use Class.

³ Tax Zone #2. The total maximum special tax to be collected from all Land Use Class types in Tax Zone #2 must equal the Final Map Property Special Tax per Acre with a minimum of 3.86 net taxable acres.

⁴ If the Land Use of an Assessor's Parcel of Taxable Property within Tax Zone #2 is proposed to be changed to a Land Use not contemplated at the time of recordation of the original Final Map recorded in December 2005, then that Assessor's Parcel shall be prepaid in full pursuant to Section G by the owner who is proposing the Land Use Class change prior to its classification into the proposed new Land Use Class.

⁵ If Taxable Property within Tax Zone #2, other than Association Property or Public Property, is proposed to have building permit(s) issued for residential dwelling unit(s), then that Assessor's Parcel shall be prepaid in full pursuant to Section G by the owner who is proposing the residential dwelling unit(s) prior to issuance of the building permit(s).

TABLE 2
MAINTENANCE MAXIMUM ANNUAL SPECIAL TAX
DEVELOPED PROPERTY

Table 2: Maintenance Maximum Annual Special Tax - Developed Property

<u>Land Use Class</u>	<u>Tax Zone #1 ^{(1) (2)}</u>	<u>Tax Zone #2 ^{(3) (4) (5)}</u>
	<u>Annual Tax</u>	<u>Annual Tax</u>
Custom Lot Property	\$2,100 per custom lot	-
Non-Residential Property		\$750 per acre

¹ Tax Zone #1. The amount per Custom Lot is subject to increase with respect to Custom Lots that are combined or consolidated after January 1, 2006 in accordance with Section B

² If the Land Use of an Assessor's Parcel of Taxable Property within Tax Zone #1 is proposed to be changed to a Land Use not contemplated at the time of recordation of the original Final Map recorded in December 2005, then that Assessor's Parcel shall be prepaid in full pursuant to Section G by the owner who is proposing the Land Use Class change prior to its classification into the proposed new Land Use Class

³ Tax Zone #2. The total maximum special tax to be collected from all Land Use Class types in Tax Zone #2 must equal the Final Map Property Special Tax per Acre with a minimum of 3.86 net taxable acres

⁴ If the Land Use of an Assessor's Parcel of Taxable Property within Tax Zone #2 is proposed to be changed to a Land Use not contemplated at the time of recordation of the original Final Map recorded in December 2005, then that Assessor's Parcel shall be prepaid in full pursuant to Section G by the owner who is proposing the Land Use Class change prior to its classification into the proposed new Land Use Class

⁵ If Taxable Property within Tax Zone #2, other than Association Property or Public Property, is proposed to have building permit(s) issued for residential dwelling unit(s), then that Assessor's Parcel shall be prepaid in full pursuant to Section G by the owner who is proposing the residential dwelling unit(s) prior to issuance of the building permit(s)

On July 1, 2007 and on each July 1 thereafter, the Maintenance Maximum Annual Special Taxes shown in **Table 2** above shall be changed by an amount equal to the annual percentage change in the United States Department of Labor, Bureau of Labor Statistics, Consumer Price Index of All Urban Consumers (CPI-U), for the Los Angeles-Riverside-Orange County Area, for the previous calendar year.

2. FINAL MAP PROPERTY

The Facilities Maximum Annual Special Tax and Maintenance Maximum Annual Special Tax for Final Map Property are shown in **Table 3** and **Table 4** below:

TABLE 3
FACILITIES MAXIMUM ANNUAL SPECIAL TAX
FINAL MAP PROPERTY

Table 3: Facilities Maximum Annual Special Tax - Final Map Property

<u>Land Use Class</u>	<u>Tax Zone #1</u> ^{(1) (2)}	<u>Tax Zone #2</u> ^{(3) (4) (5)}
	<u>Annual Tax</u>	<u>Annual Tax</u>
Final Map Property	\$25,700 per custom lot	\$15,000 per acre

¹ Tax Zone #1 The amount per Custom Lot is subject to increase with respect to Custom Lots that are combined or consolidated after January 1, 2006 in accordance with Section B

² If the Land Use of an Assessor's Parcel of Taxable Property within Tax Zone #1 is proposed to be changed to a Land Use not contemplated at the time of recordation of the original Final Map recorded in December 2005, then that Assessor's Parcel shall be prepaid in full pursuant to Section G by the owner who is proposing the Land Use Class change prior to its classification into the proposed new Land Use Class

³ Tax Zone #2 The total maximum special tax to be collected from all Land Use Class types in Tax Zone #2 must equal the Final Map Property Special Tax per Acre with a minimum of 3.86 net taxable acres

⁴ If the Land Use of an Assessor's Parcel of Taxable Property within Tax Zone #2 is proposed to be changed to a Land Use not contemplated at the time of recordation of the original Final Map recorded in December 2005, then that Assessor's Parcel shall be prepaid in full pursuant to Section G by the owner who is proposing the Land Use Class change prior to its classification into the proposed new Land Use Class.

⁵ If Taxable Property within Tax Zone #2, other than Association Property or Public Property, is proposed to have building permit(s) issued for residential dwelling unit(s), then that Assessor's Parcel shall be prepaid in full pursuant to Section G by the owner who is proposing the residential dwelling unit(s) prior to issuance of the building permit(s).

TABLE 4
MAINTENANCE MAXIMUM ANNUAL SPECIAL TAX
FINAL MAP PROPERTY

Table 4: Maintenance Maximum Annual Special Tax - Final Map Property

<u>Land Use Class</u>	<u>Tax Zone #1</u> ^{(1) (2)}	<u>Tax Zone #2</u> ^{(3) (4) (5)}
	<u>Annual Tax</u>	<u>Annual Tax</u>
Final Map Property	\$2,100 per custom lot	\$750 per acre

¹ Tax Zone #1 The amount per Custom Lot is subject to increase with respect to Custom Lots that are combined or consolidated after January 1, 2006 in accordance with Section B.

² If the Land Use of an Assessor's Parcel of Taxable Property within Tax Zone #1 is proposed to be changed to a Land Use not contemplated at the time of recordation of the original Final Map recorded in December 2005, then that Assessor's Parcel shall be prepaid in full pursuant to Section G by the owner who is proposing the Land Use Class change prior to its classification into the proposed new Land Use Class

³ Tax Zone #2 The total maximum special tax to be collected from all Land Use Class types in Tax Zone #2 must equal the Final Map Property Special Tax per Acre with a minimum of 3.86 net taxable acres.

⁴ If the Land Use of an Assessor's Parcel of Taxable Property within Tax Zone #2 is proposed to be changed to a Land Use not contemplated at the time of recordation of the original Final Map recorded in December 2005, then that Assessor's Parcel shall be prepaid in full pursuant to Section G by the owner who is proposing the Land Use Class change prior to its classification into the proposed new Land Use Class

⁵ If Taxable Property within Tax Zone #2, other than Association Property or Public Property, is proposed to have building permit(s) issued for residential dwelling unit(s), then that Assessor's Parcel shall be prepaid in full pursuant to Section G by the owner who is proposing the residential dwelling unit(s) prior to issuance of the building permit(s).

On July 1, 2007 and on each July 1 thereafter, the Maintenance Maximum Annual Special Taxes shown in **Table 4** above shall be changed by an amount equal to the annual percentage change in the United States Department of Labor, Bureau of Labor Statistics, Consumer Price Index of All Urban Consumers (CPI-U), for the Los Angeles-Riverside-Orange County Area, for the previous calendar year.

D. METHOD OF APPORTIONMENT OF THE SPECIAL TAX

1. FACILITIES SPECIAL TAX

Each Fiscal Year beginning with Fiscal Year 2006-2007, the Facilities Maximum Annual Special Tax shall be levied according to the steps outlined below, as follows:

Step 1: In any Fiscal Year, the Facilities Maximum Annual Special Tax shall be levied Proportionately on each Parcel of Custom Lot Property and Non-Residential Property up to 100% of the Facilities Maximum Annual Special Tax for each Parcel for such Fiscal Year until the amount levied equals the Facilities Special Tax Requirement for the Fiscal Year.

Step 2: If additional revenue is needed in order to meet the Facilities Special Tax Requirement after applying Step 1, the Facilities Maximum Annual Special Tax shall be levied Proportionately on each Assessor's Parcel of Final Map Property, excluding Association Property, up to 100% of the Facilities Maximum Annual Special Tax for Final Map Property for such Fiscal Year until the amount levied equals the Facilities Special Tax Requirement for the Fiscal Year.

Step 3: If additional revenue is needed after Step 2 in order to meet the Facilities Special Tax Requirement, the Facilities Maximum Annual Special Tax shall be levied Proportionately on each Parcel of Taxable Association Property within the CFD, up to 100% of the Facilities Maximum Annual Special Tax for Final Map Property for such Fiscal Year until the amount levied equals the Facilities Special Tax Requirement for the Fiscal Year.

Step 4: If additional revenue is needed after Step 3 in order to meet the Facilities Special Tax Requirement, the Facilities Maximum Annual Special Tax shall be levied Proportionately on each Parcel of Taxable Public Property within the CFD, up to 100% of the Facilities Maximum Annual Special Tax for Final Map Property for such Fiscal Year until the amount levied equals the Facilities Special Tax Requirement for the Fiscal Year.

2. MAINTENANCE SPECIAL TAX

Each Fiscal Year beginning with Fiscal Year 2006-2007, the Maintenance Maximum Annual Special Tax shall be levied according to the steps outlined below, as follows:

Step 1: In any Fiscal Year, the Maintenance Maximum Annual Special Tax shall be levied Proportionately on each Parcel of Custom Lot Property and Non-Residential Property up to 100% of the Maintenance Maximum Annual Special Tax for each Parcel for such Fiscal Year until the amount levied equals the Maintenance Special Tax Requirement for the Fiscal Year.

Step 2: If additional revenue is needed in order to meet the Maintenance Special Tax Requirement after applying Step 1, the Maintenance Maximum Annual Special Tax shall be levied Proportionately on each Assessor's Parcel of Final Map Property, excluding Association Property, up to 100% of the Maintenance Maximum Annual Special Tax for

Final Map Property for such Fiscal Year until the amount levied equals the Maintenance Special Tax Requirement for the Fiscal Year.

Step 3: If additional revenue is needed after Step 2 in order to meet the Maintenance Special Tax Requirement, the Maintenance Maximum Annual Special Tax shall be levied Proportionately on each Parcel of Taxable Association Property within the CFD, up to 100% of the Maintenance Maximum Annual Special Tax for Final Map Property for such Fiscal Year until the amount levied equals the Maintenance Special Tax Requirement for the Fiscal Year.

Step 4: If additional revenue is needed after Step 3 in order to meet the Maintenance Special Tax Requirement, the Maintenance Maximum Annual Special Tax shall be levied Proportionately on each Parcel of Taxable Public Property within the CFD, up to 100% of the Maintenance Maximum Annual Special Tax for Final Map Property for such Fiscal Year until the amount levied equals the Maintenance Special Tax Requirement for the Fiscal Year.

E. COLLECTION AND TERM OF SPECIAL TAX

The Special Tax for the CFD shall be collected in the same manner and at the same time as ordinary ad valorem property taxes, provided, however, that prepayments are permitted as set forth in Section G below and provided further that the CFD may directly bill the Special Tax, may collect the Special Tax at a different time or in a different manner, and may collect delinquent Special Taxes through foreclosure or other available methods.

The Facilities Maximum Annual Special Tax shall be levied and collected until principal and interest on the Bonds have been repaid, the CFD's costs of constructing or acquiring Authorized Facilities from Facilities Maximum Annual Special Tax proceeds have been paid, and all Facilities Administrative Expenses have been reimbursed. However, in no event shall a Facilities Maximum Annual Special Tax be levied after Fiscal Year 2046-2047.

The Maintenance Maximum Annual Special Tax shall be levied and collected as necessary to meet the Maintenance Special Tax Requirement and shall be levied in perpetuity.

Pursuant to Section 53321 (d) of the Act, the Special Tax levied against an Assessor's Parcel used for private residential purposes, defined here as property classified as Custom Lot Property, shall under no circumstances increase more than ten percent (10%) as a consequence of delinquency or default by the owner of any other Assessor's Parcel(s) and shall, in no event, exceed the sum of the Facilities Maximum Annual Special Tax and the Maintenance Maximum Annual Special Tax in effect for the Fiscal Year in which the Special Tax is being levied.

F. EXEMPTIONS

The City shall classify as Exempt Property: (i) Public Property, (ii) Assessor's Parcels used exclusively by a homeowners' association, or (iii) Assessor's Parcels with public or utility easements making impractical their utilization for other than the purposes set forth in the easement, provided that no such classification would reduce the sum of all Taxable Property to less than 29.768 Acres for Tax Zone #1 or 3.86 Acres for Tax Zone #2 within the CFD. Notwithstanding the above, the City Council shall not classify an Assessor's Parcel as Exempt Property if such classification would reduce the sum of all Taxable Property to less than 29.768 Acres for Tax Zone #1 or 3.86 Acres for Tax Zone #2 within the CFD within

the CFD. Public Property that cannot be classified as Exempt Property will be classified as Taxable Public Property and subject to the Special Tax accordingly until prepaid pursuant to Section G. All other Assessor's Parcels identified within this section that cannot be classified as Exempt Property will be classified as Taxable Association Property, and will be subject to the Special Tax accordingly until prepaid pursuant to Section G.

The CFD Administrator will assign Exempt Property status in the chronological order in which property becomes exempt.

G. PREPAYMENT OF SPECIAL TAX

1. FACILITIES MAXIMUM ANNUAL SPECIAL TAX

(A). PREPAYMENT IN FULL

The following definitions apply to this Section G.1. and the term "Special Tax" in this Section G.1. means Facilities Maximum Annual Special Tax:

"Outstanding Bonds" means all Bonds which remain outstanding, with the following exception: if a Special Tax has been levied against, or already paid by, an Assessor's Parcel making a prepayment, and a portion of such Special Tax will be used to pay a portion of the next principal payment on the Bonds that remain outstanding (as determined by the CFD Administrator), that next principal payment shall be subtracted from the total Bond principal that remains outstanding, and the difference shall be used as the amount of Outstanding Bonds for purposes of this prepayment "

"Public Facilities Requirements" means either \$31,622,000 in 2006 dollars, which shall increase on January 1, 2007, and on each January 1 thereafter by the percentage increase, if any, in the construction cost index for the Los Angeles region for the prior twelve (12) month period as published in the Engineering News Record or other comparable source if the Engineering News Record is discontinued or otherwise not available, or such other number as shall be determined by the CFD Administrator to be an appropriate estimate of the net construction proceeds that will be generated from all Bonds that have been or are expected to be issued on behalf of the CFD.

"Remaining Facilities Costs" means the Public Facilities Requirements (as defined above), minus public facility costs funded by Outstanding Bonds (as defined above), developer equity, and/or any other source of funding.

The Special Tax obligation applicable to an Assessor's Parcel in the CFD may be prepaid and the obligation of the Assessor's Parcel to pay the Special Tax permanently satisfied as described herein, provided that a prepayment may be made only if there are no delinquent Special Taxes with respect to such Assessor's Parcel at the time of prepayment. An owner of an Assessor's Parcel intending to prepay the Special Tax obligation shall provide the CFD Administrator with written notice of intent to prepay. Within 30 days of receipt of such written notice, the CFD Administrator shall notify such owner of the prepayment amount

for such Assessor's Parcel. Prepayment must be made not less than 75 days prior to any redemption date for Bonds to be redeemed with the proceeds of such prepaid Special Tax.

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

Bond Redemption Amount
plus Remaining Facilities Amount
plus Redemption Premium
plus Interest Requirement
plus Administrative Fees and Expenses
less Reserve Fund Credit
less Capitalized Interest Credit
equals Prepayment Amount

As of the proposed date of prepayment, the Prepayment Amount shall be determined by application of the following steps:

Step 1: Compute the total Special Tax that could be collected from the Assessor's Parcel prepaying the Special Tax in the Fiscal Year in which prepayment would be received by the CFD.

Step 2: Divide the Special Tax from Step 1 by the Facilities Maximum Annual Special Tax which may be levied within CFD No. 2006-1 in the Fiscal Year in which prepayment would be received by the CFD excluding any Assessor's Parcels for which the Special Tax obligation has been previously prepaid.

Step 3: Multiply the quotient computed pursuant to Step 2 by the Outstanding Bonds to compute the amount of Outstanding Bonds to be retired and prepaid (the "Bond Redemption Amount").

Step 4: Compute the current Remaining Facilities Costs (if any).

Step 5: Multiply the quotient computed pursuant to Step 2 by the amount determined pursuant to Step 4 to compute the amount of Remaining Facilities Costs to be prepaid (the "Remaining Facilities Amount").

Step 6: Multiply the Bond Redemption Amount computed pursuant to Step 3 by the applicable redemption premium, if any, on the Outstanding Bonds to be redeemed (the "Redemption Premium").

Step 7: Compute the amount needed to pay interest on the Bond Redemption Amount starting with the first Bond interest payment date after which the prepayment has been received until the earliest redemption date for the Outstanding Bonds, which, depending on the Bond offering document, may be as early as the next interest payment date.

Step 8: Compute the amount of interest the CFD reasonably expects to derive from reinvestment of the Bond Redemption Amount plus the Redemption Premium from the

first Bond interest payment date after which the prepayment has been received until the redemption date for the Outstanding Bonds.

Step 9: Take the amount computed pursuant to Step 7 and subtract the amount computed pursuant to Step 8 (the "Interest Requirement").

Step 10: Determine the costs of computing the prepayment amount, the costs of redeeming Bonds, and the costs of recording any notices to evidence the prepayment and the redemption (the "Administrative Fees and Expenses").

Step 11: If and to the extent so provided in the fiscal agent agreement pursuant to which the Outstanding Bonds to be redeemed were issued, a reserve fund credit shall be calculated as a reduction in the applicable reserve fund for the outstanding Bonds to be redeemed pursuant to the prepayment (the "Reserve Fund Credit"); provided, however, that no Reserve Fund Credit shall be given if to do so would result in the balance in the reserve fund for the Outstanding Bonds to be less than the reserve requirement established in the fiscal agent agreement.

Step 12: If any capitalized interest for the Outstanding Bonds will not have been expended at the time of the first interest payment following the current Fiscal Year, a capitalized interest credit shall be calculated by multiplying the quotient computed pursuant to step 2 by the expected balance in the capitalized interest fund after such first interest payment (the "Capitalized Interest Credit").

Step 13: The Special Tax prepayment is equal to the sum of the amounts computed pursuant to Steps 3, 5, 6, 9, and 10, less the amount computed pursuant to Steps 11 and 12 (the "Prepayment Amount").

Notwithstanding the foregoing, no prepayment of the Special Tax shall be permitted unless the CFD Administrator has received a certificate from an independent financial advisor certifying that following such prepayment and the redemption of Bonds with the proceeds of such prepayment, the Facilities Maximum Annual Special Tax that may be levied in each Fiscal Year on the remaining Assessor's Parcels subject to the Special Tax is not less than 110% of the sum of the principal and interest and on the Bonds and the estimated Facilities Administrative Expenses expected to be paid in each corresponding Fiscal Year.

(B). PARTIAL PREPAYMENT

A partial prepayment may be made in an amount equal to any percentage of full prepayment desired by the party making a partial prepayment, provided however that the partial prepayment must be in an amount sufficient to redeem Bonds in multiples of \$5,000 denominations. The Special Tax that can be levied on an Assessor's Parcel after a partial prepayment is made is equal to the Special Tax that could have been levied prior to the prepayment, reduced by the percentage of a full prepayment that the partial prepayment represents, all as determined by or at the direction of the CFD Administrator.

Notwithstanding the foregoing, no partial prepayment of the Special Tax shall be permitted unless the CFD Administrator has received a certificate from an independent financial advisor certifying that following such prepayment and the redemption of Bonds with the proceeds of such prepayment, the Facilities Maximum Annual Special Tax that may be levied in each Fiscal Year on the remaining Assessor's Parcels subject to the Special Tax is not less

than 110% of the sum of the principal and interest and on the Bonds and the estimated Facilities Administrative Expenses expected to be paid in each corresponding Fiscal Year.

2. MAINTENANCE SPECIAL TAX

(A). PREPAYMENT IN FULL

The following definitions apply to this Section G.2. and the term "Special Tax" in this Section G.2. means Maintenance Maximum Annual Special Tax:

"Present Value" means the amount calculated for prepayment of the Special Tax in full in the Fiscal Year in which prepayment would be received by the CFD.

"Rate" means the discount factor or interest rate per year and is equivalent to 3% per year for each and any Fiscal Year in which prepayment would be received by the CFD.

"Period" or "p" means the total number of years the Special Tax is discounted over for the calculation of the prepayment of the Special Tax.

"Special Tax" means the amount calculated as the Maintenance Annual Maximum Special Tax in the Fiscal Year in which prepayment would be received by the CFD.

"Perpetuity" means the Fiscal Year in which the difference between the prepayment in full amount for that year changes less than one cent from the prepayment in full amount for the preceding Fiscal Year.

The formula for this calculation is shown below where $(p + 1)$ equals Perpetuity for purposes of this calculation:

$$(\text{Present Value}) \text{ for } p - (\text{Present Value}) \text{ for } (p+1) < \$0.01$$

As of the proposed date of prepayment, the Prepayment Amount shall be determined by application of the following steps:

Step 1: Compute the Special Tax that could be collected from the Assessor's Parcel prepaying the Special Tax in the Fiscal Year in which prepayment would be received by the CFD.

Step 2: Calculate the Present Value of the Special Tax computed in Step 1 over the Period number of years by discounting its future value at an annual interest Rate of 3%.

Step 3: The Special Tax prepayment is equal to the amount computed pursuant to Steps 1 and 2 and the Present Value calculated in Step 2 is the Prepayment Amount in Full for the Assessor's Parcel which is to be prepaid.

The formula for this calculation is shown below and represents taking the present values of individual payments and summing them in Perpetuity:

$$\text{Present Value} = \text{Payment}_1 / (1 + \text{Rate})^1 + \text{Payment}_2 / (1 + \text{Rate})^2 + \\ \text{Payment}_3 / (1 + \text{Rate})^3 + \dots + \text{Payment}_{(p+1)} / (1 + \text{Rate})^{(p+1)}$$

(B). PARTIAL PREPAYMENT

The Maintenance Special Tax may not be prepaid in part.

H. INTERPRETATION OF SPECIAL TAX FORMULA

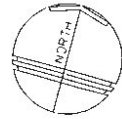
The CFD Administrator reserves the right to make minor administrative and technical changes to this document that do not materially affect the rate and method of apportioning the Special Tax. In addition, the interpretation and application of any section of this document shall be left to the CFD Administrator's discretion. Interpretations may be made by the CFD Administrator by ordinance or resolution for purposes of clarifying any vagueness or ambiguity in this Rate and Method of Apportionment of Special Tax.

EXHIBIT 1

LOCATION OF MAINTENANCE SERVICES WITHIN CFD NO. 2006-1

EXHIBIT 1 CFD NO. 2006-1 MAINTENANCE SERVICE AREAS LANDSCAPE, REVETMENT AND FUNICULAR TRACT 16331

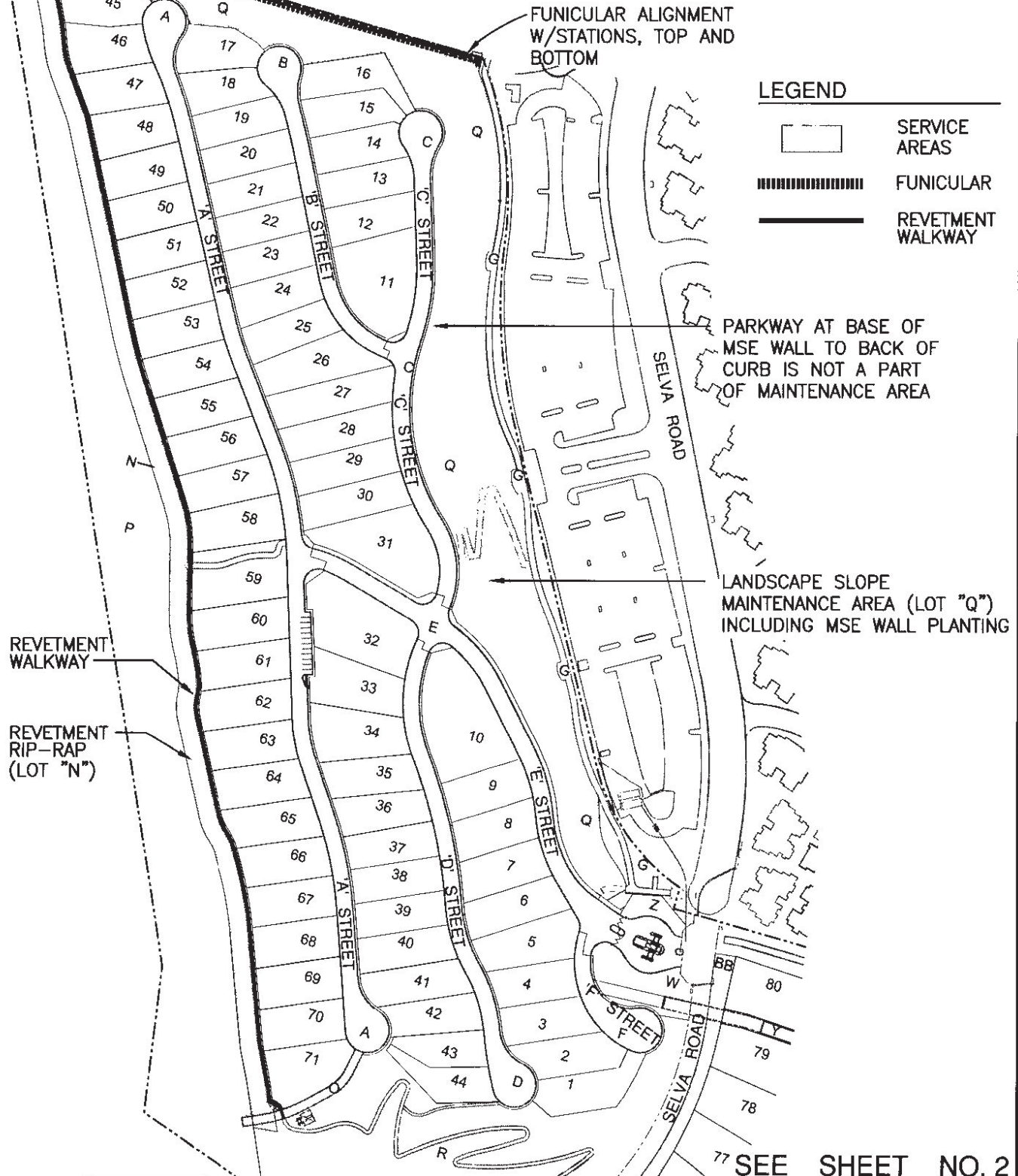
Sheet 1 of 3



IN THE CITY OF DANA POINT, COUNTY OF ORANGE,
STATE OF CALIFORNIA.

LEGEND

	SERVICE AREAS
	FUNICULAR
	REVETMENT WALKWAY



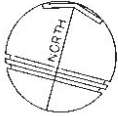


EXHIBIT 1
CFD NO. 2006-1
MAINTENANCE SERVICE AREAS
LANDSCAPE, REVETMENT AND FUNICULAR
TRACT 16331

Sheet 2 of 3

IN THE CITY OF DANA POINT, COUNTY OF ORANGE,
STATE OF CALIFORNIA.

LEGEND



SERVICE
AREAS

LANDSCAPE
MAINTENANCE AREA
(PORTION OF LOT "BB")

SEE SHEET NO. 1

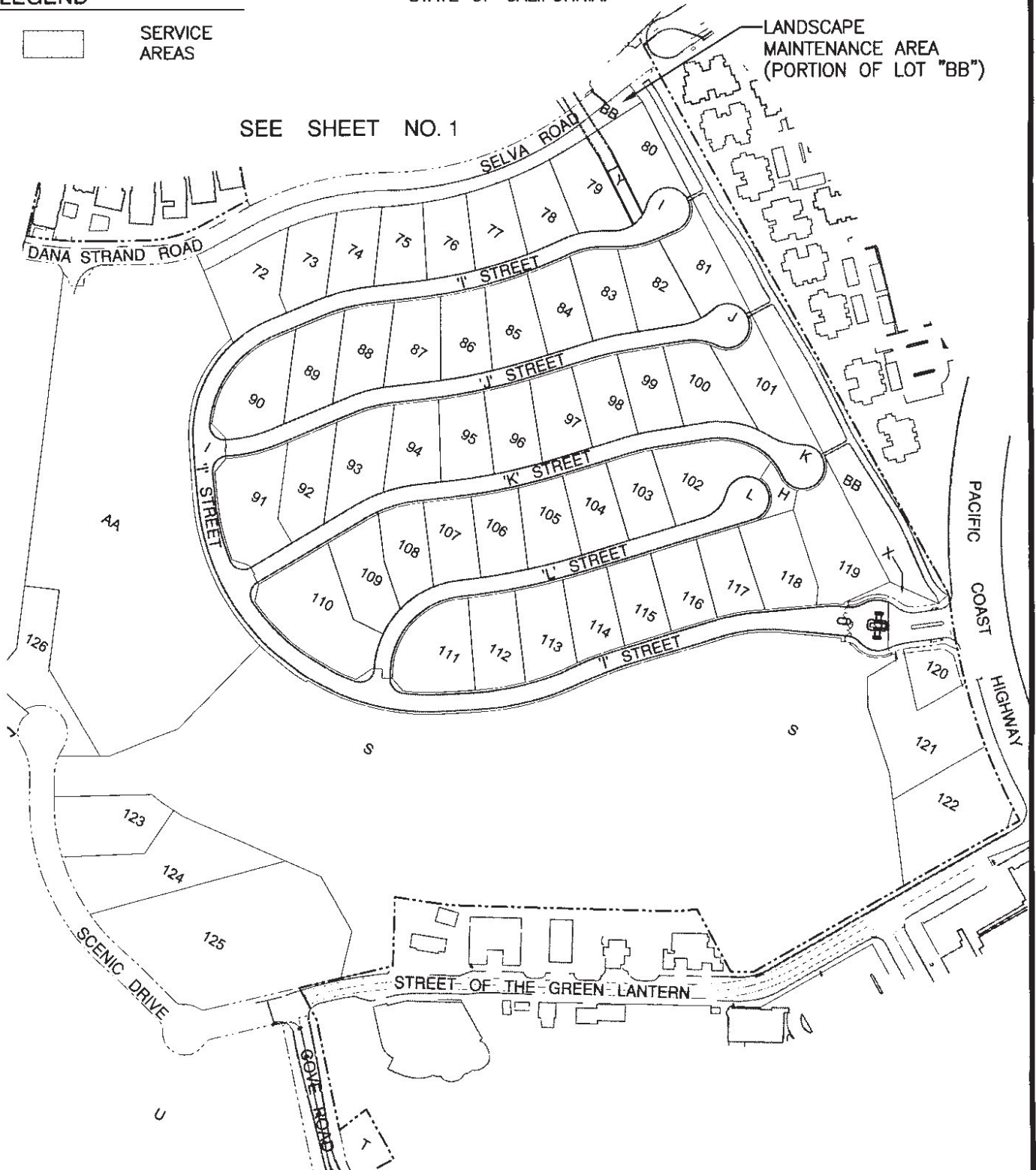
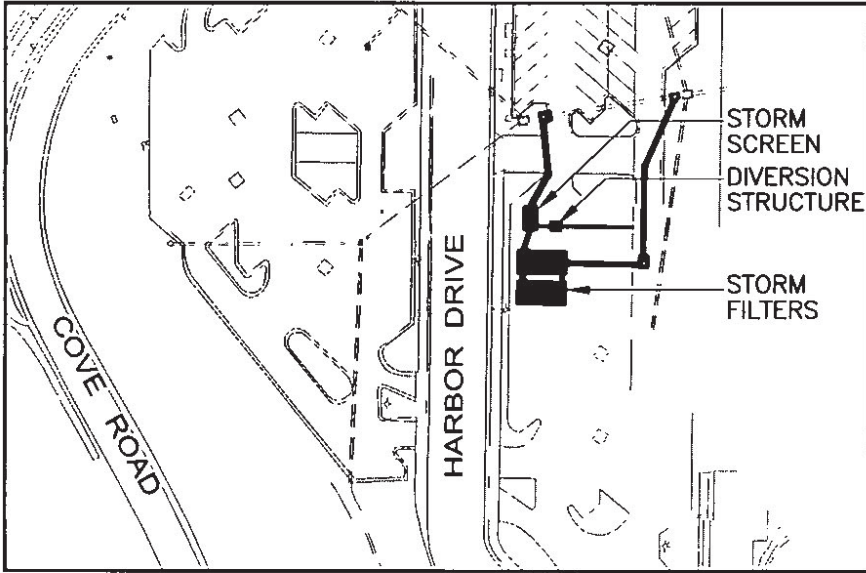


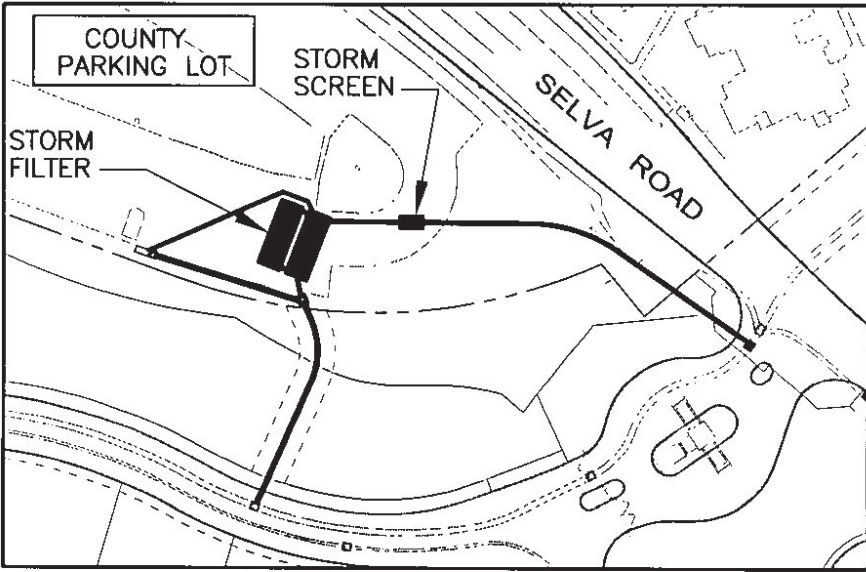
EXHIBIT 1
CFD NO. 2006-1
MAINTENANCE SERVICE AREAS
STORMWATER QUALITY MAINTENANCE AREAS
TRACT 16331

Sheet 3 of 3

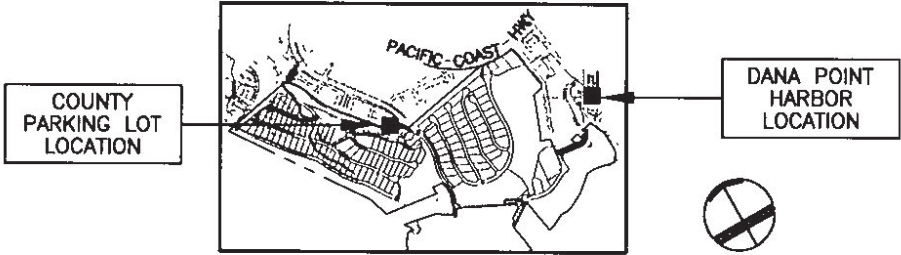
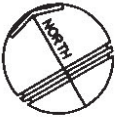
IN THE CITY OF DANA POINT, COUNTY OF ORANGE,
STATE OF CALIFORNIA.



DANA POINT HARBOR



COUNTY PARKING LOT
AT SELVA ROAD



LOCATION MAP



EXHIBIT 2

**CFD NO. 2006-1 BOUNDARY MAP
SHOWING
TAX ZONE #1 AND TAX ZONE #2**



CITY OF DANA POINT
COUNTY OF ORANGE
STATE OF CALIFORNIA

I HEREBY CERTIFY THAT THE WITHIN MAP SHOWING PROPOSED BOUNDARIES OF COMMUNITY FACILITIES DISTRICT NO 2008-1, COUNTY OF ORANGE, STATE OF CALIFORNIA, WAS APPROVED BY THE CITY COUNCIL OF THE CITY OF DANA POINT AT A REGULAR MEETING THEREOF, HELD ON THE 26th DAY OF April, 2006, BY ITS RESOLUTION NO 06-04-26-02

CITY CLERK
CITY OF DANA POINT
ACCEPTED AND FILED AT THE
REQUEST OF THE CITY OF DANA POINT

FILED THIS 2ND DAY OF MAY, 2006, AT THE HOUR OF 1:51 O'CLOCK P.M. IN THE BOOK 41 PAGE(S) 34 OF MAPS OF ASSESSMENT AND COMMUNITY FACILITIES DISTRICTS AND AS INSTRUMENT NO. 200600000426 IN THE OFFICE OF THE COUNTY RECORDER IN THE COUNTY OF ORANGE, STATE OF CALIFORNIA.

TOM DALY, COUNTY CLERK-RECORDER

John J. [Signature]
BY DEPUTY, COUNTY RECORDER
COUNTY OF ORANGE
STATE OF CALIFORNIA




THE LINES AND DIMENSIONS OF EACH LOT OR PARCEL SHOWN ON THIS
DIAGRAM SHALL BE THOSE LINES AND DIMENSIONS AS SHOWN
ON THE ORANGE COUNTY ASSESSORS MAPS FOR THOSE
PARCELS LISTED

THE ORANGE COUNTY ASSESSORS MAPS SHALL GOVERN FOR ALL
DETAILS CONCERNING THE LINES AND DIMENSIONS OF SUCH
LOTS OR PARCELS

EXEMPT PER GOVERNMENT CODE § 103

ASSESSOR'S PARCEL NUMBER	LEGAL DESCRIPTION
PORTION OF 672-091-03	LOTS 1-9 INCLUSIVE AND LOTS 60-125 INCLUSIVE, OF TRACT NO. 10331, AS SHOWN ON THE MAP FILED IN BOOK 873, PAGES 22 TO 32, INCLUSIVE OF MISCELLANEOUS MAPS, IN THE OFFICIAL RECORDS OF THE COUNTY RECORDER OF ORANGE COUNTY, CALIFORNIA ON 2005-01-18, 2005 AS INSTRUMENT NO. 2005001011555
PORTION OF 672-591-01	
PORTION OF 672-592-01	
PORTION OF 672-592-03	
PORTION OF 672-592-11	

LEGEND

- CFD BOUNDARY
 TRACT NO. 16331
 TAX ZONE NO. 1
 TAX ZONE NO. 2



MuniFinacial

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Box 110
Seaside, California 90940-2000
Phone: (909) 800-2000 Fax: (909) 807-2000