

NEW ISSUE

NOT RATED

*In the opinion of Quint & Thimmig LLP, San Francisco, California, Bond Counsel, subject, however, to certain qualifications described herein, under existing law, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations under the Internal Revenue Code of 1986, as amended, but is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "LEGAL MATTERS - Tax Matters."*

**\$5,825,000**  
**ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS**  
**COMMUNITY FACILITIES DISTRICT NO. 2006-1**  
**(SAN FRANCISCO RINCON HILL)**  
**SPECIAL TAX BONDS, SERIES 2006A**

**Dated: Date of Delivery**

**Due: September 1, as shown on inside cover**

**Authority for Issuance.** The bonds captioned above (the "Bonds") are being issued under the Mello-Roos Community Facilities Act of 1982 (the "Act") and an Indenture, dated as of June 1, 2006 (the "Indenture"), by and between the ABAG Finance Authority for Nonprofit Corporations (the "Issuer"), for and on behalf of ABAG Finance Authority for Nonprofit Corporations Community Facilities District No. 2006-1 (San Francisco Rincon Hill) (the "Community Facilities District") and Union Bank of California, N.A., as Trustee (the "Trustee"). The Executive Committee (the "Executive Committee") of the Board of Directors of the Issuer (the "Board"), acting as legislative body of the Community Facilities District has authorized the issuance of the Bonds. See "THE BONDS – Authority for Issuance."

**Security and Sources of Payment.** The Bonds are payable solely from (i) Special Tax Revenues (as defined herein) derived from the levy of special taxes (the "Special Taxes") on property within the Community Facilities District according to the rate and method of apportionment of special tax approved by the Executive Committee of the Board and (ii) moneys deposited in certain funds held by the Trustee under the Indenture. See "SECURITY FOR THE BONDS."

**Use of Proceeds.** The Bonds are being issued to (i) to finance acquisition and construction of certain public capital improvements, (ii) fund a reserve fund for the Bonds, (iii) fund capitalized interest on the Bonds through June 8, 2008, (iv) pay certain administrative expenses of the Community Facilities District, and (v) pay the costs of issuing the Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" and "FACILITIES TO BE FINANCED WITH PROCEEDS OF THE BONDS."

**Bond Terms.** Interest on the Bonds is payable on September 1, 2006 and semiannually thereafter on each March 1 and September 1. The Bonds will be issued in denominations of \$5,000 or integral multiples of \$5,000. The 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 Bonds. See "THE BONDS – General Bond Terms" and "APPENDIX D – DTC and the Book-Entry Only System."

**Redemption.** Prior to their maturity, the Bonds are subject to optional redemption, mandatory sinking fund redemption and redemption from Special Tax prepayments. See "THE BONDS - Redemption."

**THE BONDS ARE LIMITED OBLIGATIONS OF THE ISSUER AND THE PRINCIPAL THEREOF, AND PREMIUM, IF ANY, AND INTEREST THEREON, ARE PAYABLE SOLELY FROM, AND SECURED IN ACCORDANCE WITH THEIR TERMS AND THE PROVISIONS OF THE INDENTURE SOLELY BY, THE SPECIAL TAX REVENUES AND THE OTHER AMOUNTS PLEDGED THEREFOR UNDER THE INDENTURE. NEITHER THE ISSUER, THE ASSOCIATION OF BAY AREA GOVERNMENTS ("ABAG"), ANY OF THE MEMBERS OF THE ISSUER OR ABAG, THE STATE, NOR ANY POLITICAL SUBDIVISION THEREOF (EXCEPT THE ISSUER, TO THE LIMITED EXTENT SET FORTH IN THE INDENTURE) WILL IN ANY EVENT BE LIABLE FOR THE PAYMENT OF THE PRINCIPAL OF, OR PREMIUM (IF ANY) OR INTEREST ON THE BONDS OR FOR THE PERFORMANCE OF ANY PLEDGE, OBLIGATION OR AGREEMENT OF ANY KIND WHATSOEVER, AND NONE OF THE BONDS OR ANY OF THE ISSUER'S AGREEMENTS OR OBLIGATIONS WILL BE CONSTRUED TO CONSTITUTE AN INDEBTEDNESS OF OR A PLEDGE OF THE FAITH AND CREDIT OF OR A LOAN OF THE CREDIT OF THE ISSUER, ABAG, OR THE MEMBERS OF THE ISSUER OR ABAG, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF (EXCEPT THE ISSUER, TO THE LIMITED EXTENT SET FORTH IN THE INDENTURE) WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION WHATSOEVER. NEITHER THE ISSUER NOR ABAG HAS ANY TAXING POWER.**

**MATURITY SCHEDULE**  
(see inside cover)

*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 Bonds involves risks which may not be appropriate for some investors. See "BOND OWNERS' RISKS" for a discussion of special risk factors that should be considered in evaluating the investment quality of the Bonds.*

The Bonds are offered when, as and if issued and accepted by the Underwriters, subject to approval as to their legality by Quint & Thimmig LLP, San Francisco, California, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed on for the Issuer by Nixon Peabody LLP, special counsel to the Issuer. Jones Hall, A Professional Law Corporation, San Francisco, California is acting as Underwriters' Counsel and Luce, Forward, Hamilton & Scripps LLP, San Diego, California, is acting as special counsel to One Rincon Development, LLC, the owner of the property in the Community Facilities District. It is anticipated that the Bonds, in book-entry form, will be available for delivery on or about June 8, 2006.

**STONE & YOUNGBERG LLC**

**Backstrom McCarley Berry & Co., LLC**

**MATURITY SCHEDULE**  
**(Base CUSIP†: 00257E)**

**\$1,005,000 Serial Bonds**

<u>Maturity (September 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>CUSIP†</u>	<u>Maturity (September 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>CUSIP†</u>
2009	\$20,000	4.15%	100%	AA7	2016	\$85,000	4.90%	100%	AH2
2010	30,000	4.30	100	AB5	2017	95,000	4.95	100	AJ8
2011	35,000	4.40	100	AC3	2018	105,000	5.00	100	AK5
2012	45,000	4.50	100	AD1	2019	120,000	5.05	100	AL3
2013	55,000	4.60	100	AE9	2020	135,000	5.10	100	AM1
2014	60,000	4.70	100	AF6	2021	150,000	5.15	100	AN9
2015	70,000	4.80	100	AG4					

**\$1,005,000 5.20% Term Bond due September 1, 2026, Price: 99.619% CUSIP† No. AP4**

**\$3,815,000 5.25% Term Bond due September 1, 2036, Price: 99.540% CUSIP† No. AQ2**

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† Copyright 2006, American Bankers Association. CUSIP data herein are provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc., and are provided for convenience of reference only. Neither the Issuer nor the Underwriters assume any responsibility for the accuracy of these CUSIP data.

## GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

**Use of Official Statement.** This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

**Preparation of this Official Statement.** The information set forth herein under the caption "THE ISSUER," "CONTINUING DISCLOSURE - The Issuer" and "LEGAL MATTERS - Absence of Material Litigation - The Issuer" has been obtained from the Issuer. All other information set forth herein has been obtained from the owners of property in the District and The Depository Trust Company and other sources which are believed to be current and reliable, but the accuracy or completeness of such information is not guaranteed by the Issuer or the Underwriters. The accuracy or completeness of any information other than that contained under the captions "THE ISSUER," "CONTINUING DISCLOSURE - The Issuer" and "LEGAL MATTERS - Absence of Material Litigation - The Issuer" is not guaranteed by, and is not to be construed as a representation by, the Issuer.

The Underwriters have provided the following sentence for inclusion in this Official Statement: the Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

**Estimates and Forecasts.** When used in this Official Statement and in any continuing disclosure by the Issuer, in any press release and in any oral statement made with the approval of an authorized officer of the Issuer, the words or phrases "will likely result," "are expected to", "will continue", "is anticipated", "estimate", "project," "forecast", "expect", "intend" and similar expressions identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, give rise to any implication that there has been no change in the affairs of the Issuer since the date hereof.

**Limit of Offering.** No dealer, broker, salesperson or other person has been authorized by the Issuer or the Underwriters to give any information or to make any representations in connection with the offer or sale of the Bonds other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. This Official Statement is not to be construed as a contract with the purchasers of the Bonds.

**Stabilization of Prices.** In connection with this offering, the Underwriters may overallocate or effect transactions which stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriters may offer and sell the Bonds to certain dealers and others at prices lower than the public offering prices set forth on the cover page hereof and said public offering prices may be changed from time to time by the Underwriters.

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

PROPOSED BOUNDARIES  
OF

# ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS

Community Facilities District No. 2006-1  
(San Francisco Rincon Hill)

City and County of San Francisco  
March, 2006

State of California  
1\*-587

**GCG**  
Goodman Consulting Group  
by  
J.E. Collins, LLC  
Jeffrey L. Siskard BCL 20046

1. Filed in the office of the Chief Financial Officer of the ABAG Finance Authority for Nonprofit Corporations this \_\_\_\_\_ day of \_\_\_\_\_, 2006.

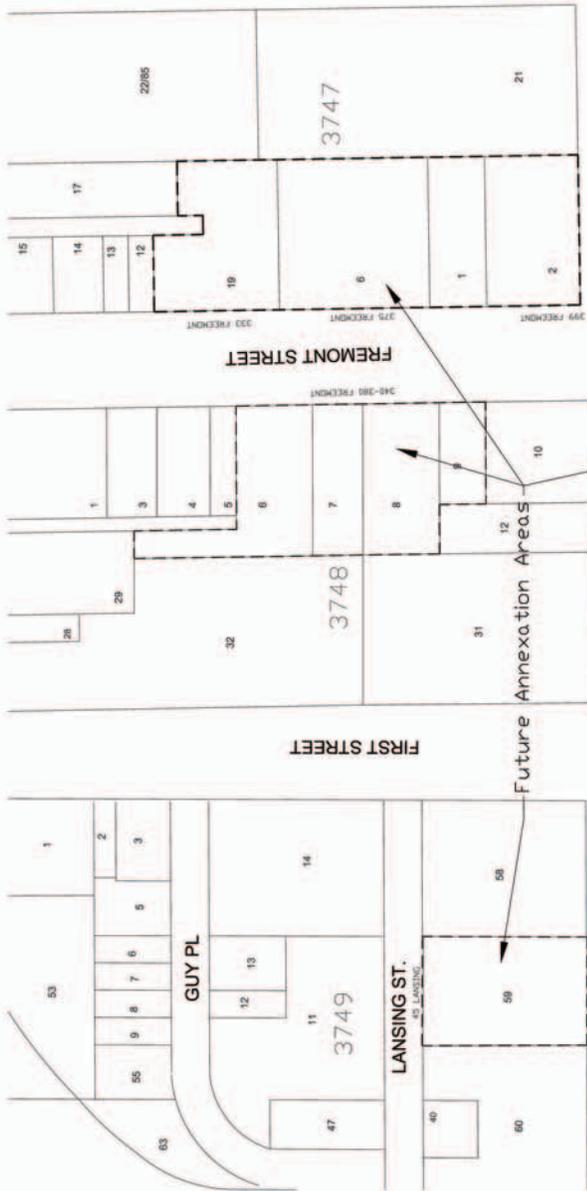
Joseph Chan  
Chief Financial Officer

2. I hereby certify that the within map showing boundaries of ABAG Finance Authority For Nonprofit Corporations, Community Facilities District No. 2006-1 (San Francisco Rincon Hill) State of California, was approved by the Executive Committee of the Board of Directors of the ABAG Finance Authority for Nonprofit Corporations, at a meeting thereof, held on the \_\_\_\_\_ day of \_\_\_\_\_, 2006, by its Resolution No. \_\_\_\_\_.

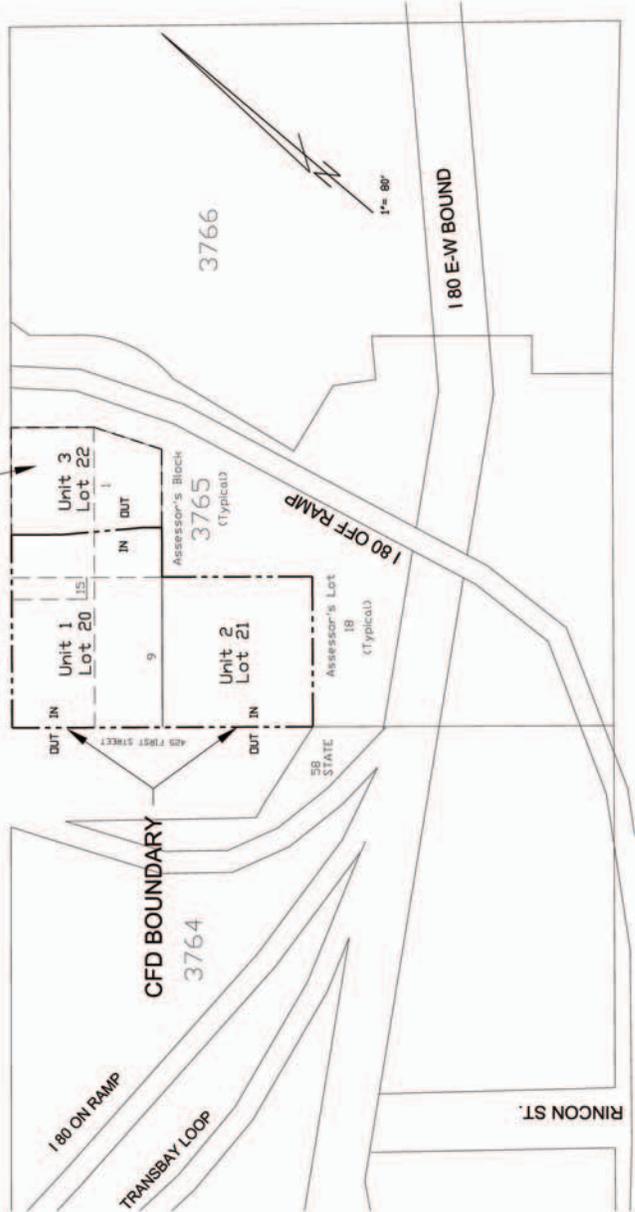
Joseph Chan  
Chief Financial Officer

3. Filed this \_\_\_\_\_ day of \_\_\_\_\_, 2006, at the hour of \_\_\_\_\_ o'clock \_\_\_\_\_ m, in Book \_\_\_\_\_ of Maps of Assessment and Community Facilities Districts at Page \_\_\_\_\_ in the office of the County Assessor-Recorder in the City and County of San Francisco, State of California.

Phil Ting  
Assessor-Recorder  
City and County of San Francisco



HARRISON STREET





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## OFFICIAL STATEMENT

**\$5,825,000**  
**ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS**  
**COMMUNITY FACILITIES DISTRICT NO. 2006-1**  
**(SAN FRANCISCO RINCON HILL)**  
**SPECIAL TAX BONDS, SERIES 2006A**

### INTRODUCTION

This Official Statement, including the cover page and attached appendices, is provided to furnish information regarding the bonds captioned above (the “**Bonds**”) to be issued by ABAG Finance Authority for Nonprofit Corporations (the “**Issuer**”) for and on behalf of ABAG Finance Authority for Nonprofit Corporations Community Facilities District No. 2006-1 (San Francisco Rincon Hill) (the “**Community Facilities District**”).

*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 attached appendices, and the documents summarized or described in this Official Statement. A full review should be made of the entire Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement.*

**The Issuer.** The Bonds are being issued by the ABAG Finance Authority for Nonprofit Corporations for and on behalf of the Community Facilities District. See “THE ISSUER.”

**Authority for Issuance of the Bonds.** The Bonds are issued under the following:

- the Mello-Roos Community Facilities Act of 1982, as amended (the “**Act**”),
- certain resolutions adopted by the Executive Committee (the “**Executive Committee**”) of the Board of Directors (the “**Board**”) of the Issuer, acting as legislative body for the Community Facilities District, and
- an Indenture, dated as of June 1, 2006 (the “**Indenture**”), by and between the Issuer, for and on behalf of the Community Facilities District, and Union Bank of California, N.A., as Trustee (the “**Trustee**”). See “THE BONDS – Authority for Issuance.”

**The Community Facilities District, Property Ownership and Proposed Development.** The Community Facilities District was established by the Issuer under the Mello-Roos Community Facilities Act of 1982, as amended (the “**Act**”), pursuant to (i) a resolution adopted by the Executive Committee of the Board on May 12, 2006 by the Board following a public hearing and (ii) a landowner election held on May 12, 2006 at which the then-qualified elector of the Community Facilities District authorized the Community Facilities District to incur bonded indebtedness and approved the levy of special taxes. See “THE BONDS – Authority for Issuance.”

The Community Facilities District consists of approximately 0.99 acres on two lots (Block 3765, Lots 20 and 21), which are designated for development by One Rincon Development, LLC, a Delaware limited liability company (“**One Rincon Development**” or the “**Property Owner**”) with 390 residential condominium units (including 14 townhouses) in one tower. The proposed development

is commonly referred to as One Rincon Hill Phase I ("**Phase I**"). The first 7 levels of Phase I are proposed to be developed as a parking podium with an entry lobby and mechanical rooms. The 14 townhouses will be located within these 7 levels. A residential tower will rise from the 8th to the 60th floors, with additional floors above housing the elevator room, water tank and other mechanical equipment. One Rincon Development expects to sell all 390 condominium units in Phase I to end users. A second phase of the development is planned on an adjoining lot ("**Phase II**"), which, along with other neighboring properties, may annex to the Community Facilities District at a future date. **This Official Statement only describes Phase I and there can be no assurances that other properties will annex into the Community Facilities District; if they do, the annexation is likely to occur concurrently with issuance of Parity Bonds.**

For detailed information about One Rincon Development and proposed development plans for the property in the Community Facilities District, see "PROPERTY OWNERSHIP AND PROPOSED DEVELOPMENT." *No assurance can be given that development will occur as expected.*

**Purpose of the Bonds.** Proceeds of the Bonds will be used to (i) finance acquisition and construction of certain public infrastructure improvements (collectively defined as the "**Project**" in the Indenture), (ii) fund a reserve fund for the Bonds, (iii) fund capitalized interest on the Bonds through June 8, 2008, (iv) pay certain administrative expenses of the Issuer, and (v) pay the costs of issuing the Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" and "FACILITIES TO BE FINANCED WITH PROCEEDS OF THE BONDS."

**Security and Sources of Payment for the Bonds.** The Bonds are secured by and payable from the "**Trust Estate**", consisting of "**Special Tax Revenues**" and moneys in the Special Tax Fund, the Bond Fund and the Reserve Fund established under the Indenture. The Indenture defines Special Tax Revenues as proceeds of the special taxes levied within the Community Facilities District ("**Special Taxes**"), including any scheduled payments and any prepayments thereof, interest thereon and proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes to the amount of said lien and interest thereon. The definition of Special Tax Revenues does not include any penalties collected in connection with delinquent Special Taxes.

The Special Taxes will be levied within the District in accordance with the Rate and Method of Apportionment of Special Tax (the "**Rate and Method**"). The property initially in the Community Facilities District is in Tax Zone #1 as defined in the Rate and Method; property annexed into the Community Facilities District (if any) may be placed into different Tax Zones. Assessor's parcels on which "**Market-Rate Units**" (defined in the Rate and Method as for-sale or for-rent residential dwelling units that are not intended for occupancy by low- or moderate-income occupants and do not have a deed restriction limiting the rental or sales price of the units, limiting the appreciation that can be realized by the owners of the units, or in any other way restricting the current or future value of the units) are or are expected to be constructed based on site permits issued for the property ("**Taxable Property**") are the only parcels subject to the Special Tax pursuant to the Rate and Method. Because One Rincon Development has paid an Affordable Housing In Lieu fee to the City instead of providing on-site affordable housing required under the Planning Code, One Rincon Development expects that all 390 of the proposed condominium units in the Community Facilities District will be Market-Rate Units. See "SECURITY FOR THE BONDS."

The Issuer has covenanted in the Indenture to cause foreclosure proceedings to be commenced and prosecuted against certain parcels with delinquent installments of the Special Tax.

For a more detailed description of the foreclosure covenant, see “SECURITY FOR THE BONDS - Covenant to Foreclose.”

**Risk Factors Associated with Purchasing the Bonds.** Investment in the Bonds involves risks that may not be appropriate for some investors. See “BOND OWNERS’ RISKS” for a discussion of certain risk factors which should be considered, in addition to the other matters set forth in this Official Statement, in considering the investment quality of the Bonds.

**Professionals Involved in the Offering.** The following professionals are participating in this financing:

- Union Bank of California, N.A., San Francisco, California, will serve as the Trustee under the Indenture.
- Quint & Thimmig LLP, San Francisco, California is serving as Bond Counsel to the Issuer.
- Nixon Peabody LLP, San Francisco, California, is serving as counsel to the Issuer.
- Stone & Youngberg LLC, San Francisco, California, and Backstrom McCarley Berry & Co., LLC, San Francisco, California, are acting as the Underwriters of the Bonds.
- Jones Hall, A Professional Law Corporation, San Francisco, California, is acting as Underwriters’ Counsel.
- Goodwin Consulting Group, Sacramento, California, acted as special tax consultant with respect to the Community Facilities District.
- Luce, Forward, Hamilton & Scripps LLP, San Diego, California, is serving as special counsel to the Property Owner.
- Goodwin Consulting Group, Sacramento, California, will administer the annual Special Tax levy for the Issuer.

## CONTINUING DISCLOSURE

**The Issuer.** The Issuer, for and on behalf of the Community Facilities District, will covenant in a continuing disclosure certificate, the form of which is set forth in “APPENDIX E – Form of Issuer Continuing Disclosure Certificate” (the “**Issuer Continuing Disclosure Certificate**”), for the benefit of holders and beneficial owners of the Bonds, to provide certain financial information and operating data relating to the Community Facilities District and the Bonds (the “**Issuer Annual Report**”) by not later than nine months after the end of the Issuer’s Fiscal Year (which would correspond to a distribution date of not later than April 1 based on the Issuer’s current fiscal year ending of June 30). The Issuer Continuing Disclosure Certificate also requires the Issuer to provide notices of the occurrence of certain enumerated events, if material.

The covenants of the Issuer in the Issuer Continuing Disclosure Certificate are being made in order to assist the Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the “**Rule**”).

A default under the Issuer Continuing Disclosure Certificate would not constitute an Event of Default under the Indenture, and the sole remedy under the Issuer Continuing Disclosure Certificate in the event of any failure of the Issuer or the Dissemination Agent to comply would be an action to compel specific performance. Goodwin Consulting Group will act as the initial dissemination agent for the Issuer.

The Issuer has never failed to comply, in any material respect, with an undertaking under the Rule.

**Property Owner.** One Rincon Development will covenant in a continuing disclosure certificate, the form of which is set forth in “APPENDIX F – Form of Property Owner Continuing Disclosure Certificate” (the “**Property Owner Continuing Disclosure Certificate**”), for the benefit of holders and beneficial owners of the Bonds, to provide certain information relating to itself and the parcels it owns within the Community Facilities District on a semi-annual basis (each a “**Property Owner Semi-Annual Report**”), and to provide notices of the occurrence of certain enumerated events. One Rincon Development may serve as dissemination agent under its own Property Owner Continuing Disclosure Certificate, although Goodwin Consulting Group will act as the initial dissemination agent.

The obligations of One Rincon Development under its Property Owner Continuing Disclosure Certificate will terminate on the earlier of (i) legal defeasance, prior redemption or payment in full of all the Bonds, (ii) the date on which One Rincon Development’s property in the Community Facilities District is no longer responsible for 10% or more of the annual Special Tax levy, or (iii) the date on which One Rincon Development prepays in full all of the Special Taxes attributable to its property in the Community Facilities District.

A default under the Property Owner Continuing Disclosure Certificate will not, in itself, constitute an Event of Default under the Fiscal Agent Agreement, and the sole remedy under a Property Owner Continuing Disclosure Certificate in the event of any failure of the Property Owner or the Dissemination Agent to comply will be an action to compel specific performance. *The Issuer has no obligation to enforce the continuing disclosure undertaking of the Property Owner.*

One Rincon Development has not previously undertaken a continuing disclosure obligation.

## ESTIMATED SOURCES AND USES OF FUNDS

The proceeds from the sale of the Bonds will be deposited into the following funds established by the Issuer under the Indenture:

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### SOURCES

Principal Amount of Bonds	\$5,825,000.00
Less: Underwriters' Discount	(58,250.00)
Less: Original Issue Discount	(21,378.05)
<i>Total Sources</i>	<i>\$5,745,371.95</i>

### USES

Deposit into Reserve Fund [1]	\$ 521,978.42
Deposit into Costs of Issuance Fund [2]	267,209.53
Deposit into Capitalized Interest Account of the Bond Fund [3]	603,460.00
Deposit into Administrative Expense Fund	20,000.00
Deposit into SOMA Community Stabilization Account of Improvement Fund	1,169,835.00
Deposit into Rincon Hill Community Improvements Account of Improvement Fund	<u>3,162,889.00</u>
<i>Total Uses</i>	<i>\$5,745,371.95</i>

[1] Equal to the Reserve Requirement with respect to the Bonds as of the date of delivery of the Bonds.

[2] Includes, among other things, the fees and expenses of Bond Counsel and Issuer Counsel, the cost of printing the Preliminary and final Official Statements, fees and expenses of the Trustee, the cost of the Appraisal, and the fees of the Special Tax Consultant.

[3] Amounts deposited into the Capitalized Interest Account will be used to pay interest on the Bonds through June 8, 2008.

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## FACILITIES TO BE FINANCED WITH PROCEEDS OF THE BONDS

Pursuant to Ordinance No. 217-05 adopted by the City and County on August 9, 2005, proceeds of the Bonds will be used to finance public facilities determined to be consistent with the Ordinance. The Issuer has entered into joint community facilities agreements with the City and County, the San Francisco Unified School District and the Redevelopment Agency of the City and County of San Francisco, with respect to public improvements to be owned by each of such entities.

The Resolution of Formation adopted by the Issuer on May 12, 2006, also authorizes the Community Facilities District to finance reimbursement of costs related to the formation of the Community Facilities District advanced by the Issuer or any landowner or developer within the Community Facilities District, as well as reimbursement of any costs advanced by the Issuer or any landowner or developer within the Community Facilities District, for facilities, fees or other purposes or costs of the Community Facilities District.

## THE BONDS

### General Bond Terms

***Dated Date, Maturity and Authorized Denominations.*** The Bonds will be dated their date of delivery and will mature in the amounts and on the dates set forth on the inside cover page of this Official Statement. The Bonds will be issued in fully registered form in denominations of \$5,000 each or any integral multiple of \$5,000.

***Interest.*** The Bonds will bear interest at the annual rates set forth on the inside cover page of this Official Statement, payable semiannually on each March 1 and September 1, commencing September 1, 2006 (each, an "Interest Payment Date"). Interest will be calculated on the basis of a 360-day year composed of twelve 30-day months.

***DTC and Book-Entry Only System.*** DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered initially in the name of Cede & Co. (DTC's partnership nominee). So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references in this Official Statement to the "Owners" will mean Cede & Co., and will not mean the Beneficial Owners of the Bonds. See APPENDIX D – "DTC and the Book-Entry Only System."

***Method of Payment.*** Principal, premium, if any, and interest on the Bonds are payable directly to DTC by the Trustee in lawful money of the United States of America. Upon receipt of payments of principal, premium or interest, DTC is to remit such principal, premium or interest to the "DTC Participants" (as defined in APPENDIX D) for subsequent disbursement to the Beneficial Owners of the Bonds. See APPENDIX D – "DTC and the Book-Entry Only System."

### Authority for Issuance

***Community Facilities District Proceedings.*** The Bonds will be issued under the Act and the Indenture. As required by the Act, the Executive Committee of the Board of Directors of the Issuer has taken the following actions with respect to establishing the Community Facilities District and authorizing issuance of the Bonds:

***Resolutions of Intention:*** On March 22, 2006, the Executive Committee of the Board adopted Resolution No. 06-14 (the "**Resolution of Intention**") and Resolution No. 06-15, stating its intention to establish the Community Facilities District, to annex certain territory thereto and to authorize the levy of a special tax therein and to issue bonds for the Community Facilities District in an amount not to exceed \$28 million, and authorizing the Issuer's Chief Financial Officer to enter into a joint community facilities agreement with the City and County of San Francisco (the "**City and County**"), the School District and with any other public entity that will own and/or operate any element of the Project.

***Resolution of Formation:*** Immediately following a noticed public hearing, on May 12, 2006, the Executive Committee of the Board, acting as legislative body for the Community Facilities District, adopted Resolution No. 06-16 (the "**Resolution of Formation**"), which established the Community Facilities District and authorized the levy of a special tax within the Community Facilities District.

*Resolution of Necessity:* On May 12, 2006, the Executive Committee of the Board, acting as legislative body for the Community Facilities District, adopted Resolution No. 06-17 declaring the necessity to incur bonded indebtedness in an aggregate amount not to exceed \$28 million within the Community Facilities District and submitting that proposition to the sole qualified elector of the Community Facilities District.

*Resolution Calling Election:* On May 12, 2006, the Executive Committee of the Board, acting as legislative body for the District, adopted Resolution No. 06-18 calling an election by the landowners within the Community Facilities District for the same date on the issues of the levy of the Special Tax, the incurring of bonded indebtedness and the establishment of an appropriations limit.

*Landowner Election and Declaration of Results:* On May 12, 2006, an election was held within the Community Facilities District in which the sole qualified elector within the Community Facilities District approved a ballot proposition authorizing the issuance of up to \$28 million in bonds to finance the acquisition and construction of the Project, the levy of a special tax and the establishment of an appropriations limit for the Community Facilities District. On May 12, 2006, the Executive Committee of the Board, acting as legislative body for the District, adopted Resolution No. 06-19 under which the Executive Committee of the Board approved the canvass of the votes and declared the Community Facilities District to be fully formed with the authority to levy the Special Taxes, to incur the bonded indebtedness and to have the established appropriations limit, all with respect to the Community Facilities District.

*Special Tax Lien and Levy:* A Notice of Special Tax Lien was recorded in the real property records of the City and County on May 23, 2006 as document number 06-1181752-00.

*Ordinance Levying Special Taxes:* On May 12, 2006, the Executive Committee of the Board, acting as legislative body for the Community Facilities District, introduced Ordinance No. 2006-A levying the Special Tax within the Communities Facilities District beginning with the 2006-07 Fiscal Year (the "**Ordinance**"), which Ordinance is expected to be adopted by the Executive Committee of the Board on May 24, 2006.

*Resolution Authorizing Issuance of the Bonds:* On May 12, 2006, the Executive Committee of the Board, acting as legislative body for the Community Facilities District, adopted Resolution No. 06-20 approving issuance of the Bonds for and on behalf of the Community Facilities District in an amount not to exceed \$6,500,000.

**City and County Findings.** On April 4, 2006, in order to satisfy certain requirements of the Government Code of the State of California and to meet a requirement of the Issuer's "Guidelines for Issuance," the Board of Supervisors of the City and County held a public hearing and adopted a resolution finding that significant public benefits will arise from the financing of the Project, and approved the formation of the Community Facilities District by the Issuer, the issuance of the Bonds and the financing of the Project with proceeds of the Bonds.

**Issuer's Goals and Policies.** The Issuer adopted "Local Agency Goals and Policies for Community Facilities Districts" (the "**Goals and Policies**") on April 23, 2004, and subsequently amended them on May 14, 2004. The Goals and Policies establish an order of priority for financing by community facilities districts and certain credit quality requirements for bonds issued under the Act. The Goals and Policies also provide for disclosure of the special tax obligation by developers to

prospective purchasers of property in the Community Facilities District. The Goals and Policies allow for a not-to-exceed 2% per year special tax increase only with respect to parcels to be developed for commercial or industrial uses. However, in view of the fact that the City and County allows for 2% increases in special taxes on residential property in other community facilities districts, the Issuer, in its Resolution of Intention, granted a waiver to the Goals and Policies so as to permit the 2% increase in the maximum special tax per year on the residential units to be taxed. The Issuer has determined that issuance of the Bonds conforms with the Issuer's Goals and Policies.

### Debt Service Schedule

The following table presents the annual debt service on the Bonds (including sinking fund redemptions), assuming there are no optional redemptions or redemption as the result of Special Tax prepayments.

<u>Year Ending September 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2006	-	\$ 69,565.53	\$ 69,565.53
2007	-	301,730.00	301,730.00
2008	-	301,730.00	301,730.00
2009	\$ 20,000	301,730.00	321,730.00
2010	30,000	300,900.00	330,900.00
2011	35,000	299,610.00	334,610.00
2012	45,000	298,070.00	343,070.00
2013	55,000	296,045.00	351,045.00
2014	60,000	293,515.00	353,515.00
2015	70,000	290,695.00	360,695.00
2016	85,000	287,335.00	372,335.00
2017	95,000	283,170.00	378,170.00
2018	105,000	278,467.50	383,467.50
2019	120,000	273,217.50	393,217.50
2020	135,000	267,157.50	402,157.50
2021	150,000	260,272.50	410,272.50
2022	165,000	252,547.50	417,547.50
2023	180,000	243,967.50	423,967.50
2024	200,000	234,607.50	434,607.50
2025	220,000	224,207.50	444,207.50
2026	240,000	212,767.50	452,767.50
2027	260,000	200,287.50	460,287.50
2028	285,000	186,637.50	471,637.50
2029	305,000	171,675.00	476,675.00
2030	335,000	155,662.50	490,662.50
2031	360,000	138,075.00	498,075.00
2032	390,000	119,175.00	509,175.00
2033	420,000	98,700.00	518,700.00
2034	450,000	76,650.00	526,650.00
2035	485,000	53,025.00	538,025.00
2036	<u>525,000</u>	27,562.50	552,562.50
<b>Total</b>	<b>\$5,825,000</b>		

## Redemption

**Redemption from Special Tax Prepayments.** Special Tax Prepayments and any corresponding transfers from the Reserve Fund will be used to redeem Bonds on the next Interest Payment Date for which notice of redemption can timely be given, by lot and allocated among maturities of the Bonds so as to maintain substantially level debt service on the Bonds, at a redemption price (expressed as a percentage at the principal amount of the Bonds to be redeemed), as set forth below, together with accrued interest to the date fixed for redemption:

<u>Redemption Dates</u>	<u>Redemption Prices</u>
Any Interest Payment Date from September 1, 2006 to and including March 1, 2016	103%
September 1, 2016 and any Interest Payment Date thereafter	100%

**Optional Redemption.** The Bonds maturing on and after September 1, 2017 are subject to optional redemption prior to their stated maturity on any Interest Payment Date on or after September 1, 2016, as a whole, or in part among maturities so as to maintain substantially level debt service on the Bonds and by lot within a maturity, at a redemption price equal to the principal amount of the Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium.

**Mandatory Sinking Payment Redemption.** The Bonds maturing on September 1, 2026 are subject to mandatory sinking payment redemption in part on September 1, 2022, and on each September 1 thereafter to maturity, by lot, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date fixed for redemption, without premium, from sinking payments as follows:

<u>Redemption Date (September 1)</u>	<u>Sinking Payments</u>
2022	\$165,000
2023	180,000
2024	200,000
2025	220,000
2026 (Maturity)	240,000

The Bonds maturing on September 1, 2036, are subject to mandatory sinking payment redemption in part on September 1, 2027, and on each September 1 thereafter to maturity, by lot, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date fixed for redemption, without premium, from sinking payments as follows:

Redemption Date (September 1)	Sinking Payments
2027	\$260,000
2028	285,000
2029	305,000
2030	335,000
2031	360,000
2032	390,000
2033	420,000
2034	450,000
2035	485,000
2036 (Maturity)	525,000

The amounts in the foregoing tables will be reduced to the extent practicable so as to maintain level debt service on the Bonds, as a result of any prior partial redemption of the Bonds as described in "Optional Redemption" above or "Redemption from Special Tax Prepayments" above.

**Purchase In Lieu of Redemption.** In lieu of redemption as described above, moneys in the Bond Fund may be used and withdrawn by the Trustee for purchase of Outstanding Bonds, at public or private sale, but in no event may Bonds be purchased at a price in excess of the principal amount thereof, plus interest accrued to the date of purchase and any premium which would otherwise be due if such Bonds were to be redeemed in accordance with the Indenture.

**Notice of Redemption.** The Trustee will cause notice of any redemption to be mailed by first class mail, postage prepaid, at least 30 days but not more than 60 days prior to the date fixed for redemption, to the Securities Depositories, to one or more Information Services, and to the respective registered Owners of any Bonds designated for redemption, at their addresses appearing on the Bond registration books in the Principal Office of the Trustee; however, mailing of the notice by the Trustee is not a condition precedent to redemption and failure to mail or to receive any such notice, or any defect in the notice, will not affect the validity of the proceedings for the redemption of the Bonds.

**Effect of Redemption.** From and after the date fixed for redemption, if funds available for the payment of the principal of, and interest and any premium on, the Bonds so called for redemption are deposited in the Bond Fund, the Bonds called for redemption will cease to be entitled to any benefit under the Indenture other than the right to receive payment of the redemption price, and no interest will accrue thereon on or after the redemption date specified in the redemption notice.

### **Registration, Transfer and Exchange**

*The following provisions regarding the exchange and transfer of the Bonds apply only during any period in which the Bonds are not subject to DTC's book-entry system. While the Bonds are subject to DTC's book-entry system, their exchange and transfer will be effected through DTC and the Participants and will be subject to the procedures, rules and requirements established by DTC. See "APPENDIX D – DTC and the Book-Entry Only System."*

**Registration.** The Trustee will keep or cause to be kept, at its Principal Office sufficient books for the registration and transfer of the Bonds, which books will show the series number, date, amount, rate of interest and last known Owner of each Bond. The Issuer and the Trustee will treat

the Owner of any Bond whose name appears on the Bond register as the absolute Owner of such Bond for any and all purposes, and the Issuer and the Trustee shall not be affected by any notice to the contrary. The Issuer and the Trustee may rely on the address of the Bondowner as it appears in the Bond register for any and all purposes.

**Transfers of Bonds.** Any 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 duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a duly written instrument of transfer in a form acceptable to the Trustee. The cost for any services rendered or any expenses incurred by the Trustee in connection with any such transfer shall be paid by the Issuer. The Trustee shall collect from the Owner requesting such transfer any tax or other governmental charge required to be paid with respect to such transfer.

Whenever any Bond or Bonds is surrendered for transfer, the Issuer will execute and the Trustee will authenticate and deliver a new Bond or Bonds, for like aggregate principal amount of authorized denomination(s).

No transfers of Bonds will be required to be made (i) fifteen days prior to the date established by the Trustee for selection of Bonds for redemption, (ii) with respect to a Bond after such Bond has been selected for redemption, or (iii) between a Record Date and the succeeding Interest Payment Date.

**Exchange of Bonds.** Bonds may be exchanged at the Principal Office of the Trustee for a like aggregate principal amount of Bonds of authorized denominations and of the same series and maturity. The cost for any services rendered or any expenses incurred by the Trustee in connection with any such exchange shall be paid by the Issuer. The Trustee will collect from the Owner requesting such exchange any tax or other governmental charge required to be paid with respect to such exchange.

No exchanges of Bonds may be required to be made (i) fifteen days prior to the date established by the Trustee for selection of Bonds for redemption, (ii) with respect to a Bond after such Bond has been selected for redemption, or (iii) between a Record Date and the succeeding Interest Payment Date.

## SECURITY FOR THE BONDS

### General

The Issuer's obligation to pay the principal of, and interest and any premium on, the Bonds is secured by a first pledge of the "**Trust Estate**", which is defined in the Indenture to include:

- Special Tax Revenues; and
- Amounts in the Special Tax Fund, the Bond Fund and the Reserve Fund.

Amounts in the Administrative Expense Fund, the Costs of Issuance Fund and the Improvement Fund are *not* pledged to the repayment of the Bonds. The Project to be financed with the proceeds of the Bonds is not in any way pledged to pay 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 debt service on the Bonds and are free and clear of any lien or obligation imposed under the Indenture.

"**Special Tax Revenues**" is defined in the Indenture as the proceeds of the Special Taxes received by the Issuer, including any scheduled payments and any prepayments thereof, interest thereon and proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes to the amount of said lien and interest thereon, but it excludes any penalties collected in connection with delinquent Special Taxes.

### Special Taxes

**Levy of Special Taxes.** The Issuer has covenanted in the Indenture to comply with all requirements of the Act so as to assure the timely collection of Special Tax Revenues, including without limitation, the enforcement of delinquent Special Taxes.

Under the Indenture, the Chief Financial Officer is obligated to effect the levy of the Special Taxes each Fiscal Year in accordance with the Ordinance by each July 15 that the Bonds are outstanding, or otherwise such that the computation of the levy is complete before the final date on which the auditor-controller of the County will accept the transmission of the Special Tax amounts for the parcels within the Community Facilities District for inclusion on the next real property tax roll. Upon the completion of the computation of the amounts of the levy, the Chief Financial Officer shall prepare or cause to be prepared, and shall transmit to the auditor-controller of the County, such data as the auditor-controller requires to include the levy of the Special Taxes on the next real property tax roll.

The Chief Financial Officer will fix and levy the amount of Special Taxes within the Community Facilities District required for the payment of principal of and interest on any outstanding Bonds of the Community Facilities District becoming due and payable during the ensuing year, including any necessary replenishment or expenditure of the Reserve Fund for the Bonds and an amount estimated to be sufficient to pay the Administrative Expenses (including any rebate requirement imposed by federal tax law) during such year, taking into account the balances in such funds and in the Special Tax Fund. The Special Taxes so levied will not exceed the authorized amounts as provided in the proceedings pursuant to the Resolution of Formation.

**Maximum Special Taxes.** The Issuer covenants in the Indenture not to consent or conduct proceedings with respect to a reduction in the maximum Special Taxes that may be levied in the

District below an amount, for any Fiscal Year, equal to 110 percent of the aggregate of the debt service due on the Bonds (including any Parity Bonds) in such Fiscal Year, plus a reasonable estimate of Administrative Expenses for such Fiscal Year.

***Manner of Collection.*** The Indenture provides that the Special Taxes are payable and will be collected in the same manner and at the same time and in the same installment as the general taxes on real property are payable, and have the same priority, become delinquent at the same time and in the same proportionate amounts and bear the same proportionate penalties and interest after delinquency as do the ad valorem taxes on real property; provided that, pursuant to and in accordance with the Ordinance, the Special Taxes may be collected by means of direct billing of the property owners within the District, in which event the Special Taxes shall become delinquent if not paid when due pursuant to said billing.

*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. See "BOND OWNERS' RISKS," including the subsection entitled "Other Possible Claims Upon the Value of Taxable Property," for a discussion of factors that could impact the amount of Special Taxes collected by the Issuer and the amount, if any, to be realized by Bond owners as a result of a foreclosure sale.*

#### **Additional Obligations Secured by Special Taxes**

Phase II of One Rincon Hill and other neighboring properties may be annexed to the Community Facilities District at a future date. Such annexation is likely to occur, if at all, concurrently with the issuance of Parity Bonds. Following any such annexation and issuance of any related Parity Bonds, special taxes levied on taxable property in the Community Facilities District would be used to pay debt service on the Bonds and any such Parity Bonds on a parity basis.

***Parity Bonds.*** The Indenture authorizes the Issuer to issue additional series of bonds (the "**Parity Bonds**"), in addition to the Bonds, by means of a Supplemental Indenture and without the consent of any Bondowners, upon compliance with the provisions summarized below. The Parity Bonds will be secured by a lien on and pledge of the Trust Estate on a parity with all other Bonds Outstanding under the Indenture. The Issuer may issue the Parity Bonds subject to the following specific conditions precedent:

Current Compliance. The Issuer must be in compliance on the date of issuance of the Parity Bonds with all covenants set forth in the Indenture and all Supplemental Indentures.

Payment Dates; Refunding Bonds. Interest on the Parity Bonds must be payable on March 1 and September 1, and principal must be payable on September 1 in any year in which principal is payable (provided that there shall be no requirement that any Parity Bonds pay interest on a current basis).

Funds and Accounts; Reserve Fund Deposit. The Supplemental Indenture providing for the issuance of Parity Bonds may provide for the establishment of separate funds and accounts, and must provide for a deposit to the Reserve Fund in an amount necessary so that the amount on deposit therein, following the issuance of the Parity Bonds, is equal to the Reserve Requirement for the Bonds and the Parity Bonds.

Value-to-Lien Ratio. The "**District Value**" (defined below) shall be at least three times the sum of:

(i) the aggregate principal amount of all Bonds and any Parity Bonds then Outstanding, plus

(ii) the aggregate principal amount of the series of Parity Bonds proposed to be issued, plus

(iii) the aggregate principal amount of any fixed assessment liens on the parcels in the Community Facilities District subject to the levy of Special Taxes, plus

(iv) the portion of the aggregate principal amount of any and all other community facilities district bonds then outstanding and payable at least partially from special taxes to be levied on parcels of land within the Community Facilities District (the "**Other District Bonds**") equal to the aggregate principal amount of the Other District Bonds multiplied by a fraction, the numerator of which is the amount of special taxes levied for the Other District Bonds on parcels of land within the Community Facilities District, and the denominator of which is the total amount of special taxes levied for the Other District Bonds on all parcels of land against which the special taxes are levied to pay the Other District Bonds (such fraction to be determined based upon the maximum special taxes which could be levied in the year in which maximum annual debt service on the Other District Bonds occurs), based upon information from the most recent available Fiscal Year.

The Indenture defines "**District Value**" as follows: the market value, as of the date of the appraisal described below and/or the date of the most recent County real property tax roll, as applicable, of all parcels of real property in the Community Facilities District subject to the levy of the Special Taxes and not delinquent in the payment of any Special Taxes then due and owing, including with respect to such nondelinquent parcels the value of the then existing improvements and any facilities to be constructed or acquired with any amounts then on deposit in the Improvement Fund and with the proceeds of any proposed series of Parity Bonds, as determined with respect to any parcel or group of parcels by reference to (i) an appraisal performed within six months of the date of issuance of any proposed Parity Bonds by an MAI appraiser (the "**Parity Bonds Appraiser**") selected by the Issuer, or (ii), in the alternative, the assessed value of all such nondelinquent parcels and improvements thereon as shown on the then current County real property tax roll available to the Chief Financial Officer. It is expressly acknowledged that, in determining the District Value, the Issuer may rely on an appraisal to determine the value of some or all of the parcels in the Community Facilities District and/or the most recent County real property tax roll as to the value of some or all of the parcels in the Community Facilities District. Neither the Issuer nor the Chief Financial Officer shall be liable to the Owners, the Original Purchaser or any other person or entity in respect of any appraisal provided for purposes of this definition or by reason of any exercise of discretion made by any Parity Bonds Appraiser pursuant to this definition.

Special Tax Coverage. The Issuer shall obtain a certificate of a Tax Consultant to the effect that the amount of the maximum Special Taxes that may be levied in each Fiscal Year shall be at least 110 percent of the total Annual Debt Service for each such Fiscal Year on the Bonds, any outstanding Parity Bonds and the proposed Parity Bonds.

Officer's Certificate. The Issuer must deliver to the Trustee an Officer's Certificate certifying that the conditions precedent to the issuance of the Parity Bonds described in the previous three paragraphs have been satisfied.

As described in APPENDIX C - "Summary of the Indenture," the Indenture allows the Issuer to issue bonds to refund the Bonds and any Parity Bonds without complying with certain of the requirements described above, subject to satisfaction of certain conditions.

**Subordinate Debt.** The Indenture does not prohibit the Issuer from issuing bonds or otherwise incurring debt secured by a pledge of the Trust Estate that is subordinate to the pledge of the Trust Estate to the Bonds.

## **Rate and Method**

**General.** The Special Tax is levied and collected according to the Rate and Method, which provides the means by which the Issuer or its designee may annually levy the Special Taxes within the Community Facilities District, up to the Maximum Special Tax, and determine the amount of the Special Tax that will need to be collected each Fiscal Year from the "Taxable Property" (defined below) within the Community Facilities District.

In general, assessor's parcels on which "**Market-Rate Units**" (defined in the Rate and Method as for-sale or for-rent residential dwelling units that are not intended for occupancy by low- or moderate-income occupants and do not have a deed restriction limiting the rental or sales price of the units, limiting the appreciation that can be realized by the owners of the units, or in any other way restricting the current or future value of the units) are or are expected to be constructed based on site permits issued for the property ("**Taxable Property**") are the only parcels subject to the Special Tax pursuant to the Rate and Method. Because One Rincon Development has paid an Affordable Housing In Lieu fee to the City instead of providing on-site affordable housing required under the Planning Code, One Rincon Development expects all 390 of the proposed condominium units in the Community Facilities Districts will be Market-Rate Units.

*The following is a summary of certain provisions of the Rate and Method, and is qualified by more complete and detailed information contained in the entire Rate and Method attached as APPENDIX A. The meaning of the defined terms used in this section that are not defined below have the meaning set forth in APPENDIX A.*

**Relevant Definitions.** The Rate and Method defines the following terms, among others:

**"Below Market-Rate Units"**\* means all Residential Units within the Community Facilities District that have a deed restriction recorded on title of the property that (i) limits the sales price of the Residential Unit, (ii) limits the appreciation that can be realized by the owner of such unit, or (iii) in any other way restricts the current or future value of the unit.

**"CFD Formation"** means the date on which the Resolution of Formation to form the Community Facilities District was adopted by the Board, which was May 12, 2006.

**"Developed Property"** means, in any Fiscal Year, all Taxable Property in the Community Facilities District for which (i) a final building permit inspection has been

\* Although One Rincon Development expects all 390 of the Phase I condominium units to be Market-Rate Units, future annexations (if any) may include Below-Market Rate Units.

conducted prior to June 1 of the preceding Fiscal Year in association with a building permit for construction of an individual Residential Unit, or (ii) for which a certificate of occupancy was issued by the City prior to June 1 of the preceding Fiscal Year for construction of an individual Residential Unit.

**“Expected Taxable Square Footage”** means the sum of the square footage of Living Area for all Market Rate Units expected within a building as identified in the site permit and/or construction plans for the building.

**“Living Area”** means the square footage of living area reflected in the site permit, building plans or original construction building permit issued for an individual Residential Unit, which may include square footage subsequently added to a Residential Unit after issuance of a building permit for expansion or renovation of the unit.

**“Market Rate Unit”** means any Residential Unit within the Community Facilities District that is not a Below Market-Rate Unit.

**“Non-Residential Property”** means any Parcel within the Community Facilities District that is not Public Property and is not part of a Residential Unit, including parking areas, commercial square footage, corridors and other portions of a building that are not residential Living Area.

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

**“Public Property”** means any property within the boundaries of the Community Facilities District that is owned by or irrevocably offered for dedication to the federal government, State of California, City, or other local government or public agency.

**“Residential Unit”** means an individual for-sale or for-rent residential dwelling unit within the Community Facilities District.

**“Special Tax”** means a Special Tax levied in any Fiscal Year to pay the Special Tax Requirement.

**“Special Tax Requirement”** means the amount necessary in any Fiscal Year (i) to pay principal and interest on Bonds which is due in the calendar year that begins in such Fiscal Year, (ii) to create or replenish reserve funds, (iii) to cure any delinquencies in the payment of principal or interest on Bonds which have occurred in the prior Fiscal Year or (based on existing delinquencies in the payment of Special Taxes which have already taken place) are expected to occur in the Fiscal Year in which the tax will be collected, (iv) to pay Administrative Expenses, and (v) to pay the costs of public improvements authorized to be financed by the Community Facilities District. The amounts referred to in clauses (i) and (ii) of the preceding sentence may be reduced in any Fiscal Year by (i) interest earnings on or surplus balances in funds and accounts for the Bonds (including Capitalized Interest) to the extent that such earnings or balances are available to apply against debt service pursuant to the Bond indenture, Bond resolution, or other legal document that sets forth these terms, (ii)

proceeds from the collection of penalties associated with delinquent Special Taxes, and (iii) any other revenues available to pay debt service on the Bonds as determined by the Administrator.

**“Square Footage Deficit”** means, for any building within the Community Facilities District, the square footage calculated by subtracting from the Expected Taxable Square Footage the revised square footage designated in a proposed site permit addendum or other document, the approval of which increases the amount of space in the building reserved for Below Market-Rate Units or otherwise reduces the total square footage of Market-Rate Units in the building.

**“Taxable Non-Residential Property”** means, in any Fiscal Year, an Assessor’s Parcel of Non-Residential Property that had been taxed as Developed Property in the prior Fiscal Year because a Market-Rate Unit had been or was expected to be constructed on the Parcel.

**“Taxable Property”** means all of Assessor’s Parcels within the boundaries of the Community Facilities District on which Market-Rate Units are or are expected to be constructed based on site permits issued for buildings within the Community Facilities District.

**“Taxable Public Property”** means, in any Fiscal Year, an Assessor’s Parcel of Public Property that had been taxed as Developed Property in the prior Fiscal Year because a Market-Rate Unit had been or was expected to be constructed on the Parcel.

**“Tax Zone”** means a mutually exclusive geographic area within which a particular Special Tax may be levied pursuant to this RMA. All of the property within The Community Facilities District at the time of the CFD Formation is within Tax Zone #1; additional Tax Zones may be created when property is annexed into the Community Facilities District, and a separate Special Tax shall be identified for property within the new Tax Zone at the time of such annexation.

**“Tax Zone #1”** means, at CFD Formation, the Parcels identified in Fiscal Year 2006-07 by Assessor’s Parcel numbers 3765-020 and 3765-021. Other Parcels may be added to Tax Zone #1 as a result of future annexations.

**“Undeveloped Property”** means either (i) all Parcels within a building designated in the site permit for construction of Market-Rate Units which have not yet become Developed Property, or (ii) if individual Parcels for the Market-Rate Units have not yet been created, the Parcel(s) of land on which the building is constructed or to be constructed.

**Maximum Special Tax.** The table below identifies the Maximum Special Tax for Taxable Property within the Community Facilities District for Fiscal Year 2006-07. A different Maximum Special Tax may be identified for Tax Zones added to the Community Facilities District as a result of future annexations.

**Rate and Method - Table 1  
Maximum Special Taxes**

<b>Tax Zone #1</b>	
<b>Type of Property</b>	<b>Maximum Special Tax Fiscal Year 2006-07*</b>
Developed Property	\$1.19 per square foot of Living Area
Undeveloped Property	\$1.19 per square foot of Living Area

\* On July 1, 2007 and on each July 1 thereafter, all figures shown in Table 1 above will be increased by an amount equal to 2.0% of the amount in effect for the prior Fiscal Year.

***Maintaining the Maximum Special Tax Base.***

***Square Footage Deficit.*** If, for any reason in any Fiscal Year prior to all Parcels of Taxable Property within a building becoming Developed Property, the Administrator determines that there is a Square Footage Deficit for that building that is greater than one percent (1%) of the Expected Taxable Square Footage for the building, the Administrator shall calculate a Special Tax prepayment associated with the Square Footage Deficit by applying the following steps:

- Step 1:** Calculate the Square Footage Deficit for the building.
- Step 2:** Multiply the Expected Taxable Square Footage for the building by one percent (1%).
- Step 3:** Subtract the amount determined in Step 2 from the Square Footage Deficit calculated in Step 1.
- Step 4:** Multiply the net square footage determined in Step 3 by the Maximum Special Tax applicable to the Tax Zone within which the building is located.
- Step 5:** Apply the prepayment formula provided in Section H using the amount determined in Step 4 above as the Maximum Special Tax for purposes of Step 1 in the prepayment formula to calculate the prepayment associated with the Square Footage Deficit.
- Step 6:** The Issuer shall notify the owner of the building of the prepayment amount determined in Step 5 and request such payment within 30 days of the notification. If not received, the prepayment amount shall be billed as a one-time Special Tax against one or more Parcels of Undeveloped Property remaining within the building, which amount shall be subject to the same foreclosure procedures as the annual Special Taxes levied pursuant to this RMA.

*Market Rate Units that Become Below Market-Rate Units.* Once a Residential Unit has been taxed as a Market-Rate Unit, such unit will continue to be subject to the Maximum Special Tax assigned to the Parcel even if the Residential Unit is categorized as a Below Market-Rate Unit, except in the event of one of the following: (i) another Residential Unit that had been identified as a Below Market-Rate Unit becomes a Market-Rate Unit in the same Fiscal Year, or (ii) a prepayment is received from the owner of the Parcel based on the amount calculated as a full prepayment for the Parcel pursuant to Section H below.

*Changes in Land Use, Parcel Configuration, or Unit Size.* Once a Special Tax has been levied against a Parcel of Developed Property, the Maximum Special Tax assigned to such Parcel shall never be reduced regardless of changes in land use, parcel configuration, unit size, or other factors affecting the Residential Unit on the Parcel.

*Taxable Public Property and Taxable Non-Residential Property.* If, in any Fiscal Year, the Administrator identifies a Parcel of Taxable Public Property or Taxable Non-Residential Property, the Maximum Special Tax assigned to such Parcel shall be the Maximum Special Tax that would have been in effect for the Parcel if it had continued to be taxed as Residential Property in that Fiscal Year. On July 1 of the following Fiscal Year and on each July 1 thereafter, the Maximum Special Tax for the Parcel shall be increased by an amount equal to 2.0% of the amount in effect for the prior Fiscal Year.

**Annual Administration.** On or about July 1 of each Fiscal Year, the Administrator will identify the current Assessor's Parcel numbers for Taxable Property within each Tax Zone. The Administrator will then determine the following:

- (i) which Parcels are Developed Property and Undeveloped Property,
- (ii) identify the square footage of Living Area for each Market-Rate Unit,
- (iii) identify Parcels on which Below Market-Rate Units are or will be built,
- (iv) determine whether there is a Square Footage Deficit within any building, and
- (v) calculate the Special Tax Requirement for the Fiscal Year.

**Method of Levy of the Special Tax.** Each following Fiscal Year, the Administrator will determine the Special Tax Requirement to be collected in that Fiscal Year, and will levy a Special Tax according to the following steps until the amount of levy is equal to the Special Tax Requirement:

- Step 1:** The Special Tax will be levied Proportionately on each Parcel of Developed Property in all Tax Zones up to 100% of the Maximum Special Tax for each Parcel for such Fiscal Year determined pursuant to "Maximum Special Tax."
- Step 2:** If additional revenues are needed after Step 1, and after applying Capitalized Interest to the Special Tax Requirement, the Special Tax will be levied on each Parcel of Undeveloped Property in all Tax Zones up to 100% of the Maximum Special Tax for each Parcel for such Fiscal Year determined pursuant to "Maximum Special Tax."

**Collection of Special Tax.** The Special Taxes for the Community Facilities District will 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 "Prepayment of Special Tax" below and provided further that the Issuer may directly bill the Special Tax, may collect Special Taxes at a different time or in a different manner, and may collect delinquent Special Taxes through foreclosure or other available methods.

The Special Tax will be levied and collected until principal and interest on the Bonds and any subsequent series of authorized bonds have been repaid and authorized facilities to be constructed from Special Tax proceeds have been completed. However, the Rate and Method provides that (i) in no event will a Special Tax be levied after Fiscal Year 2045-46 and (ii) pursuant to Section 53321 (d) of the Act, the Special Tax levied against a Parcel used for private residential purposes will under no circumstances increase more than ten percent (10%) as a consequence of delinquency or default by the owner of any other Parcel or Parcels and will, in no event, exceed the Maximum Special Tax in effect for the Fiscal Year in which the Special Tax is being levied.

**Exemptions.** No Special Tax will be levied on Parcels of Public Property except as otherwise provided in the Act, unless such property is Taxable Public Property. In addition, no Special Tax shall be levied in any Fiscal Year on Non-Residential Property except Taxable Non-Residential Property.

**Prepayment of Special Tax.** The Rate and Method allows prepayment of the Special Tax in full or in part, in an amount to be computed as set forth in the Rate and Method. See Appendix A.

## **Covenant to Foreclose**

**Sale of Property for Nonpayment of Taxes.** The Indenture 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 below and in the Act, is to be 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. The Indenture also allows the Issuer to collect the Special Taxes by directly billing the property owners in the Community Facilities District, in which event the Special Taxes will become delinquent if they are not paid when due pursuant to the direct billing.

**Foreclosure Under the Mello-Roos Law.** Under Section 53356.1 of the Act, if any delinquency occurs in the payment of the Special Tax, the Issuer 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, the Issuer has covenanted in the Indenture that, on or about February 15 and June 15 of each Fiscal Year, the Chief Financial Officer will compare the amount of Special Taxes theretofore levied in the Community Facilities District to the amount of Special Tax Revenues theretofore received by the Issuer, and:

Individual Delinquencies. If the Chief Financial Officer determines that any single parcel subject to the Special Tax in the Community Facilities District is delinquent in the payment of Special Taxes in the aggregate amount of \$3,000 or more, then the Chief Financial Officer will send or cause to be sent a notice of delinquency (and a demand for immediate payment thereof) to the property owner within 45 days of such determination, and (if the delinquency remains uncured) foreclosure proceedings will be commenced by the

Issuer within 90 days of such determination. **It should be noted, however, that the Indenture authorizes the Chief Financial Officer to defer initiating foreclosure if the amount in the Reserve Fund is at least equal to the Reserve Requirement.**

Aggregate Delinquencies. If the Chief Financial Officer determines that (i) the total amount of delinquent Special Tax for the prior Fiscal Year for the entire Community Facilities District, (including the total of delinquencies described in "Individual Delinquencies" above), exceeds 5% of the total Special Tax due and payable for the prior Fiscal Year, or (ii) there are ten (10) or fewer owners of real property within the Community Facilities District, determined by reference to the latest available secured property tax roll of the County, the Chief Financial Officer will notify or cause to be notified property owners who are then delinquent in the payment of Special Taxes (and demand immediate payment of the delinquency) within 45 days of such determination, and the Issuer will commence foreclosure proceedings within 90 days of such determination against each parcel of land in the Community Facilities District with a Special Tax delinquency.

***Sufficiency of Foreclosure Sale Proceeds; Foreclosure Limitations and Delays.*** No assurances can be given that the real property subject to a judicial foreclosure sale will be sold or, if sold, that the proceeds of sale will be sufficient to pay any delinquent Special Tax installment. The Act does not require the Issuer to purchase or otherwise acquire any lot or parcel of property foreclosed upon if there is no other purchaser at such sale. See "BOND OWNERS' RISKS".

Section 53356.6 of the Act requires that property sold pursuant to foreclosure under the Act be sold for not less than the amount of judgment in the foreclosure action, plus post-judgment interest and authorized costs, unless the consent of the owners of 75 percent of the outstanding Bonds is obtained. However, under Section 53356.6 of the Act, the Issuer, as judgment creditor, is entitled to purchase any property sold at foreclosure using a "credit bid," where the Issuer could submit a bid crediting all or part of the amount required to satisfy the judgment for the delinquent amount of the Special Tax. If the Issuer becomes the purchaser under a credit bid, the Issuer must pay the amount of its credit bid into the redemption fund established for the Bonds, but this payment may be made up to 24 months after the date of the foreclosure sale.

Foreclosure by court action is subject to normal litigation delays, the nature and extent of which are largely dependent on the nature of the defense, if any, put forth by the debtor and the Superior Court calendar. In addition, the ability of the Issuer to foreclose the lien of delinquent unpaid Special Taxes may be limited in certain instances and may require prior consent of the property owner if the property is owned by or in receivership of the Federal Deposit Insurance Corporation (the "FDIC"). See "BOND OWNERS' RISKS - Bankruptcy and Foreclosure Delays."

***Teeter Plan.*** Although the City and County has implemented 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, it has done so only with respect to property taxes on the secured tax roll. Special taxes and assessments are not included in the Teeter Plan, and as a result, the amount of the Special Tax levy received by the Issuer will reflect actual collections. Substantial delinquencies in the payment of Special Taxes could impair the Issuer's ability to pay debt service on the Bonds.

## **Special Tax Fund**

**Deposits.** The Indenture generally obligates the Issuer to transfer all Special Tax Revenues received by it to the Trustee for deposit in the Special Tax Fund; the Indenture also calls for deposit into the Special Tax Fund of certain surplus amounts from the Administrative Expense Fund. Special Tax Revenues constituting payment of the portion of the Special Tax levy for Administrative Expenses will be deposited by the Trustee in the Administrative Expense Fund and any proceeds of Special Tax Prepayments will be deposited by the Trustee directly in the Special Tax Prepayments Account.

**Disbursements.** On each Interest Payment Date, the Trustee will withdraw from the Special Tax Fund and transfer the following amounts in the following order of priority:

Bond Fund: an amount, taking into account any amounts then on deposit in the Bond Fund and any expected transfers to the Bond Fund from the Improvement Fund, the Reserve Fund, the Capitalized Interest Account and the Special Tax Prepayments Account, such that the amount in the Bond Fund equals the principal (including any sinking payment), premium, if any, and interest due on the Bonds on such Interest Payment Date.

Reserve Fund: an amount, taking into account amounts then on deposit in the Reserve Fund, such that the amount in the Reserve Fund is equal to the Reserve Requirement.

## **Bond Fund**

The Indenture establishes the Bond Fund, and within the Bond Fund, a Capitalized Interest Account and the Special Tax Prepayments Account. Moneys in the Bond Fund and the accounts therein will be held in trust by the Trustee for the benefit of the Owners of the Bonds, will be disbursed for the payment of the principal of, and interest and any premium on, the Bonds as provided below, and, pending such disbursement, will be subject to a lien in favor of the Owners of the Bonds.

Bond Fund Disbursements. On each Interest Payment Date, the Trustee will withdraw from the Bond Fund and pay to the Owners of the Bonds the principal, and interest and any premium, then due and payable on the Bonds, including any amounts due on the Bonds by reason of the mandatory sinking payments or an optional redemption of the Bonds. Amounts deposited in the Bond Fund as a result of a transfer from the Improvement Fund (as a result of completion of the Project and payment of all the costs of the Project) will be used to pay the principal of and interest on the Bonds prior to the use of any other amounts in the Bond Fund for such purpose.

In the event that amounts in the Bond Fund are insufficient for the purposes set forth in the preceding paragraph, the Trustee will withdraw from the Reserve Fund and deposit in the Bond Fund the amount of the insufficiency.

If there are insufficient funds in the Bond Fund to make the required payments, the Trustee will apply the available funds first to the payment of interest on the Bonds, then to the payment of principal due on the Bonds other than by reason of sinking payments, and then to payment of principal due on the Bonds by reason of sinking payments. Any sinking payment not made as scheduled shall be added to the sinking payment to be made on the next sinking payment date.

Special Tax Prepayments Account Disbursements. Moneys in the Special Tax Prepayments Account will be transferred by the Trustee to the Bond Fund on the next date for which notice of redemption of Bonds can timely be given, and will be used (together with any amounts transferred from the Reserve Fund as a result of the Special Tax prepayment) to redeem Bonds.

Capitalized Interest Account Disbursements. Moneys in the Capitalized Interest Account (to the extent available) will be transferred to the Bond Fund on the Business Day prior to each Interest Payment Date for the payment of interest on the Bonds due on the next succeeding Interest Payment Date.

## **Reserve Fund**

In order to further secure the payment of principal of and interest on the Bonds, certain proceeds of the Bonds will be deposited into the Reserve Fund in an amount equal to the Reserve Requirement (see "ESTIMATED SOURCES AND USES OF FUNDS"). "**Reserve Requirement**" is defined in the Indenture to mean, as of any date of calculation, an amount equal to the least of the following:

- (i) the then maximum annual debt service on the Bonds,
- (ii) 125 percent of the then-average annual debt service on the Bonds, or
- (iii) 10 percent of the then-Outstanding principal amount of the Bonds.

If Special Taxes are prepaid and Bonds are to be redeemed with the proceeds of such prepayment, a proportionate amount in the Reserve Fund (determined on the basis of the principal of Bonds to be redeemed and the original principal of the Bonds) will be applied to the redemption of the Bonds.

The Indenture allows the Issuer to release funds from the Reserve Fund and to substitute a Qualified Reserve Fund Credit Instrument, subject to certain conditions.

See "APPENDIX C – Summary of the Indenture" for a description of the timing, purpose and manner of disbursements from the Reserve Fund.

## **Limited Obligation**

All obligations of the Issuer under the Indenture and the Bonds are special obligations of the Issuer, payable solely from the Trust Estate. See "THE ISSUER".

## **No Acceleration**

The principal of the Bonds are not subject to acceleration under the Indenture as a result of a default relating to the Indenture or the Bonds.

## THE ISSUER

*The following information relating to the Issuer is included only for the purpose of supplying general information regarding the Issuer. The Bonds are not payable from any of the Issuer's revenues or assets other than the Trust Estate.*

The Issuer is a joint powers agency duly organized and existing under the laws of the State of California. The Issuer was formed pursuant to the terms of a Joint Powers Agreement, dated as of April 1, 1990, as amended as of September 18, 1990 and June 9, 1992, and the Joint Exercise of Powers Act of the State (constituting Chapter 5, commencing with Section 6500, of Division 7 of Title 1 of the California Government Code), in order to assist nonprofit corporations and other entities to obtain financing for projects located within the several jurisdictions of the Issuer's members with purposes serving the public interest.

**The Bonds are limited obligations of the Issuer and the principal thereof, and premium, if any, and interest thereon, are payable solely from, and secured in accordance with their terms and the provisions of the Indenture solely by, the Special Tax Revenues and the other amounts pledged therefor under the Indenture. Neither the Issuer, the Association of Bay Area Governments ("ABAG"), any of the member of the Issuer or ABAG, the State, nor any political subdivision thereof (except the Issuer, to the limited extent set forth in the Indenture) will in any event be liable for the payment of the principal of, or premium (if any) or interest on the Bonds or for the performance of any pledge, obligation or agreement of any kind whatsoever, and none of the Bonds or any of the Issuer's agreements or obligations will be construed to constitute an indebtedness of or a pledge of the faith and credit of or a loan of the credit of the Issuer, ABAG, or the members of the Issuer or ABAG, the State or any political subdivision thereof (except the Issuer, to the limited extent set forth in the Indenture) within the meaning of any constitutional or statutory provision whatsoever. Neither the Issuer nor ABAG has any taxing power.**

## THE COMMUNITY FACILITIES DISTRICT

### General

The Community Facilities District consists of two lots (Block 3765, Lots 20 and 21) located on approximately 0.99 gross acres. The two lots currently constitute two “master condominium lots,” which will convert to 390 residential condominium units upon the first sale of a condominium unit. One Rincon Development plans to market and sell condominium units during building construction.

One Rincon Development plans to develop the 390 residential condominiums (including 14 townhouses) in a single tower over a multi-level parking podium. The condominium units will range in size from 605 square feet to 2,380 square feet. The proposed development is commonly known as One Rincon Hill Phase I.

The only property in the Community Facilities District that will be subject to the Special Tax are “Market-Rate Units” (as defined in the Rate and Method); One Rincon Development currently expects that all 390 of the proposed condominium units in Phase I will be Market-Rate Units. See “SECURITY FOR THE BONDS – Rate and Method”.

In 2007, One Rincon Hill Phase II, LLC plans to begin construction of Phase II, consisting of approximately 319 condominium units in a 48-story tower on Lot 22, which is located immediately to the east of Lots 20 and 21. Lot 22 is not included in the Community Facilities District, although there are plans to annex it and other neighboring properties into the Community Facilities District and, accordingly, the map of the Community Facilities District shows such properties in a “future annexation area”. See the COMMUNITY FACILITIES DISTRICT BOUNDARY MAP at the front of this Official Statement. ***There can be no assurances that any other properties will annex into the Community Facilities District; if they do, the annexation is likely to occur concurrently with issuance of Parity Bonds.***

Property in the Community Facilities District is located at the southeast corner of First and Harrison Streets in a mixed-use neighborhood generally known as Rincon Hill in the South-of-Market Financial District of San Francisco. It is situated two blocks to the south of the proposed Transbay Redevelopment Project area, within one block north of the Rincon Point-South Beach Redevelopment Plan area, immediately north of the I-80/Bay Bridge freeway, four blocks west of The Embarcadero that runs along the San Francisco Bay waterfront, east of Second Street and east of Howard Street. The primary land uses in Rincon Hill are largely high-density residential, but also include retail, office, light industrial, institutional uses and major transportation facilities. Much of Rincon Hill is in transition from low-rise and mid-rise industrial district with surface parking to a predominately high-rise, high-density residential district.

### The Appraisal

A summary appraisal report (the “**Appraisal**”) was prepared by Blake Global of Walnut Creek, California (the “Appraiser”) to ascertain the market value of the fee simple estate of the parcels comprising One Rincon Hill Phase I in the Community Facilities District as of an April 8, 2006 date of value.

The Appraisal was based on certain assumptions and limiting conditions set forth in APPENDIX B, including the assumption that all of the improvements and benefits to the property to be funded by the Bonds are completed and have accrued to the property.

**Value Estimate.** The Appraiser estimated that, as of the April 8, 2006 date of value, the fee simple interest in the property within the Community Facilities District (subject to easements of record and to the lien of the Special Taxes) had an estimated market value of \$24,200,000.

**Valuation Methods.** The Appraiser estimated the value of the property in the Community Facilities District based on the sales comparison approach, in which market value is estimated by comparing properties similar to the subject property that have recently been sold, are listed for sale, or are under contract. The estimate of value for the property was achieved using the land sales prices of comparable parcels in the San Francisco Rincon Hill area that were listed or had sold within the prior two years. A discounted cash flow analysis was not used. The Appraisal noted that while typically a subdivision (or discounted cash flow) analysis would be appropriate for a proposed residential development, this technique was excluded because the Appraiser had performed such an analysis in December 2005. In the opinion of the Appraiser, the value estimate derived through the subdivision analysis performed in December 2005 was still valid as of the April 8, 2006 date of value. Furthermore, the Appraiser considered the available market data in the Sales Comparison Approach to be sufficient to provide the basis for an independent market value conclusion for the property as if vacant.

*The Issuer and the Underwriters make no representation as to the accuracy or completeness of the Appraisal. See APPENDIX B for the Summary Appraisal Report.*

**Appraised Value to Burden Ratio**

The table below shows the projected value to burden ratio for the property in the Community Facilities District based on the appraised values set forth in the Appraisal, and the lien represented by the principal amount of the Bonds.

*No assurance can be given that the amounts shown in this table will conform to those ultimately realized in the event of a foreclosure action following delinquency in the payment of the Special Taxes.*

**Table 1**

**Appraised Value and Value to Burden Ratios**

<u>Property Owner</u>	<u>Block/Lot</u>	<u>Number of Lots</u>	<u>Maximum Special Tax<sup>(1)</sup></u>	<u>Principal Amount of the Bonds</u>	<u>Appraised Value<sup>(2)</sup></u>	<u>Value to Burden Ratio<sup>(3)</sup></u>
One Rincon Development	Block 3765, Lots 20, 21	2	\$468,722	\$5,825,000	\$24,200,000	4.15

(1) Source: Rate and Method.

(2) Market value estimated by the Appraiser as of April 8, 2006.

(3) Appraised value divided by principal amount of the Bonds. Does not include other liens and charges described in "Overlapping Taxes, Charges and Assessments."

Source: Goodwin Consulting Group.

**Direct and Overlapping Governmental Obligations**

**Taxes, Charges and Assessments.** The base tax rate on property in the Community Facilities District is 1.14 percent (including ad valorem tax overrides). Property in the Community Facilities District is also subject, or will be subject, to the following annual charges and assessments (which are billed to property owners on a semi-annual basis), based on an assumed unit size of 1,057 square feet and an assumed assessed value of \$1,048,053 (\$992/sq. ft. of livable space):

<u>Description</u>	<u>% of Assessed Value</u>	<u>Maximum Amount</u>
2006-07 Base Tax Rate	1.140%	\$10,481.00
San Francisco USD CFD	0.003	32.00
CFD No. 2006-1	<u>0.120</u>	<u>1,258.00</u>
<b>Total</b>	1.263%	\$13,238.00

Source; Goodwin Consulting Group.

**Overlapping Debt.** The direct and overlapping debt obligations of local agencies affecting the property in the Community Facilities District as of April 1, 2006 are shown in the following table. The table was prepared by California Municipal Statistics, Inc., and is included for general information purposes only. The Issuer has not reviewed this report for completeness or accuracy and makes no representation in connection therewith.

**Direct and Overlapping Governmental Obligations**

ASSOCIATION OF BAY AREA GOVERNMENTS COMMUNITY FACILITIES DISTRICT NO. 2006-1 RINCON HILL

2005-06 Local Secured Assessed Valuation: \$16,829,347

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 4/15/06</u>
Bay Area Rapid Transit District	0.0046%	\$ 4,652
San Francisco Community College District	0.016	23,026
San Francisco Unified School District	0.016	8,981
City of San Francisco	0.016	213,386
<b>ABAG Community Facilities District No. 2006-1 Rincon Hill</b>	<b>100.</b>	<b>-</b> (1)
<b>TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$250,045</b>
 <u>OVERLAPPING GENERAL FUND DEBT:</u>		
San Francisco Community College District Certificates of Participation	0.016%	\$ 3,546
San Francisco Unified School District Certificates of Participation	0.016	2,723
City of San Francisco General Fund Obligations	0.016	103,477
City of San Francisco Judgment Obligations	0.016	<u>5,273</u>
<b>TOTAL OVERLAPPING GENERAL FUND DEBT</b>		<b>\$115,019</b>
 <b>COMBINED TOTAL DEBT</b>		 <b>\$365,064 (2)</b>

(1) Excludes Mello-Roos Act bonds to be sold.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2005-06 Assessed Valuation:

<b>Direct Debt</b>	<b>- %</b>
Total Direct and Overlapping Tax and Assessment Debt .....	1.49%
Combined Total Debt.....	2.17%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/05: \$26

Source: California Municipal Statistics.

## PROPERTY OWNERSHIP AND PROPOSED DEVELOPMENT

*The information about One Rincon Development, affiliated entities and the proposed development in the Community Facilities District contained in this Official Statement has been provided by representatives of One Rincon Development and has not been independently confirmed or verified by the Underwriters or the Issuer. Neither the Underwriters nor the Issuer makes any representation as to the accuracy or adequacy of the information contained in this section. There may be material adverse changes in this information after the date of this Official Statement. No assurances can be made by the Issuer or the Underwriters that One Rincon Development or any other current or future owner of property within the Community Facilities District will have the resources, willingness and ability to successfully complete development activities on the property within the Community Facilities District. No representation is made by the Issuer or the Underwriters as to the ability (financial or otherwise) of One Rincon Development or any other owner of property within the Community Facilities District to complete the property development as currently planned.*

### Property Ownership

**General.** All of the property in the Community Facilities District, consisting of 0.99 acres on 2 lots, is currently owned by One Rincon Development, LLC (“**One Rincon Development**”), a Delaware limited liability company.

The sole member of One Rincon Development is Urban West Rincon Developers, LLC, a California limited liability company, an affiliate of Urban West Associates of San Diego, a California limited partnership (“**Urban West Associates**”). The general partner of Urban West Associates is The Kriozere Corporation, the President of which is Michael N. Kriozere.

**Development Experience.** In addition to One Rincon Hill, Urban West Associates is negotiating a Disposition and Development Agreement with the San Jose Redevelopment Agency to acquire and develop City Front Square comprising approximately 440 proposed residential condominium units in San Jose, California. The following projects were previously undertaken by Urban West Associates:

<u>Project</u>	<u>Number of Condos</u>	<u>Location</u>	<u>Year Completed</u>
One Embarcadero South	233	San Francisco	1999
City Front Terrace	321	San Diego	1993

Urban West Associates was formed by Michael Kriozere in 1990. Mr. Kriozere has been active in urban residential and commercial development since 1965. Prior to founding Urban West Associates, Mr. Kriozere was associated with Jupiter Corporation of Chicago, Centex Corporation, McHugh-Levin Associates, Burnham Development Company and ABI Development of Chicago. The completed development projects for which Mr. Kriozere has been responsible are valued at approximately \$583 million, including 4,200 multifamily high-rise apartments, condominiums and garden units, and approximately 800,000 square feet of commercial, retail and office space.

**History of Property Tax Payments; Loan Defaults; Bankruptcy.** One Rincon Development has represented as follows:

- One Rincon Development and Urban West Associates have never defaulted to any material extent in the payment of special taxes or assessments in connection with the Community Facilities District or any other community facilities districts or assessment districts in California within the past five years.

- One Rincon Development and Urban West Associates are not currently in default on any loans, lines of credit or other obligation, the result of which could materially adversely affect the development of property owned by One Rincon Development in the Community Facilities District.

- One Rincon Development and Urban West Associates are solvent and no proceedings are pending or, to the actual knowledge of One Rincon Development and Urban West Associates, threatened in which One Rincon Development or Urban West Associates may be adjudicated as bankrupt or become the debtor in a bankruptcy proceeding, or discharged from all of its respective debts or obligations, or granted an extension of time to pay its respective debts or a reorganization or readjustment of its respective debts.

- There is no litigation or administrative proceeding of any nature in which One Rincon Development or Urban West Associates has been served, or to such representative's actual knowledge, is pending or threatened against One Rincon Development or Urban West Associates which, if successful, would materially adversely affect the ability of One Rincon Development to complete the development and sale of its property within the Community Facilities District, or to pay the Special Taxes or ordinary ad valorem property tax obligations when due on its property within the Community Facilities District, or which challenges or questions the validity or enforceability of the Bonds, the Resolution of Issuance, the Fiscal Agent Agreement, One Rincon Development's Property Owner Continuing Disclosure Certificate or the Bond Purchase Contract.

### **Proposed Development by One Rincon Development**

One Rincon Development proposes to construct 390 condominiums in Phase I at the southeast corner of First and Harrison Streets in San Francisco. The site of Phase I consists of two lots (Block 3765, Lots 20 and 21), totaling approximately 0.99 acres. The lots are located within the Rincon Hill Downtown Residential Mixed-Use district and are generally planned for and zoned commercial and high density residential. The first 7 levels of Phase I are proposed to be developed as the parking podium with an entry lobby and mechanical rooms. The 14 townhouses will be located within these 7 levels fronting on Harrison Street. A residential tower will rise from the 8th to the 60th floors, with additional floors above housing the elevator room, water tank and other mechanical equipment.

The proposed product mix is set forth below:

**Proposed Product Mix  
One Rincon Hill Phase I Tower**

<u>Unit Type</u>	<u>No.</u>	<u>Avg. Size (s.f.)</u>
Junior 1 BR/1 BA	39	606
1 BR/1 BA	117	765
1 BR/1 BA Deluxe	39	844
2 BR/2 BA	137	1,284
2 BR/2 BA + Den	16	1,661
2 BR/2 BA Deluxe	4	1,420
3 BR/2 BA	12	1,635
3 BR/2 BA Deluxe	12	1,963
<b>Tower Total</b>	<b>376</b>	

**Proposed Product Mix  
One Rincon Hill Phase I Townhouses**

<u>Unit Type</u>	<u>No.</u>	<u>Avg. Size (s.f.)</u>
2 BR/2 BA	4	1,750
2 BR/2 BA	1	1,640
1 BR/1 BA	2	1,140
3 BR/2 BA + Den	5	2,380
2 BR/2 BA	1	1,770
2 BR/2 BA	1	1,970
2 BR/2 BA	1	1,970
<b>Townhouses Total</b>	<b>14</b>	

**Status of Development; Anticipated Schedule**

As of April 1, 2006, One Rincon Development had completed demolition, excavation and shoring for Phase I. Construction of the mat foundation is complete and center core construction has commenced.

The proposed construction and sales schedule for Phase I are set forth below. *No assurance can be given that construction will be carried out on the schedule and according to the plans outlined below, or that One Rincon Development's construction and sale plans will not change after the date of this Official Statement.*

**Proposed Construction and Sales Schedule  
One Rincon Hill Phase I**

<u>No. of Units</u>	<u>Proposed Square Footage Range</u>	<u>Proposed Price Range</u>	<u>Begin Construction</u>	<u>Open Model Condos</u>	<u>1<sup>st</sup> Escrow Opens</u>	<u>First Condo Sale Closings</u>	<u>Complete Construction</u>	<u>Last Condo Sale Closings</u>
390	606 to 2,380 s.f.	\$600,000 to \$2,000,000	Oct. 2005	June 2006	June 2006	Nov. 2007	Feb. 2008	May 2008

Source: One Rincon Development.

The proposed sales schedule anticipates an absorption rate of 22 units per month for a total sales period of one and one-half years.

## **Financing Plan**

One Rincon Development is not developing any of the improvements being financed with proceeds of the Bonds (see "FACILITIES TO BE FINANCED WITH PROCEEDS OF THE BONDS").

One Rincon Development expects to spend approximately \$262,800,000 on development of Phase I of One Rincon Hill, including parking for Phases I and II of One Rincon Hill. One Rincon Development expects to finance construction of Phase I (including parking for Phases I and II) with the following:

- A construction loan in the amount of \$179,500,000 provided by Union Labor Life Insurance Company (the "**Construction Loan**"). The Construction Loan is secured by a deed of trust on the property in the Community Facilities District. Disbursements of the Construction Loan have begun.
- A mezzanine loan in the amount of \$75,000,000 provided by SP ORH 1, LLC (the "**Mezzanine Loan**") The Mezzanine Loan is secured by a deed of trust on the property in the Community Facilities District. Disbursements of the Mezzanine Loan have begun.
- Equity of approximately \$8,300,000 from Urban West Associates, which has already been disbursed and expended.

One Rincon Development expects proceeds of the two loans and the equity contribution to be sufficient to complete development of Phase I as currently proposed.

## **Entitlements**

One Rincon Development reports that all applicable entitlements are in hand, including the following:

- On August 2, 2005, the Board of Supervisors adopted Ordinance No. 205-05 approving amendments to the San Francisco General Plan by amending the Rincon Hill Area Plan, the Urban Design Element, the Recreation and Open Space Element, the Downtown Plan, the South of Market Area Plan, and the Land Use Index to conform them with the proposed Rincon Hill Downtown Residential District Plan.
- On August 9, 2005, the Board of Supervisors adopted Ordinance No. 217-05 approving Planning Code amendments to implement the Rincon Hill Area Plan.
- Pursuant to Planning Commission Motion No. 17077 adopted August 4, 2005, the Planning Commission determined that One Rincon Hill, subject to certain conditions, is compliant with the Planning Code and granted an exception to the Planning Code to allow parking greater than one parking space for every two dwelling units.
- One Rincon Development recorded a Final Parcel Map for One Rincon Hill on December 28, 2005 which merged former lots 1, 9 and 15 of Assessor's Block 3765.

- On December 30, 2005, One Rincon Development paid an Affordable Housing In Lieu fee to the City in the amount of \$11,026,146 in lieu of providing off-site affordable housing required under the Planning Code.
- On December 30, 2005, One Rincon Development paid a fee of \$98,471 to the City to satisfy the SOMA Stabilization Fund fee requirement of Planning Code Section 318; the fee (totaling \$0.25 per square foot on residential development in the Rincon Hill Area Plan) will be used to provide community stabilization benefits in the South of Market area including affordable housing, economic development and community cohesion. An additional SOMA Stabilization Fund of \$13.75/net square foot or approximately \$5,415,905, will be payable after issuance of certificate of final completion.
- On February 3, 2006, One Rincon Development paid school fees of \$858,448.15 to the San Francisco Unified School District.
- The City approved and issued Building Permit No. 1078718 on February 8, 2006.

**Utilities.** It is expected that utility services for the property in the Community Facilities District will be provided by the entities listed below. One Rincon Development believes there are no conditions that must be satisfied for utility service to be available to the Phase I development.

- Water: San Francisco Public Utilities Commission.
- Sanitary sewer: San Francisco Public Utilities Commission.
- Stormwater drainage: San Francisco Public Utilities Commission.
- Electricity and Gas: Pacific Gas & Electric.
- Telephone: AT&T.

## Environmental Conditions

Set forth in the following paragraphs are summaries of environmental issues applicable to development of property in the Community Facilities District.

**CEQA Review.** Pursuant to Motion No. 17075 adopted on August 4, 2005, the San Francisco City Planning Commission (the "Planning Commission") certified the Final EIR (the "EIR") as complying with the California Environmental Quality Act ("CEQA").

Scope; Impacts. The EIR for One Rincon Hill focused on land use, visual quality/urban design, cumulative population (growth inducement), shadow, wind, transportation, air quality and cultural (historic architectural) resources because all other potential environmental effects were found to be less than significant or to be mitigated to a less-than-significant level with mitigation measures to be implemented by the developer. The EIR found that the design and improvements of the One Rincon Hill development would (1) cause significant unavoidable impacts with regard to traffic at the Harrison Street/Second Street intersection and the Folsom Street/First Street intersection resulting in considerable cumulative traffic impacts, and (2) result in significant

unavoidable impact with regard to historic architectural resources as a result of the proposed demolition of the existing Union Oil Company Building and clock tower on the site.

Mitigation. The EIR concluded that there are no feasible mitigation measures that would improve conditions at the affected intersections for a less-than-significant level of impact, and therefore, did not propose any mitigation or improvement measures. The EIR identifies a mitigation measure that would partially offset the significant historic architectural impact of the One Rincon Hill development, although the development will result in the destruction of the historic structures.

The EIR also identified a number of mitigation measures that were primarily air-quality related and focused on construction methods; One Rincon Development reports it is in compliance with all of these measures. In addition, the EIR required a Site Mitigation Plan to be prepared in coordination with the Department of Public Health (“DPH”) and other applicable regulatory agencies. A Site Mitigation Plan dated May 10, 2005, as updated August 5, 2005 (the “**Site Mitigation Plan**”), was prepared by Treadwell and Rollo, Inc. and submitted to the San Francisco Department of Public Health. Because elevated concentrations of lead and low levels of petroleum hydrocarbons were found in the soil, the Site Mitigation Plan recommended mitigation measures during excavation and construction, including the implementation of a health and safety plan to minimize worker and public exposure to site contaminants during construction, the presence of a health and safety officer on site during excavation activities, and various soil handling, transporting and disposal measures. A Site Environmental Health and Safety Plan dated March 2005, as revised in August 2005 (the “**Health and Safety Plan**”), was prepared by Bovis Lend Lease and submitted to the San Francisco Department of Public Health. The Health and Safety Plan outlines safe work practices and hazard control methods during construction. One Rincon Development reports it is undertaking construction of Phase I in compliance with the recommendations contained in the Site Mitigation Plan and the Health and Safety Plan and does not expect the presence of hazardous materials to adversely impact timely completion of the proposed Phase I development as currently proposed.

Based on a presumption that archaeological resources from the 1906 San Francisco earthquake may be present on the site, the EIR identifies a number of mitigation measures relating to archaeological resources. Pursuant to the EIR, an archaeological testing program was undertaken between October 5 and December 13, 2005 by Archeo-Tec of Oakland, California, and an Archaeological Testing Report dated January 12, 2006 was prepared. The City has accepted the Archaeological Testing Report as satisfactory. One Rincon Development does not expect the existence of archaeological resources to adversely impact timely completion of the proposed Phase I development as currently proposed.

**Phase 1 Environmental Site Assessment and Phase 2 Environmental Site Characterization.** The EIR references a Phase 1 Site Assessment on the Bank of America Clocktower, dated October 29, 2001 prepared by ATC, Inc. (the “**Phase 1 Assessment**”) and an Updated Environmental Site Characterization, Rincon Hill, 425 First Street, dated February 17, 2004 prepared by Treadwell and Rollo (the “**Phase 2 Assessment**”) for the One Rincon Hill property.

The Phase 1 Assessment reported that a previous service station was located on the eastern portion of the site, but the EIR reports that petroleum hydrocarbon-impacted soil associated with the service station and underground storage tanks were removed in 1994 and the San Francisco Department of Public Health issued a case closure letter for the site.

The EIR notes that the project site is located in an area of San Francisco where, under Article 22A of the San Francisco Public Health Code (the Maher Ordinance), a site history and hazardous waste analysis must be prepared if more than 50 cubic yards of soil are to be disturbed on the property. In compliance with Article 22A, samples were collected, tested and evaluated in 2003 and hazardous concentrations of lead were detected at the site. Because hazardous materials were detected at the site, One Rincon Development was required to develop and implement a Site Mitigation Plan and Health and Safety Plan before the Building Department would issue a building permit. In addition, the presence of any asbestos containing materials or lead paint in the existing structures would require that One Rincon Development comply with notification requirements and abatement regulations. Demolition and removal of the existing buildings were completed in September 2005 and no asbestos was identified on the site.

**Geologic Conditions.** An Updated Geotechnical Investigation Rincon Hill 425 First Street, San Francisco, California, dated February 20, 2004 was prepared by Treadwell & Rollo, Inc. (the "**Geotechnical Investigation**"). The Geotechnical Investigation concluded that the project site is located in an area subject to "moderate" damage from seismic groundshaking originated by a characteristic earthquake (Moment Magnitude 7.1) along the San Andreas Fault (which is located approximately six miles southwest of San Francisco) and the Northern Hayward Fault (which is located approximately 12 miles northeast of San Francisco). During a major earthquake on a segment of one of the nearby faults, strong groundshaking is expected to occur at the project site.

The Geotechnical Investigation concludes that the project site is not in an area subject to landslide, seiche or tsunami run-up, or reservoir inundation hazards; that the project site is not in an Alquist-Priolo Earthquake Fault Zone, is not mapped within a Seismic Hazards Study Zone and does not contain any known active or potentially active faults; and there is no liquefaction potential as a result of the proposed project. However, the Geotechnical Investigation concludes the site will experience strong ground shaking during a major earthquake.

The Geotechnical Investigation made a number of recommendations relating to foundations, excavation, shoring, site demolition and subgrade preparation, dewatering, and basement wall design, and One Rincon Development reports it is undertaking construction of Phase I in compliance with these recommendations.

It should be noted in this regard that the One Rincon Hill towers will be the first buildings in the City and County to use a construction technique that provides most of the building's strength from a central concrete core and supporting outriggers rather than an exterior skeleton, and the building exceeds the height limits generally permitted by the City and County's Building Code for this structural system. Before issuing a building permit for Phase I, the Building Inspection Department of the City and County commissioned an independent panel of engineers (the "**Peer Review Committee**") to perform a peer review of the structural design of the Phase I tower and the portion of the substructure that is integrally attached to and supporting the Phase I tower. The Peer Review Committee concluded that, if properly constructed, the buildings will be capable of providing a level of protection of the public safety that is equal to or exceeds that provided by typical buildings of their type designed in complete conformance with the prescriptive requirements of the City and County's Building Code.

## **BOND OWNERS' RISKS**

*The purchase of the Bonds described in this Official Statement 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 before making an investment decision, in no particular order of importance.*

### **Limited Obligation of the Issuer to Pay Debt Service**

The Issuer has no obligation to pay principal of and interest on the Bonds if Special Tax collections are delinquent, other than from amounts, if any, on deposit in the Reserve Fund or funds derived from the tax sale or foreclosure and sale of parcels for Special Tax delinquencies. The Issuer is not obligated to advance its own funds to pay debt service on the Bonds.

### **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 Community Facilities District. The annual levy of the Special Tax is subject to the Maximum Special Tax authorized in the Rate and Method. 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.

Because the Special Tax formula set forth in the Rate and Method is not based on property value, the levy of the Special Tax will rarely, if ever, result in a uniform relationship between the value of particular parcels of Taxable Property and the amount of the levy of the Special Tax against those parcels. Thus, there will rarely, if ever, be a uniform relationship between the value of the parcels of Taxable Property and their 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," the Indenture 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 – Covenant to Foreclose" 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 ordinary ad valorem property taxes. Under these procedures, if taxes are unpaid for a period of five years or more, the property is subject to sale by the County.

If 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 Issuer of the proceeds of sale if the Reserve Fund is depleted. See "SECURITY FOR THE BONDS – Covenant to Foreclose."

### **Payment of Special Tax is not a Personal Obligation of Property Owners**

An owner of Taxable Property is not personally obligated to pay the Special Tax. Rather, the Special Tax is an obligation only against the parcels of Taxable Property. If, after a default in the payment of the Special Tax and a foreclosure sale by the Issuer, the resulting proceeds are insufficient, taking into account other obligations also constituting a lien against the parcels of Taxable Property, the Community Facilities District has no recourse against the owner.

## Property Values and Property Development

The value of Taxable Property within the Community Facilities District is a critical factor in determining the investment quality of the Bonds. If a property owner defaults in the payment of the Special Tax, the Issuer's only remedy is to foreclose on the delinquent property in an attempt to obtain funds with which to pay the delinquent Special Tax. Land development and land values could be adversely affected by economic and other factors beyond the Issuer's control, such as a general economic downturn, adverse judgments in future litigation that could affect the scope, timing or viability of development, relocation of employers out of the area, stricter land use regulations, shortages of water, electricity, natural gas or other utilities, destruction of property caused by earthquake, flood or other natural disasters, environmental pollution or contamination, or unfavorable economic conditions.

*Neither the Underwriters, the Issuer nor ABAG has evaluated development risks. Since these are largely business risks of the type that property owners customarily evaluate individually, and inasmuch as changes in land ownership may well mean changes in the evaluation with respect to any particular parcel, the Issuer is issuing the Bonds without regard to any such evaluation. Thus, the creation of the Community Facilities District and the issuance of the Bonds in no way implies that the Underwriters, the Issuer or ABAG has evaluated these risks or the reasonableness of these risks.*

The following is a discussion of specific risk factors that could affect the timing or scope of property development in the Community Facilities District or the value of property in the Community Facilities District.

**Completion of Development.** Land values are influenced by the level of development. No assurance can be given that the proposed development within the Community Facilities District will be completed, and in assessing the investment quality of the Bonds, prospective purchasers should evaluate the risks of noncompletion.

Continuing development within the Community Facilities District may be adversely affected by changes in general or local economic conditions, fluctuations in or a deterioration of the real estate market, increased construction costs, development, financing and marketing capabilities of the Property Owner, and other similar factors.

**Natural Disasters.** The value of the Taxable Property in the future can be adversely affected by a variety of natural occurrences, particularly those that may affect infrastructure and other public improvements and private improvements on the Taxable Property and the continued habitability and enjoyment of such private improvements. The areas in and surrounding the Community Facilities District, like those in much of California, may be subject to unpredictable seismic activity. As described in "PROPERTY OWNERSHIP AND PROPOSED DEVELOPMENT - Environmental Conditions," above, the One Rincon Hill towers will be the first buildings in the City and County to use a construction technique that provides most of the building's strength from a central concrete core and supporting outriggers rather than an exterior skeleton. One Rincon Development reports this type of building design is not unique in the country and has concluded it would provide the best shock absorption for the tall, slender towers proposed for Phases I and II. See "PROPERTY OWNERSHIP AND PROPOSED DEVELOPMENT – Environmental Conditions" for a summary of the conclusions of a Peer Review Committee with respect to the level of public safety protection provided by the design.

Other natural disasters could include, without limitation, landslides, floods, droughts or wildfires. One or more natural disasters could occur and could result in damage to improvements of varying seriousness. 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 there could be significant delinquencies in the payment of Special Taxes, and the value of the Taxable Property may well depreciate or disappear.

**Hazardous Substances.** One of the most serious risks in terms of the potential reduction in the value of Taxable Property is a claim with regard to a hazardous substance. In general, the owners and operators of Taxable Property may be required by law to remedy conditions of the parcel relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or the "Superfund Act," is the most well-known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner or operator is obligated to remedy a hazardous substance condition of property whether or not the owner or operator has anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the Taxable Property be affected by a hazardous substance, is to reduce the marketability and value of the parcel by the costs of remedying the condition, because the purchaser, upon becoming owner, will become obligated to remedy the condition just as is the seller.

See "PROPERTY OWNERSHIP AND PROPOSED DEVELOPMENT – Environmental Conditions" for a discussion of hazardous substances on the site of the proposed development and mitigation measures undertaken by One Rincon Development.

### **Concentration of Property Ownership**

As of the date of issuance of the Bonds, the Property Owner owns all of the Taxable Property in the Community Facilities District. Failure of the Property Owner to pay installments of the Special Tax when due could result in the depletion of the Reserve Fund prior to reimbursement from the resale of foreclosed property or payment of the delinquent Special Tax and, consequently, an insufficiency of Special Tax proceeds to meet obligations under the Indenture. In that event, there could be a delay or failure in payments of the principal of and interest on the Bonds.

### **Other Possible Claims Upon the Value of Taxable Property**

While the Special Taxes are secured by the Taxable Property, the security only extends to the value of such Taxable Property that is not subject to senior, priority and parity liens and similar claims. The section entitled "THE COMMUNITY FACILITIES DISTRICT – Overlapping Taxes, Charges and Assessments" discusses certain overlapping assessments.

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 parcels of Taxable Property and may be secured by a lien on a parity with the lien of the Special Tax securing the Bonds.

In general, 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 would usually be subordinate only to existing prior governmental liens, if any. Otherwise, in the event of such foreclosure proceedings, the Special Taxes would 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. See “– Bankruptcy and Foreclosure Delays” below.

### **Exempt Properties**

Certain properties are exempt from the Special Tax in accordance with the Rate and Method and the Act, which provides that properties or entities of the state, federal or local government are exempt from the Special Tax; provided, however, that property within the Community Facilities 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. See “SECURITY FOR THE BONDS – Rate and Method.” 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. See also “SECURITY FOR THE BONDS - Covenant to Foreclose”.

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 Fund**

The Reserve Fund is to be maintained at an amount equal to the Reserve Requirement. See “SECURITY FOR THE BONDS – Reserve Fund.” Funds in the Reserve Fund may be used to pay principal of and interest on the Bonds if insufficient funds are available from the proceeds of the levy and collection of the Special Tax against property within the Community Facilities District. If funds in the Reserve Fund 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 Bond holders pursuant to the Indenture. However, no replenishment from the proceeds of a Special Tax levy can occur as long as the proceeds that are collected from the levy of the Special Tax against property within the Community Facilities District at the maximum Special Tax rates, together with other available funds, remains insufficient to pay all such amounts. Thus it is possible that the Reserve Fund will be depleted and not be replenished by the levy of the Special Tax.

### **Bankruptcy and Foreclosure Delays**

**Bankruptcy.** The payment of the Special Tax and the ability of the Issuer 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 or any other person claiming an interest in Taxable Property, could result in a delay in superior court foreclosure proceedings and could result in the possibility of Special Tax installments not being paid in part or 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 Community Facilities District continues to be owned by a limited number of property owners, the chances are increased that the Reserve Fund 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 Fund 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.

**Property Owned by FDIC.** In addition, the ability of the Issuer to foreclose upon the lien on property for delinquent Special Taxes may be limited for properties in which the Federal Deposit Insurance Corporation (the “**FDIC**”) has an interest. On November 26, 1996, the FDIC adopted a Statement of Policy Regarding the Payment of State and Local Property Taxes (the “**Policy Statement**”) (which superseded a prior statement issued by the FDIC and the Resolution Trust Corporation in 1991). The Policy Statement applies to the FDIC when it is liquidating assets in its corporate and receivership capacities. The Policy Statement provides, in part, that real property of the FDIC is subject to state and local real property taxes if those taxes are assessed according to the property's value, and that the FDIC is immune from ad valorem real property taxes assessed on other bases. The Policy Statement also provides that the FDIC will pay its proper tax obligations when they become due and will pay claims for delinquencies as promptly as is consistent with sound business practice and the orderly administration of the institution's affairs, unless abandonment of the FDIC interest in the property is appropriate. It further provides that the FDIC will pay claims for interest on delinquent property taxes owned at the rate provided under state law, but only to the extent the interest payment obligation is secured by a valid lien. The FDIC will not pay for any fines or penalties and will not pay nor recognize liens for such amounts. The Policy Statement also provides that if any property taxes (including interest) on FDIC-owned property are secured by a valid lien (in effect before the property became owned by the FDIC), the FDIC will pay those claims. No property of the FDIC is subject to levy, attachment, garnishment, foreclosure or sale without the FDIC's consent. In addition, a lien for taxes and interest may attach, but the FDIC will not permit a lien or security interest held by the FDIC to be eliminated by foreclosure without the FDIC's consent.

With respect to challenges to assessments, the Policy Statement provides: “The [FDIC] is only liable for state and local taxes which are based on the value of the property during the period for which the tax is imposed, notwithstanding the failure of any person, including prior record owners, to challenge an assessment under the procedures available under state law. In the exercise of its business judgment, the [FDIC] may challenge assessments which do not conform with the statutory provisions, and during the challenge may pay tax claims based on the assessment level deemed appropriate, provided such payment will not prejudice the challenge. The [FDIC] will generally limit challenges to the current and immediately preceding taxable year and to the pursuit of previously filed tax protests. However, the [FDIC] may, in the exercise of its business judgment, challenge any prior taxes and assessments provided that (1) the [FDIC's] records (including appraisals, offers or bids received for the purchase of the property, etc.) indicate that the assessed value is clearly excessive, (2) a successful challenge will result in a substantial

savings to the [FDIC], (3) the challenge will not unduly delay the sale of the property, and (4) there is a reasonable likelihood of a successful challenge.”

The Policy Statement states that the FDIC generally will not pay non-ad valorem taxes, including special assessments, on property in which it has a fee simple interest unless the amount of tax is fixed at the time the FDIC acquires its fee simple interest in the property, nor will the FDIC recognize the validity of any lien to the extent it purports to secure the payment of any such amounts. Because the Special Taxes are neither ad valorem taxes nor special assessments, and because they are levied under a special tax formula under which the amount of the Special Tax is determined each year, the Special Taxes appear to fall within the category of taxes the FDIC generally will not pay under the Policy Statement.

Following the County of Orange bankruptcy proceedings filed in December 1994, the FDIC filed claims against the County of Orange in the U.S. Bankruptcy Court and the Federal District Court which challenged special taxes that Orange County had levied on FDIC-owned property (and which the FDIC had paid) under the Act. The FDIC took a position similar to that outlined in the Policy Statement, to the effect that the FDIC, as a governmental entity, is exempt from special taxes under the Act. The Bankruptcy Court agreed, finding that the FDIC was not liable for post-receivership Mello-Roos taxes, and the Bankruptcy Appellate Panel affirmed. On appeal, the U.S. Court of Appeals for the Ninth Circuit, while not specifically asked to decide on the issue, stated in its decision filed on August 28, 2001, that “the FDIC, as a federal agency, is exempt from the Mello-Roos tax,” and quoted Section 53340(c) of the Act in stating that “‘properties or entities’ of the federal government are exempt from the tax.” The County of Orange did not appeal the decision.

The Issuer is unable to predict what effect the application of the Policy Statement would have in case of a Special Tax delinquency on a parcel in which the FDIC has an interest. However, prohibiting the judicial foreclosure sale of an FDIC-owned parcel would likely reduce the number of or eliminate the persons willing to purchase a parcel at a foreclosure sale. Owners of the Bonds should assume that the Issuer will be unable to foreclose on parcels of land in the Community Facilities District owned by the FDIC. Such an outcome would cause a draw on the Reserve Fund and perhaps, ultimately, a default in payment of the Bonds.

### **Disclosure to Future Purchasers**

The Issuer has recorded a notice of the Special Tax lien in the Office of the City and County of San Francisco 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 of land or a home in the Community Facilities District or the lending of money secured by property in the Community Facilities District. The Act requires the subdivider of a subdivision (or its agent or representative) to notify a prospective purchaser or long-term lessor of any lot, parcel, or unit subject to a Mello-Roos special tax of the existence and maximum amount of such special tax using a statutorily prescribed form. California Civil Code Section 1102.6b requires that in the case of transfers other than those covered by the above requirement, the seller must at least make a good faith effort to notify the prospective purchaser of the special tax lien in a format prescribed by statute. Failure by an owner of the property to comply with these 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.

## **No Acceleration Provisions**

The Indenture does 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 Indenture. Under the Indenture, a Bond holder is given the right for the equal benefit and protection of all Bond holders similarly situated to pursue certain remedies, subject to the compliance with certain requirements. See “APPENDIX C – Summary of the Indenture.” So long as the Bonds are in book-entry form, DTC will be the sole Bondholder and will be entitled to exercise all rights and remedies of Bond holders.

## **Loss of Tax Exemption**

As discussed under the caption “LEGAL MATTERS – Tax Matters,” 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 Issuer in violation of its covenants in the Indenture. The Indenture 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.”

## **Voter Initiatives**

Under the California Constitution, the power of initiative is reserved to the voters for the purpose of enacting statutes and constitutional amendments. Since 1978, the voters have exercised this power through the adoption of Proposition 13 and similar measures, the most recent of which was approved as Proposition 218 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 Issuer. 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 XIIIIC and XIID 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.

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

Like its antecedents, Proposition 218 is likely to undergo both judicial and legislative scrutiny before its impact on the Issuer, the Community Facilities District and the Bonds 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 outcome of which cannot be predicted.

## LEGAL MATTERS

### Legal Opinions

The legal opinion of Quint & Thimmig LLP, San Francisco, California, Bond Counsel, approving the validity of the Bonds will be made available to purchasers at the time of original delivery and is attached as APPENDIX G.

Nixon Peabody LLP will also pass upon certain legal matters for the Issuer as Special Counsel to the Issuer.

Jones Hall, A Professional Law Corporation, San Francisco, California is serving as Underwriters' Counsel.

*See "PROFESSIONAL FEES" below.*

### Tax Matters

In the opinion of Quint & Thimmig LLP, San Francisco, California, Bond Counsel, under existing law, subject to the Issuer's compliance with certain covenants, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended (the "**Code**") and, under section 55 of the Code, is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations under the Code but is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. Failure by the Issuer to comply with one or more of such covenants could cause interest on the Bonds to not be excludable from gross income under section 103 of the Code for federal income tax purposes retroactively to the date of issuance of the Bonds.

In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes.

Bondowners should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Bonds might have tax consequences other than as described above. Bond Counsel expresses no opinion regarding any collateral tax consequences arising with respect to the Bonds other than as expressly described above.

The complete text of the final opinion that Bond Counsel expects to delivery upon issuance of the Bonds is set forth in Appendix G.

### Absence of Material Litigation

**The Issuer.** To the best knowledge of the Issuer, there is no controversy of any nature now pending or threatened against the Issuer which seeks to restrain or enjoin the sale or issuance of the Bonds or which in any way contests or affects the validity of the Bonds or any proceedings of the Issuer taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the Bonds, the use of the Bonds proceeds or the existence or powers of the Issuer relating to the issuance of the Bonds.

**The Property Owner.** The Property Owner has represented to the Issuer that there is no litigation or administrative proceeding of any nature in which it has been served, or pending or threatened which, if successful, would materially adversely affect its ability to complete the development and sale of its property within the Community Facilities District, or to pay the Special Taxes, the special benefit assessments or ordinary ad valorem property tax obligations when due on its property within the Community Facilities District, or which challenges or questions the validity or enforceability of the Bonds, the Resolution of Issuance, the Indenture, or the Property Owner Continuing Disclosure Certificate.

### **NO RATINGS**

The Bonds have not been rated by any securities rating agency.

### **UNDERWRITING**

The Bonds are being purchased by Stone & Youngberg LLC and Backstrom McCarley Berry & Co., LLC (the “**Underwriters**”) at a purchase price of \$5,745,371.95 (which represents the aggregate principal amount of the Bonds (\$5,825,000.00) less an underwriters' discount of \$58,250,000 less an original issue discount of \$21,378.05).

The purchase agreement relating to the Bonds provides that the Underwriters will purchase all of the 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 Underwriters may offer and sell Bonds to certain dealers and others at prices lower than the offering price stated on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriters.

### **PROFESSIONAL FEES**

In connection with the issuance of the Bonds, fees payable to certain professionals are contingent upon the issuance and delivery of the Bonds. Those professionals include:

- the Underwriters;
- Quint & Thimmig LLP, as Bond Counsel;
- Nixon Peabody LLP, as Special Counsel to the Issuer;
- Jones Hall, A Professional Law Corporation, as Underwriters' Counsel;
- Goodwin Consulting Group, as special tax consultant; and
- Union Bank of California, N.A., as Trustee for the Bonds.



**APPENDIX A**

**RATE AND METHOD OF APPORTIONMENT**

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## EXHIBIT B

### ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS COMMUNITY FACILITIES DISTRICT NO. 2006-1 (RINCON HILL)

#### RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX

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A Special Tax applicable to each Assessor's Parcel in the ABAG Finance Authority for Nonprofit Corporations Community Facilities District No. 2006-1 (Rincon Hill) shall be levied and collected according to the tax liability determined by the Board or its designee, through the application of the appropriate amount or rate for Taxable Property, as described below. All of the property in CFD No. 2006-1, unless exempted by law or by the provisions of Section G below, shall be taxed for the purposes, to the extent, and in the manner herein provided including property subsequently annexed to CFD No. 2006-1 unless a separate Rate and Method of Apportionment of Special Tax is adopted for the annexation area.

#### A. DEFINITIONS

The terms hereinafter set forth have the following meanings:

**“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 Government Code of the State of California.

**“Administrative Expenses”** means any or all of the following: 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 Authority in carrying out its duties with respect to CFD No. 2006-1 and the Bonds, including, but not limited to, the levying and collection of the Special Tax, the fees and expenses of its 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 Special Tax, amounts needed to pay rebate to the federal government with respect to Bonds, costs associated with complying with continuing disclosure requirements under the California Government Code with respect to the Bonds and the Special Tax, and all other costs and expenses of the Authority in any way related to the establishment or administration of CFD No. 2006-1.

**“Administrator”** shall mean the person or firm designated by the Authority to administer the Special Tax according to this RMA.

**“Airspace Parcel”** means a parcel with an assigned Assessor's parcel number that shares common vertical space of an underlying land parcel with other parcels.

**“Assessor's Parcel”** or **“Parcel”** means a lot, parcel, or Airspace 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.

**“Authority”** means the ABAG Finance Authority for Nonprofit Corporations.

**“Below Market-Rate Units”** means all Residential Units within CFD No. 2006-1 that meet the requirements of City Planning Code Sections 315-315.9 and 827(b)(5) and have a deed restriction recorded on title of the property that (i) limits the rental price or sales price of the Residential Unit, (ii) limits the appreciation that can be realized by the owner of such unit, or (iii) in any other way restricts the current or future value of the unit.

**“Board”** means the Board of Directors of the Authority, acting as the legislative body of CFD No. 2006-1.

**“Bonds”** means bonds or other debt (as defined in the Act), whether in one or more series, issued, insured or assumed by CFD No. 2006-1 related to public infrastructure and/or improvements that will serve property included within CFD No. 2006-1.

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

**“CFD”** or **“CFD No. 2006-1”** means the ABAG Finance Authority for Nonprofit Corporations Community Facilities District No. 2006-1 (Rincon Hill).

**“CFD Formation”** means the date of which the Resolution of Formation of CFD No. 2006-1 is adopted by the Board.

**“City”** or **“County”** means the City and County of San Francisco.

**“Developed Property”** means, in any Fiscal Year, all Assessor’s Parcels of Taxable Property in CFD No. 2006-1 for which (i) a final building permit inspection has been conducted prior to June 1 of the preceding Fiscal Year in association with a building permit for construction of an individual Residential Unit, or (ii) for which a certificate of occupancy was issued by the City prior to June 1 of the preceding Fiscal Year for construction of an individual Residential Unit.

**“Expected Taxable Square Footage”** means the sum of the square footage of Living Area for all Market-Rate Units expected within a building as identified in the site permit and/or construction plans for the building.

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

**“Living Area”** means the square footage of living area reflected in the site permit, building plans, or original construction building permit issued for an individual Residential Unit, which may include square footage subsequently added to a Residential Unit after issuance of a building permit for expansion or renovation of the unit.

**“Market-Rate Unit”** means any Residential Unit within CFD No. 2006-1 that is not a Below Market-Rate Unit.

**“Maximum Special Tax”** means the maximum Special Tax, determined in accordance with Section C, that can be levied in any Fiscal Year.

**“Non-Residential Property”** means any Parcel within CFD No. 2006-1 that is not Public Property and is not part of a Residential Unit, including parking areas, commercial square footage, corridors, and other portions of a building that are not residential Living Area.

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

**“Public Property”** means any property within the boundaries of CFD No. 2006-1 that is owned by or irrevocably offered for dedication to the federal government, State of California, City or other public agency.

**“Residential Unit”** means an individual for-sale or for-rent residential dwelling unit within CFD No. 2006-1.

**“RMA”** means this Rate and Method of Apportionment of Special Tax.

**“Special Tax”** means a Special Tax levied in any Fiscal Year to pay the Special Tax Requirement.

**“Special Tax Requirement”** means the amount necessary in any Fiscal Year (i) to pay principal and interest on Bonds which is due in the calendar year which begins in such Fiscal Year, (ii) to create or replenish reserve funds, (iii) to cure any delinquencies in the payment of principal or interest on Bonds which have occurred in the prior Fiscal Year or (based on delinquencies in the payment of Special Taxes which have already taken place) are expected to occur in the Fiscal Year in which the tax will be collected, (iv) to pay Administrative Expenses, and (v) to pay the costs of public improvements authorized to be financed by CFD No. 2006-1. The amounts referred to in clauses (i) and (ii) of the preceding sentence may be reduced in any Fiscal Year by (i) interest earnings on or surplus balances in funds and accounts for the Bonds (including Capitalized Interest) to the extent that such earnings or balances are available to apply against debt service pursuant to the Bond indenture, Bond resolution, or other legal document that set forth these terms, (ii) proceeds from the collection of penalties associated with delinquent Special Taxes, and (iii) any other revenues available to pay debt service on the Bonds as determined by the Administrator.

**“Square Footage Deficit”** means, for any building within CFD No. 2006-1, the square footage calculated by subtracting from the Expected Taxable Square Footage the revised square footage designated in a proposed site permit addendum or other document, the approval of which increases the amount of space in the building reserved for Below Market-Rate Units or otherwise reduces the total square footage of Market-Rate Units in the building.

**“Taxable Non-Residential Property”** means, in any Fiscal Year, an Assessor’s Parcel of Non-Residential Property that had been taxed as Developed Property in the prior Fiscal Year because a Market-Rate Unit had been or was expected to be constructed on the Parcel.

**“Taxable Property”** means all of Assessor’s Parcels within the boundaries of CFD No. 2006-1 on which Market-Rate Units are or are expected to be constructed based on site permits issued for buildings within the CFD.

**“Taxable Public Property”** means, in any Fiscal Year, an Assessor’s Parcel of Public Property that had been taxed as Developed Property in the prior Fiscal Year because a Market-Rate Unit had been or was expected to be constructed on the Parcel.

**“Tax Zone”** means a mutually exclusive geographic area within which a particular Special Tax may be levied pursuant to this RMA. All of the property within CFD No. 2006-1 at the time of CFD Formation is within Tax Zone #1; additional Tax Zones may be created when property is annexed into the CFD, and a separate Special Tax shall be identified for property within the new Tax Zone at the time of such annexation.

**“Tax Zone #1”** means, at CFD Formation, the Parcels identified in Fiscal Year 2006-07 by Assessor’s Parcel numbers 3765-020 and 3765-021. Other Parcels may be added to Tax Zone #1 as a result of future annexations.

**“Undeveloped Property”** means all Parcels within a building designated in the site permit for construction of Market-Rate Units which have not yet become Developed Property.

**B. DATA FOR ANNUAL ADMINISTRATION OF SPECIAL TAX**

On or about July 1 of each Fiscal Year, the Administrator shall identify the current Assessor’s Parcel numbers for Taxable Property within each Tax Zone. The Administrator shall also (i) determine which Parcels are Developed Property and Undeveloped Property, (ii) identify the square footage of Living Area for each Market-Rate Unit, (iii) identify Parcels on which Below Market-Rate Units are or will be built, (iv) determine whether there is a Square Footage Deficit within any building, and (v) calculate the Special Tax Requirement for the Fiscal Year.

**C. MAXIMUM SPECIAL TAX**

Table 1 below identifies the Maximum Special Tax for Taxable Property within CFD No. 2006-1 for Fiscal Year 2006-07. A different Maximum Special Tax may be identified for Tax Zones added to CFD No. 2006-1 as a result of future annexations.

**TABLE 1**  
**CFD No. 2006-1**  
**MAXIMUM SPECIAL TAXES**

<i>Type of Property</i>	<i>Maximum Special Tax Fiscal Year 2006-07 *</i>
<b>TAX ZONE #1</b>	
Developed Property	\$1.19 per square foot of Living Area
Undeveloped Property	\$1.19 per square foot of Living Area

\* On July 1, 2007 and on each July 1 thereafter, all figures shown in Table 1 above shall be increased by an amount equal to 2.0% of the amount in effect for the prior Fiscal Year.

**D. MAINTAINING THE MAXIMUM SPECIAL TAX BASE**

*1. Square Footage Deficit*

If, for any reason in any Fiscal Year prior to all Parcels of Taxable Property within a building becoming Developed Property, the Administrator determines that there is a Square Footage Deficit for that building that is greater than one percent (1%) of the Expected Taxable Square Footage for the building, the Administrator shall calculate a Special Tax prepayment associated with the Square Footage Deficit by applying the following steps:

- Step 1.* Calculate the Square Footage Deficit for the building.
- Step 2.* Multiply the Expected Taxable Square Footage for the building by one percent (1%).
- Step 3.* Subtract the amount determined in Step 2 from the Square Footage Deficit calculated in Step 1.
- Step 4.* Multiply the net square footage determined in Step 3 by the Maximum Special Tax applicable to the Tax Zone within which the building is located.
- Step 5.* Apply the prepayment formula provided in Section H using the amount determined in Step 4 above as the Maximum Special Tax for purposes of Step 1 in the prepayment formula to calculate the prepayment associated with the Square Footage Deficit.
- Step 6.* The Authority shall notify the owner of the building of the prepayment amount determined in Step 5 and request such payment within 30 days of the notification. If not received, the prepayment amount shall be billed as a one-time Special Tax against one or more Parcels of Undeveloped Property within the building that are

owned by the firm or individual who, due to a site permit addendum or other action, caused the Square Footage Deficit within the building; the prepayment amount shall be subject to the same foreclosure procedures as the annual Special Taxes levied pursuant to this RMA.

2. *Market Rate Units that Become Below Market-Rate Units*

Once a Residential Unit has been taxed as a Market-Rate Unit, such unit will continue to be subject to the Maximum Special Tax assigned to the Parcel even if the Residential Unit is categorized as a Below Market-Rate Unit unless a prepayment is received from the owner of the Parcel based on the amount calculated as a full prepayment for the Parcel pursuant to Section H below.

3. *Changes in Land Use, Parcel Configuration, or Unit Size*

Once a Special Tax has been levied against a Parcel of Developed Property, the Maximum Special Tax assigned to such Parcel shall never be reduced regardless of changes in land use, parcel configuration, unit size, or other factors affecting the Residential Unit on the Parcel.

4. *Taxable Public Property and Taxable Non-Residential Property*

If, in any Fiscal Year, the Administrator identifies a Parcel of Taxable Public Property or Taxable Non-Residential Property, the Maximum Special Tax assigned to such Parcel shall be the Maximum Special Tax that would have been in effect for the Parcel if it had continued to be taxed as Residential Property in that Fiscal Year. On July 1 of the following Fiscal Year and on each July 1 thereafter, the Maximum Special Tax for the Parcel shall be increased by an amount equal to 2.0% of the amount in effect for the prior Fiscal Year.

**E. METHOD OF LEVY OF THE SPECIAL TAX**

Each following Fiscal Year, the Administrator shall determine the Special Tax Requirement to be collected in that Fiscal Year and shall levy a Special Tax according to the following steps until the amount of the levy is equal to the Special Tax Requirement:

- Step 1.** The Special Tax shall be levied Proportionately on each Parcel of Developed Property in all Tax Zones up to 100% of the Maximum Special Tax for each Parcel for such Fiscal Year determined pursuant to Section C.
- Step 2.** If additional revenues are needed after Step 1, and after applying Capitalized Interest to the Special Tax Requirement, the Special Tax shall be levied on each Parcel of Undeveloped Property in all Tax Zones up to 100% of the Maximum Special Tax for each Parcel for such Fiscal Year determined pursuant to Section C.

## F. MANNER OF COLLECTION OF SPECIAL TAX

The Special Tax for CFD No. 2006-1 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 H below and provided further that the Authority may directly bill the Special Tax, may collect Special Taxes at a different time or in a different manner, and may collect delinquent Special Taxes through foreclosure or other available methods.

The Special Tax shall be levied and collected until principal and interest on Bonds have been repaid and authorized facilities to be constructed directly from Special Tax proceeds have been completed. However, in no event shall a Special Tax be levied after Fiscal Year 2045-46. Pursuant to Section 53321 (d) of the Act, the Special Tax levied against a Parcel used for private residential purposes shall under no circumstances increase more than ten percent (10%) as a consequence of delinquency or default by the owner of any other Parcel or Parcels and shall, in no event, exceed the Maximum Special Tax in effect for the Fiscal Year in which the Special Tax is being levied.

## G. EXEMPTIONS

Notwithstanding any other provision of this RMA, no Special Tax shall be levied on Parcels of Public Property except as otherwise provided in the Act, unless such property is Taxable Public Property. In addition, no Special Tax shall be levied in any Fiscal Year on Non-Residential Property except Taxable Non-Residential Property.

## H. PREPAYMENT OF SPECIAL TAX

The following definitions apply to this Section H:

**“Construction Fund”** means an account specifically identified in the Indenture to hold funds which are available to acquire or construct facilities authorized to be funded by CFD No. 2006-1.

**“Future Facilities Cost”** means the Public Facilities Requirement (as defined below) minus public facility costs funded by Previously Issued Bonds (as defined below), interest earnings on the construction fund actually earned prior to the date of prepayment, Special Taxes, developer equity, and/or any other source of funding.

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

**“Outstanding Bonds”** means all Previously Issued 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 the Special Tax will be used to pay a portion of the next principal payment on the Bonds that remain outstanding, 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 the prepayment formula.

“**Previously Issued Bonds**” means all Bonds that have been issued for the CFD prior to the date of prepayment.

“**Public Facilities Requirement**” means \$4,332,724 at CFD Formation, which amount shall be adjusted each time property annexes into the CFD; at no time shall the added Public Facilities Requirement for the annexation area exceed the amount of public improvement costs that are expected to be supportable by the Maximum Special Tax revenues generated within that annexation area.

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 Authority with written notice of intent to prepay. Within 30 days of receipt of such written notice, the 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 interest payment date for Bonds to be redeemed with the proceeds of such prepaid Special Taxes.

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

	Bond Redemption Amount
plus:	Future Facilities Amount
plus:	Redemption Premium
plus:	Defeasance Requirement
plus:	Administrative Fees and Expenses
minus:	<u>Reserve Fund Credit</u>
equals	Prepayment Amount

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

- Step 1.** Determine the Maximum 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 Authority. If this Section H is being applied to calculate a prepayment pursuant to Section D.1 above, use the amount determined in Step 4 of Section D.1 for purposes of this Step 1.
  
- Step 2.** Divide the Maximum Special Tax computed pursuant to Step 1 for such Assessor’s Parcel by the total Maximum Special Tax revenues that could be collected in that Fiscal Year from property in the CFD.

- 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 Future Facilities Costs.
- Step 5.** Multiply the quotient computed pursuant to Step 2 by the amount determined pursuant to Step 4 to compute the amount of Future Facilities Costs to be prepaid (the “*Future 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
- Step 8.** Compute the amount of interest the Authority reasonably expects to derive from the 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 “*Defeasance 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 indenture pursuant to which the Outstanding Bonds to be redeemed were issued, a reserve fund credit shall be calculated as a reduction, if any, in the applicable reserve fund for the Outstanding Bonds to be redeemed pursuant to the prepayment (the “*Reserve Fund Credit*”).
- Step 12.** 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 Step 11 (the “*Prepayment Amount*”).
- Step 13.** The amounts computed pursuant to Steps 3, 6, and 9, less the amount computed pursuant to Step 11, shall be deposited in the appropriate fund established under the Indenture and used to retire Outstanding Bonds or make debt service payments. The amount computed pursuant to Step 5 shall

be deposited in the Construction Fund, and the amount determined in Step 10 shall be deposited in the fund established to pay Administrative Expenses.

With respect to any Parcel that prepays its Special Tax obligation, the Administrator shall cause a notice to be recorded in compliance with the Act to release the Special Tax lien on such Parcel, and the obligation of such Parcel to pay the Special Tax shall cease.

## **I. INTERPRETATION OF SPECIAL TAX FORMULA**

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

**APPENDIX B**  
**SUMMARY APPRAISAL REPORT**

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**LIMITED SUMMARY APPRAISAL  
OF THE  
LAND COMPONENT OF THE  
PROPOSED CONDOMINIUM PROJECT  
KNOWN AS ONE RINCON HILL  
AT  
FIRST & HARRISON STREETS  
SAN FRANCISCO, CALIFORNIA**

*Date of Value:*            *April 8, 2006*

*Prepared For:*

Mr. Clarke Howatt  
ABAG Finance Authority for Non-Profits  
Metro Center  
101 Eighth Street  
Oakland, California 94607-4756

*Prepared by:*

Joseph J. Blake & Associates  
1460 Maria Lane, Suite 250  
Walnut Creek, California 94596



Joseph J. Blake and Associates, Inc.  
Real Estate Valuation and Consulting

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April 12, 2006

Mr. Clarke Howatt  
ABAG Finance Authority for Non-Profits  
Metro Center  
101 Eighth Street  
Oakland, California 94607-4756

**Re: Land Component  
One Rincon Hill Condominiums  
San Francisco, California**

Dear Mr. Howatt:

Pursuant to your request, we have prepared a limited appraisal of the above referenced property. Geographically, the subject property is located at the southeast corner of First and Harrison Streets in the city and county of San Francisco, California. The presentation of the appraisal is in conformance with the reporting requirements set forth under Standards Rule 2-2(b) of the Uniform Standards of Professional Appraisal Practice for a summary appraisal report. It is noted that our firm prepared a complete self-contained appraisal of the subject property and the proposed condominium project in December of 2005.

The subject site is approximately 0.99 acre (43,151 square feet) in size, and site work has commenced on the 60-story high-rise tower known as One Rincon Hill which will consist of 390 residential condominium units over a multi-level parking podium. The primary purpose of the appraisal is to estimate the current market value of the subject parcel as a vacant development site. The intended use of the appraisal is to assist the client in their effort in arranging bond financing for the infrastructure work in the area.

This appraisal report has been prepared in conformance with, and subject to, the Code of Professional Ethics and Standards of Professional Practice of the Appraisal Institute. It also meets the requirements of the Uniform Standards of Professional Appraisal Practice (USPAP) adopted by the Appraisal Foundation. In addition, our report is in compliance with the guidelines established under Title XI and Amendments of the Federal Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA).

Our appraisal entailed a comprehensive examination of the property, including a physical inspection of the subject site, a review of the competitive market, as well as other economic factors that affect market value. Based upon our investigation and analyses, as set forth herein,

**Corporate Headquarters:** 100 Jericho Quadrangle, Suite 327 | Jericho, New York 11753 | 516-827-0222

**Regional Offices:** Boston | Chicago | Dallas | Los Angeles | Miami | New York City | San Francisco | Washington, D.C.

**Blake & Sanyu Alliance:** Tokyo | Osaka | Nagoya | Yokohama

**Blake & PIX ATIS REAL Alliance:** Argentina | Brazil | Chile | Colombia | Venezuela

*April 12, 2006*

*Mr. Howatt*

*Page Two*

our opinion of the market value of the subject site's Fee Simple Estate as if vacant, as of April 8, 2006, is as follows.

**TWENTY FOUR MILLION TWO HUNDRED THOUSAND DOLLARS**  
**\$24,200,000**

This letter must remain attached to the report, which contains 36 pages plus related exhibits, in order for the value opinion set forth to be considered valid.

It has been our pleasure to assist you in this assignment. If you have any questions concerning the analysis, or if we can be of further service, please do not hesitate to contact us.

Sincerely,

JOSEPH J. BLAKE AND ASSOCIATES, INC.

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Diane F. Nowak, MAI  
Vice President / Regional Manager  
CA Certified General Real Estate Appraiser,  
(OREA # AG027299, Exp. 11/1/07)  
Phone: (925) 974-0330 ext 101

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Kenneth Miu, Ph.D.  
Assistant Vice President  
CA Certified General Real Estate Appraiser,  
(OREA # AG027432, Exp. 1/18/08)  
Phone: (925) 974-0330 ext 102

We, the undersigned, hereby certify:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions.
3. We have no present or prospective interest in the property appraised and no personal interest with respect to the parties involved.
4. We have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
5. Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
6. Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
7. Our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice* and the requirements of the Code of Ethics of the Appraisal Institute.
8. The use of this report is subject to the requirements of the Appraisal Institute relating to the review by its duly authorized representatives.
9. As of the date of this report, Diane F. Nowak, MAI has completed the requirements of the continuing education program of the Appraisal Institute.
10. We have the relevant knowledge and extensive experience in the appraisal of similar property types.
11. Kenneth Miu made a personal inspection of the site that is the subject of this report.
12. No one provided significant professional assistance to the persons signing this report.

JOSEPH J. BLAKE AND ASSOCIATES, INC.

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Land Component at One Rincon Hill, San Francisco, CA **PHOTOGRAPHS OF SUBJECT PROPERTY**



Subject Site viewed from across the street



On Ramp to Bay Bridge next to Subject Site

Land Component at One Rincon Hill, San Francisco, CA **PHOTOGRAPHS OF SUBJECT PROPERTY**



Looking east along Harrison Street



Looking west along Harrison Street

PREFACE

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Photographs of the Subject Property  
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ADDENDA

Professional Qualifications  
Engagement Letter

Location: Southeast corner of First and Harrison Streets  
San Francisco, California

Assessor's Parcel Numbers: Block 3765 Lots 1, 9 & 15 (portion of)

Site Area: 43,151 square feet (0.99 acre)

Census Tract Number: 0179-01

Zoning: Rincon Hill Downtown Residential Mixed Use District

Zoning Compliance: Legal and conforming use upon completion of the condominium project that is under construction.

Flood Zone: San Francisco does not participate in the FEMA program

Building Improvements: The site was previously improved with the Bank of America Clock Tower building which has been demolished. Site work for the condominium project is in progress.

Proposed Development: 390 residential condominium units (including 14 townhouses) over a multi-level parking podium.

Number of Buildings: None at present

Anticipated Completion Date: February 28, 2008 (anticipated completion date of project)

Condition: Excellent – Upon completion of the project

Parking: A multi-level parking garage providing at least one space for each dwelling unit.

Property Rights Appraised: Fee Simple Estate

Highest and Best Use:

As Vacant: As approved for the multi-family development

As Improved: Not applicable

Date of Market Value: April 8, 2006

Date of Inspection: April 8, 2006

Extraordinary Assumptions: None

**MARKET VALUE CONCLUSION**

**MARKET VALUE OF SUBJECT SITE AS IF VACANT**

**\$24,200,000**

**Identification of the Property**

The subject site is approximately 0.99 acre in size, and site work has commenced for the 60-story high-rise tower known as Rincon Hill Phase I, which will consist of 390 residential condominium units over a multi-level parking podium.

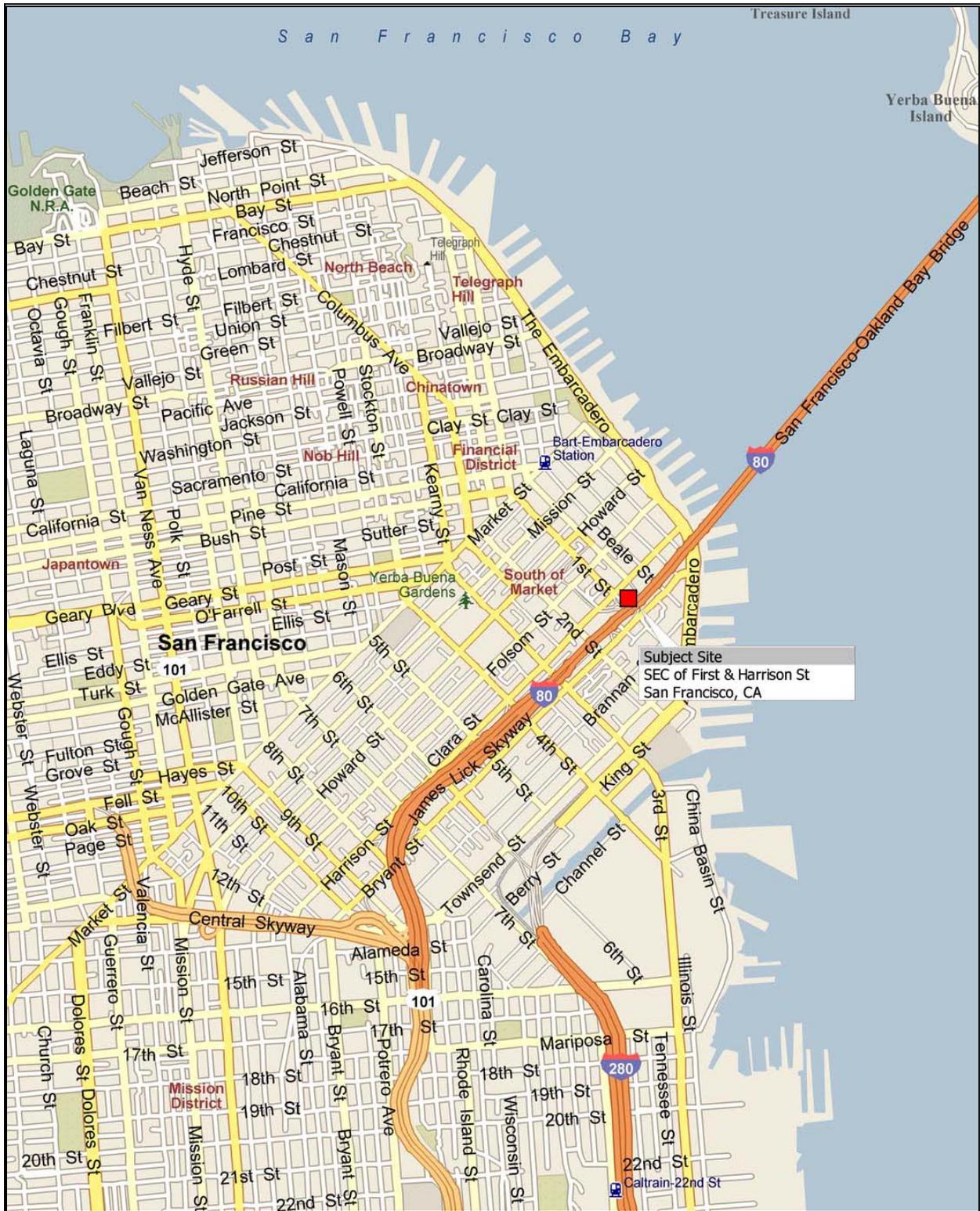
Geographically, the property is situated in a mixed-use neighborhood generally known as Rincon Hill in the South-of-Market district of San Francisco. The subject property currently has the following commonly known address.

425 First Street and 401-445 Harrison Street  
San Francisco, California

A full legal description of the property can be found in the Addenda section of this report. In addition, the property can be further identified as San Francisco County Assessor's Parcel Numbers:

**Block 3765 Lots 1, 9 & 15 (portion of)**

MAP OF THE IMMEDIATE AREA



**PURPOSE, USE AND INTENDED USER OF THE APPRAISAL**

The purpose of the appraisal is to estimate the market value of the Fee Simple Estate of the subject property which is the land component of the proposed One Rincon Hill condominium development. The function of this appraisal assignment is to provide the intended user, ABAG Finance Authority for Non-Profits, with an objective opinion of value of the property for bond financing purposes.

**MARKET VALUE DEFINED**

Market value is the major focus of most real property appraisal assignments. Both economic and legal definitions of market value have been developed and refined. A current economic definition agreed upon by agencies that regulate federal financial institutions in the United States of America is:

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

- (a) buyer and seller are typically motivated;
- (b) both parties are well informed or well advised, and acting in what they consider their own best interests;
- (c) a reasonable time is allowed for exposure in the open market;
- (d) payment is made in terms of cash in United States dollars or in terms of financial arrangements comparable thereto; and
- (e) the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale."<sup>1</sup>

**PROPERTY RIGHTS APPRAISED**

The property right appraised is the fee simple ownership of the land. The fee simple interest is defined as "absolute ownership unencumbered by any other interest or estate, subject only to the

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<sup>1</sup> Code of Federal Regulations; Title 12 – Banks and Banking; Chapter 1 – Comptroller of the Currency, Department of the Treasury; part 34- Real Estate Lending and Appraisals – Subpart C - Appraisals Section 34.42 Definitions; Revised as of January 1, 2000.

limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat."<sup>2</sup>

#### **PROPERTY INSPECTION, DATE OF VALUE AND DATE OF REPORT**

The subject property was inspected on April 8, 2006 by Kenneth Miu, Senior Associate, and previously by Diane F. Nowak, MAI, Vice President/Manager of the San Francisco Bay Area Office of Joseph J. Blake and Associates. The analyses, opinions and conclusions set forth throughout this report apply to the specific dates of value noted on the preceding page. The date of the report is the date indicated on the letter of transmittal, April 12, 2006.

#### **HISTORY & PRESENT USE OF THE PROPERTY**

The subject property is currently owned by One Rincon Development, LLC, a Delaware limited liability company. According to a representative of the ownership, the property (an office building with a clock tower) was purchased approximately two years ago for \$16,000,000. Subsequent to the purchase, the current owner sought approval from the Planning Department to demolish the existing improvements and construct a condominium project at the site.

We conclude to a market value of the property as if vacant at \$24,200,000 which is approximately 51.25% higher than the purchase price. The substantial increase in value is attributed to the funds and effort expended on obtaining approval for the condominium project, as well as the rise in property values, particularly land parcels for housing development, over the approximate two-year period.

#### **SCOPE OF WORK**

The scope of an appraisal assignment is relative to the intended use of the appraisal. The following outlines the extent of property inspection, market data collection, verification, and analysis performed for this assignment.

**Inspection:** Kenneth Miu inspected and photographed the subject property and inspected the subject neighborhood.

**Subject Physical and Economic Characteristics:** Size and shape of the subject site were obtained from the tax parcel map. The Planning Department of the city of San Francisco was consulted for zoning data.

**Type of Analysis Applied:** The Sales Comparison Approach provides the most appropriate technique in estimating the market value of the subject property. Given the approved condominium project at the subject site, a subdivision analysis, which is a residual technique in

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<sup>2</sup> *The Dictionary of Real Estate Appraisal* – Fourth Edition, Appraisal Institute, Chicago, IL, 2002, p. 162.

which the “as is” land value is derived through a process of subtracting the development costs from the estimated retail prices of the condominium units as if completed, is an applicable valuation method. However, it is specifically agreed to by the client that this technique will not be employed. The exclusion of this methodology is prompted partly by the fact that we performed a subdivision analysis regarding the proposed development at the subject site at the end of 2005, and it is our opinion that the modest change in market conditions does not warrant a new subdivision analysis to arrive at a credible opinion of market value. Furthermore, it is our opinion that there is sufficient market data in the Sales Comparison Approach to provide an independent market value for the subject site.

***Extent of Data Research:*** Comparable land sales for multi-family developments were obtained from various sources including CoStar, Inc. The sale data were verified with principals and/or brokers wherever possible. All the comparable sales were inspected by Kenneth Miu. As noted in the preceding paragraph, we consider the available comparable land sales to be sufficient data to provide the basis for a market value conclusion in the Sales Comparison Approach for the subject site as if vacant.

#### **EXPOSURE AND MARKETING PERIOD**

Implicit in a market value estimate is a condition that “a reasonable time is allowed for exposure in the open market.” Exposure time may be defined as the length of time that the property interest being appraised would have been offered on the market prior to a hypothetical sale at market value on the effective date of the appraisal. Thus, exposure time is a retrospective concept based on historical information. Our examination of recent land sales in San Francisco in the past two to three years indicates a wide variance in the exposure period from one month to as much as over a year, depending on location and zoning. Given the current strength of the housing market and the observed exposure periods, we estimate an exposure period of six months or less for the subject property in its “as is” condition.

Marketing time is the amount of time it might take to sell a property interest in real estate at the estimated market value level during the period immediately after the effective date of an appraisal. In contrast to exposure time, marketing time is a forward-looking estimate or a projection of future events. Our estimate of a marketing period for the subject property in its “as is” condition is six months or less, based again on comparable sales.

## SAN FRANCISCO COUNTY OVERVIEW

Social, economic, governmental, and environmental forces influence property value since real estate is an immobile asset. In this section, an examination of these locational factors provides the context for the valuation of the subject property. The property is situated in San Francisco County and the area analysis begins with regional data and relevant trends for this county, followed by specific characteristics of the subject neighborhood.

San Francisco County is one of the nine counties comprising the San Francisco Bay Area. It encompasses 46 square miles of land area at the northern end of the San Francisco Peninsula. It is surrounded by water on three sides – the Pacific Ocean to the west, Golden Gate Straits to the northwest, and the San Francisco Bay to the northeast and east. The city of San Francisco composes the entire county of San Francisco.

### Social Forces

In January 2005, the population of San Francisco was 799,263. This ranks San Francisco as the fourth most populous county within the San Francisco Bay Area's nine counties. Since the beginning of 1999 and despite the recession, the population has grown by 4.8% or 36,863 people.

POPULATION BY COUNTY							
Counties	1999	2001	% Change	2003	% Change	Jan. 2005	% Change
Alameda	1,412,100	1,465,508	3.8%	1,491,209	1.8%	1,507,500	1.1%
Contra Costa	928,500	966,857	4.1%	996,211	3.0%	1,020,898	2.5%
Marin	243,800	248,975	2.1%	250,799	0.7%	252,485	0.7%
Napa	121,900	126,074	3.4%	130,241	3.3%	133,294	2.3%
<b>San Francisco</b>	<b>762,400</b>	<b>783,882</b>	<b>2.8%</b>	<b>791,418</b>	<b>1.0%</b>	<b>799,263</b>	<b>1.0%</b>
San Mateo	698,300	712,327	2.0%	716,619	0.6%	723,453	1.0%
Santa Clara	1,658,000	1,701,060	2.6%	1,726,628	1.5%	1,759,585	1.9%
Solano	384,000	401,720	4.6%	413,694	3.0%	421,657	1.9%
Sonoma	449,500	464,764	3.4%	471,644	1.5%	478,440	1.4%
California	33,140,000	34,441,561	3.9%	35,691,442	3.6%	36,810,358	3.1%

Source: State of California, Department of Finance, Demographic Research Unit

According to the most recent forecast by the Association of Bay Area Governments (ABAG), the Bay Area is projected to gain approximately 327,900 people between 2005 and 2010 (see the following table). As expected, most of this increase will be found in the three largest counties in the area, Santa Clara, Alameda, and Contra Costa.

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**FORECAST POPULATION ESTIMATES BY COUNTY**


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COUNTY	2005	2010	2015	2020	2025	2030	Est. Chg.	% Chg.
							2005-2030	2005-2030
Alameda	1,517,100	1,584,500	1,648,800	1,714,500	1,796,300	1,884,600	367,500	24.2%
Contra Costa	1,016,300	1,055,600	1,102,300	1,150,900	1,200,500	1,244,800	228,500	22.5%
Marin	251,400	258,500	268,700	275,000	279,500	284,000	32,600	13.0%
Napa	134,100	139,700	144,800	148,100	151,100	153,400	19,300	14.4%
<b>San Francisco</b>	<b>798,000</b>	<b>810,700</b>	<b>825,800</b>	<b>859,200</b>	<b>890,400</b>	<b>924,600</b>	<b>126,600</b>	<b>15.9%</b>
San Mateo	723,200	741,000	773,900	806,500	829,200	848,400	125,200	17.3%
Santa Clara	1,750,100	1,855,500	1,959,100	2,073,300	2,165,800	2,267,100	517,000	29.5%
Solano	423,800	466,100	504,500	532,400	558,100	581,800	158,000	37.3%
Sonoma	477,700	508,000	521,200	534,100	548,200	558,400	80,700	16.9%
<b>BAY AREA</b>	<b>7,091,700</b>	<b>7,419,600</b>	<b>7,749,100</b>	<b>8,094,000</b>	<b>8,419,100</b>	<b>8,747,100</b>	<b>1,655,400</b>	<b>23.3%</b>

Source: Projections 2005, Association of Bay Area Governments

According to the Association of Bay Area Governments (ABAG), San Francisco County, which contains only the city of San Francisco, shows moderate population growth over the next 25 years of 126,600 people, up 15.9% from year 2005 to year 2030.

### Economic Profile

The recession of the early 1990s hit San Francisco particularly hard. A total of approximately 44,200 jobs were lost, many of which were communications, finance, professional, business, and trade jobs. In 1993, San Francisco's average unemployment rate was 7.0%, which was equal to the national unemployment rate, but far better than the state of California's average unemployment rate of 9.5%. During this period there was an increasing concern that San Francisco was such an expensive area that it could only support tourism-related business and that it was losing the "real" jobs found in a diverse economy. It was not until 1995 that the city showed some signs of recovery; however, while the national unemployment rate improved to 5.5%, San Francisco's unemployment rate lagged at 6.1% (still much better than the state of California at 7.8%).

The recent down-cycle has affected local businesses and residents since 2001. The table below summarizes labor statistics in San Francisco County from 1998 to February 2006.

	1998	1999	2000	2001	2002	2003	2004	2005	Feb. 2006
Civilian Labor Force	414,700	417,900	472,900	469,300	450,300	433,100	426,000	422,400	417,900
Employment	399,400	405,100	456,800	445,300	418,600	403,400	400,900	400,900	398,300
Unemployment Rate	3.7%	3.1%	3.4%	5.1%	7.0%	6.9%	5.9%	5.1%	4.7%

Source: California Employment Development Department

As can be seen above, San Francisco County's labor force and employment increased annually through 2000. Labor force and employment in the county fell during 2001, 2002, 2003, 2004, and 2005. As of February 2006, the labor force, employment numbers, and unemployment rate decreased from the previous year.

The late 1990s saw a dramatic improvement in the city's economic conditions. While tourism continued to grow, the city had also become one of the preferred locations of companies in the Internet and multimedia sectors. At the same time businesses responded to a bull market and the need to apply new technologies to their operations. Job growth was widespread throughout the city, but was particularly acute in the South of Market area, where traditional light manufacturing, service, and warehouse businesses were replaced with high technology companies. According to California's Employment Development Department, the city gained approximately 170,300 jobs from December 1995 to December 2000.

A sharp decline in the city's fortunes has occurred since 2000. It began with the bursting of the dot-com bubble that resulted in the loss of thousands of high technology and Internet jobs. The misery soon spread to other sectors of the economy including telecommunications and other business services. Business spending slowed considerably and the national economy fell into a recession in the first quarter of 2001. Further, the events of September 11, 2001 precipitated a significant downturn in the travel and tourism industries.

As can be seen in the table below, the Manufacturing, Transportation, Warehousing, and Utilities, Information, Financial Activities, and Professional and Business Services sectors all have shown sharp declines in employment since 2000. Over this period, the only sectors that exhibited growth rates, albeit minimal, were the Educational and Health Services and Government sectors.

<b>CURRENT AND HISTORICAL EMPLOYMENT BY CATEGORY</b>							
<b>INDUSTRY GROUP</b>	<b>1990</b>	<b>1995</b>	<b>5-Year Chg.</b>	<b>2000</b>	<b>5-Year Chg.</b>	<b>2004</b>	<b>4-Year Chg.</b>
Agriculture	N/A	400	N/A	300	-25%	400	33%
Natural Resources, Mining, and Construction	18,500	12,400	-33%	18,900	52%	16,900	-11%
Manufacturing	28,800	26,300	-9%	21,600	-18%	12,200	-44%
<i>*Computer &amp; Electronic Product Manuf.</i>	2,200	1,300	-41%	1,300	0%	800	-38%
Wholesale Trade	19,600	14,800	-24%	14,600	-1%	12,300	-16%
Retail Trade	45,200	37,200	-18%	46,200	24%	42,000	-9%
Transportation, Warehousing & Utilities	30,400	23,900	-21%	21,200	-11%	15,400	-27%
Information	16,600	18,500	11%	34,700	88%	19,500	-44%
Financial Activities	66,100	58,600	-11%	62,900	7%	57,700	-8%
Professional and Business Services	114,000	111,800	-2%	144,200	29%	100,500	-30%
Educational and Health Services	47,900	48,200	1%	52,600	9%	53,800	2%
Leisure and Hospitality	56,900	58,800	3%	72,200	23%	70,500	-2%
Other Services	21,600	23,500	9%	25,100	7%	21,000	-16%
Government	92,800	79,500	-14%	83,800	5%	81,600	-3%
<b>Total, All Industries</b>	<b>558,400</b>	<b>513,900</b>	<b>-8%</b>	<b>598,300</b>	<b>16%</b>	<b>503,800</b>	<b>-16%</b>
<i>* Totals included in Manufacturing</i>							

Source: California Employment Development Department

## Housing

While economic conditions continue to improve slowly, the housing market remains strong with unusually low mortgage rates and ample credit sustaining demand. The result is a continuing upward trend in median home prices. As shown in the table below, overall housing prices in San

Francisco County rose by 14.7% over the period from 2004 to 2005, which is slightly lower than the 16.0% increase that was posted between calendar year 2003 and 2004.

<b>MEDIAN HOME PRICES IN BAY AREA COUNTIES</b>							
<b>(Includes Single Family Residences and Condominiums)</b>							
<b>COUNTY</b>	<b>2002</b>	<b>2003</b>	<b>% Change</b>	<b>2004</b>	<b>% Change</b>	<b>2005</b>	<b>% Change</b>
Alameda	\$385,000	\$410,000	6.5%	\$480,000	17.1%	\$575,000	19.8%
Contra Costa	\$342,500	\$379,000	10.7%	\$440,000	16.1%	\$535,000	21.6%
Marin	\$565,000	\$616,000	9.0%	\$685,000	11.2%	\$800,000	16.8%
Napa	\$357,000	\$430,000	20.4%	\$505,000	17.4%	\$595,000	17.8%
<b>San Francisco</b>	<b>\$545,000</b>	<b>\$556,000</b>	<b>2.0%</b>	<b>\$645,000</b>	<b>16.0%</b>	<b>\$740,000</b>	<b>14.7%</b>
San Mateo	\$525,000	\$555,000	5.7%	\$640,000	15.3%	\$750,000	17.2%
Santa Clara	\$455,000	\$470,000	3.3%	\$540,000	14.9%	\$645,000	19.4%
Solano	\$265,000	\$299,000	12.8%	\$355,500	18.9%	\$429,000	20.7%

Source: DQNews.com

New residential development in San Francisco is limited by high construction costs, high land prices, and in some cases neighborhood opposition. Consequently, new housing supply will continue to be constrained for the foreseeable future. The result of San Francisco's limited ability to add new housing is that its share of the region's population and households is slowly declining. In 1980, San Francisco comprised 15% of the region's households; by 2000, this decreased to 11%; and by 2025, less than 10% of the region's households are projected to be in the city.

San Francisco has the highest density residential development of the nine counties in the region. If additional housing is squeezed into the city's limited land area, it will certainly be in demand. Strong demand for housing in San Francisco is due to the city being a major employment, cultural, and entertainment center; as well as its centralized location within the region and its attractiveness for recent immigrants.

## **Environment**

The hills in San Francisco provide excellent view opportunities. The surrounding waters of the Pacific Ocean and the San Francisco Bay contribute to the mild climate. San Francisco's Zone 17 (*Sunset Climate Zone*) is characterized by mild, wet, almost frostless winters and cool summers with frequent fog or wind. In a 20-year period, the lowest winter temperatures in Zone 17 ranged from 36 to 23 degrees. The highs of summer normally range from 60 to 75 degrees.

At least 30 faults capable of generating earthquakes are located in the Bay Area. The Alquist-Priolo Earthquake Fault Zoning Act was passed in 1972 to mitigate the hazard of surface faulting to structures for human occupancy. Surface rupture is the most easily avoided seismic hazard. In accordance with the law, local agencies must regulate most development projects within the earthquake fault zones. Before a project can be permitted, cities and counties must require a

geologic investigation to demonstrate that proposed buildings will not be constructed across active faults. Typically, a structure for human occupancy must be set back 50 feet from the fault.

This Act only addresses the hazard of surface fault rupture and is not directed toward other earthquake hazards. Strong shaking causes most of the damage during an earthquake. However, secondary hazards such as landslides and liquefaction can cause heavy damage. Liquefaction occurs when water-saturated sandy soil is shaken and temporarily cannot support buildings or other heavy structures. The 1989 Loma Prieta earthquake caused extensive liquefaction-related damage in San Francisco's Marina District. The Seismic Hazards Mapping Act was passed in 1990 to address non-surface fault rupture earthquake hazards, including liquefaction and seismically induced landslides. The Act requires that site-specific geotechnical investigations be performed prior to permitting most urban development projects with the hazard zones.

### **Transportation**

Public transportation has been a major factor in the development of San Francisco as a regional employment center. The San Francisco Municipal Railway (Muni) provides excellent coverage to all parts of the city and it is the seventh-largest public transit system in the United States, as measured by ridership. Muni operates a fleet of about 1,000 vehicles, over half of which are electric, including: subway-surface light rail vehicles (Metro streetcars), electric trolley buses, diesel buses, cable cars, and streetcars.

Two other local public transit services are offered in San Francisco including Caltrain, which provides commuter rail service between San Francisco and Gilroy via San Jose, and Presidio Shuttle, which is a free shuttle bus service within Presidio Park.

The Bay Area Rapid Transit system (BART) is a regional light rail system with over 75 miles of track. It is a major commuter transportation system which links stations in Alameda, Contra Costa, San Mateo and San Francisco counties. This system has recently been extended to connect the afore-mentioned areas with San Francisco International Airport and Oakland International Airport.

Public transportation is also provided to San Francisco from various municipalities and private agencies. Five ferry fleets provide commuter service to San Francisco from the cities of Tiburon, Sausalito, Larkspur, Vallejo, Alameda, and Oakland. Various bus services from San Mateo County (SamTrans); Marin and Sonoma Counties (Golden Gate Transit); Western Alameda and Contra Costa Counties (AC Transit); and Napa Valley (Napa Valley Commute Club) provide daily and/or commuter services to San Francisco. In addition, numerous local bus services throughout the Bay Area provide connecting service to the BART stations located in Alameda, Contra Costa, and San Mateo Counties.

## **Conclusion**

San Francisco has many strengths that will fuel prosperity during the next upturn in the business cycle. San Francisco remains a financial center with leading banks and brokerages located in the city. The region is a stronghold of biotechnology, and despite the dot-com bust, it remains a key player in the Internet economy. Supporting the work force are world-class universities and research institutions. Considering San Francisco's other attractions such as stunning vistas, entertainment, and cultural opportunities, the city has a promising future for long-term prosperity. Furthermore, the near-term outlook suggests that the economy is already making a steady recovery.

**The Housing Market in San Francisco**

Data for this section is derived from various sources including statistics published in the Multiple Listing Service for San Francisco and periodic press releases from Dataquik. Supplementary information is obtained through our discussions with several of the on-site sales persons at recently completed or sold-out condominium projects. In this section, we will provide statistics in describing the historical trend of the housing market in San Francisco and its current condition.

It is common knowledge that the Bay Area has one of the highest home prices in the country, and that the county of San Francisco is among the most expensive areas in the Bay Area. The absence of large developable sites for development and the attractiveness of the city as a place to live contribute to escalating prices particularly in recent years as demand is fueled by low mortgage interest rates and employment gains. The following table is a comparison of the median home prices (including condominiums, townhouses and single family dwellings) of the nine counties that make up the Bay Area.

<u>County</u>	<u>2002</u>	<u>2003</u>	<u>Nov 2004</u>	<u>Dec 2005</u>	<u>Jan 2006</u>	<u>% Change 02-12/05</u>	<u>% Change 11/04-12/05</u>	<u>% Change 12/05-1/06</u>
Alameda	\$385,000	\$410,000	\$500,000	\$575,000	\$562,000	49.4%	15.0%	-2.3%
Contra Costa	\$342,500	\$379,000	\$474,000	\$573,000	\$570,000	67.3%	20.9%	-0.5%
Marin	\$565,000	\$616,000	\$739,000	\$771,000	\$741,000	36.5%	4.3%	-3.9%
Napa	\$357,000	\$430,000	\$535,000	\$572,000	\$596,000	60.2%	6.9%	4.2%
<b>San Francisco</b>	<b>\$545,000</b>	<b>\$556,000</b>	<b>\$697,000</b>	<b>\$727,000</b>	<b>\$722,000</b>	<b>33.4%</b>	<b>4.3%</b>	<b>-0.7%</b>
San Mateo	\$525,000	\$555,000	\$664,000	\$739,000	\$726,000	40.8%	11.3%	-1.8%
Santa Clara	\$455,000	\$470,000	\$560,000	\$642,000	\$648,000	41.1%	14.6%	0.9%
Solano	\$265,000	\$299,000	\$400,000	\$473,000	\$490,000	78.5%	18.3%	3.6%
Sonoma	\$339,728	\$375,000	<u>\$477,000</u>	<u>\$558,000</u>	<u>\$562,000</u>	64.2%	<u>17.0%</u>	<u>0.7%</u>
Bay Area			\$533,000	\$625,000	\$605,000		17.3%	-3.2%

Source: Dataquik

As seen in the preceding table, San Francisco ranks third in the median home price in the Bay Area; Marin and San Mateo counties came in first and second in the ranking. However, in terms of price increase, San Francisco is among the lowest in terms of percentage gain in the most recent period of one year from December 2005 to January 2006 or the extended time frame from 2002 to December 2005 due to the already high median prices in the city. What is also noteworthy is the fact that a large percentage of the total price gain has occurred from 2003 to 2004 in most areas in the Bay Area, coinciding with resumed economic growth in the region.

Focusing on San Francisco where the subject property is located, we have presented in the following table and chart the trends in the median home prices for condominium/townhouse sectors of the market in the past six years up to October 2005.

	County	Percent
<u>Year</u>	<u>Condo/TH</u>	<u>Change</u>
1999	\$401,000	N/A
2000	\$541,000	34.9%
2001	\$501,000	-7.4%
2002	\$525,000	4.8%
2003	\$535,000	1.9%
2004	\$625,000	16.8%
2005 (Jan/Oct)	\$740,000	18.4%
1999 to 2005		84.5%

The median price of residential condominiums increased by 84.5% over the past six years. It is interesting to note the price decline in 2001 when San Francisco experienced the dot-com bust towards the end of that year. The loss of employment together with the recessionary economic condition led to a price drop. Prior to the recession from 2001 through 2003, there were huge gains in prices (double digit increases from 1999 to 2000 as seen in the summary table) as a result of favorable economic growth fueled partly by the wealth created in the stock market and the Internet-related industries. The strong demand for housing during this time period (1998 to 2000) more than offset the upward movement in mortgage interest rates which rose by more than 1.5 percentage points from around 7.0% to 8.5%. The continued decline in interest rates to historical low levels in 2003 and 2004 contribute to the abrupt upward movement in prices in these two years. While modest increases in interest rates to slightly more than six percent in the latter half of 2005 have not been large enough to have any significant impact on the housing market, the continued upward movement in interest rates have apparently begun to cool the inflated housing market since the beginning of 2006.

### **The Demand Characteristics**

One of the main reasons for the observed strength of the housing market in San Francisco is the low rate of home ownership. Based on statistics reported in a number of publications including the 2000 Census and the Housing Elements report published by the city of San Francisco, approximately 35% (Year 2000 statistic) of the households in San Francisco are home owners. This ratio is considerably lower than the state where the percentage of home ownership was reported at 56.9%. For comparison, the national average is 68%. The large proportion of households as renters in San Francisco provides a much greater pool of potential home buyers.

To provide a quantifiable estimate of this pool of potential home buyers, the following table is prepared and it shows the number of households (one to four person households) in San Francisco who are homeowners or renters. The data is obtained from a study prepared by Bay Area Economics for a developer in May 2004.

% of AMI:	Owner Households		Renter Households		Total
	<u>Number</u>	<u>% of Total</u>	<u>Number</u>	<u>% of Total</u>	<u>Households</u>
80% to 100%	9,854	33%	19,721	67%	29,575
100% to 110%	4,432	36%	7,769	64%	12,201
110% to 120%	4,387	34%	8,555	66%	12,942
Over 120%	<u>44,645</u>	46%	<u>51,688</u>	54%	<u>96,333</u>
Total	63,318	42%	87,733	58%	151,051

AMI: Area Median Income

There is an estimated 329,700 households in San Francisco of which 151,051 have an income at 80% or above the area's median income (AMI) as of 2004. The AMI ranges from \$66,500 for a one-person household to \$95,000 for a four-person household. The remainder households make less than 80% of the AMI, and presumably do not constitute potential home buyers. The preceding table provides a further breakdown of the segment of households with 80% or above of AMI by home owners and renters. Given the high home prices in San Francisco, those households making over 120% of the AMI (that is, \$79,800 for a one-person household and \$114,000 for a four-person household) are probably the most relevant for analysis purposes. There are 96,333 households within this income category, and 54% (51,688) are currently renting. While there is no doubt that a number of households will remain renters (for work mobility or life style reasons), it is also certain that there is a large number of households who are potential home buyers. Added to this potential pool are people who live outside San Francisco but want to purchase a second home in the city. A third source of buyers is derived from wealthy foreigners who desire a vacation home in San Francisco.

The renter household group indicated in the foregoing is further broken down by household size as shown in the following table. As in most large metropolitan cities, there is a greater concentration of small households with one or two persons. The distribution of households by size indicates a greater demand for smaller dwelling units such as studio and one-bedroom condominiums.

**RENTER HOUSEHOLDS  
BY HOUSEHOLD SIZE**

Household Size:	<u>Number</u>
1 Person:	17,126
2 Person:	23,323
3 Person:	7,940
4 Person:	<u>3,299</u>
Total:	51,688

The strong demand for housing in San Francisco is further illustrated by the rapid absorption rates experienced by recently completed condominium projects in the city. We have discussed the absorption rates in the analysis section in the report. Suffice to reiterate here that the

absorption rates typically range from 15 to 20 units per month. In the case of 199 New Montgomery, the absorption was reported at 27.5 units per month.

The concentration of professional workers, high household incomes, and the large percentage of renters coupled with the favorable quality of life characteristics of San Francisco including the abundance of recreational amenities and services contribute to the strong demand for housing in the city.

### The Supply Characteristics

The perennial shortage of housing in San Francisco has been well documented, and is reflected in the persistent low vacancy rates in the rental market. The limited land supply due to the built-up nature of the city and its lack of expansion potential (surrounded by water on three sides) have resulted in a low housing production rate relative to demand. The following table provides statistics on the change in housing units in the past six years based on statistics published by the Department of Finance, Demographic Research Unit.

Year	Total Units	Change	% Change	SFD	Change	% Change	MFD	Change	% Change
2000	345,967	N/A	N/A	111,405	N/A	N/A	234,562	N/A	N/A
2001	346,929	962	0.3%	111,468	63	0.1%	235,461	899	0.4%
2002	349,715	2,786	0.8%	111,569	101	0.1%	238,146	2,685	1.1%
2003	352,715	3,000	0.9%	111,581	12	0.0%	241,134	2,988	1.3%
2004	353,930	1,215	0.3%	111,635	54	0.0%	242,295	1,161	0.5%
2005	355,343	<del>1,413</del>	<del>0.4%</del>	111,691	<del>56</del>	<del>0.1%</del>	243,652	<del>1,357</del>	<del>0.6%</del>
2000-2005		9,376	2.7%		286	0.3%		9,090	3.9%
Annual Average:		1,875			48			1,818	

Source: CA Dept of Finance, Demographic Research Unit  
 SFD: Single Family (both Detached & Attached)  
 MFD: Multiple Family Dwelling Units (exclude mobile homes)

The bulk of the increase in the production of housing has been in multiple family units, primarily condominiums and apartments. The annual average production rate is 1,818 units in the past five years. The Association of Bay Area Governments estimated a need of 2,717 housing units per year from 1999 through 2006 in San Francisco. Thus, through January of 2005, the actual increase in housing units has met only 67% of the estimated need in the city. The lag in production of housing units relative to demand contributes to the escalation in home prices discussed earlier in this section. In Projections 2005, published by ABAG, San Francisco is forecasted to add 7,130 new households (an annual average of 1,426 households) from 2005 to 2010. Thus, the production of housing must be maintained at a fairly rapid rate to keep pace with the population growth.

To provide a gauge of the future production of condominiums in the city, we have compiled in the following table the number of units that are in the construction pipeline. We have included the major projects that are still on the market at present.

<i>No.</i>	<i>Project Name</i>	<i>Location</i>	<i>No. of Units</i>	<i>Comments</i>
<b>Projects currently on the market</b>				
1	201 Sansome	Downtown	46	Pre-completion sale in progress
2	255 Berry Street	Mission Bay	100	Only a couple of units left
3	St. Regis Museum Tower	South of Market	102	Pre-completion sale in progress
4	Beacon West Building	Mission Bay	300	Approx. two-thirds sold
5	175 Bluxome Street	Downtown	102	Close to sell out
			650	
<b>Projects under Construction &amp; close to Completion</b>				
1	40 Lansing Street	South of Market	82	Completion date end of 2005
2	The Watermark at Bryant	South of Market	136	Completion date end of 2005
3	555 Fourth Street	South of Market	296	Mid-2006
			514	
<b>Projects under construction &amp; estimated completion dates:</b>				
	2006		991	
	2007		960	
<b>Approved, construction not yet commenced</b>			5,332	
<b>Proposed Projects, no approval</b>			6,283	

There is a limited number of new projects on the market at present, and several of them are almost sold out. There is little doubt that all of them will be sold out by the time the subject is completed in 2008. The project at 201 Sansome represents a conversion project, and pre-completion marketing has led to 15 units being under contract. All of the units will likely be sold by early to mid 2006. St. Regis is a luxury project with 99 condominiums and 3 two-level penthouses priced at \$1.4 to \$2.7 million each. These are large units ranging from 1,400 to 3,000 square feet, and housed in the upper floors of a 40-story tower, with the St. Regis Hotel being operated on the lower floors. The hotel provides personalized and concierge services to the residents also, including food services, spa and fitness center. The remaining three projects are located in the Mission Bay neighborhood.

As seen in the preceding table, over 500 units are under construction and close to completion (in late 2005 or mid-2006). In 2006 and 2007, approximately 1,655 units (excluding 555 Fourth Street which is counted in the 500 units near completion) are scheduled for completion. The estimated 960 units to be completed in 2007 would likely be the primary competition for the subject project. It appears, therefore, that there will be well over 1,000 new units on the market around the time the subject is scheduled to be completed. We noted earlier that the city produced and absorbed an annual average of 1,818 multi-family units. If the strength of the housing market persists in 2008, the market should be able to absorb the projected number of new units at that time.

Further in the development pipeline, there are 11,615 units that have been approved and proposed. This projected new supply should have no impact on the subject property as they are

not likely to be constructed by the time the subject enters the market. However, it does appear that this additional number of new units will help alleviate the housing shortage in the city in the next five years when 7,130 new households are forecasted to be added to the city.

To complete the picture on future developments, it is noted that a number of conversion projects are included in the preceding statistics. The conversion of an office building to residential use is a recent phenomenon prompted by the combination of a weak office market (that results in office buildings with low occupancy) and strong demand for housing as discussed previously. This situation has led to several transactions of vacant or nearly vacant office buildings that were purchased for conversion to condominium development. We have listed in the following several proposed projects that make use of this conversion concept.

1	Musto Plaza (717 Battery)	Downtown	42 Existing 42,000 SF office building
2	733 Front Street	Jackson Square	69 Existing 7-floor office building
3	545 Sansome Street	Downtown	200 Existing 51,500 SF office building
4	845 Montgomery Street	Jackson Square	13 Existing 18,600 SF office building
5	Belli Building, Montgomery	Jackson Square	<u>18</u> Existing 8,600 SF office building
			342

## Conclusion

The strong demand for housing coupled with a restricted supply and low mortgage interest rates has led to price escalations in double digits in the housing market in the past two years. Average prices of new condominiums in late 2004 were in the range of \$500 to \$800 per square foot. More recent sales indicate that prices have reached (and in some cases exceeded) the \$1,000 per square foot level. Sales at recently completed developments were strong, reporting absorption rates of 20 or more units per month. In some cases, the release of twenty units was sold in a day. It is difficult to forecast if this level of demand will continue in the next two to three years, particularly if mortgage interest rates continue to rise. Most economists take a cautious approach in forecasting a less frenzied pace in the market, and it does appear that the housing market has cooled since the beginning of 2006. Barring unforeseen events, the housing market will probably remain quite strong in the foreseeable future, though it would not be prudent to forecast any large price increases within this time frame.

### **The Immediate Neighborhood**

The subject property is located in a neighborhood generally known as Rincon Hill which is situated north of the freeway (I-80/Bay Bridge), west of The Embarcadero that runs along the waterfront, east of Second Street and east of Howard Street. This neighborhood is part of the area identified as the South-of-Market Financial District that extends south of Market Street to the freeway, west of The Embarcadero and east of Third Street. On the east side of the freeway from Rincon Hill, one finds the South Beach neighborhood along the waterfront in this part of the city. North of Rincon Hill is the Transbay Terminal where a number of high rise residential towers have been proposed.

### **Land Uses**

The primary land uses in Rincon Hill are commercial and high density residential, with increasing residential developments in recent years. Situated directly across from the subject on the north side of Harrison Street is the headquarters building for sailors. A gas station is positioned at the northwest corner of First and Harrison Streets, with low and mid rise commercial buildings located on either sides of Harrison Street west of First Street. Along First Street north of the subject, commercial land use becomes more dominant as one travels in the direction of Market Street, though within the block between Harrison and Folsom Streets, there are several condominium developments including the twin towers of The Metropolitan that was completed in late 2003 and sold out in early 2005. A smaller project known as The Lansing (82 units) is near completion within two blocks northwest of the subject. Within a block east of the subject site, there are three high rise residential developments: Bridgeview condominiums, Avalon Towers Apartments and Bay Crest condominiums. The transformation of the entire South-of-Market district that began more than twenty years ago from a former industrial area to a mix commercial and residential neighborhood is now far in progress.

### **Life cycle**

A neighborhood's life cycle generally consists of four different stages: the growth stage, a period during which the neighborhood gains public favor and acceptance; stability, a period of equilibrium without more gains or losses; decline, a period of diminishing demands; and revitalization, a period of renewal, modernization and increase in demand. The subject neighborhood is considered to be in a period of revitalization with increasing residential developments in recent years.

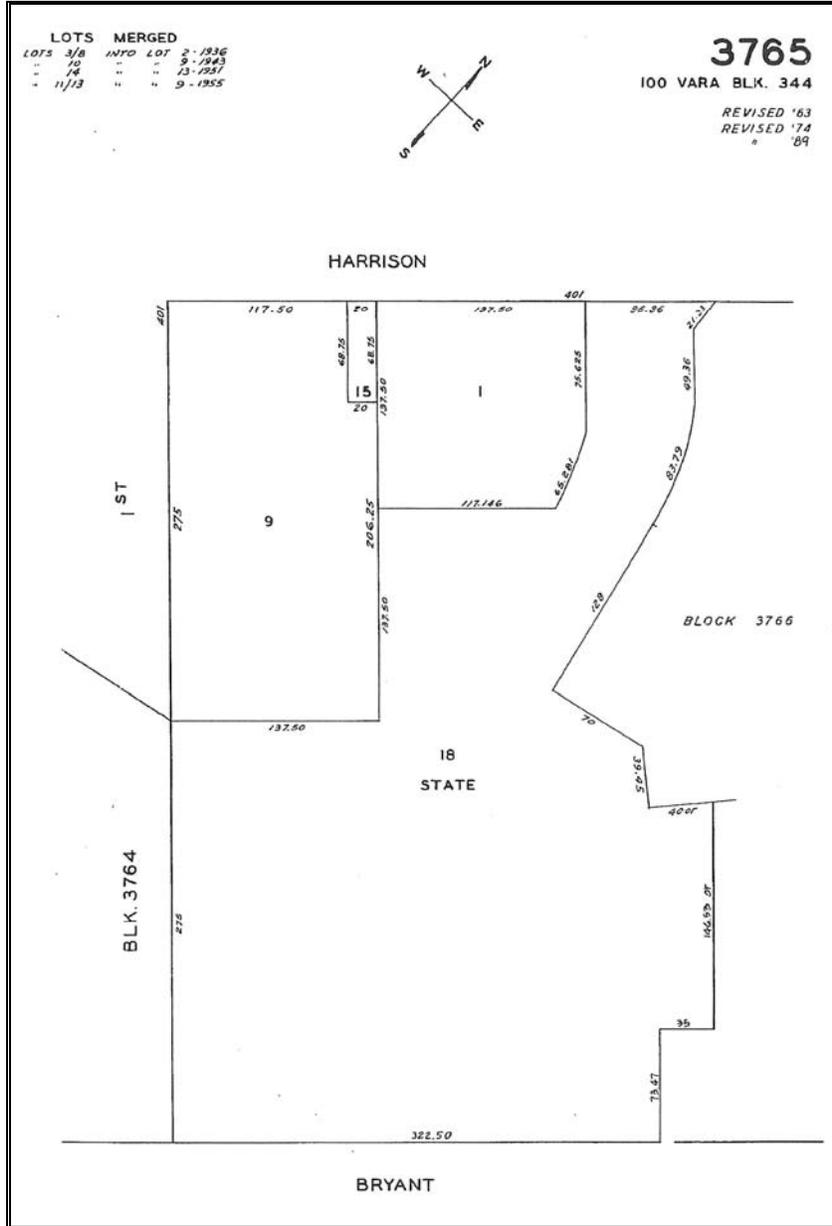
### **Access**

The subject is situated at the southeast corner of First and Harrison Streets. First Street is one way in the southerly direction, and provides the direct access to the Bay Bridge with the on-ramp situated on the west side of the subject site. Harrison Street is a two-way roadway in the subject neighborhood, providing both east and west access. Accessibility to the subject site is therefore very good.

## **Conclusion**

The subject property is located in a neighborhood that is in a transitional period with increasing high density residential use. This trend will continue in the foreseeable future as housing demand and the lack of developable land in other parts of the city continue to push residential development into the South-of-Market district. While there are a handful of vacant land parcels that are used primarily for parking purposes, the redevelopment of under-utilized industrial or commercial buildings will be the main element of transformation in the subject's immediate neighborhood.

The description of the site was based on a physical inspection of the property on April 8, 2006, a review of the plat map as shown below and on information provided by the developer.



Property Location: The subject property is located at the southeast corner of First and Harrison Streets within the Rincon Hill neighborhood of the city and county of San Francisco, California.

Assessor's Parcel Numbers: Block 3765 Lots 1, 9 & 15 (portion of)

Site Area: Approximately 43,151 square feet (0.99 acre)

Shape:	Rectangular (more or less)
Street Frontage:	First Street:                   ±275 feet Harrison Street:               ±140 feet
Topography:	The site is level and on grade with the abutting streets. However, we note that the subject parcel is situated at the top of a hill with Harrison Street sloping downward in both the easterly and westerly directions within a short distance from the subject site. First Street also assumes a downward gradient in the northerly direction.
Soil Condition:	We have not been furnished with an engineering report or soil study, nor have we commissioned one to be performed. However, based upon the viability of the surrounding improvements, it is assumed that soil conditions are adequate to support the proposed multi-family residential project throughout their economic life.
Utilities:	All municipal utilities are available and connected to the site including electricity, gas, water, sanitary sewer, and telephone connections.
Flood Status:	The city of San Francisco does not participate in the FEMA program.
Earthquake Zone:	The subject property is not situated in a fault-rupture hazard zone as defined by the California Division of Mines and Geology. The subject is however located within the seismically active San Francisco Bay Area.
Site Improvements:	The site was previously improved with an office building, but the improvements have been demolished. The site is essentially vacant at present, though foundation work for the proposed development is in progress.
Zoning:	The subject property is located within the Rincon Hill Downtown Residential Mixed-Use district which encourages high density residential development. Based on our discussion with a representative of the architectural firm, Solomon Cordwell Buenz and Associates, the subject property has been approved for the planned 390 condominium units and represents a legal and conforming use of the site in terms of the permitted use, height and bulk limits as well as parking.

Easements/Encroachments: The preliminary title report prepared by Chicago Title Company on September 19, 2005 indicated the presence of a number of minor encroachments which do not appear to have any negative impact on the value of the property. It is assumed that there are no other extraordinary easements or encroachments that may affect the marketability or market value of the site.

Conclusion: Inspection of the site's physical and functional characteristics indicates that it is adequate for the proposed multi-family development.

The subject property is under the taxing authority of San Francisco County, California. Below is a summary of the 2005-2006 assessed values and taxes assigned to the land and existing improvements of the subject property.

Owners of Record: One Rincon Hill Development, LLC, a Delaware limited liability company

Assessor's Parcel Numbers: Block 3765, Lots 1, 9 & 15 (portion of)

Assessed Values:	Land:	\$15,790,304
	Improvements:	<u>\$1,039,043</u>
	Total:	\$16,829,347

2005-2006 Tax Rate: 1.140%

Base Real Estate Taxes: \$191,854.50

Special Assessments: \$64.40 (SFUSD Facilities District)

Total Real Estate Taxes: \$191,918.90

**PROJECTED TAXES**

Since the passage of Proposition 13, in June of 1978, upon the transfer of a property, real estate taxes are based on 1% of full cash value plus any amount necessary to satisfy general obligation bonds or other indebtedness approved by voters prior to July 1, 1978. Therefore, upon sale of the property, taxes can be estimated by applying this current tax rate to the estimated market value.

Proposition 13 also establishes a maximum annual assessment increase of two percent for all properties which have not changed ownership or had major construction occur during the tax year. Since the definition of market value assumes a sale, we have projected base taxes for the property based upon our concluded market value of the subject site as if vacant. The special assessment is for the San Francisco Unified School District Facilities District. It is a 20-year special assessment for facilities repair. The projected real estate taxes for the subject site as if vacant and the projected special assessments are summarized as follows.

<i>Market Value of Subject Site as if Vacant:</i>	\$24,200,000
Current Tax Rate:	<u>x 1.140%</u>
Projected Base Real Estate Taxes:	\$275,880.00
Special Assessments:	<u>\$64.40</u>
Total Taxes:	\$275,944.40

According to *The Appraisal of Real Estate -- Twelfth Edition (2001)*, Highest and Best Use is defined as:

The reasonably probable and legal use of vacant land or an improved property that is physically possible, appropriately supported, and financially feasible and that results in the highest value.

In appraisal practice, the market value of a property is based upon its highest and best use. To determine highest and best use, the following four criteria must be met: legal permissibility, physical possibility, financial feasibility, and maximal profitability. Given the subject site being a vacant land parcel, we have focused on the highest and best use of the site as vacant only.

### **Physically Possible**

As previously discussed, the subject site is more or less rectangular in shape. Other physical features of the subject site include an adequate size (0.99 acre) and the availability of all utilities which are connected to the property. While no soils report was reviewed, it appears that the parcel, as evidenced by the office building previously at the property and neighboring buildings, is suitable for any reasonable development. In addition, the size of the parcel is sufficient to achieve economies of scale. Therefore, it is our opinion that the subject site is not limited by its physical characteristics.

### **Legally Permissible**

As noted in the Description of the Site, the subject property is situated within the RC-4 zoning district within the Rincon Hill Special Use District, which allows the proposed condominium development. The property as planned represents a legal and conforming use of the site and has received approval from the Planning Department of the city of San Francisco. The non-conformance refers to the excess height of the building. The proposed development thus satisfies the legally permissible criterion of the highest and best use definition.

### **Financially Feasible and Maximally Productive**

The final test of the Highest and Best Use of the property is the financial feasibility of the physically possible and legally permissible alternatives. This use must provide a positive cash flow and adequate return to the land over a normal investment period. We will address this issue primarily in terms of the subject property as approved. In view of the strong housing condition in the past couple of years and the rising market prices for condominiums during this period, the subject site as an approved condominium project will provide the developer with an acceptable rate of return. In our initial valuation of this subject property towards the end of 2005, our static development model indicates a profit of 20.2%, and we concluded to project feasibility. We maintain the same conclusion for the current valuation of the subject site.

**Conclusion**

Given the subject's adequate site area and its approval status, the project meets the physical and legal criteria of the highest and best use. For the financially feasible test, our analysis indicates no change in the financial feasibility of the subject site for the condominium project being constructed. Based on our analysis, it is concluded that the subject property is financially feasible as a market rate condominium project.

## Introduction to Appraisal Methodology

In appraising a property, there are three traditional valuation methodologies that can be applied, including the Income Capitalization, the Sales Comparison, and the Cost Approaches. Selection of one or more of the approaches in the appraisal of a property primarily rests with the property type and its physical characteristics, as well as the quality and quantity of available market data.

The **Income Capitalization Approach** is based on the fundamental investment premise that the higher a property's earnings, the higher its value. Investment in an income producing property represents the exchange of present dollars for the right to receive future dollars. In this approach, a value indication for an income-producing property is derived by converting its anticipated benefits (cash flows and reversion) into property value. This conversion can be accomplished in two ways. One year's income expectancy can be capitalized at a market-derived capitalization rate. Alternatively, the annual cash flows for the holding period and the reversion can be discounted at a specified yield rate. The Income Capitalization Approach typically provides the most meaningful estimate of value for income producing properties.

The **Sales Comparison Approach** involves the comparison of comparable sales to the subject property by applying appropriate units of comparison and making adjustments to the sale prices of the comparables based on various elements of comparison. This methodology may be used to value many different types of improved properties and vacant land as long as there is a sufficient quantity of good quality market data available. It becomes less reliable as the quantity and magnitude of adjustments increases and it is generally not applicable to unique or special purpose properties.

The **Cost Approach** is based on the premise that an informed purchaser will not pay more for a property than the cost to construct a property of similar utility. This approach is most applicable when the subject property is of new or nearly new construction and the improvements represent the highest and best use of the site. This approach is also particularly useful when appraising unique or special purpose properties where there are few, if any comparable sales or leases.

## Valuation Methodologies Applicable to the Subject Property

Given the subject property's condition being essentially a parcel of vacant land with development entitlements, the Sales Comparison Approach is applicable in the valuation of the subject property and will provide the basis for a supportable market value estimate. This appraisal excludes the Income Capitalization Approach since the subject property is not a revenue producing property. We have discussed earlier the exclusion of a subdivision analysis which is appropriate for a proposed residential development; the primary reason for the exclusion of this technique is the fact that we performed such an analysis at the end of 2005, approximately three months ago. It is our opinion that the value estimate derived through this technique would still be valid today. Furthermore, we consider the available market data in the Sales Comparison Approach to be sufficient to provide the basis for an independent market value conclusion for the subject site as if vacant.

## **Introduction**

The Sales Comparison Approach is a method of estimating market value based on analyzing transactions of similar properties in the market area. A major premise of the Sales Comparison Approach is that the market value of a property is directly related to the prices of comparable, competitive properties. When, as here, there are an adequate number of sales of similar properties with sufficient information for comparison, a market value for the subject property can be developed.

The reliability of this approach is dependent upon the following conditions:

1. The availability of comparable data.
2. The verification of the sale data.
3. The degree of comparability.
4. The absence of atypical conditions affecting the sale price.

The Sales Comparison Approach is a significant and essential part of the valuation process, even when its reliability is limited. In situations where the dissimilarities in factors affecting property value cannot be properly determined or quantified, the Sales Comparison Approach may still provide a probable range of value that can support a primary value indication derived from the application of one of the other approaches. In addition, data needed to apply to the other approaches such as overall capitalization rates or depreciation estimates are often obtained in the comparative process.

After sales data is gathered and verified to the extent possible, systematic analysis commences. Since like units must be compared, each sale price is stated in terms of an appropriate unit of comparison. The unit of comparison selected depends on the type of property being appraised. The sale price per square foot (\$/SF) is most widely used in this approach.

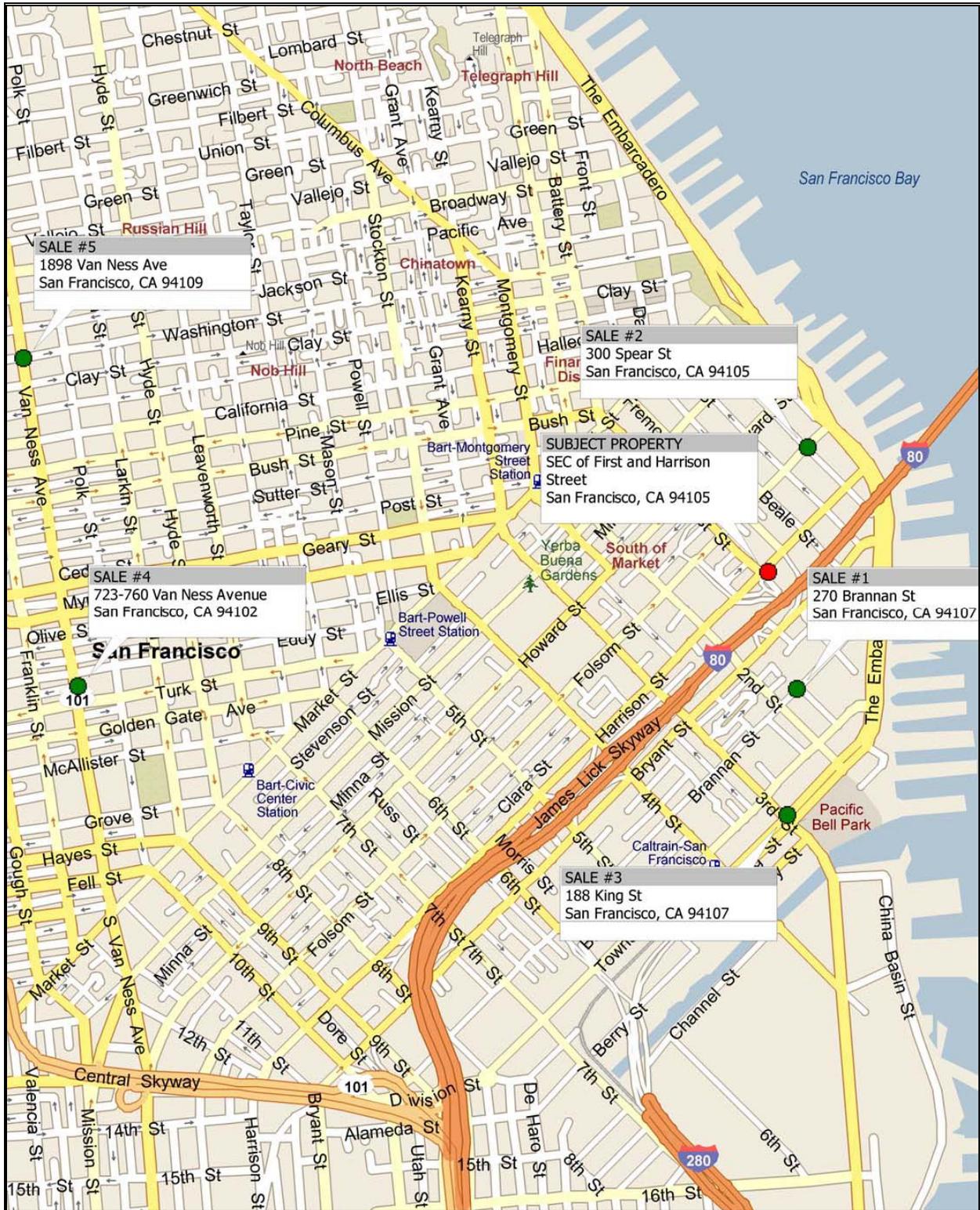
An adjustment grid is used to summarize the direction and magnitude of adjustments applied to the comparable sales. In some cases adjustments may be extracted from quantifiable data (such as paired sales analysis). However, in many instances, the adjustments involve the judgment of the appraiser. The resulting adjustments made to the comparable properties indicate a market value range for the subject. Most often, a point of value within the adjusted range is concluded.

A location map of the comparable sales is displayed on the next page, followed by a summary of the sales, analysis, adjustments, and the market value conclusion by the Sales Comparison Approach.

**SUMMARY OF COMPARABLE RESIDENTIAL LAND SALES IN SAN FRANCISCO, CALIFORNIA**

<i>Location</i>	<i>Sale Date</i>	<i>Site Area Acres Square Feet</i>	<i>Sale Price Adjusted Price Financing</i>	<i>Price/SF Price/Unit</i>	<i>Zoning Density</i>	<i>Street Frontage</i>
Sale Number 1: <b>270 Brannan Street San Francisco, CA</b>	10/13/2005	0.87 37,810	\$16,000,000 All Cash Sale	\$423.17 \$150,943	SSO 122 Units/Ac.	Brannan: 138'
<i>Grantor: Wuteh of China, Inc. Grantee: South Beach Partners A.P.N.: 3774-026</i>	Proposed Development: The site is improved with a 17,350 SF office building to be demolished. The buyer plans to build 106 multi-family units at the site. There was no entitlements at time of sale.					
Sale Number 2: <b>300 Spear Street San Francisco, CA</b>	11/1/2004	1.67 72,745	\$51,000,000 All Cash Sale	\$701.08 \$79,688	P 384 Units/Ac.	Folsom: 275' Main: 275'
<i>Grantor: 300 Spear St., LLC Grantee: 300 Spear Realty Partners A.P.N.: 3745-001</i>	Proposed Development: Purchased for the development of 640 condominium units. The site was sold vacant and ready for development with approved plans.					
Sale Number 3: <b>188 King Street San Francisco, CA</b>	4/15/2004	0.28 12,272	\$4,600,000 All Cash Sale	\$374.84 \$100,000	M-2 163 Units/Ac.	King: 89'
<i>Grantor: 188 King St. Associates Grantee: King St. Associates A.P.N.: 3794-004A</i>	Proposed Development: The site was purchased for the development of 46 live/work units that were approved in 2000. This parcel is situated across from the Pac Bell baseball park.					
Sale Number 4: <b>723-760 Van Ness Avenue San Francisco, CA</b>	7/9/2004	0.34 14,985	\$7,100,000 All Cash Sale	\$473.81 \$68,269	RC-4 306 Units/Ac.	Van Ness: 75' Turk: 50'
<i>Grantor: 724 Van Ness Associates Grantee: The Thompson Group A.P.N.: 742-004 &amp; 008</i>	Proposed Development: This site consists of two lots that wrap around the corner parcel at Van Ness & Turk Street. The former buildings at the lot were previously been demolished. The developer proposed to build 104 condominium units at the site, but the city required and approved a higher density project of 130 units. Approval was in place at time of sale.					
Sale Number 5: <b>1898 Van Ness Avenue San Francisco, CA</b>	11/29/2004	0.206 8,960	\$3,450,000 Cash to Seller	\$385.04 \$78,409	RC-4 217 Units/Ac. (Max allowed)	Van Ness: 74' Washington: 120'
<i>Grantor: Equilon Enterprises Grantee: Vermont St. TownHomes A.P.N.: 0619-012</i>	Proposed Development: The parcel was previously improved with a gas station, but is now operated as a public parking lot. No approval was in place at time of sale. The maximum number of condominium units allowed is 44.					
<b>Subject Site</b> First & Harrison Streets San Francisco, CA		0.991 43,151			M-1 Rincon Hill SUD 393 Units/Ac.	First: 275' Harrison: 140'

**MAP OF COMPARABLE LAND SALES**



**Sales Analysis and Conclusion**

The preceding summary table of the five submitted land sale comparisons shows a sale price range of \$375 to \$701 per square foot of site area. Given these sites being purchased for residential development, another unit price index often used in a comparative analysis is the sale price on a dwelling unit basis, and the price range indicated by the sales is \$68,269 to \$150,943 per unit. The wide variance in the price range is attributed to a number of locational and site characteristics as will be discussed in the following. It is reiterated here that the subject site has been approved for the 390-unit condominium project known as One Rincon Hill, and foundation work is in progress. For the purpose of estimating a market value for the subject site, it is assumed that the subject parcel is vacant, thus ignoring the foundation work that is in progress at the site. In analyzing the presented comparable land sales, we have considered the fee simple interest of all the sales (which is identical to the estate being appraised for the subject), as well as the lack of any special sale conditions and the absence of unusual financing arrangements. None of these factors require any price adjustments.

**Sale Number 1** represents the most recent transaction among the presented sales. No adjustment is made for the relatively recent sale date. This parcel of land is situated in the South Beach neighborhood, within several blocks southwest of the subject. We consider this location slightly superior to the subject so that a downward adjustment is made. The largest adjustments applicable to this sale refer to the much lower development density as well as the lack of entitlements. The similar site area does not require any further price movement.

**Sale Number 2** (at 300 Spear Street) is a relatively large site located in the Rincon/South Beach District in San Francisco, proximate to the Embarcadero, the Financial District and the San Francisco Bay. This site was entitled for high-density development of 640 luxury condominium units in a modern high-rise. The site was sold vacant with entitlements in place. The requisite percentage of below-market-units (10% to 12%) was not included in this project as the developers were able to transfer this requirement to another project, therefore securing a higher profit margin for this site subsequent to the transaction. In terms of location, this comparable sale is superior to the subject due to its proximity to the waterfront with superior view amenity. A downward adjustment is therefore required. No adjustment is required for the comparable size and development density of the site. Given the approval status of the subject site in its "as is" condition, no price correction is also necessary for the comparable site sold with entitlements.

**Sale Number 3** represents a small 12,272 square feet parcel, located on King Street, east of the San Francisco CalTrain station and directly opposite PacBell Park, the home of the San Francisco Giants. This area has recently undergone substantial development with several luxury high-rise condominium and apartment complexes built. Other new development includes retail amenities such as a Safeway grocery, a Barnes and Noble bookstore, Starbucks, and Wells Fargo bank branch. This area is considered San Francisco's most recent emerging district, and is gaining in popularity. The site was previously improved with a garment warehouse, which was sold upon retirement of the proprietor. The site was originally purchased in 2000 for \$3,600,000,

at which time it was approved for development of 46 live/work units. The property was held as vacant and was subsequently sold in 2004 for \$4,600,000. The site is currently under development.

An initial upward adjustment is applied to this property's inferior location relative to the subject's position in the eastern part of the South-of-Market district. Given this parcel's smaller size, a downward adjustment is indicated for the tendency for smaller parcels to sell at a premium on a price per square foot basis. In addition, the lower density of the site with 194 units per acre (as opposed to 393 units per acre at the subject) calls for an upward price correction which is extended for the older sale date in early 2004 to account for the advance in land values fueled by the strong housing market. Again, the approved status of this site does not need further price adjustment.

The remaining two sales are located within the Van Ness Avenue corridor. Sale Number 4 has frontage on two streets (Turk and Van Ness), a site configuration that is atypical so that an upward adjustment is made in addition to its slightly inferior location in the southern part of the Van Ness Corridor. Furthermore, the lower density (306 units per acre) calls for an upward correction which is offset by the downward adjustment for the smaller size of this site. This parcel was also sold with entitlements in place so that no further adjustment is required.

Sale Number 5 is situated at the southeast corner of Van Ness Avenue and Washington Street, a slightly superior location relative to the subject due to its positioning in a desirable neighborhood near the lower part of Russian Hill. In this case, the downward adjustment for location is extended for the smaller parcel size, but is more than compensated by the upward corrections for the absence of approval for the proposed condominium development (which is in the review process at present) and the lower density.

To summarize the adjustments discussed in the foregoing, an adjustment grid is shown below. We should note that the percentages illustrated in the table are presented to provide an overview of the direction of the price adjustments and their likely magnitude based on our subjective assessment, and are not meant to imply the results of quantitative manipulation of the data. The data do not allow quantitative measurement of the comparison between the sales and the subject property in terms of the factors discussed.

	Sale 1 270 Brannan St. San Francisco	Sale 2 300 Spear St. San Francisco	Sale 3 188 King Street San Francisco	Sale 4 723-730 Van Ness San Francisco	Sale 5 1898 Van Ness San Francisco
<i>Adjustment Factors</i>					
Unadjusted Price (\$/SF):	\$423.17	\$701.08	\$374.84	\$473.82	\$385.04
<i>Property Rights Sold:</i>	0%	0%	0%	0%	0%
Adjusted Price (\$/SF):	\$423.17	\$701.08	\$374.84	\$473.82	\$385.04
<i>Financing Terms:</i>	0%	0%	0%	0%	0%
Adjusted Price (\$/SF):	\$423.17	\$701.08	\$374.84	\$473.82	\$385.04
Condition of Sale:	0%	0%	0%	0%	0%
Adjusted Price (\$/SF):	\$423.17	\$701.08	\$374.84	\$473.82	\$385.04
Market Conditions:	0%	0%	15%	0%	0%
Adjusted Price (\$/SF):	\$423.17	\$701.08	\$431.07	\$473.82	\$385.04
Cumulative Adjustments:					
Location:	0%	-15%	15%	5%	-5%
Site Area:	0%	0%	-5%	-5%	-10%
Topography/Shape:	0%	0%	0%	0%	0%
Density:	25%	0%	25%	5%	15%
Existing Improvements:	0%	0%	0%	0%	0%
Entitlements:	<u>30%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>30%</u>
Net Adjustment:	55%	-15%	35%	5%	30%
Value Indication (\$/SF):	\$655.91	\$595.92	\$581.94	\$497.51	\$500.55

## Conclusion

The adjusted prices range from \$498 to \$656 per square foot, with the average adjusted price being \$566 per square foot. Based on our analysis with more or less equal weighting to all five sales, we conclude to \$560 per square foot for the subject site as if vacant, and the total market value of the subject site is estimated as follows:

Average Adjusted Price:	\$566.37
Estimated Market Value/SF:	\$560.00
Site Area (Sq. Ft.):	43,151
Market Value Estimate:	\$24,164,560
Rounded Market Value:	\$24,200,000
Market Value per Unit:	\$62,000

It is noted that the preceding value estimate pertains to the subject site as if vacant. We have previously observed that foundation work has commenced on the proposed condominium project at the site. To estimate the market value of the subject site in its "as is" condition with a part of the foundation work in place, an estimate of the market value of the work so far performed would be necessary. This value is not the same as the actual costs that have been expended on

the work in progress, but a discounted figure based on negotiation between buyer and seller. We know of no transactions in which a development site similar to the subject was recently sold, and to estimate a market value of the site work that has been installed to date is highly subjective. We have thus elected to present a market value of the subject site as if vacant (as agreed by our client), and to note in this concluding remark that the market value of the subject site in its “as is” condition would be higher incrementally based on the work on the site that has so far been completed.

**MARKET VALUE OF THE SUBJECT SITE AS VACANT**

**\$24,200,000**

The Appraisal Report is subject to underlying assumptions and limiting conditions qualifying the information contained in the report as follows:

The valuation estimate applies only to the property specifically identified and described in the ensuing report.

The value conclusion contained in this report is based on a number of estimates and assumptions regarding the condition of the market and market parameters as related to the subject property. Therefore, it is important that the appraisal report must be read in its entirety so that the value conclusion is interpreted within the context of its economic environment.

Information and data contained in the report, although obtained from public record and other reliable sources and, where possible, carefully checked by the Appraisers, are accepted as satisfactory evidence upon which rests the final expression of the property value.

The Appraisers have made no legal survey nor has he commissioned one to be prepared and therefore reference to a sketch, plat, diagram or previous survey appearing in the report is only for the purpose of assisting the reader in visualizing the property.

It is assumed that all information known to the client and relative to the valuation has been accurately furnished and that there are no undisclosed leases, agreements, liens, or other encumbrances affecting the use of the property.

Ownership and management are assumed to be competent and in responsible hands.

No responsibility beyond reasonableness is assumed for matters of a legal nature, whether existing or pending.

Information identified as being furnished or prepared by others is believed to be reliable, but no responsibility for its accuracy is assumed.

The Appraisers, by reason of this appraisal, shall not be required to give testimony as an expert witness in any legal hearing or before any court of law unless justly and fairly compensated for such services.

By reason of the Purpose of the Appraisal or Function of the Report herein set forth, the value reported is only applicable to the Property Rights Appraised and the appraisal report should not be used for any other purpose.

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

This Appraisal is based on the conditions of local and national economies, purchasing power of money, and financing rates prevailing as of the effective date of value.

Cash flow projections are forecasts of estimated future operating characteristics and are predicated on the information and assumptions contained within the appraisal report. The achievement of the financial projections will be affected by fluctuating economic conditions and is dependent upon other future occurrences that cannot be assured. Actual results may well vary from the projections contained herein. The Appraisers do not warrant that these forecasts will occur. Projections may be affected by circumstances beyond the current realm of knowledge or control of the Appraisers.

The Appraisers have not been furnished with engineering, soil or subsoil tests. In the absence of soil boring tests, it is assumed that there are no unusual subsoil conditions or, if any do exist, they can be or have been corrected through the use of modern construction techniques at reasonable costs. Furthermore, the appraisers are not engineers, and any references to physical property characteristics in terms of quality, condition, cost, suitability, flood risk, obsolescence, etc., are strictly related to their economic impact on the property. No liability is assumed for any engineering-related issues.

Joseph J. Blake and Associates has not been advised of the presence of hazardous material in the subject structures. As such environmental matters are beyond the scope of expertise of Joseph J. Blake and Associates, we recommend that the client retains a firm that specializes in environmental hazards if further investigation is necessary.

Disclosure of the contents of this appraisal is governed by the By-Laws and Regulations of the Appraisal Institute.

Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the Appraiser or the firm with which he is connected, or any reference to the Appraisal Institute or to the MAI or SRA Designation) shall be reproduced for dissemination to the public through advertising media, public relations media, sales media or any other public means of communication without the prior written consent and approval of the Appraiser. Additionally, possession of this report or a copy thereof does not imply right of publication, nor use for any purpose by any other than the person to whom it is addressed, without the written consent of the authors.

**Extraordinary Assumption:** None

Professional Qualifications  
Engagement Letter

## PROFESSIONAL QUALIFICATIONS

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**Diane F. Nowak, MAI**, is employed by the firm of Joseph J. Blake and Associates, Inc., as a Vice President/Regional Manager of their San Francisco Bay Area Office located at 1460 Maria Lane, Suite 250, Walnut Creek, California 94596.

### EDUCATION

Bachelor of Arts in Economics, Loyola University, Chicago, Illinois

Successfully completed all the necessary courses required for the MAI designation

Completed the requirements under the continuing education program of the Appraisal Institute. The next recertification date is December 31, 2004.

### PROFESSIONAL AFFILIATION

Designated Member Appraisal Institute, (MAI #10,619) since December 1994

### LICENSE(S)/CERTIFICATION(S)

California OREA Certified General Real Estate Appraiser No. AG027299

Washington Certified General Real Estate Appraiser No. 1101576

Oregon Certified General Real Estate Appraiser No. C000771

### PREVIOUS APPRAISAL POSITIONS

2000-2003	Commercial Realty Appraisal, Principal	Novato, CA
1999-2000	CB Richard Ellis, Inc., Senior Real Estate Analyst	San Francisco, CA
1996-1999	Joseph J. Blake and Associates, Senior Associate	Chicago, IL
1987-1996	Fee Appraiser	Chicago, IL

### APPRAISAL EXPERIENCE

Ms. Nowak has over 17 years of professional experience including appraisal preparation and review. Appraisal assignments include a wide variety of commercial and residential property, including single-family residences and condominiums, apartment buildings and complexes, subdivisions, mixed-use properties, office buildings, hotels, industrial properties, neighborhood and community shopping centers, regional malls, manufactured housing communities, and special purpose properties.

The majority of properties appraised have been Class A and B investment properties in major metropolitan markets for institutional lenders, conduits, pension funds, insurance companies and mortgage companies.

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## PROFESSIONAL QUALIFICATIONS

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**Kenneth Miu** is a senior appraiser of the San Francisco Bay Area Office of Joseph J. Blake and Associates, Inc., located at 1460 Maria Lane, Suite 250, Walnut Creek, California, 94596.

### EDUCATION

University of Hawaii &  
Pennsylvania State University

Degrees: M.A., Ph.D.  
Major: Urban Geography  
Concentrations: Location Analysis  
Research Methodology  
Statistics  
Urban Planning

### AWARDS:

East West Center Scholarship for graduate studies  
Smithsonian Institute Research Grant

### REAL ESTATE APPRAISAL EDUCATION

Appraisal Institute  
1A-2: *Basic Valuation Procedures*  
1B-A: *Capitalization Theory and Techniques, Part A*  
1B-B: *Capitalization Theory and Techniques, Part B*  
SPP-A/B: *Standards of Professional Practices, Parts A & B*  
2-1 *Case Studies in Real Estate Valuation*  
2-2 *Report Writing and Valuation*

California Certified General Real Estate Appraiser Number AG027432

### REAL ESTATE EXPERIENCE & APPRAISAL ASSIGNMENTS

**Mr. Miu** has over twenty years of experience in real estate research in Northern California and Texas. Prior to joining Joseph J. Blake and Associates, Inc. in 1988, he was Data Manager with CoStar (formerly Comps, Inc.) in San Mateo, a national commercial real estate information services company. His recent appraisal assignments include downtown hotels, office complexes, existing and proposed residential condominium projects, industrial parks, mixed use residential and commercial subdivisions, self-storage facilities, dormitory and church properties, regional retail malls, time-share recreational facilities and apartment buildings.

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## PROFESSIONAL QUALIFICATIONS

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### REPRESENTATIVE LIST OF MAJOR APPRAISAL ASSIGNMENTS

400 Post Street Union Square, San Francisco	97,000 SF, proposed Retail Building
Vallco Fashion Park Cupertino, California	1,000,000 Regional Mall
Holiday Inn Union Square, San Francisco	400 Room Hotel
Bauer-Schweitzer Project North Beach, San Francisco	122 Condominium Units Proposed Development
Sutterfield Cathedral Hill, San Francisco	164 Condominium Units
The Crossroads Lathrop, California	536 Acre Industrial Park Proposed Project
Villa Florence Hotel San Francisco, California	Ground Lease Analysis
Commerce Business Park Commerce, California	+1.0 Million Square Feet Industrial/Office Park
Seascape Bluffs Santa Cruz, California	280-Unit Condominium Hotel Proposed Project
Shaver Lake Shaver Lake, California	1,000 Acre Mountain Resort Residential/Retail Proposed Project
The Embarcadero Center San Francisco, California	900,000 SF Class A Office Tower with retail stores
Arch Road Industrial Park Stockton, California	8 industrial buildings plus 22 vacant lots
650 California Street San Francisco, California	High-rise Office Tower

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## APPENDIX C

### SUMMARY OF THE INDENTURE

The following is a brief summary of certain provisions of the Indenture not otherwise described in the text of this Official Statement. Such summary is not intended to be definitive, and reference is made to the text of the Indenture for the complete terms thereof.

#### Definitions

Except as otherwise defined in this summary, the terms previously defined in this Official Statement have the respective meanings previously given. In addition, the following terms have the following meanings when used in this summary:

“Administrative Expenses” means costs directly related to the administration of the District consisting of the costs of computing the Special Taxes and preparing the annual Special Tax collection schedules (whether by the Chief Financial Officer or designee thereof or both) and the costs of collecting the Special Taxes (whether by the County, the Authority or otherwise); the costs of remitting the Special Taxes to the Trustee; fees and costs of the Trustee (including its legal counsel) in the discharge of the duties required of it under the Indenture; the costs of the Authority, or any designee of either the Authority of complying with the disclosure provisions of the Act, the Continuing Disclosure Agreement and the Indenture, including those related to public inquiries regarding the Special Tax and disclosures to Bondowners and the Original Purchaser; the costs of the Authority, the County or any designee of either the Authority or the County related to an appeal of the Special Tax; any amounts required to be rebated to the federal government in order for the Authority to comply with the Indenture; an allocable share of the salaries of the Authority staff directly related to the foregoing and a proportionate amount of Authority general administrative overhead related thereto. Administrative Expenses shall also include amounts advanced by the Authority for any administrative purpose of the District, including costs related to prepayments of Special Taxes, recordings related to such prepayments and satisfaction of Special Taxes, amounts advanced to ensure compliance with the Indenture, administrative costs related to the administration of any joint community facilities agreement regarding the District, and the costs of commencing and pursuing foreclosure of delinquent Special Taxes.

“Administrative Expense Fund” means the fund by that name established by the Indenture.

“Annual Debt Service” means, for each Bond Year, the sum of (i) the interest due on the Outstanding Bonds in such Bond Year, assuming that the Outstanding Bonds are retired as scheduled (including by reason of the provisions of the Indenture providing for mandatory sinking payments), and (ii) the principal amount of the Outstanding Bonds due in such Bond Year (including any mandatory sinking payment due in such Bond Year pursuant to the Indenture).

“Auditor” means the auditor-controller of the County.

“Authority Attorney” means any attorney or firm of attorneys employed by the Authority in the capacity of counsel to the Authority.

“Authorized Officer” means the Chair, Chief Financial Officer, Secretary or any other officer or employee authorized by the Executive Committee of the Board of Directors of the Authority or by an Authorized Officer to undertake the action referenced in the Indenture as required to be undertaken by an Authorized Officer.

“Bond Counsel” means (i) Quint & Thimmig LLP, or (ii) any other attorney or firm of attorneys acceptable to the Authority and nationally recognized for expertise in rendering opinions as to the legality and tax-exempt status of securities issued by public entities.

“Bond Fund” means the fund by that name established under the Indenture.

“Bond Register” means the books for the registration and transfer of Bonds maintained by the Trustee under the Indenture.

“Bond Year” means the one-year period beginning September 2nd in each year and ending on September 1st in the following year, except that the first Bond Year shall begin on the Closing Date and end on September 1, 2006.

“Bonds” means the 2006A Bonds, and, if the context requires, any Parity Bonds, at any time Outstanding under the Indenture or any Supplemental Indenture.

“Business Day” means any day other than (i) a Saturday or a Sunday or (ii) a day on which banking institutions in the state in which the Trustee has its principal corporate trust office are authorized or obligated by law or executive order to be closed.

“CDIAC” means the California Debt and Investment Advisory Commission of the office of the State Treasurer of the State of California or any successor agency or bureau thereto.

“Capitalized Interest Account” means the account by that name established within the Bond Fund by the Indenture.

“Chief Financial Officer” means the Chief Financial Officer of the Authority or such other officer or employee of the Authority performing the functions of the chief financial officer of the Authority.

“City” means the City and County of San Francisco, California.

“City Subaccount” means the subaccount by that name within the SOMA Community Stabilization Account established by the Indenture.

“Closing Date” means the date upon which there is a physical delivery of the 2006A Bonds in exchange for the amount representing the purchase price of the 2006A Bonds by the Original Purchaser thereof.

“Code” means the Internal Revenue Code of 1986 as in effect on the date of issuance of the Bonds or (except as otherwise referenced herein) as it may be amended to apply to obligations issued on the date of issuance of the Bonds, together with applicable proposed, temporary and final regulations promulgated, and applicable official public guidance published, under the Code.

“Continuing Disclosure Agreement” shall mean that certain Continuing Disclosure Certificate executed by the Authority and Goodwin Consulting Group, as dissemination

agent, on the Closing Date, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“Costs of Issuance” means items of expense payable or reimbursable directly or indirectly by the Authority and related to the authorization, sale and issuance of the Bonds, which items of expense shall include, but not be limited to, printing costs, costs of reproducing and binding documents, closing costs, filing and recording fees, initial fees and charges of the Trustee including its first annual administration fee, expenses incurred by the Authority in connection with the issuance of the Bonds and the establishment of the District, special tax consultant fees and expenses, preliminary engineering fees and expenses, Bond (underwriter’s) discount, legal fees and charges, including bond counsel, disclosure counsel, financial consultants’ fees, charges for execution, transportation and safekeeping of the Bonds, landowner expenses related to the District formation, Authority costs related to the District formation, and other costs, charges and fees in connection with the foregoing.

“Costs of Issuance Fund” means the fund by that name established by the Indenture.

“County” means the City and County of San Francisco, California.

“Debt Service” means the scheduled amount of interest and amortization of principal payable (including principal payable by reason of the sinking account payment provisions of the Indenture) on the 2006A Bonds and the scheduled amount of interest and amortization of principal payable on any Parity Bonds during the period of computation, excluding amounts scheduled during such period which relate to principal which has been retired before the beginning of such period.

“Depository” means (a) initially, DTC, and (b) any other Securities Depository acting as Depository pursuant to the Indenture.

“District” means the ABAG Finance Authority For Nonprofit Corporations Community Facilities District No. 2006-1 (San Francisco Rincon Hill), formed by the Authority under the Act and the Resolution of Formation.

“District Value” means the market value, as of the date of the appraisal described below and/or the date of the most recent County real property tax roll, as applicable, of all parcels of real property in the District subject to the levy of the Special Taxes and not delinquent in the payment of any Special Taxes then due and owing, including with respect to such nondelinquent parcels the value of the then existing improvements and any facilities to be constructed or acquired with any amounts then on deposit in the Improvement Fund and with the proceeds of any proposed series of Parity Bonds, as determined with respect to any parcel or group of parcels by reference to (i) an appraisal performed within six (6) months of the date of issuance of any proposed Parity Bonds by an MAI appraiser (the “Appraiser”) selected by the Authority, or (ii), in the alternative, the assessed value of all such nondelinquent parcels and improvements thereon as shown on the then current County real property tax roll available to the Chief Financial Officer. It is expressly acknowledged that, in determining the District Value, the Authority may rely on an appraisal to determine the value of some or all of the parcels in the District and/or the most recent County real property tax roll as to the value of some or all of the parcels in the District. Neither the Authority nor the Chief Financial Officer shall be liable to the Owners, the Original Purchaser or any other person or entity in respect of any appraisal provided for purposes of this definition or by reason of any exercise of discretion made by any Appraiser pursuant to this definition.

“Event of Default” means the occurrence of one or more of the events described as such in the Indenture.

“Fair Market Value” means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm’s length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of section 1273 of the Code) and, otherwise, the term “Fair Market Value” means the acquisition price in a bona fide arm’s length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Code, (iii) the investment is a United States Treasury Security--State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) the investment is the Local Agency Investment Fund of the State of California but only if at all times during which the investment is held its yield is reasonably expected to be equal to or greater than the yield on a reasonably comparable direct obligation of the United States.

“Federal Securities” means any of the following which are non-callable and which at the time of investment are legal investments under the laws of the State of California for funds held by the Trustee: (i) direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the United States Department of the Treasury) and obligations, the payment of principal of and interest on which are directly or indirectly guaranteed by the United States of America, including, without limitation, such of the foregoing which are commonly referred to as “stripped” obligations and coupons; or (ii) any of the following obligations of the following agencies of the United States of America: (a) direct obligations of the Export-Import Bank, (b) certificates of beneficial ownership issued by the Farmers Home Administration, (c) participation certificates issued by the General Services Administration, (d) mortgage-backed bonds or pass-through obligations issued and guaranteed by the Government National Mortgage Association, (e) project notes issued by the United States Department of Housing and Urban Development, and (f) public housing notes and bonds guaranteed by the United States of America.

“Fiscal Year” means the twelve-month period extending from July 1 in a calendar year to June 30 of the succeeding year, both dates inclusive.

“Improvement Fund” means the fund by that name created by and held by the Trustee pursuant to the Indenture.

“Indenture” means the Indenture, as it may be amended or supplemented from time to time by any Supplemental Indenture adopted pursuant to the provisions thereof.

“Independent Financial Consultant” means any consultant or firm of such consultants appointed by the Authority or the Chief Financial Officer, and who, or each of whom: (i) has experience in matters relating to the issuance and/or administration of bonds under the Act; (ii) is in fact independent and not under the domination of the Authority; (iii) does not have any substantial interest, direct or indirect, with or in the Authority, or any owner of real property in the District, or any real property in the District; and (iv) is not connected with the Authority as an officer or employee of the Authority, but who may be regularly retained to make reports to the Authority.

“Information Services” means Financial Information, Inc.’s “Daily Called Bond Service”, 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenny Information Services’ “Called Bond Service”, 65 Broadway, 16th Floor, New York, New York 10006; Moody’s Investors Service “Municipal and Government”, 99 Church Street, New York, New York 10007, Attention: Municipal News Reports; Standard & Poor’s Corporation “Called Bond Record”, 25 Broadway, 3rd Floor, New York, New York 10004; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such services providing information with respect to called bonds as the Authority may designate in an Officer’s Certificate delivered to the Trustee.

“Interest Payment Dates” means March 1 and September 1 of each year, commencing September 1, 2006.

“Joint Community Facilities Agreement – City” means the Joint Community Facilities Agreement, dated as of May 1, 2006, between the Authority and the City.

“Joint Community Facilities Agreement – Redevelopment Agency” means the Joint Community Facilities Agreement, dated as of April 1, 2006, between the Authority and the Redevelopment Agency.

“Joint Community Facilities Agreement – School District” means the Joint Community Facilities Agreement, dated as of May 1, 2006, between the Authority and the School District.

“Maximum Annual Debt Service” means the largest Annual Debt Service for any Bond Year after the calculation is made through the final maturity date of any Outstanding Bonds.

“Moody’s” means Moody’s Investors Service, and any successor thereto.

“Officer’s Certificate” means a written certificate of the Authority signed by an Authorized Officer of the Authority.

“Ordinance” means any ordinance of the Authority levying the Special Taxes.

“Original Purchaser” means, collectively, Stone & Youngberg LLC and Backstrom McCarley Berry & Co., LLC, the first purchasers of the 2006A Bonds from the Authority.

“Outstanding,” when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture) all Bonds except: (i) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (ii) Bonds paid or deemed to have been paid within the meaning of the Indenture; and (iii) Bonds in lieu of or in substitution for which other Bonds shall have been authorized, executed, issued and delivered by the Authority pursuant to the Indenture or any Supplemental Indenture.

“Owner” or “Bondowner” means any person who will be the registered owner of any Outstanding Bond.

“Parity Bonds” means bonds issued by the Authority for the District on a parity with any then Outstanding Bonds pursuant to the Indenture.

“Participating Underwriter” has the meaning ascribed thereto in the Continuing Disclosure Agreement.

“Permitted Investments” means any of the following, but only to the extent that the same are acquired at Fair Market Value:

(a) Federal Securities.

(b) Time certificates of deposit or negotiable certificates of deposit issued by a state or nationally chartered bank (including the Trustee and its affiliates) or trust company, or a state or federal savings and loan association; provided, that the certificates of deposit will be one or more of the following: continuously and fully insured by the Federal Deposit Insurance Corporation, and/or continuously and fully secured by securities described in subdivision (a) of this definition of Permitted Investments which shall have a market value, as determined on a marked-to-market basis calculated at least weekly, and exclusive of accrued interest, of not less than 102 percent of the principal amount of the certificates on deposit.

(c) Commercial paper of “prime” quality of the highest ranking or of the highest letter and numerical rating as provided by either Moody’s or S&P, which commercial paper is limited to issuing corporations that are organized and operating within the United States of America and that have total assets in excess of five hundred million dollars (\$500,000,000) and that have an “A” or higher rating for the issuer’s debentures, other than commercial paper, by either Moody’s or S&P, provided that purchases of eligible commercial paper may not exceed 180 days’ maturity nor represent more than 10 percent of the outstanding commercial paper of an issuing corporation.

(d) A repurchase agreement with a state or nationally chartered bank or trust company or a national banking association or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, provided that all of the following conditions are satisfied: (1) the agreement is secured by any one or more of the securities described in subdivision (a) of this definition of Permitted Investments, (2) the underlying securities are required by the repurchase agreement to be held by a bank, trust company, or primary dealer having a combined capital and surplus of at least one hundred million dollars (\$100,000,000) and which is independent of the issuer of the repurchase agreement, and (3) the underlying securities are maintained at a market value, as determined on a marked-to-market basis calculated at least weekly, of not less than 103 percent of the amount so invested.

(e) An investment agreement or guaranteed investment contract with, or guaranteed by, a financial institution (not including any insurance company) the long-term unsecured debt obligations of which are rated “AA” (or its equivalent) or better by Moody’s and S&P at the time of initial investment. The investment agreement will be subject to a downgrade provision with at least the following requirements: (1) the agreement shall provide that within five Business Days after the financial institution’s long-term unsecured credit rating has been withdrawn, suspended, other than because of general withdrawal or suspension by Moody’s or S&P from the practice of rating that debt, or reduced below “AA-” by S&P or below “Aa3” by Moody’s (these events are called “rating downgrades”) the financial institution shall give notice to the Trustee and, within the five-day period, and for as long as the rating downgrade is in effect, shall (A) deliver in the name of the Trustee to the Trustee federal securities allowed as investments under subdivision (a) of this definition of Permitted Investments with aggregate current market value equal to at least 105 percent of the principal amount of the investment agreement invested with

the financial institution at that time, and shall deliver additional allowed federal securities as needed to maintain an aggregate current market value equal to at least 105 percent of the principal amount of the investment agreement within three days after each evaluation date, which shall be at least weekly, (B) assign the agreement to another financial institution acceptable to the Trustee and the Authority whose long-term unsecured debt obligations are then rated "A" (or its equivalent) or better by Moody's and S&P, or (C) return all invested funds to the Trustee; and (2) the agreement shall provide that, if the financial institution's long-term unsecured credit rating is reduced below "A3" by Moody's or below "A-" by S&P, the Trustee may, upon not more than five Business Days' written notice to the financial institution, withdraw the investment agreement, with accrued but unpaid interest thereon to the date, and terminate the agreement.

(f) The Local Agency Investment Fund of the State Treasurer of the State of California as permitted by the State Treasurer pursuant to Section 16429.1 of the California Government Code.

(g) Investments in a money market account (including any accounts of the Trustee or its affiliates) rated in the highest rating category by Moody's or S&P.

"Principal Office" means the principal corporate trust office of the Trustee set forth in the Indenture, except for the purpose of maintenance of the registration books and presentation of Bonds for payment, transfer or exchange, such term means the office at which the Trustee conducts its corporate agency business, or such other or additional offices as may be designated by the Trustee.

"Project" means the facilities eligible to be funded by the District more particularly described in the Resolution of Formation.

"Qualified Reserve Fund Credit Instrument" means an irrevocable standby or direct-pay letter of credit or surety bond issued by a commercial bank or insurance company and deposited with the Trustee pursuant to the Indenture, provided that all of the following requirements are met: (a) the long term credit rating or claims paying ability of such bank or insurance company is in one of the two highest rating categories (without regard to modifiers) by S&P and Moody's; (b) such letter of credit or surety bond has a term of at least twelve (12) months; (c) such letter of credit or surety bond has a stated amount at least equal to the portion of the Reserve Requirement with respect to which funds are proposed to be released pursuant to the Indenture; and (d) the Trustee is authorized pursuant to the terms of such letter of credit or surety bond to draw thereunder for the purpose of making payments required pursuant to the Indenture.

"Record Date" means the fifteenth day of the month next preceding the month of the applicable Interest Payment Date, whether or not such day is a Business Day.

"Redevelopment Agency" means the Redevelopment Agency of the City and County of San Francisco.

"Redevelopment Agency Subaccount" means the subaccount by that name within the SOMA Community Stabilization Account established by the Indenture.

"Refunding Bonds" means bonds issued by the Authority for the District the net proceeds of which are used to refund all or a portion of the then Outstanding Bonds; provided that the debt service on the Refunding Bonds in any Bond Year is not in excess of

the debt service on the Bonds being refunded and the final maturity of the Refunding Bonds is not later than the final maturity of the Bonds being refunded.

“Reserve Fund” means the fund by that name established pursuant to the Indenture.

“Reserve Requirement” means, as of any date of calculation an amount equal to the least of (i) the then Maximum Annual Debt Service, (ii) one hundred twenty-five percent (125%) of the then average Annual Debt Service, or (iii) ten percent (10%) of the then Outstanding principal amount of the Bonds.

“Resolution” means Resolution No. 06-20, adopted by the Executive Committee of the Board of Directors of the Authority on April 21, 2006.

“Resolution of Formation” means Resolution No. 06-16, adopted by the Executive Committee of the Board of Directors of the Authority on April 21, 2006.

“Resolution of Intention” means Resolution No. 06-14, adopted by the Executive Committee of the Board of Directors of the Authority on March 22, 2006.

“Rincon Hill Community Improvements Account” means the account by that name established by the Indenture.

“S&P” means Standard & Poor’s Ratings Service, a division of McGraw-Hill, and any successor thereto.

“School District” means the San Francisco Unified School District.

“School District Subaccount” means the subaccount by that name within the SOMA Community Stabilization Account established by the Indenture.

“Securities Depositories” means The Depository Trust Company, 55 Water Street, 50<sup>th</sup> Floor, New York, New York 10041-0099, Attention: Call Notification Department, Fax (212) 855-7232; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the Authority may designate in an Officer’s Certificate delivered to the Trustee.

“SOMA Community Stabilization Account” means the account by that name established by the Indenture.

“Special Tax Fund” means the fund by that name established by the Indenture.

“Special Tax Prepayments” means the proceeds of any Special Tax prepayments received by the Authority, as calculated pursuant to the Rate and Method of Apportionment of the Special Taxes for the District, less any administrative fees or penalties collected as part of any such prepayment.

“Special Tax Prepayments Account” means the account by that name established within the Bond Fund under the Indenture.

“Special Tax Revenues” means the proceeds of the Special Taxes received by the Authority, including any scheduled payments and any prepayments thereof, interest thereon and proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes to the amount of said lien and interest thereon. “Special Tax

Revenues" does not include any penalties collected in connection with delinquent Special Taxes.

"Special Taxes" means the special taxes levied within the District pursuant to the Act, the Ordinance and the Indenture.

"Supplemental Indenture" means an agreement the execution of which is authorized by a resolution which has been duly adopted by the Authority under the Act and which agreement is amendatory of or supplemental to the Indenture, but only if and to the extent that such agreement is specifically authorized under the Indenture.

"Tax Consultant" means Goodwin Consulting Group or another independent financial or tax consultant retained by the Authority for the purpose of computing the Special Taxes.

"Trust Estate" means the assets pledged and assigned by the Authority to the Trustee pursuant to the Indenture, which are limited to and include only the following: (a) the Special Tax Revenues, and (b) the amounts in the Special Tax Fund, the Bond Fund and the Reserve Fund.

"Trustee" means the Trustee appointed by the Authority and acting as an independent trustee with the duties and powers provided in the Indenture, its successors and assigns, and any other corporation or association which may at any time be substituted in its place, as provided in the Indenture.

## **Funds and Accounts**

The Indenture provides for the following funds and accounts:

Improvement Fund. There is established under the Indenture as a separate fund to be held by the Trustee, the Improvement Fund and within the Improvement Fund a Rincon Hill Community Improvements Account and a SOMA Community Stabilization Account. There is established within the SOMA Community Stabilization Account three subaccounts, a City Subaccount, a Redevelopment Agency Subaccount and a School District Subaccount. Deposits will be made to the accounts (and subaccounts within such accounts) within the Improvement Fund as required by the Indenture and any Supplemental Indenture providing for the issuance of Parity Bonds. Moneys in the accounts (and subaccounts within such accounts) within the Improvement Fund will be held in trust by the Trustee for the benefit of the City, the Redevelopment Agency (as to the Redevelopment Agency Subaccount only) and the School District (as to the School District Subaccount only), and will be disbursed for the payment or reimbursement of costs of the Project. Amounts in the Improvement Fund (and the accounts and subaccounts therein) are not pledged as security for the Bonds.

Amounts in the SOMA Community Stabilization Account shall be transferred by the Trustee to the City Subaccount, the Redevelopment Agency Subaccount and the School District Subaccount in such amounts and on such dates as directed in writing by the Director of the Mayor's Office of Public Finance of the City or other authorized representative of the City. Notwithstanding the foregoing, if the Trustee does not receive written direction with respect to the transfer of all amounts in the SOMA Community Stabilization Account to one or more of the subaccounts therein by June 7, 2007, the Trustee shall, on June 8, 2007, transfer any remaining amounts on deposit in the SOMA Community Stabilization Account to the City Subaccount. Disbursements from the Rincon Hill Community Improvements Account and from the City Subaccount shall be made by the

Trustee upon receipt of a certificate executed by an authorized representative of the City in the form of Exhibit B to the Joint Community Facilities Agreement – City which shall set forth the amount required to be disbursed and the account or subaccount, as applicable, from which the disbursement is to be made. In addition to the foregoing, the Trustee shall, upon receipt of a written direction of the Director of the Mayor’s Office of Public Finance or other authorized officer of the City, make transfers from the Rincon Hill Community Improvements Account and/or the City Subaccount on such dates, in such amounts and to such other accounts and subaccounts created pursuant to the Indenture, as provided in any such written direction.

Disbursements from the Redevelopment Agency Subaccount will be made by the Trustee upon receipt of a certificate executed by an authorized representative of the Redevelopment Agency in the form of Exhibit B to the Joint Community Facilities Agreement – Redevelopment Agency which sets forth the amount required to be disbursed.

Disbursements from the School District Subaccount will be made by the Trustee upon receipt of a certificate executed by an authorized representative of the School District in the form of Exhibit B to the Joint Community Facilities Agreement – School District which sets forth the amount required to be disbursed.

Each certificate submitted to the Trustee as described in the Indenture shall be sufficient evidence to the Trustee of the facts stated therein, and the Trustee shall have no duty to confirm the accuracy of such facts.

Moneys in the subaccounts and the accounts within the Improvement Fund shall be invested at the written direction of an authorized representative of the City and otherwise in accordance with the Indenture. Interest earnings and profits from the investment and deposit of amounts in the subaccounts and the accounts within the Improvement Fund shall be retained in the respective subaccounts and accounts, to be used for the purposes of the respective subaccount and account.

Upon receipt by the Trustee of a certificate of an authorized representative of the School District to the effect that all improvements to be funded from the School District Subaccount have been completed or that no further withdrawals will be made from the School District Subaccount, any amounts remaining on deposit in the School District Subaccount shall be transferred by the Trustee to the City Subaccount to be used for purposes of the City Subaccount, or, if the City Subaccount has theretofore been closed, to the Bond Fund to be used to pay Debt Service on the Bonds on the next Interest Payment Date, and when no amounts remain on deposit in the School District Subaccount the School District Subaccount shall be closed.

Upon receipt by the Trustee of a certificate of an authorized representative of the Redevelopment Agency to the effect that all improvements to be funded from the Redevelopment Agency Subaccount have been completed or that no further withdrawals will be made from the Redevelopment Agency Subaccount, any amounts remaining on deposit in the Redevelopment Agency Subaccount shall be transferred by the Trustee to the City Subaccount to be used for purposes of the City Subaccount, or, if the City Subaccount has theretofore been closed, to the Bond Fund to be used to pay Debt Service on the Bonds on the next Interest Payment Date, and when no amounts remain on deposit in the Redevelopment Agency Subaccount the Redevelopment Agency Subaccount shall be closed.

Upon receipt by the Trustee of a certificate of an authorized representative of the City to the effect that all improvements to be funded from the City Subaccount have been

completed or that no further withdrawals will be made from the City Subaccount, any amounts remaining on deposit in the City Subaccount shall be transferred by the Trustee to the Bond Fund to be used to pay Debt Service on the Bonds on the next Interest Payment Date, and when no amounts remain on deposit in the City Subaccount the City Subaccount shall be closed.

Upon receipt by the Trustee of a certificate of an authorized representative of the City to the effect that all improvements to be funded from the Rincon Hill Community Improvements Account have been completed or that no further withdrawals will be made from the Rincon Hill Community Improvements Account, any amounts remaining on deposit in the Rincon Hill Community Improvements Account shall be transferred by the Trustee to the Bond Fund to be used to pay Debt Service on the Bonds on the next Interest Payment Date, and when no amounts remain on deposit in the Rincon Hill Community Improvements Account the Rincon Hill Community Improvements Account shall be closed.

Costs of Issuance Fund. There is established under the Indenture as a separate fund to be held by the Trustee, the Costs of Issuance Fund, to the credit of which a deposit shall be made as required by the Indenture. Moneys in the Costs of Issuance Fund shall be held in trust by the Trustee, shall be disbursed as provided below for the payment or reimbursement of Costs of Issuance, and are not pledged as security for the Bonds.

Amounts in the Costs of Issuance Fund shall be disbursed from time to time to pay Costs of Issuance, as set forth in a requisition containing respective amounts to be paid to the designated payees, signed by the Chief Financial Officer and delivered to the Trustee concurrently with the delivery of the Bonds, or otherwise in an Officer's Certificate delivered to the Trustee after the Closing Date. The Trustee shall pay all Costs of Issuance after receipt of an invoice from any such payee which requests payment in an amount which is less than or equal to the amount set forth with respect to such payee pursuant to an Officer's Certificate requesting payment of Costs of Issuance. The Trustee shall maintain the Costs of Issuance Fund for a period of 90 days from the date of delivery of the Bonds and then shall transfer any moneys remaining therein, including any investment earnings thereon, to the Administrative Expense Fund.

Moneys in the Costs of Issuance Fund will be invested and deposited in accordance with the Indenture. Interest earnings and profits resulting from said investment shall be retained by the Trustee in the Costs of Issuance Fund to be used for the purposes of such fund.

Reserve Fund. There is established under the Indenture as a separate fund to be held by the Trustee, the Reserve Fund, to the credit of which a deposit shall be made as required by the Indenture equal to the Reserve Requirement as of the Closing Date for the Bonds, and deposits shall be made as provided in the Indenture. Moneys in the Reserve Fund shall be held in trust by the Trustee for the benefit of the Owners of the Bonds as a reserve for the payment of principal of, and interest and any premium on, the Bonds and shall be subject to a lien in favor of the Owners of the Bonds.

Except as otherwise provided in the Indenture, all amounts deposited in the Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of making transfers to the Bond Fund in the event of any deficiency at any time in the Bond Fund of the amount then required for payment of the principal of, and interest and any premium on, the Bonds or, in accordance with the provisions of the Indenture, for the purpose of redeeming Bonds from the Bond Fund.

Whenever transfer is made from the Reserve Fund to the Bond Fund due to a deficiency in the Bond Fund, the Trustee shall provide written notice thereof to the Chief Financial Officer, specifying the amount withdrawn.

Whenever, on the Business Day prior to any Interest Payment Date, or on any other date at the request of the Chief Financial Officer, the amount in the Reserve Fund exceeds the Reserve Requirement, the Trustee shall provide written notice to the Chief Financial Officer of the amount of the excess and shall transfer an amount equal to the excess from the Reserve Fund to the Bond Fund to be used for the payment of interest on the Bonds on the next Interest Payment Date in accordance with the Indenture.

Whenever the balance in the Reserve Fund equals or exceeds the amount required to redeem or pay the Outstanding Bonds, including interest accrued to the date of payment or redemption and premium, if any, due upon redemption, the Trustee shall notify the Chief Financial Officer of such situation, and, upon the written direction of the Chief Financial Officer, the Trustee shall transfer the amount in the Reserve Fund to the Bond Fund to be applied, on the next succeeding Interest Payment Date to the payment and redemption, in accordance with the Indenture, as applicable, of all of the Outstanding Bonds. In the event that the amount so transferred from the Reserve Fund to the Bond Fund exceeds the amount required to pay and redeem the Outstanding Bonds, the balance in the Reserve Fund shall be transferred to the Authority to be used for any lawful purpose of the Authority consistent with the provisions of the Act.

Notwithstanding the foregoing, no amounts shall be transferred from the Reserve Fund pursuant to the Indenture until after (i) the calculation of any amounts due to the federal government pursuant to the Indenture following payment of the Bonds and withdrawal of any such amount from the Reserve Fund for purposes of making such payment to the federal government, and (ii) payment of any fees and expenses due to the Trustee.

Whenever Special Taxes are prepaid and Bonds are to be redeemed with the proceeds of such prepayment pursuant to the Indenture, a proportionate amount in the Reserve Fund (determined on the basis of the principal of Bonds to be redeemed, and the original principal of the Bonds) shall be transferred on the Business Day prior to the redemption date by the Trustee to the Bond Fund to be applied to the redemption of the Bonds pursuant to the Indenture. The Chief Financial Officer shall deliver to the Trustee an Officer's Certificate specifying any amount to be so transferred, and the Trustee may rely on any such Officer's Certificate.

Amounts in the Reserve Fund may at any time be used, at the written direction of an Authorized Officer, for purposes of paying any rebate liability to the federal government under the Indenture.

The Authority shall have the right at any time to release funds from the Reserve Fund, in whole or in part, by tendering to the Trustee: (i) a Qualified Reserve Fund Credit Instrument, and (ii) an opinion of Bond Counsel stating that neither the release of such funds nor the acceptance of such Qualified Reserve Fund Credit Instrument will cause interest on the Bonds to become includable in gross income for purposes of federal income taxation. Upon tender of such items to the Trustee, and upon delivery by the Authority to the Trustee of a written calculation of the amount permitted to be released from the Reserve Fund (upon which calculation the Trustee may conclusively rely), the Trustee shall transfer such funds from the Reserve Fund to the Authority free and clear of the lien of the Indenture. The Trustee shall comply with all documentation relating to a Qualified Reserve Fund Credit Instrument as shall be required to maintain such Qualified Reserve

Fund Credit Instrument in full force and effect and as shall be required to receive payments thereunder in the event and to the extent required to make any payment when and as required under the Indenture.

At least fifteen (15) days prior to the expiration of any Qualified Reserve Fund Credit Instrument, the Authority shall be obligated either (i) to replace such Qualified Reserve Fund Credit Instrument with a new Qualified Reserve Fund Credit Instrument, or (ii) to deposit or cause to be deposited with the Trustee an amount of funds such that the amount on deposit in the Reserve Fund is equal to the Reserve Requirement (without taking into account such expiring Qualified Reserve Fund Credit Instrument). In the event that the Authority shall fail to take action as specified in clause (i) or (ii) of the preceding sentence, the Trustee shall, prior to the expiration thereof, draw upon the Qualified Reserve Fund Credit Instrument in full and deposit the proceeds of such draw in the Reserve Fund.

In the event that the Reserve Requirement shall at any time be maintained in the Reserve Fund in the form of a combination of cash and a Qualified Reserve Fund Credit Instrument, the Trustee shall apply the amount of such cash to make any payment required to be made from the Reserve Fund before the Trustee shall draw any moneys under such Qualified Reserve Fund Credit Instrument for such purpose. In the event that the Trustee shall at any time draw funds under a Qualified Reserve Fund Credit Instrument to make any payment then required to be made from the Reserve Fund, the Special Tax Revenues thereafter received by the Trustee, to the extent deposited to the Reserve Fund under the Indenture, shall be used to reinstate the Qualified Reserve Fund Credit Instrument.

Moneys in the Reserve Fund shall be invested and deposited in accordance with the Indenture. Interest earnings and profits resulting from such investment shall be retained in the Reserve Fund to be used for the purposes of such fund.

Bond Fund; Capitalized Interest and Special Tax Prepayments Accounts. There is established under the Indenture as a separate fund to be held by the Trustee, the Bond Fund, to the credit of which deposits shall be made as required by the Indenture, and any other amounts required to be deposited therein by the Indenture or the Act. There is also created under the Indenture in the Bond Fund a separate account held by the Trustee, the Capitalized Interest Account, to the credit of which a deposit shall be made under the Indenture. There is also created under the Indenture in the Bond Fund a separate account to be held by the Trustee, consisting of the Special Tax Prepayments Account, to the credit of which deposits shall be made as provided in the Indenture.

Moneys in the Bond Fund and the accounts therein shall be held in trust by the Trustee for the benefit of the Owners of the Bonds, shall be disbursed for the payment of the principal of, and interest and any premium on, the Bonds as provided below, and, pending such disbursement, shall be subject to a lien in favor of the Owners of the Bonds.

*Bond Fund Disbursements.* On each Interest Payment Date, the Trustee shall withdraw from the Bond Fund and pay to the Owners of the Bonds the principal, and interest and any premium, then due and payable on the Bonds, including any amounts due on the Bonds by reason of the sinking payments set forth in the Indenture, or a redemption of the Bonds required by the Indenture, such payments to be made in the priority listed in the second succeeding paragraph. Notwithstanding the foregoing, amounts in the Bond Fund as a result of a transfer pursuant to the Indenture shall be used to pay the principal of and interest on the Bonds prior to the use of any other amounts in the Bond Fund for such purpose.

In the event that amounts in the Bond Fund are insufficient for the purposes set forth in the preceding paragraph, the Trustee shall withdraw from the Reserve Fund to the extent of any funds therein amounts to cover the amount of such Bond Fund insufficiency. Amounts so withdrawn from the Reserve Fund shall be deposited in the Bond Fund.

If, after the foregoing transfers, there are insufficient funds in the Bond Fund to make the payments provided for in the Indenture, the Trustee shall apply the available funds first to the payment of interest on the Bonds, then to the payment of principal due on the Bonds other than by reason of sinking payments, and then to payment of principal due on the Bonds by reason of sinking payments. Any sinking payment not made as scheduled shall be added to the sinking payment to be made on the next sinking payment date.

*Special Tax Prepayments Account Disbursements.* Moneys in the Special Tax Prepayments Account shall be transferred by the Trustee to the Bond Fund on the next date for which notice of redemption of Bonds can timely be given under the Indenture, and notice to the Trustee can timely be given under the Indenture, and shall be used (together with any amounts transferred from the Reserve Fund pursuant to the Indenture) to redeem Bonds on the redemption date selected in accordance with the Indenture.

*Capitalized Interest Account Disbursements.* Moneys in the Capitalized Interest Account shall be transferred to the Bond Fund on the Business Day prior to each Interest Payment Date, in the amount equal to and to be used for the payment of interest on the Bonds due on the next succeeding Interest Payment Date; provided that no such transfer shall exceed the amount then on deposit in the Capitalized Interest Account. When no amounts remain on deposit in such account, the Capitalized Interest Account shall be closed.

Moneys in the Bond Fund, the Capitalized Interest Account and the Special Tax Prepayments Account shall be invested and deposited in accordance with the Indenture. Interest earnings and profits resulting from the investment and deposit of amounts in the Bond Fund, the Capitalized Interest Account and the Special Tax Prepayments Account shall be retained in the Bond Fund, the Capitalized Interest Account and the Special Tax Prepayments Account, respectively, to be used for purposes of such fund and accounts.

Special Tax Fund. There is established under the Indenture as a separate fund to be held by the Trustee, the Special Tax Fund, to the credit of which the Trustee shall deposit amounts received from or on behalf of the Authority consisting of Special Tax Revenues, and any amounts required by the Indenture to be deposited therein. The Authority shall promptly remit any such amounts received by it to the Trustee for deposit by the Trustee to the Special Tax Fund.

Notwithstanding the foregoing, (i) any Special Tax Revenues constituting payment of the portion of the Special Tax levy for Administrative Expenses, as identified by the Chief Financial Officer to the Trustee, shall be deposited by the Trustee in the Administrative Expense Fund, and (ii) any proceeds of Special Tax Prepayments, as identified by the Chief Financial Officer to the Trustee, shall be transferred by the Chief Financial Officer to the Trustee for deposit by the Trustee directly in the Special Tax Prepayments Account established pursuant to the Indenture.

Moneys in the Special Tax Fund shall be held in trust by the Trustee for the benefit of the Authority and the Owners of the Bonds, shall be disbursed as provided below and, pending disbursement, shall be subject to a lien in favor of the Owners of the Bonds and the Authority.

On each Interest Payment Date, the Trustee shall withdraw from the Special Tax Fund and transfer the following amounts in the following order of priority (i) to the Bond Fund an amount, taking into account any amounts then on deposit in the Bond Fund and any expected transfers from the Improvement Fund, the Reserve Fund, the Capitalized Interest Account and the Special Tax Prepayments Account to the Bond Fund pursuant to the Indenture, such that the amount in the Bond Fund equals the principal (including any sinking payment), premium, if any, and interest due on the Bonds on such Interest Payment Date, and (ii) to the Reserve Fund an amount, taking into account amounts then on deposit in the Reserve Fund, such that the amount in the Reserve Fund is equal to the Reserve Requirement.

Moneys in the Special Tax Fund shall be invested and deposited in accordance with the Indenture. Interest earnings and profits resulting from such investment and deposit shall be retained in the Special Tax Fund to be used for the purposes thereof.

Administrative Expense Fund. There is established under the Indenture, as a separate fund to be held by the Trustee, the Administrative Expense Fund to the credit of which deposits shall be made as required by the Indenture. Moneys in the Administrative Expense Fund shall be held in trust by the Trustee for the benefit of the Authority, shall be disbursed as provided below, and are not pledged as security for the Bonds.

Amounts in the Administrative Expense Fund will be withdrawn by the Trustee and paid to the Authority or its order upon receipt by the Trustee of an Officer's Certificate stating the amount to be withdrawn, that such amount is to be used to pay an Administrative Expense or a Cost of Issuance, and the nature of such Administrative Expense or Cost of Issuance. Amounts transferred from the Costs of Issuance Fund to the Administrative Expense Fund pursuant to the Indenture shall be separately identified at all times, and shall be expended for purposes of the Administrative Expense Fund prior to the use of amounts transferred to the Administrative Expense Fund from the Special Tax Fund pursuant to the Indenture. Annually, on the last day of each Fiscal Year commencing with the last day of Fiscal Year 2006-2007, the Trustee shall withdraw any amounts then remaining in the Administrative Expense Fund in excess of \$30,000 that have not otherwise been allocated to pay Administrative Expenses incurred but not yet paid, and which are not otherwise encumbered, and transfer such amounts to the Special Tax Fund.

Moneys in the Administrative Expense Fund will be invested and deposited in accordance with the Indenture. Interest earnings and profits resulting from said investment shall be retained by the Trustee in the Administrative Expense Fund to be used for the purposes of such fund.

### **Covenants of the Authority**

The Authority will punctually pay or cause to be paid the principal of, and interest and any premium on, the Bonds when and as due in strict conformity with the terms of the Indenture and any Supplemental Indenture, and it will faithfully observe and perform all of the conditions, covenants and requirements of the Indenture and all Supplemental Indentures and of the Bonds.

The Bonds are limited obligations of the Authority on behalf of the District and are payable solely from and secured solely by the Trust Estate.

In order to prevent any accumulation of claims for interest after maturity, the Authority may not, directly or indirectly, extend or consent to the extension of the time for the payment of any claim for interest on any of the Bonds and may not, directly or

indirectly, be a party to the approval of any such arrangement by purchasing or funding said claims for interest or in any other manner. In case any such claim for interest shall be extended or funded, whether or not with the consent of the Authority, such claim for interest so extended or funded shall not be entitled, in case of default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest which shall not have been so extended or funded.

The Authority will not encumber, pledge or place any charge or lien upon any of the Special Tax Revenues or other amounts pledged to the Bonds superior to or on a parity with the pledge and lien under the Indenture for the benefit of the Bonds, except as permitted by the Indenture.

The Authority will keep, or cause to be kept, proper books of record and accounts, separate from all other records and accounts of the Authority, in which complete and correct entries are made of all transactions relating to Special Tax Revenues. Such books of record and accounts will at all times during business hours be subject to the inspection of the Trustee and the Owners of not less than ten percent (10%) of the principal amount of the Bonds then Outstanding, or their representatives duly authorized in writing.

The Trustee will keep, or cause to be kept, proper books of record and accounts, separate from all other records and accounts of the Trustee, in which complete and correct entries must be made of all transactions relating to the expenditure of amounts disbursed from the Bond Fund (including the Special Tax Prepayments Account and the Capitalized Interest Account therein), the Reserve Fund, the Special Tax Fund, the Reserve Fund, the Improvement Fund, the Administrative Expense Fund and the Costs of Issuance Fund. Such books of record and accounts must at all times during business hours be subject to the inspection of the Authority and the Owners of not less than ten percent (10%) of the principal amount of the Bonds then Outstanding, or their representatives duly authorized in writing upon reasonable prior notice.

The Authority will preserve and protect the security of the Bonds and the rights of the Owners, and will warrant and defend their rights against all claims and demands of all persons. From and after the delivery of any of the Bonds by the Authority, the Bonds shall be incontestable by the Authority.

The Authority will comply with all applicable provisions of the Act and law in administering the District and completing the funding of the Project.

The Authority shall comply with all requirements of the Act so as to assure the timely collection of Special Tax Revenues, including without limitation, the enforcement of delinquent Special Taxes. On or within five (5) Business Days of each June 1, the Trustee is required to provide the Chief Financial Officer with a notice stating the amount then on deposit in the Bond Fund, the Capitalized Interest Account and the Reserve Fund, and informing the Authority that the Special Taxes may need to be levied pursuant to the Ordinance as necessary to provide for the debt service to become due on the Bonds in the calendar year that commences in the Fiscal Year for which the levy is to be made, and Administrative Expenses and replenishment (if necessary) of the Reserve Fund so that the balances therein equal the Reserve Requirement. The receipt of or failure to receive such notice by the Chief Financial Officer shall in no way affect the obligations of the Chief Financial Officer described in the following two paragraphs. Upon receipt of such notice, the Chief Financial Officer shall communicate with the Auditor to ascertain the relevant parcels on which the Special Taxes are to be levied, taking into account any parcel splits during the preceding and then current year.

The Chief Financial Officer shall effect the levy of the Special Taxes each Fiscal Year in accordance with the Ordinance by each July 15 that the Bonds are outstanding, or otherwise such that the computation of the levy is complete before the final date on which Auditor will accept the transmission of the Special Tax amounts for the parcels within the District for inclusion on the next real property tax roll. Upon the completion of the computation of the amounts of the levy, the Chief Financial Officer shall prepare or cause to be prepared, and shall transmit to the Auditor, such data as the Auditor requires to include the levy of the Special Taxes on the next real property tax roll.

The Chief Financial Officer shall fix and levy the amount of Special Taxes within the District required for the payment of principal of and interest on any outstanding Bonds of the District becoming due and payable during the ensuing year, including any necessary replenishment or expenditure of the Reserve Fund for the Bonds and an amount estimated to be sufficient to pay the Administrative Expenses (including amounts necessary to discharge any obligation under the Indenture) during such year, taking into account the balances in such funds and in the Special Tax Fund. The Special Taxes so levied shall not exceed the authorized amounts as provided in the proceedings pursuant to the Resolution of Formation.

The Special Taxes shall be payable and be collected in the same manner and at the same time and in the same installment as the general taxes on real property are payable, and have the same priority, become delinquent at the same time and in the same proportionate amounts and bear the same proportionate penalties and interest after delinquency as do the ad valorem taxes on real property; provided that, pursuant to and in accordance with the Ordinance, the Special Taxes may be collected by means of direct billing of the property owners within the District, in which event the Special Taxes shall become delinquent if not paid when due pursuant to said billing.

Pursuant to Section 53356.1 of the Act, the Authority covenants with and for the benefit of the Owners of the Bonds that it will order, and cause to be commenced as described below, and thereafter diligently prosecute to judgment (unless such delinquency is theretofore brought current), an action in the superior court to foreclose the lien of any Special Tax or installment thereof not paid when due as provided in the following paragraph. The Chief Financial Officer shall notify the Authority Attorney of any such delinquency of which it is aware, and the applicable Authority Attorney shall commence, or cause to be commenced, such proceedings.

On or about February 15 and June 15 of each Fiscal Year, the Chief Financial Officer shall compare the amount of Special Taxes theretofore levied in the District to the amount of Special Tax Revenues theretofore received by the Authority. If the Chief Financial Officer determines that any single parcel subject to the Special Tax in the District is delinquent in the payment of Special Taxes in the aggregate amount of \$3,000 or more, then the Chief Financial Officer shall send or cause to be sent a notice of delinquency (and a demand for immediate payment thereof) to the property owner within 45 days of such determination, and (if the delinquency remains uncured) foreclosure proceedings shall be commenced by the Authority within 90 days of such determination. Notwithstanding the foregoing, the Chief Financial Officer may defer such action if the amount in the Reserve Fund is at least equal to the Reserve Requirement. If the Chief Financial Officer determines that (i) the total amount of delinquent Special Tax for the prior Fiscal Year for the entire District, (including the total of delinquencies under subsection (A) above), exceeds 5% of the total Special Tax due and payable for the prior Fiscal Year, or (ii) there are ten (10) or fewer owners of real property within the District, determined by reference to the latest available secured property tax roll of the County, the Chief Financial Officer shall notify or

cause to be notified property owners who are then delinquent in the payment of Special Taxes (and demand immediate payment of the delinquency) within 45 days of such determination, and the Authority shall commence foreclosure proceedings within 90 days of such determination against each parcel of land in the District with a Special Tax delinquency.

The Chief Financial Officer and the Authority Attorney, as applicable, are hereby authorized to employ counsel to conduct any such foreclosure proceedings. The fees and expenses of any such counsel (including a charge for Authority staff time) in conducting foreclosure proceedings shall be an Administrative Expense thereunder.

The Authority 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 Indenture, and for the better assuring and confirming unto the Owners of the rights and benefits provided in the Indenture.

The Authority shall assure that the proceeds of the 2006A Bonds are not so used as to cause the 2006A Bonds to satisfy the private business tests of section 141(b) of the Code or the private loan financing test of section 141(c) of the Code. The Authority shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause the 2006A Bonds to be "federally guaranteed" within the meaning of Section 149(b) of the Code.

The Authority shall take any and all actions necessary to assure compliance with section 148(f) of the Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the 2006A Bonds. If necessary, the Authority may use amounts in the Reserve Fund, amounts on deposit in the Administrative Expense Fund, and any other funds available to the District, including amounts advanced by the Authority, in its sole discretion, to be repaid by the District as soon as practicable from amounts described in the preceding clauses, to satisfy its obligations described in this paragraph. The Chief Financial Officer shall take note of any investment of monies thereunder in excess of the yield on the 2006A Bonds, and shall take such actions as are necessary to ensure compliance with the Indenture, such as increasing the portion of the Special Tax levy for Administration Expenses as appropriate to have funds available in the Administrative Expense Fund to satisfy any rebate liability under the Indenture.

The Authority shall not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the 2006A Bonds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the date of issuance of the 2006A Bonds would have caused the 2006A Bonds to be "arbitrage bonds" within the meaning of section 148 of the Code.

In determining the yield of the 2006A Bonds to comply with the Indenture, the Authority will take into account redemption (including premium, if any) in advance of maturity based on the reasonable expectations of the Authority, as of the Closing Date, regarding prepayments of Special Taxes and use of prepayments for redemption of the 2006A Bonds, without regard to whether or not prepayments are received or 2006A Bonds redeemed.

The Authority shall take all actions necessary to assure the exclusion of interest on the 2006A Bonds from the gross income of the Owners of the 2006A Bonds to the same extent as such interest is permitted to be excluded from gross income under the Code as in effect on the date of issuance of the 2006A Bonds.

In addition to the obligations under the Indenture, the Authority covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Indenture, failure of the Authority to comply with the Continuing Disclosure Agreement shall not be considered a default under the Indenture; however, any Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate to compel performance by the Authority of its obligations thereunder, including seeking mandate or specific performance by court order.

An owner of real property in the District as of the Closing Date has also executed a continuing disclosure certificate for the benefit of the holders and beneficial owners of the Bonds. Any Participating Underwriter or holder or beneficial owner may take such actions as may be necessary and appropriate directly against such landowner to compel performance by it of its obligations thereunder, including seeking mandate or specific performance by court order; however the Authority shall have no obligation whatsoever to enforce any obligations under any such certificate.

The Authority covenants and agrees to not consent or conduct proceedings with respect to a reduction in the maximum Special Taxes that may be levied in the District below an amount, for any Fiscal Year, equal to 110% of the aggregate of the debt service due on the Bonds in such Fiscal Year, plus a reasonable estimate of Administrative Expenses for such Fiscal Year. It is hereby acknowledged that Bondowners are purchasing the Bonds in reliance on the foregoing covenant, and that said covenant is necessary to assure the full and timely payment of the Bonds.

The Authority covenants not to exercise its rights under the Act to waive delinquency and redemption penalties related to the Special Taxes or to declare Special Tax penalties amnesty program if to do so would materially and adversely affect the interests of the owners of the Bonds and further covenants not to permit the tender of Bonds in payment of any Special Taxes except upon receipt of a certificate of an Independent Financial Consultant that to accept such tender will not result in the Authority having insufficient Special Tax revenues to pay the principal of and interest on the Bonds remaining Outstanding following such tender.

The Authority will not bid at a foreclosure sale of property in respect of delinquent Special Taxes, unless it expressly agrees to take the property subject to the lien for Special Taxes imposed by the District.

## **Investments**

Moneys in any fund or account created or established by the Indenture and held by the Trustee will be invested by the Trustee in Permitted Investments, as directed pursuant to an Officer's Certificate (by a certificate of an authorized representative of the City with respect to the Rincon Hill Community Improvements Account and the SOMA Community Stabilization Account (and the City Subaccount, the Redevelopment Agency Subaccount and the School District Subaccount therein) of the Improvement Fund) filed with the Trustee at least two (2) Business Days in advance of the making of such investments. In the absence of any such Officer's Certificate (or certificate of an authorized representative of the City with respect to the Rincon Hill Community Improvements Account and the SOMA Community Stabilization Account (and the City Subaccount, the Redevelopment Agency Subaccount and the School District Subaccount therein) of the Improvement Fund), the Trustee will invest, to the extent reasonably practicable, any such moneys in Permitted Investments described in clause (g) of the definition thereof in the Indenture, which by their

terms mature prior to the date on which such moneys are required to be paid out under the Indenture. The Chief Financial Officer will make note of any investment of funds under the Indenture in excess of the yield on the Bonds, so that appropriate actions can be taken to assure compliance with the Indenture.

Moneys in any fund or account created or established by the Indenture and held by the Chief Financial Officer shall be invested by the Chief Financial Officer in any lawful investment for Authority funds or in any Permitted Investment, which in any event by its terms matures prior to the date on which such moneys are required to be paid out under the Indenture. Obligations purchased as an investment of moneys in any fund shall be deemed to be part of such fund or account, subject, however, to the requirements of the Indenture for transfer of interest earnings and profits resulting from investment of amounts in funds and accounts. Whenever in the Indenture any moneys are required to be transferred by the Authority to the Trustee, such transfer may be accomplished by transferring a like amount of Permitted Investments.

The Trustee and its affiliates or the Chief Financial Officer may act as sponsor, advisor, depository, principal or agent in the acquisition or disposition of any investment. Neither the Trustee nor the Chief Financial Officer shall incur any liability for losses arising from any investments made pursuant to the Indenture. The Trustee will not be required to determine the legality of any investments.

Except as otherwise provided in the next sentence, all investments of amounts deposited in any fund or account created by or pursuant to the Indenture, or otherwise containing gross proceeds of the Bonds (within the meaning of Section 148 of the Code) shall be acquired, disposed of, and valued (as of the date that valuation is required by the Indenture or the Code) at Fair Market Value. The Trustee shall have no duty in connection with the determination of Fair Market Value other than to follow the investment direction of an Authorized Officer in any written direction of any Authorized Officer. Investments in funds or accounts (or portions thereof) that are subject to a yield restriction under the applicable provisions of the Code and (unless valuation is undertaken at least annually) investments in the subaccounts within the Reserve Fund shall be valued at their present value (within the meaning of section 148 of the Code). The Trustee shall not be liable for verification of the application of such sections of the Code.

Investments in any and all funds and accounts may be commingled in a separate fund or funds for purposes of making, holding and disposing of investments, notwithstanding provisions therein for transfer to or holding in or to the credit of particular funds or accounts of amounts received or held by the Trustee or the Chief Financial Officer, provided that the Trustee or the Chief Financial Officer, as applicable, shall at all times account for such investments strictly in accordance with the funds and accounts to which they are credited and otherwise as provided in the Indenture. The Trustee or the Chief Financial Officer, as applicable, shall sell at Fair Market Value, or present for redemption, any investment security whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such investment security is credited and neither the Trustee nor the Chief Financial Officer shall be liable or responsible for any loss resulting from the acquisition or disposition of such investment security in accordance with the Indenture.

### **Liability of Authority**

The Authority shall not incur any responsibility in respect of the Bonds or the Indenture other than in connection with the duties or obligations explicitly therein or in the Bonds assigned to or imposed upon it, and then only to the extent of the Trust Estate. The

Authority shall not be liable in connection with the performance of its duties under the Indenture, except for its own negligence or willful default. The Authority shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements of the Trustee in the Indenture or of any of the documents executed by the Trustee in connection with the Bonds, or as to the existence of a default or Event of Default thereunder.

In the absence of bad faith, the Authority, including the Chief Financial Officer, may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Authority and conforming to the requirements of the Indenture. The Authority, including the Chief Financial Officer, shall not be liable for any error of judgment made in good faith unless it shall be proved that it was negligent in ascertaining the pertinent facts.

No provision of the Indenture shall require the Authority to expend or risk its own general funds or otherwise incur any financial liability (other than with respect to the Trust Estate) in the performance of any of its obligations under the Indenture, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

The Authority and the Chief Financial Officer may rely and shall be protected in acting or refraining from acting upon any notice, resolution, request, consent, order, certificate, report, warrant, bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or proper parties. The Authority may consult with counsel, who may be the Authority Attorney, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it under the Indenture in good faith and in accordance therewith.

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

Whenever in the administration of its duties under the Indenture the Authority or the Chief Financial Officer shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Indenture, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of willful misconduct on the part of the Authority, be deemed to be conclusively proved and established by a certificate of the Trustee, an Appraiser, an Independent Financial Consultant or a Tax Consultant, and such certificate shall be full warrant to the Authority and the Chief Financial Officer for any action taken or suffered under the provisions of the Indenture or any Supplemental Indenture upon the faith thereof, but in its discretion the Authority or the Chief Financial Officer may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

In order to perform its duties and obligations under the Indenture, the Authority and/or the Chief Financial Officer may employ such persons or entities as it deems necessary or advisable. The Authority shall not be liable for any of the acts or omissions of such persons or entities employed by it in good faith under the Indenture, and shall be entitled to rely, and shall be fully protected in doing so, upon the opinions, calculations, determinations and directions of such persons or entities.

## **The Trustee**

The Trustee undertakes to perform such duties, and only such duties, as are specifically set forth in the Indenture, and no implied covenants or obligations shall be read into the Indenture against the Trustee.

Any company into which the Trustee 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 Trustee may sell or transfer all or substantially all of its corporate trust business, provided such company shall be eligible under the following paragraph, shall be the successor to such Trustee without the execution or filing of any paper or any further act, anything therein to the contrary notwithstanding.

The Authority may at any time remove the Trustee initially appointed, and any successor thereto, and may appoint a successor or successors thereto, but any such successor shall be a bank, corporation or trust company having a combined capital (exclusive of borrowed capital) and surplus of at least Fifty Million Dollars (\$50,000,000), and be subject to supervision or examination by federal or state authority. If such bank, corporation or trust company 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 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.

The Trustee may at any time resign by giving written notice to the Authority and by giving to the Owners notice by mail of such resignation. Upon receiving notice of such resignation, the Authority shall promptly appoint a successor Trustee by an instrument in writing. Any resignation or removal of the Trustee shall become effective upon acceptance of appointment by the successor Trustee.

If no appointment of a successor Trustee shall be made within forty-five (45) days after the Trustee shall have given to the Authority written notice or after a vacancy in the office of the Trustee shall have occurred by reason of its inability to act, the Trustee or any Owner may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper, appoint a successor Trustee.

If, by reason of the judgment of any court, or reasonable agency, the Trustee is rendered unable to perform its duties under the Indenture, all such duties and all of the rights and powers of the Trustee thereunder shall be assumed by and vest in the Chief Financial Officer of the Authority in trust for the benefit of the Owners. The Authority covenants for the direct benefit of the Owners that its Chief Financial Officer in such case shall be vested with all of the rights and powers of the Trustee under the Indenture, and shall assume all of the responsibilities and perform all of the duties of the Trustee thereunder, in trust for the benefit of the Owners of the Bonds. In such event, the Chief Financial Officer may designate a successor Trustee qualified to act as Trustee thereunder.

The recitals of facts, covenants and agreements in the Indenture and in the Bonds contained shall be taken as statements, covenants and agreements of the Authority, and the Trustee assumes no responsibility for the correctness of the same, or makes any representations as to the validity or sufficiency of the Indenture or of the Bonds, or shall incur any responsibility in respect thereof, other than in connection with the duties or obligations in the Indenture or in the Bonds assigned to or imposed upon it. The Trustee

shall not be liable in connection with the performance of its duties under the Indenture, except for its own negligence or willful misconduct. The Trustee assumes no responsibility or liability for any information, statement or recital in any offering memorandum or other disclosure material prepared or distributed with respect to the issuance of the Bonds.

In the absence of bad faith, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of the Indenture; but in the case of any such certificates or opinions by which any provision of the Indenture are specifically required to be furnished to the Trustee, the Trustee shall examine the same to determine whether or not they conform to the requirements of the Indenture. Except as provided above in this paragraph, Trustee shall be protected and shall incur no liability in acting or proceeding, or in not acting or not proceeding, in good faith, reasonably and in accordance with the terms of the Indenture, upon any resolution, order, notice, request, consent or waiver, certificate, statement, affidavit, or other paper or document which it shall in good faith reasonably believe to be genuine and to have been adopted or signed by the proper person or to have been prepared and furnished pursuant to any provision of the Indenture, and the Trustee shall not be under any duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument.

The Trustee shall not be liable for any error of judgment made in good faith unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts. No provision of the Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Indenture, or in the exercise of any of its rights or powers.

The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request or direction of any of the Owners pursuant to the Indenture unless such Owners shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

The Trustee may become the owner of the Bonds with the same rights it would have if it were not the Trustee.

The Trustee shall have no duty or obligation whatsoever to enforce the collection of Special Taxes or other funds to be deposited with it under the Indenture, or as to the correctness of any amounts received, and its liability shall be limited to the proper accounting for such funds as it shall actually receive.

In order to perform its duties and obligations under the Indenture, the Trustee may employ such persons or entities as it deems necessary or advisable. The Trustee shall not be liable for any of the acts or omissions of such persons or entities employed by it in good faith hereunder, and shall be entitled to rely, and shall be fully protected in doing so, upon the opinions, calculations, determinations and directions of such persons or entities.

The Trustee will provide to the Authority such information relating to the Bonds and the funds and accounts maintained by the Trustee hereunder as the Authority shall reasonably request, including but not limited to quarterly statements reporting funds held and transactions by the Trustee.

The Trustee may rely and shall be protected in acting or refraining from acting upon any notice, resolution, request, consent, order, certificate, report, warrant, bond or other paper or document believed in good faith by it to be genuine and to have been signed or

presented by the proper party or proper parties. The Trustee may consult with counsel, who may be counsel to the Authority, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it under the Indenture in good faith and in accordance therewith.

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

Whenever in the administration of its duties under the Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Indenture, such matter (unless other evidence in respect thereof be in the Indenture specifically prescribed) may, in the absence of willful misconduct on the part of the Trustee, be deemed to be conclusively proved and established by an Officer's Certificate, and such certificate shall be full warrant to the Trustee for any action taken or suffered under the provisions of the Indenture or any Supplemental Indenture upon the faith thereof, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

#### **Amendment of the Indenture**

The Indenture and the rights and obligations of the Authority and of the Owners of the Bonds may be modified or amended at any time by a Supplemental Indenture pursuant to the affirmative vote at a meeting of Owners, or with the written consent without a meeting, of the Owners of at least sixty percent (60%) in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Indenture. No such modification or amendment shall (i) extend the maturity of any Bond or reduce the interest rate thereon, or otherwise alter or impair the obligation of the Authority to pay the principal of, and the interest and any premium on, any Bond, without the express consent of the Owner of such Bond, or (ii) permit the creation by the Authority of any pledge or lien upon the Special Taxes superior to or on a parity with the pledge and lien created for the benefit of the Owners of the Bonds (except as otherwise permitted by the Act, the laws of the State of California or the Indenture), or (iii) reduce the percentage of Bonds required for the amendment of the Indenture. Any such amendment may not modify any of the rights or obligations of the Trustee without its written consent.

The Indenture and the rights and obligations of the Authority and of the Owners may also be modified or amended at any time by a Supplemental Indenture, without the consent of any Owners, only to the extent permitted by law and only for any one or more of the following purposes:

(A) to add to the covenants and agreements of the Authority in the Indenture contained, other covenants and agreements thereafter to be observed, or to limit or surrender any right or power in the Indenture reserved to or conferred upon the Authority;

(B) to make modifications not adversely affecting any outstanding series of Bonds of the Authority in any material respect;

(C) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in the Indenture, or in regard to questions arising under the Indenture, as the Authority or

the Trustee may deem necessary or desirable and not inconsistent with the Indenture, and which shall not adversely affect the rights of the Owners of the Bonds;

(D) to make such additions, deletions or modifications as may be necessary or desirable to assure exemption from gross federal income taxation of interest on the Bonds; and

(E) in connection with the issuance of Parity Bonds under and pursuant to the Indenture.

## **Default**

Events of Default. Each of the following events shall constitute an “Event of Default” under the Indenture:

(A) failure to pay the principal of or premium (if any) on any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise;

(B) failure to pay any installment of interest on any Bond when such interest installment shall become due and payable; and

(C) failure by the Authority to perform or observe any other of the covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, and the continuation of such failure for a period of sixty (60) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority by the Trustee, or to the Authority and the Trustee by the holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time outstanding.

No default specified in (C) above shall constitute an Event of Default unless the Authority shall have failed to correct such default within the applicable period; provided, however, that if the default shall be such that it cannot be corrected within such period, it shall not constitute an Event of Default if corrective action is instituted by the Authority within the applicable period and diligently pursued until the default is corrected.

Institution of Legal Proceedings by Trustee. If one or more of the Events of Default shall occur and be continuing, the Trustee in its discretion may, and upon the written request of the holders of a majority in principal amount of the Bonds then outstanding and upon being indemnified to its satisfaction therefor the Trustee shall, proceed to protect or enforce its rights or the rights of the holders of Bonds under the Act or under the Indenture, by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained in the Indenture or therein, or in aid of the execution of any power in the Indenture or therein granted, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee shall deem most effectual in support of any of its rights or duties under the Indenture; provided that any such request from the Bondholders shall not be in conflict with any rule of law or with the Indenture, expose the Trustee to personal liability or be unduly prejudicial to Bondholders not joining therein.

Application of Moneys Collected by Trustee. Any moneys held by the Trustee, or collected by the Trustee pursuant to the default provisions of the Indenture shall be applied in the order following, at the date or dates fixed by the Trustee and, in the case of distribution of such moneys on account of principal (or premium, if any) or interest, upon

presentation of the Bonds and stamping thereon the payment, if only partially paid, and upon surrender thereof, if fully paid:

First: For payment of all amounts due to the Trustee under the Trustee compensation provisions of the Indenture.

Second: For deposit in the Bond Fund to be applied to payment of the principal of all Bonds then due and unpaid and the premium, if any, and interest thereon; ratably to the persons entitled thereto without discrimination or preference; except that no payment of principal, premium or interest shall be made with respect to any Bonds registered in the name of the Authority, or known by the Trustee to be registered in the name of any nominee of the Authority, until all amounts due on all Bonds not so registered have been paid.

Third: For payment of all other amounts due to any person under the Indenture.

Effect of Delay or Omission to Pursue Remedy. No delay or omission of the Trustee or of any holder of Bonds to exercise any right or power arising from any default shall impair any such right or power or shall be construed to be a waiver of any such default or acquiescence therein, and every power and remedy given by the Indenture to the Trustee or to the holders of Bonds may be exercised from time to time and as often as shall be deemed expedient. In case the Trustee shall have proceeded to enforce any right under the Indenture, and such proceedings shall have been discontinued or abandoned because of waiver or for any other reason, or shall have been determined adversely to the Trustee, then and in every such case the Authority, the Trustee and the holders of the Bonds, severally and respectively, shall be restored to their former positions and rights under the Indenture in respect to the Trust Estate; and all remedies, rights and powers of the Authority, the Trustee and the holders of the Bonds shall continue as though no such proceedings had been taken.

Remedies Cumulative. No remedy in the Indenture conferred upon or reserved to the Trustee or to any holder of the Bonds is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or now or hereafter existing at law or in equity.

Covenant to Pay Bonds in Event of Default. The Authority covenants that, upon the happening of any Event of Default, the Authority will pay to the Trustee upon demand, but only out of Special Tax Revenues, for the benefit of the holders of the Bonds, the whole amount then due and payable thereon for interest or for principal and premium, or both, as the case may be, and all other sums which may be due under the Indenture or secured by the Indenture, including reasonable compensation to the Trustee, its agents and counsel, and any expenses or liabilities incurred by the Trustee under the Indenture. In case the Authority shall fail to pay the same forthwith upon such demand, the Trustee, in its own name and as trustee of an express trust, and upon being indemnified to its satisfaction shall be entitled to institute proceedings at law or in equity in any court of competent jurisdiction to recover judgment for the whole amount due and unpaid, together with costs and reasonable attorneys' fees, subject, however, to the condition that such judgment, if any, shall be limited to, and payable solely out of, Special Tax Revenues and any other assets pledged, transferred or assigned to the Trustee under the Indenture as provided in the Indenture and not otherwise. The Trustee shall be entitled to recover such judgment as aforesaid, either before or after or during the pendency of any proceedings for the enforcement of the Indenture, and the right of the Trustee to recover such judgment shall

not be affected by the exercise of any other right, power or remedy for the enforcement of the provisions of the Indenture.

Trustee Appointed Agent for Bondholders. The Trustee is appointed the agent and attorney of the holders of all Bonds outstanding hereunder for the purpose of filing any claims relating to the Bonds.

Power of Trustee to Control Proceedings. In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties under the Indenture, whether upon its own discretion or upon the written request of the holders of a majority in principal amount of the Bonds then outstanding, it shall have full power, in the exercise of its discretion for the best interests of the holders of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues an Event of Default under the Indenture, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the holders of at least a majority in principal amount of the Bonds outstanding hereunder opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation.

Limitation on Bondholders' Right to Sue. No holder of any Bond issued under the Indenture shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture, unless (a) such holder shall have previously given to the Trustee written notice of the occurrence of an Event of Default hereunder; (b) the holders of at least a majority in aggregate principal amount of all the Bonds then outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name; (c) said holders shall have tendered to the Trustee indemnity satisfactory to it against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of thirty (30) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any holder of Bonds of any remedy hereunder; it being understood and intended that no one or more holders of Bonds shall have any right in any manner whatever by its or their action to enforce any right under the Indenture, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner provided in the Indenture and for the equal benefit of all holders of the outstanding Bonds.

The right of any holder of any Bond to receive payment of the principal of (and premium, if any) and interest on such Bond out of Special Tax Revenues, as therein provided, on and after the respective due dates expressed in such Bond, or to institute suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such holder, notwithstanding the foregoing provisions of the Indenture.

Limitation of Liability to Trust Estate. Notwithstanding anything in the Indenture contained, the Authority shall not be required to advance any moneys derived from the proceeds of taxes collected by the Authority, by the State of California or by any political subdivision thereof or from any source of income of any of the foregoing other than the

Special Tax Revenues, for any of the purposes in the Indenture mentioned, whether for the payment of the principal of or interest on the Bonds or for any other purpose of the Indenture. The Bonds are limited obligations of the Authority for the District, and are payable from and secured only by the Trust Estate.

### **Discharge of the Bonds and the Indenture**

The Authority shall have the option to pay and discharge the entire indebtedness on all or any portion of the Bonds Outstanding in any one or more of the following ways:

(A) by well and truly paying or causing to be paid the principal of, and interest and any premium on, such Bonds Outstanding, as and when the same become due and payable;

(B) by depositing with the Trustee, in trust, at or before maturity, money which, together with the amounts then on deposit in the funds and accounts therein as provided in the Indenture is fully sufficient to pay such Bonds Outstanding, including all principal, interest and redemption premiums; or

(C) by irrevocably depositing with the Trustee, in trust, cash and Federal Securities in such amount as the Authority shall determine as confirmed by Bond Counsel or an independent certified public accountant will, together with the interest to accrue thereon and moneys then on deposit in the funds and accounts provided for in the Indenture, be fully sufficient to pay and discharge the indebtedness on such Bonds (including all principal, interest and redemption premiums) at or before their respective maturity dates.

If the Authority shall have taken any of the actions specified in (A), (B) or (C) above, and if such Bonds are to be redeemed prior to the maturity thereof notice of such redemption shall have been given as in the Indenture provided or provision satisfactory to the Trustee shall have been made for the giving of such notice, then, at the election of the Authority, and notwithstanding that any Bonds shall not have been surrendered for payment, the pledge of the Trust Estate provided for in the Indenture and all other obligations of the Authority under the Indenture with respect to such Bonds Outstanding shall cease and terminate. Notice of such election shall be filed with the Trustee. Notwithstanding the foregoing, the obligation of the Authority to pay or cause to be paid to the Owners of the Bonds not so surrendered and paid all sums due thereon, to pay all amounts owing to the Trustee pursuant to the Indenture, and otherwise to assure that no action is taken or failed to be taken if such action or failure adversely affects the exclusion of interest on the Bonds from gross income for federal income tax purposes, shall continue in any event.

Upon compliance by the Authority with the foregoing with respect to all Bonds Outstanding, any funds held by the Trustee after payment of all fees and expenses of the Trustee, which are not required for the purposes of the preceding paragraph, shall be paid over to the Authority and any Special Taxes thereafter received by the Authority shall not be remitted to the Trustee but shall be retained by the Authority to be used for any purpose permitted under the Act.

## APPENDIX D

### DTC AND THE 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 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.*

*Neither the issuer of the Bonds (the “**Issuer**”) nor the trustee, fiscal agent or paying agent appointed with respect to the Bonds (the “**Agent**”) take any responsibility for the information contained in this Appendix.*

*No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current “**Rules**” applicable to DTC are on file with the Securities and Exchange Commission and the current “**Procedures**” of DTC to be followed in dealing with DTC Participants are on file with DTC.*

1. The Depository Trust Company (“**DTC**”), New York, NY, will act as securities depository for the securities (the “**Bonds**”). The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument from over 100 countries that DTC’s participants (“**Direct Participants**”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“**DTCC**”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American

Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("**Indirect Participants**"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

3. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("**Beneficial Owner**") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

4. To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

6. Redemption notices shall be sent to DTC. 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 Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from Issuer or Agent on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

10. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

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## APPENDIX E

### FORM OF ISSUER CONTINUING DISCLOSURE CERTIFICATE

#### CONTINUING DISCLOSURE CERTIFICATE (Issuer)

\$5,825,000

#### ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS COMMUNITY FACILITIES DISTRICT NO. 2006-1 (SAN FRANCISCO RINCON HILL) 2006 SPECIAL TAX BONDS

This Continuing Disclosure Certificate (this “**Disclosure Certificate**”) is executed and delivered by the ABAG Finance Authority for Nonprofit Corporations (the “**Issuer**”) for and on behalf of the ABAG Finance Authority for Nonprofit Corporations Community Facilities District No. 2006-1 (San Francisco Rincon Hill) (the “**Community Facilities District**”) in connection with the issuance of the bonds captioned above (the “**Bonds**”). The Bonds are being issued pursuant to an Indenture, dated as of June 1, 2006 (the “**Indenture**”), by and between the Issuer, for and on behalf of the Community Facilities District, and Union Bank of California, N.A., as Trustee (the “**Trustee**”). The Issuer hereby covenants and agrees as follows:

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

Section 2. Definitions. In addition to the definitions set forth above and in the Indenture, 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*” means any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“*Annual Report Date*” means the date that is nine months after the end of the Issuer's fiscal year (currently no later than April 1 based on the Issuer's fiscal year end of June 30).

“*CPO*” means the Internet-based filing system currently located at [www.DisclosureUSA.org](http://www.DisclosureUSA.org), or such other similar filing system approved by the Securities and Exchange Commission.

“*Dissemination Agent*” means Goodwin Consulting Group, or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the Issuer a written acceptance of such designation.

“*Issuer*” means ABAG Finance Authority for Nonprofit Corporations, for and on behalf of ABAG Finance Authority for Nonprofit Corporations Community Facilities District No. 2006-1 (San Francisco Rincon Hill).

“*Listed Events*” means any of the events listed in Section 5(a) of this Disclosure Certificate.

*“National Repository”* means 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 Securities and Exchange Commission’s Internet site at [www.sec.gov](http://www.sec.gov).

*“Official Statement”* means the final official statement executed by the Issuer in connection with the issuance of the Bonds.

*“Participating Underwriter”* means Stone & Youngberg LLC and Backstrom McCarley Berry & Co., LLC, collectively, the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

*“Repository”* means each National Repository and each State Repository, if any.

*“Rule”* means 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”* means 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 Issuer shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing April 1, 2007 with the report for the 2006-07 fiscal year, provide to the Participating Underwriter and to each Repository an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the Issuer shall provide the Annual Report to the Dissemination Agent (if other than the Issuer). 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 Issuer 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. The audited financial statements of the Issuer may be included within or constitute a portion of the audited financial statements (San Francisco Rincon Hill). If the Issuer'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 Issuer does not provide, or cause the Dissemination Agent to provide, an Annual Report to the Repositories by the Annual Report Date as required in subsection (a) above, the Dissemination Agent shall provide (i) each National Repository or the Municipal Securities Rulemaking Board and (ii) each appropriate State Repository (with a copy to the Trustee) a notice, in substantially the form attached as Exhibit A, with a copy to the Trustee (if different than the Dissemination Agent) and the Participating Underwriter. In lieu of filing the notice with each Repository, the Issuer or the Dissemination Agent may file such notice with the CPO.

(c) With respect to the Annual Report, the Dissemination Agent shall:

(i) determine each year prior to the Annual Report Date the name and address of each National Repository and each State Repository, if any; and

(ii) if the Dissemination Agent is other than the Issuer, file a report with the Issuer and the Participating Underwriter 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.

(d) In lieu of filing the Annual Report with each Repository in accordance with the preceding paragraph (c), the Issuer or the Dissemination Agent may file such Annual Report solely with the CPO.

Section 4. Content of Annual Reports. The Issuer's Annual Report shall contain or incorporate by reference the following documents and information:

(a) The Issuer's audited financial statements for the most recently completed fiscal year, together with the following statement:

THE ISSUER'S ANNUAL FINANCIAL STATEMENT IS PROVIDED SOLELY TO COMPLY WITH THE SECURITIES EXCHANGE COMMISSION STAFF'S INTERPRETATION OF RULE 15C2-12. NO FUNDS OR ASSETS OF THE ISSUER ARE REQUIRED TO BE USED TO PAY DEBT SERVICE ON THE BONDS, AND THE ISSUER IS NOT OBLIGATED TO ADVANCE AVAILABLE FUNDS TO COVER ANY DELINQUENCIES. INVESTORS SHOULD NOT RELY ON THE FINANCIAL CONDITION OF THE ISSUER IN EVALUATING WHETHER TO BUY, HOLD OR SELL THE BONDS.

(b) Total assessed value (per the County Assessor's records) of all parcels currently subject to the Special Tax within the Community Facilities District, showing the total assessed valuation for all land and the total assessed valuation for all improvements within the Community Facilities District.

(c) The total dollar amount of delinquencies in the Community Facilities District as of August 1 of any year and, in the event that the total delinquencies within the Community Facilities District as of August 1 in any year exceed 5% of the Special Tax for the previous year, delinquency information for each parcel responsible for more than \$5,000 in the payment of Special Tax, amounts of delinquencies, length of delinquency and status of any foreclosure of each such parcel.

(d) The amount of prepayments of the Special Tax with respect to the Community Facilities District for the prior Fiscal Year.

(e) A land ownership summary listing property owners responsible for more than 5% of the annual Special Tax levy, as shown on the County Assessor's last equalized tax roll prior to the September next preceding the Annual Report Date.

(f) The principal amount of the Bonds outstanding, the balance in the Reserve Fund (along with a statement of the Reserve Requirement) as of the September 30 next preceding the Annual Report Date.

(g) An updated table in substantially the form of the table in the Official Statement entitled "Appraised Values and Value to Burden Ratios" based upon the most recent information available (which may include, at the discretion of the Issuer, either assessed value or appraised value), provided that the table shall show only (A) value to burden ratios for individual property owners that were responsible for 5% or more of the Special Tax for the previous year and (B) the overall value to burden ratio for the Community Facilities District (excluding those items specifically excluded from the burden calculation in the Official Statement).

(h) Any changes to the Rate and Method of Apportionment set forth in Appendix A to the Official Statement.

(i) A copy of the annual information required to be filed by the Issuer with the California Debt and Investment Advisory Commission pursuant to the Act and relating generally to outstanding District bond amounts, fund balances, assessed values, special tax delinquencies and foreclosure information.

(j) In addition to any of the information expressly required to be provided under paragraphs (a) through (i) of this Section, the Issuer 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 Issuer or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Issuer shall clearly identify each such other document so included by reference.

#### Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

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

(c) If the Issuer determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the Issuer shall, or shall cause the Dissemination

Agent to, promptly file a notice of such occurrence with (i) each National Repository or the Municipal Securities Rulemaking Board and (ii) each appropriate State Repository (if any), with a copy to the Trustee (if different than the Dissemination 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 Indenture.

In lieu of filing the notice of Listed Event with each Repository in accordance with the preceding paragraph, the Issuer or the Dissemination Agent may file such notice of a Listed Event with the CPO.

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

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

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Issuer 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 Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of the Trustee 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 Issuer 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 Issuer 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 Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Issuer 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 Issuer to comply with any provision of this Disclosure Certificate, the Participating Underwriter 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 Issuer 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 Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the Issuer 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 Issuer 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 willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the Issuer, the Property Owner, the Trustee, the Bond owners or any other party. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 12. Notices. Any notice or communications to be among any of the parties to this Disclosure Certificate may be given as follows:

To the Issuer:	ABAG Finance Authority for Nonprofit Corporations Metro Center 101 Eighth Street Oakland, CA 94607-4756 Attention: Secretary Fax: (510) 464-7932
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To the Dissemination Agent:	Goodwin Consulting Group 555 University Avenue, Suite 280 Sacramento, CA 95825 Fax: (916) 561-0891
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To the Participating Underwriter: Stone & Youngberg LLC  
One Ferry Building  
San Francisco, California 94111  
Attention: Municipal Research Department  
Fax: (415) 445-2395

Backstrom McCarley Berry & Co., LLC  
115 Sansome Street, Mezzanine A  
San Francisco, California 94104  
Attention: Municipal Research Department  
Fax: (415) 392-5276

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Issuer, the Trustee, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 14. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: June 8, 2006

ABAG FINANCE AUTHORITY FOR NON PROFIT  
CORPORATIONS, for and on behalf of ABAG  
FINANCE AUTHORITY FOR NONPROFIT  
CORPORATIONS COMMUNITY FACILITIES  
DISTRICT NO. 2006-1 (SAN FRANCISCO  
RINCON HILL)

By: \_\_\_\_\_  
Joseph Chan  
Chief Financial Officer

AGREED AND ACCEPTED:  
Goodwin Consulting Group,  
as Dissemination Agent

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**EXHIBIT A**

**NOTICE OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: ABAG Finance Authority for Nonprofit Corporations, for and on behalf of ABAG Finance Authority for Nonprofit Corporations Community Facilities District No. 2006-1 (San Francisco Rincon Hill).

Name of Bond Issue: Community Facilities District No. 2006-1 (San Francisco Rincon Hill) Special Tax Bonds, Series 2006A

Date of Issuance: June 8, 2006

NOTICE IS HEREBY GIVEN to [(i) each National Repository or the Municipal Securities Rulemaking Board and (ii) each appropriate State Repository] [the CPO and the Municipal Securities Rulemaking Board] that the Issuer has not provided an Annual Report with respect to the above-named Bonds as required by Section 5.17 of the Indenture, dated as of June 1, 2006 between the Issuer and Union Bank of California, N.A.. The Issuer anticipates that the Annual Report will be filed by

\_\_\_\_\_.

Dated: \_\_\_\_\_

DISSEMINATION AGENT:

GOODWIN CONSULTING GROUP

By: \_\_\_\_\_  
Its: \_\_\_\_\_

## APPENDIX F

### FORM OF PROPERTY OWNER CONTINUING DISCLOSURE CERTIFICATE

#### CONTINUING DISCLOSURE CERTIFICATE (Property Owner)

**\$5,825,000**

#### **ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS COMMUNITY FACILITIES DISTRICT NO. 2006-1 (SAN FRANCISCO RINCON HILL) SPECIAL TAX BONDS, SERIES 2006A**

This Continuing Disclosure Certificate (this “**Disclosure Certificate**”) is executed and delivered by One Rincon Development, a Delaware limited liability company (the “**Property Owner**”), in connection with the issuance by the ABAG Finance Authority for Nonprofit Corporations (the “**Issuer**”) for and on behalf of the ABAG Finance Authority for Nonprofit Corporations Community Facilities District No. 2006-1 (San Francisco Rincon Hill) (the “**Community Facilities District**”) of the bonds captioned above (the “**Bonds**”). The Bonds are being issued pursuant to an Indenture, dated as of June 1, 2006 (the “**Indenture**”), by and between the Issuer, for and on behalf of the Community Facilities District, and Union Bank of California, N.A., as Trustee (the “**Trustee**”). The Property Owner covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Property Owner for the benefit of the holders and beneficial owners of the Bonds.

Section 2. Definitions. In addition to the definitions set forth above and in the Indenture, 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:

“*Affiliate*” of another Person means (a) a Person directly or indirectly owning, controlling, or holding with power to vote, 5% or more of the outstanding voting securities of such other Person, (b) any Person, 5% or more of whose outstanding voting securities are directly or indirectly owned, controlled, or held with power to vote, by such other Person, and (c) any Person directly or indirectly controlling, controlled by, or under common control with, such other Person. For purposes hereof, control means the power to exercise a controlling influence over the management or policies of a Person, unless such power is solely the result of an official position with such Person.

“*Assumption Agreement*” means an undertaking of a Major Owner, or an Affiliate thereof, for the benefit of the holders and beneficial owners of the Bonds containing terms substantially similar to this Disclosure Certificate (as modified for such Major Owner’s development and financing plans with respect to the Community Facilities District), whereby such Major Owner or Affiliate agrees to provide semi-annual reports and notices of significant events, setting forth the information described in sections 4 and 5 hereof, respectively, with respect to the portion of the property in the Community Facilities District owned by such Major Owner and its Affiliates and, at the option of the Property Owner or such Major Owner, agrees to indemnify the Dissemination Agent pursuant to a provision substantially in the form of Section 11 hereof.

“*CPO*” means the Internet-based filing system currently located at [www.DisclosureUSA.org](http://www.DisclosureUSA.org), or such other similar filing system approved by the Securities and Exchange Commission.

*“Dissemination Agent”* means Goodwin Consulting Group, or any successor Dissemination Agent designated in writing by the Property Owner, and which has filed with the Property Owner, the Community Facilities District and the Trustee a written acceptance of such designation, and which is experienced in providing dissemination agent services such as those required under this Disclosure Certificate.

*“District”* means ABAG Finance Authority for Nonprofit Corporations Community Facilities District No. 2006-1 (San Francisco Rincon Hill).

*“Listed Events”* means any of the events listed in Section 5(a) of this Disclosure Certificate.

*“Major Owner”* means, as of any Report Date, an owner of property in the Community Facilities District responsible in the aggregate for 10% or more of the Special Taxes in the Community Facilities District anticipated to be levied at any time during the then-current fiscal year.

*“National Repository”* means 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 Securities and Exchange Commission’s Internet site at [www.sec.gov](http://www.sec.gov).

*“Official Statement”* means the final official statement executed by the Issuer in connection with the issuance of the Bonds.

*“Participating Underwriter”* means Stone & Youngberg LLC and Backstrom McCarley Berry & Co., LLC, collectively, the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

*“Person”* means an individual, a corporation, a partnership, a limited liability company, an association, a joint stock company, a trust, any unincorporated organization or a government or political subdivision thereof.

*“Property”* means the property owned by the Property Owner or any Affiliate of the Property Owner in the Community Facilities District.

*“Report Date”* means March 31 and September 30.

*“Repository”* means each National Repository and each State Repository, if any.

*“Rule”* means 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.

*“Semi-Annual Report”* means any Semi-Annual Report provided by the Property Owner pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

*“Special Taxes”* means the special taxes levied on taxable property within the Community Facilities District.

*“State Repository”* means 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 Semi-Annual Reports.

(a) The Property Owner shall, or upon written direction shall cause the Dissemination Agent to, not later than the Report Date, commencing September 30, 2006, provide to each Repository a Semi-Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate with a copy to the Trustee (if different from the Dissemination Agent), the Participating Underwriter and the Issuer. Not later than 15 days prior to the Report Date, the Property Owner shall provide the Semi-Annual Report to the Dissemination Agent. The Property Owner shall provide a written certification with (or included as a part of) each Semi-Annual Report furnished to the Dissemination Agent, the Trustee (if different from the Dissemination Agent), the Participating Underwriter and the Issuer to the effect that such Semi-Annual Report constitutes the Semi-Annual Report required to be furnished by it under this Disclosure Certificate. The Dissemination Agent, the Trustee, the Participating Underwriter and the Issuer may conclusively rely upon such certification of the Property Owner and shall have no duty or obligation to review the Semi-Annual Report. The Semi-Annual Report may be submitted as a single document or as separate documents comprising a package, and may incorporate by reference other information as provided in Section 4 of this Disclosure Certificate.

(b) If the Dissemination Agent does not receive a Semi-Annual Report by 15 days prior to the Report Date, the Dissemination Agent shall send a reminder notice to the Property Owner that the Semi-Annual Report has not been provided as required under Section 3(a) above. The reminder notice shall instruct the Property Owner to determine whether its obligations under this Disclosure Certificate have terminated (pursuant to Section 6 below) and, if so, to provide the Dissemination Agent with a notice of such termination in the same manner as for a Listed Event (pursuant to Section 5 below). If the Property Owner does not provide, or cause the Dissemination Agent to provide, a Semi-Annual Report to the Repositories by the Report Date as required in subsection (a) above, the Dissemination Agent shall send a notice to (i) each National Repository or the Municipal Securities Rulemaking Board and (ii) each appropriate State Repository (with a copy to the Trustee, the Issuer and the Participating Underwriter) a notice, in substantially the form attached as Exhibit A. In lieu of filing the notice with each Repository, the Issuer or the Dissemination Agent may file such notice with the CPO.

(c) With respect to the Annual Report, the Dissemination Agent shall:

(i) determine prior to each Report Date the name and address of each National Repository and each State Repository, if any;

(ii) to the extent the Semi-Annual Report has been furnished to it, file the Semi-Annual Report with the Repositories, and file a report with the Property Owner (if the Dissemination Agent is other than the Property Owner), the Issuer and the Participating Underwriter certifying that the Semi-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.

(d) In lieu of filing the Annual Report with each Repository in accordance with the preceding paragraph (c), the Property Owner or the Dissemination Agent may file such Annual Report solely with the CPO.

### Section 4. Content of Semi-Annual Reports.

The Semi-Annual Report shall contain or incorporate by reference the following, if material. If the document included by reference is a final official statement, it must be available from the Municipal

Securities Rulemaking Board. The Property Owner shall clearly identify each such other document so included by reference.

(a) Any significant changes in the information contained in the Official Statement under the headings: "PROPERTY OWNERSHIP AND PROPOSED DEVELOPMENT."

(b) A description of the status of development on the property owned by the Property Owner and its Affiliates within the Community Facilities District.

(c) A description of any sales of Property within the Community Facilities District by the Property Owner and its Affiliates since the previous Annual Report.

(d) A description of any change in the legal structure of the Property Owner and its Affiliates owning Property in the Community Facilities District.

(e) Material changes in project costs, status of any construction loans and any permanent financing received by the Property Owner and its Affiliates with respect to development of Property within the Community Facilities District, with a statement to the best of Property Owner's knowledge as to the sufficiency of available funds to complete the project as contemplated and source of financing of project costs.

(f) Any denial of credit, lines of credit, loans or loss of source of capital that could have a significant impact on the Property Owner's or its Affiliates' ability to pay Special Taxes.

(g) Any failure by the Property Owner or its Affiliates to pay when due general property taxes, Special Taxes or assessments with respect to their Property in the Community Facilities District.

(h) Any previously undisclosed amendments to the land use entitlements or environmental conditions or other governmental conditions that are necessary to complete the development.

In addition, the Property Owner's Semi-Annual Report shall include 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.

#### Section 5. Reporting of Significant Events.

(a) The Property Owner shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the Bonds, if material:

(i) bankruptcy or insolvency proceedings commenced by or against the Property Owner and any bankruptcy or insolvency proceedings commenced by or against any Affiliate of the Property Owner which could have a significant impact on the Property Owner's or its Affiliates' ability to pay Special Taxes or assessments with respect to the Property or to sell or develop the Property;

(ii) failure to pay any taxes, special taxes (including the Special Taxes) or assessments due with respect to the Property by the Property Owners or any Affiliate of the Property Owner;

(iii) filing of a lawsuit against the Property Owner or an Affiliate of the Property Owner, seeking damages which could have a significant impact on the Property Owner's or its Affiliates' ability to pay Special Taxes or assessments with respect to the Property or to sell or develop the Property;

(iv) material damage to or destruction of any of the improvements on the Property;

(v) any payment default or other material default by the Property Owner or any Affiliate of the Property Owner on any loan with respect to the construction of improvements on the Property;

(ii) the discovery of toxic material or hazardous waste which will require remediation on the Property; and

(v) the termination prior to full disbursement of availability of incremental disbursements of proceeds of any loan, the proceeds of which were loaned to the Property Owner to facilitate the cost of construction of improvements within the Community Facilities District.

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

(c) If the Property Owner determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the Property Owner shall, or shall cause the Dissemination Agent to, promptly file a notice of such occurrence with (i) each National Repository or the Municipal Securities Rulemaking Board and (ii) each appropriate State Repository, if any, with a copy to the Trustee, the Issuer and the Participating Underwriter.

In lieu of filing the notice of Listed Event with each Repository in accordance with the preceding paragraph, the Property owner or the Dissemination Agent may file such notice of a Listed Event with the CPO.

#### Section 6. Duration of Reporting Obligation.

(a) All of the Property Owner's obligations hereunder shall commence on the date hereof and shall terminate (except as provided in Section 11) on the earliest to occur of the following:

(i) upon the legal defeasance, prior redemption or payment in full of all the Bonds, or

(ii) at such time as property owned by the Property Owner and any Affiliate of the Property Owner is no longer responsible for payment of 10% or more of the Special Taxes.

The Property Owner shall give notice of the termination of its obligations under this Disclosure Certificate in the same manner as for a Listed Event under Section 5.

(b) If all or any portion of the property in the Community Facilities District owned by the Property Owner, or any Affiliate of the Property Owner, is conveyed to a Person that, upon

such conveyance, will be a Major Owner, the obligations of the Property Owner hereunder with respect to the property in the Community Facilities District owned by such Major Owner and its Affiliates may be assumed by such Major Owner or by an Affiliate thereof and the Property Owner's obligations hereunder will be terminated. In order to effect such assumption, such Major Owner or Affiliate shall enter into an Assumption Agreement in form and substance satisfactory to the Issuer and the Participating Underwriter.

Section 7. Dissemination Agent. The Property Owner may, from time to time, appoint or engage a Dissemination Agent to assist the Property Owner in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be Goodwin Consulting Group. The Dissemination Agent may resign by providing thirty days' written notice to the Issuer, the Property Owner and the Trustee.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Property Owner may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied (provided, however, that the Dissemination Agent shall not be obligated under any such amendment that modifies or increases its duties or obligations hereunder without its written consent thereto):

(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 Indenture with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Property Owner 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 Semi-Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Property Owner chooses to include any information in any Semi-Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Property Owner shall have no obligation under this Disclosure Certificate to update such information or include it in any future Semi-Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the Property Owner to comply with any provision of this Disclosure Certificate, the Trustee shall (upon written direction and only to the extent indemnified to its satisfaction from any liability, cost or expense, including fees and expenses of its attorneys), and the Participating Underwriter and 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 Property Owner 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 Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the Property Owner 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 Property Owner 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 reasonable costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities, costs and expenses due to the negligence or willful misconduct of the Dissemination Agent or its officers, directors, employees and agents, or failure by the Dissemination Agent to perform its duties hereunder. The Dissemination Agent shall be paid compensation for its services provided hereunder in accordance with its schedule of fees as amended from time to time, which schedule, as amended, shall be reasonably acceptable, and all reasonable expenses, reasonable legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the Issuer, the Property Owner, the Trustee, the Bond owners, or any other party. The obligations of the Property Owner under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 12. Notices. Any notice or communications to be among any of the parties to this Disclosure Certificate may be given as follows:

To the Issuer: ABAG Finance Authority for Nonprofit Corporations  
Metro Center  
101 Eighth Street  
Oakland, CA 94607-4756  
Attention: Secretary  
Fax: (510) 464-7932

To the Dissemination Agent: Goodwin Consulting Group  
555 University Avenue, Suite 280  
Sacramento, CA 95825  
Fax: (916) 561-0891

To the Participating Underwriter: Stone & Youngberg LLC  
One Ferry Building  
San Francisco, California 94111  
Attention: Municipal Research Department  
Fax: (415) 445-2395

Backstrom McCarley Berry & Co., LLC  
115 Sansome Street, Mezzanine A  
San Francisco, California 94104  
Attention: Municipal Research Department  
Fax: (415) 392-5276

To the Property Owner:

One Rincon Development, LLC  
C/o Urban West Associates  
6335 El Camino del Teatro  
La Jolla, CA 92037  
Fax: (858) 551-5851

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Issuer, the Property Owner (its successors and assigns), the Trustee, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity. All obligations of the Property Owner hereunder shall be assumed by any legal successor to the obligations of the Property Owner as a result of a sale, merger, consolidation or other reorganization.

Section 14. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: June 8, 2006

ONE RINCON DEVELOPMENT, LLC,  
a Delaware limited liability company

By: URBAN WEST RINCON DEVELOPERS, LLC,  
a California limited liability company,  
Its: Sole Member

By: RINCON VENTURES, L.P.,  
a California limited partnership  
Its: Manager

By: URBAN WEST ASSOCIATES OF  
SAN DIEGO, a California general  
partnership  
Its: General Partner

By: THE KRIOZERE  
CORPORATION,  
a California corporation  
Its: Managing General Partner

By: \_\_\_\_\_  
Name: Michael Kriozere  
Title: President

AGREED AND ACCEPTED:  
Goodwin Consulting Group,  
as Dissemination Agent

By: \_\_\_\_\_  
Title: \_\_\_\_\_

**EXHIBIT A**

**NOTICE OF FAILURE TO FILE SEMI-ANNUAL REPORT**

Name of Issuer: ABAG Finance Authority for Nonprofit Corporations  
Name of Bond Issue: ABAG Finance Authority for Nonprofit Corporations Community Facilities District No. 2006-1 (San Francisco Rincon Hill) 2006 Special Tax Bonds  
Date of Issuance: June 8, 2006

NOTICE IS HEREBY GIVEN to [(i) each National Repository or the Municipal Securities Rulemaking Board and (ii) each appropriate State Repository] [the CPO and the Municipal Securities Rulemaking Board] that \_\_\_\_\_ (the "Major Owner") has not provided a Semi-Annual Report with respect to the above-named bonds as required by that certain Continuing Disclosure Certificate (Property Owner), dated \_\_\_\_\_, 2006. The Major Owner anticipates that the Semi-Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

DISSEMINATION AGENT:

GOODWIN CONSULTING GROUP

By: \_\_\_\_\_  
Its: \_\_\_\_\_

**APPENDIX G**  
**FORM OF OPINION OF BOND COUNSEL**

June \_\_, 2006

Board of Directors  
ABAG Finance Authority For  
Nonprofit Corporations  
101 Eighth Street  
Oakland, California 94607-4756

**OPINION:** \$5,825,000 ABAG Finance Authority For Nonprofit Corporations  
Community Facilities District No. 2006-1 (San Francisco Rincon Hill)  
Special Tax Bonds, Series 2006A

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Members of the Board of Directors:

We have acted as bond counsel in connection with the issuance by the ABAG Finance Authority For Nonprofit Corporations (the "Authority") of its \$5,825,000 ABAG Finance Authority For Nonprofit Corporations Community Facilities District No. 2006-1 (San Francisco Rincon Hill) Special Tax Bonds, Series 2006A (the "Bonds") pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Section 53311 *et seq.*, of the California Government Code) (the "Act"), an Indenture, dated as of June 1, 2006 (the "Indenture"), by and between the Authority for and on behalf of the ABAG Finance Authority For Nonprofit Corporations Community Facilities District No. 2006-1 (San Francisco Rincon Hill), and Union Bank of California, N.A., as Trustee, and Resolution No. 06-20 adopted by the Executive Committee of the Board of Directors of the Authority on May 12, 2006 (the "Resolution"). We have examined the law and such certified proceedings and other documents as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Authority contained in the Resolution and in the certified proceedings and certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion, under existing law, as follows:

1. The Authority is duly created and validly existing as a joint exercise of powers authority, with the power to adopt the Resolution, enter into the Indenture and perform the agreements on its part contained therein and issue the Bonds.
2. The Indenture has been duly entered into by the Authority and constitutes a valid and binding obligation of the Authority enforceable upon the Authority.
3. Pursuant to the Act, the Indenture creates a valid lien on the funds pledged by the Indenture for the security of the Bonds, on a parity with the pledge thereof for the security of any Parity Bonds that may be issued under, and as such term is defined in, the Indenture.

4. The Bonds have been duly authorized, executed and delivered by the Authority and are valid and binding limited obligations of the Authority on behalf of the District, payable solely from the sources provided therefor in the Indenture.

5. Subject to the Authority's compliance with certain covenants, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and, under section 55 of the Code, is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations under the Code but is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. Failure by the Authority to comply with one or more of such covenants could cause interest on the Bonds to not be excludable from gross income under section 103 of the Code for the federal income tax purposes retroactively to the date of issuance of the Bonds.

6. The interest on the Bonds is exempt from personal income taxation imposed by the State of California.

Ownership of the Bonds may result in other tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Bonds.

The rights of the owners of the Bonds and the enforceability of the Bonds, the Resolution and the Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and also may be subject to the exercise of judicial discretion in accordance with general principles of equity.

In rendering this opinion, we have relied upon certifications of the Authority and others with respect to certain material facts. Our opinion represents our legal judgment based upon such review of the law and facts that we deem relevant to render our opinion and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Respectfully submitted,





FOR ADDITIONAL BOOKS: [ELABRA.COM](http://ELABRA.COM) OR (888) 935-2272