

# **CALIFORNIA COASTAL COMMISSION**

CENTRAL COAST DISTRICT OFFICE  
725 FRONT STREET, SUITE 300  
SANTA CRUZ, CA 95060  
PHONE: (831) 427-4863  
FAX: (831) 427-4877  
WEB: WWW.COASTAL.CA.GOV



# **F23a**

**A-5-DPT-17-0063 (HEADLANDS INVESTMENTS, LLC)**

**AUGUST 10, 2018**

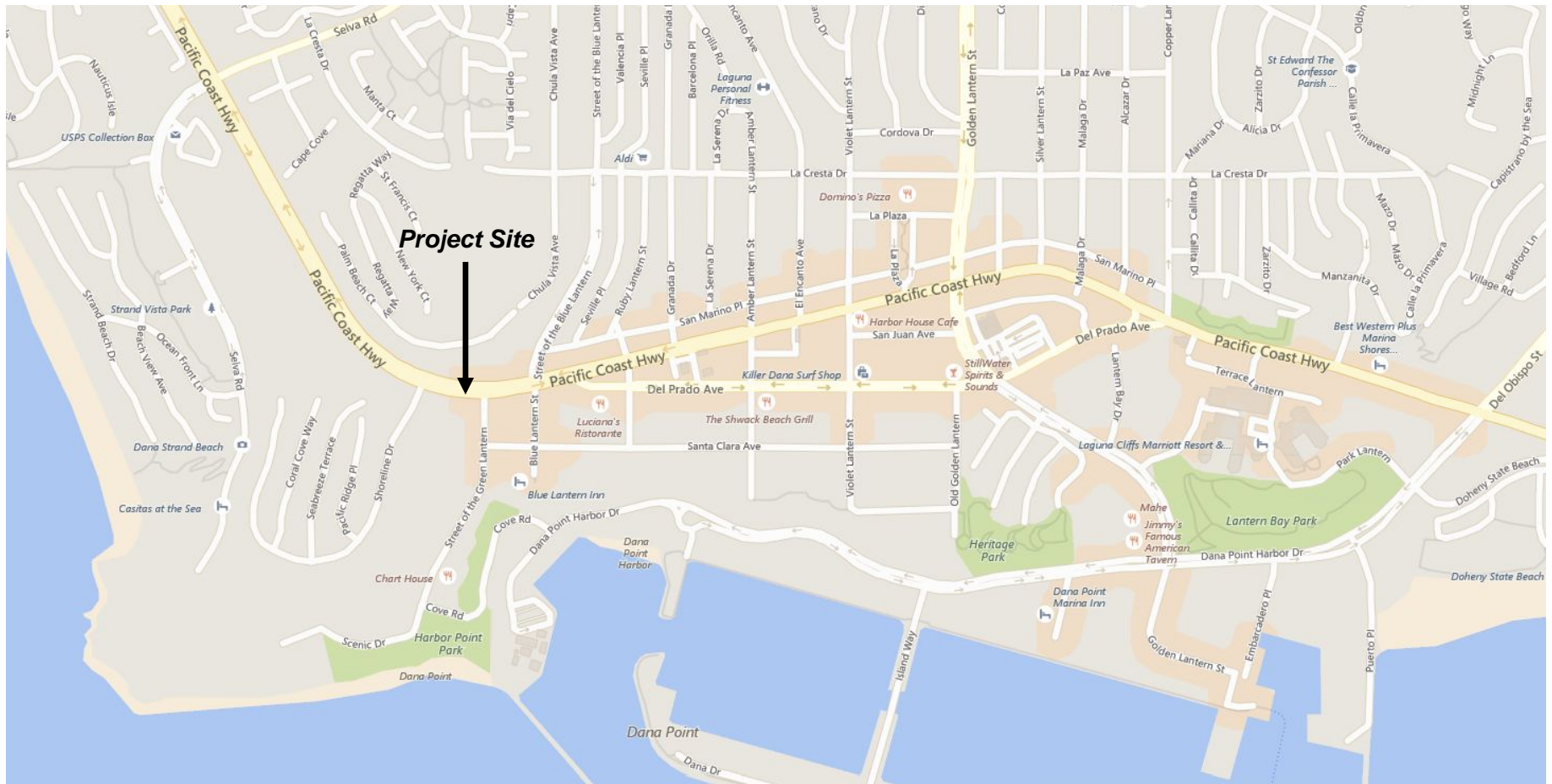
## **EXHIBITS**

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**Exhibit 1 – Location Map**

**Exhibit 2 – Project Plans**

**Exhibit 3 – Letter from Carter A. Mudge dated June 22, 2018**







Aerial View (corner: Street of the Green Lantern & P.C.H)

June 15, 2017

# *The Wave Resort at the Strand*

Intersection of Pacific Coast Highway and Street of the Green Lantern, Dana Point, California

HEADLANDS INVESTMENTS, LLC

384 Forest Avenue, Suite 26 Laguna Beach, CA 92651

Tel: 949.715.2001

STOUTENBOROUGH

Architects and Planners  
27071 Cabot Road, Suite 121, Laguna Hills, CA 92653  
T 949.215.4874 | F 949.215.4878 | www.stoutenboroughinc.com

Intersection of Pacific Coast Highway and Street of the Green Lantern, Dana Point, California

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\* NOTE:  
Visitor Center may have an exterior display and  
visitor materials also available in the Hotel Lobby

\*\* NOTE:  
Perimeter of Basement = 780'  
Area of Basement Daylight Area = 60'  
% of Daylight Area to Perimeter = 8%

#### PARKING P1 LEVEL:

Standard = 42  
Tandem = 14  
HC = 3  
Drop-off = 2

Building Area  
Basement Area



Street Level & Basement Level P1  
(Hostel Rev.) Sept. 15, 2017  
June 15, 2017

0 5 10 20 30 50 100

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Upper Level

June 15, 2017



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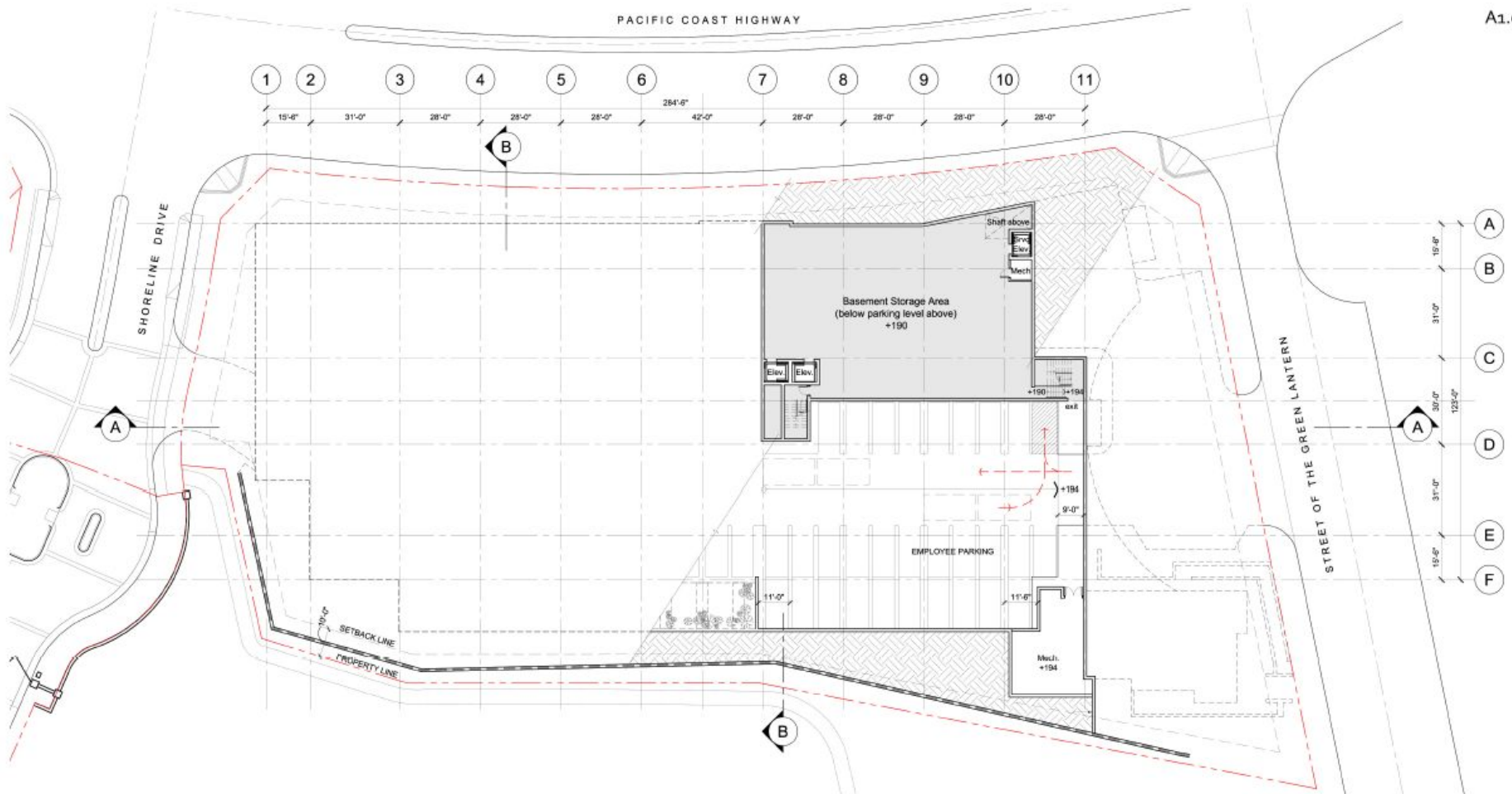
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Basement Level P3

June 15, 2017



Basement Area

### The Wave Resort at the Strand

Intersection of Pacific Coast Highway and Street of the Green Lantern, Dana Point, California

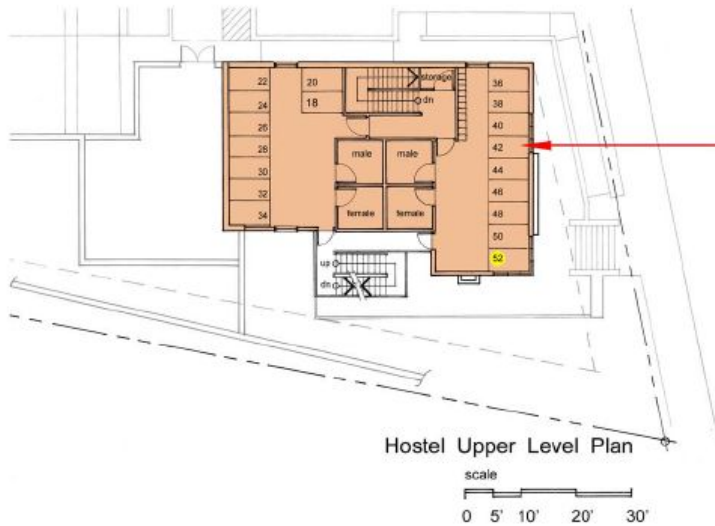
HEADLANDS INVESTMENTS, LLC

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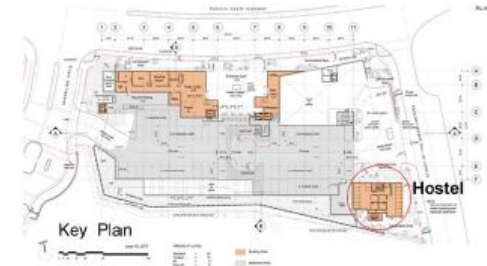
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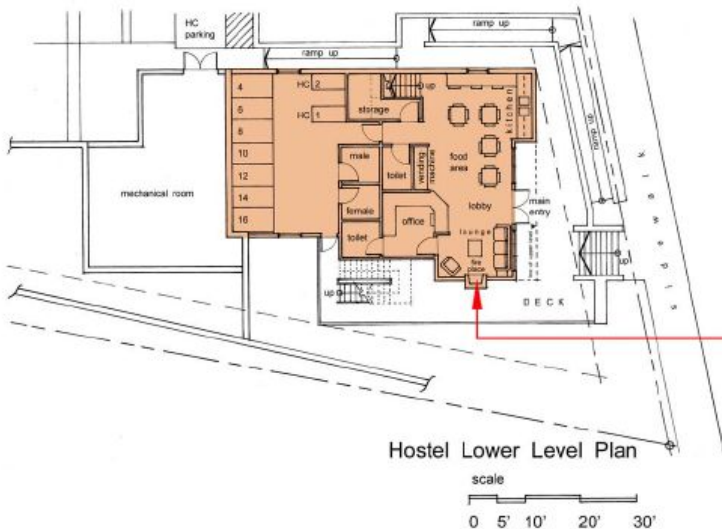


Bunk Beds



Hostel = 52 Beds

Hostel Floor Area = 4,050 sf



Lounge Area

Sept 14, 2017

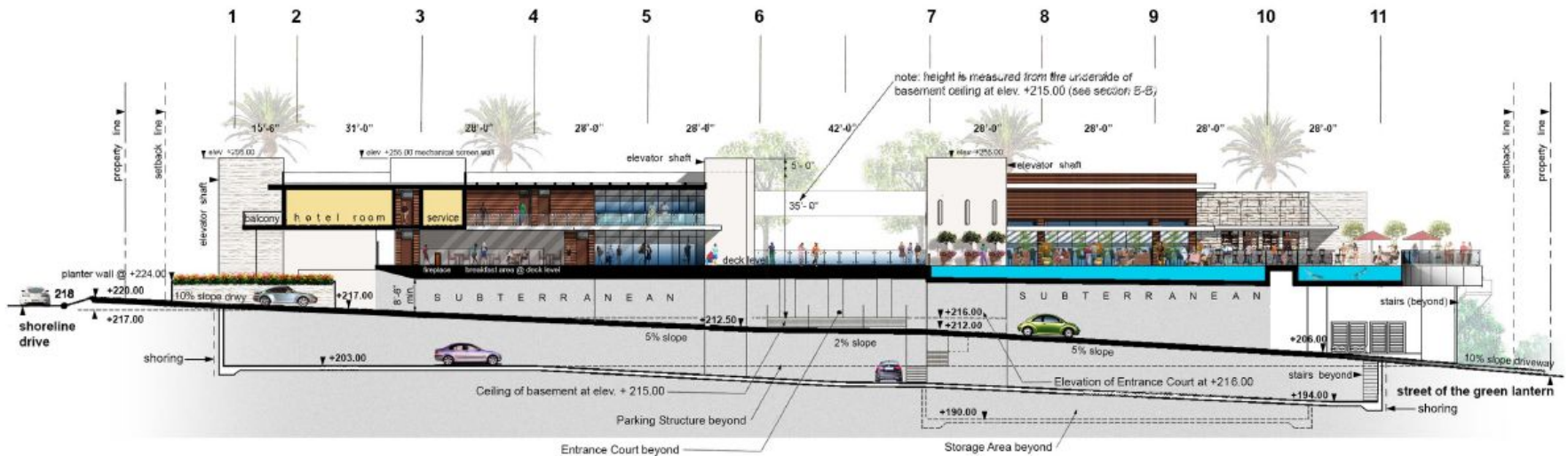
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Intersection of Pacific Coast Highway and Street of the Green Lantern, Dana Point, California

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### Longitudinal Section A-A

June 15, 2017

### *The Wave Resort at the Strand*

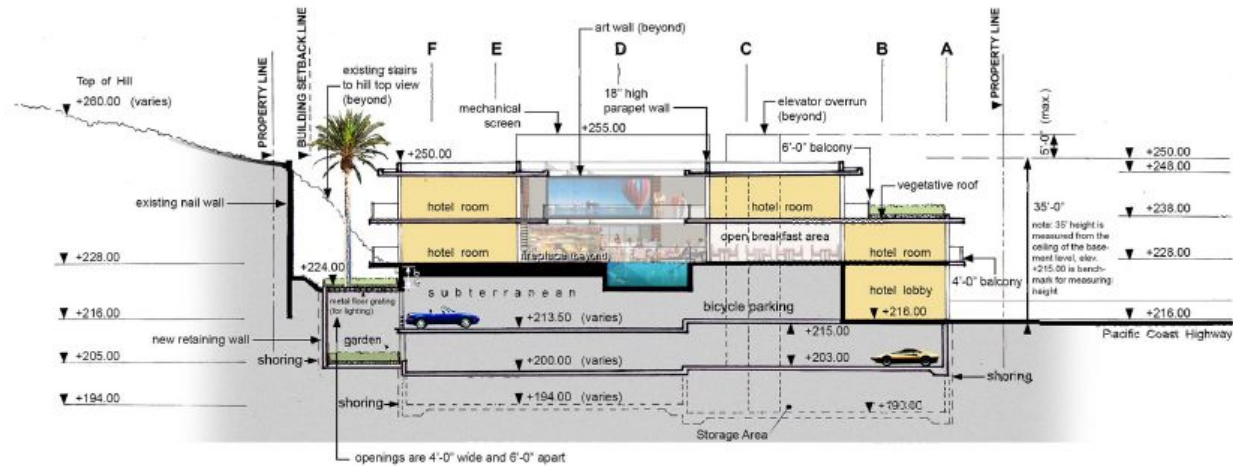
Intersection of Pacific Coast Highway and Street of the Green Larians, Dana Point, California

HEADLANDS INVESTMENTS, LLC

384 Forest Avenue, Suite 26 Laguna Beach, CA 92651  
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## Cross Section B-B

June 15, 2017

0 5 10' 20' 40'



KEY PLAN (nts)

## The Wave Resort at the Strand

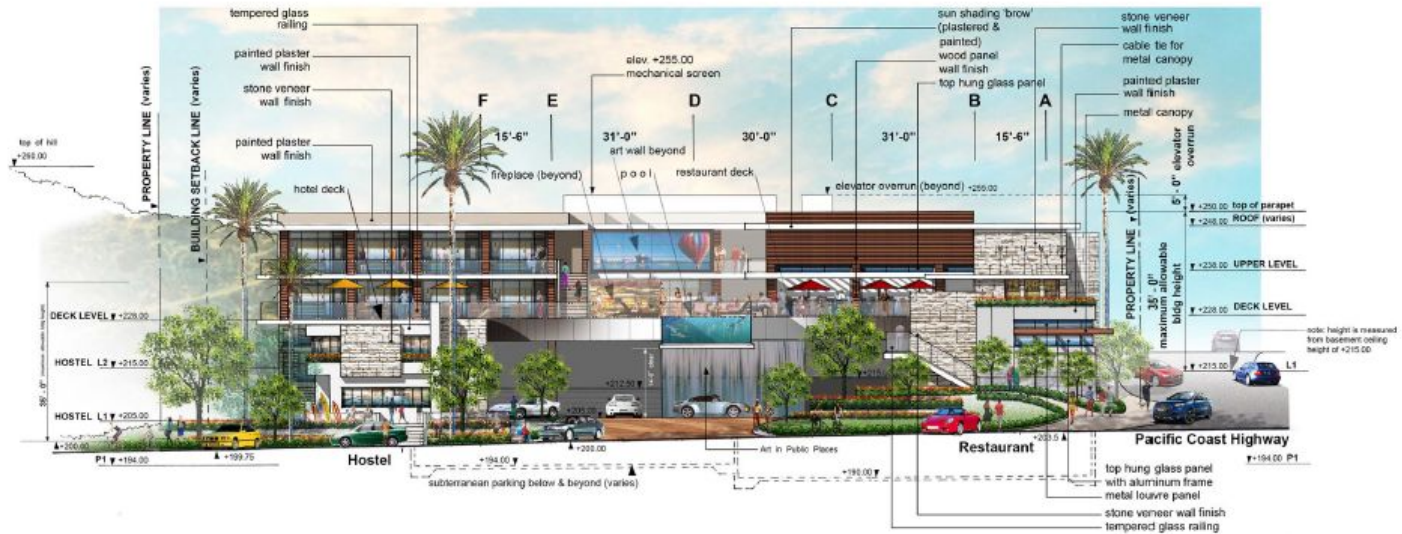
Intersection of Pacific Coast Highway and Street of the Green Lantern, Dana Point, California

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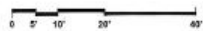
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**EAST ELEVATION**  
Street of the Green Lantern

June 15, 2017



### *The Wave Resort at the Strand*

Intersection of Pacific Coast Highway and Street of the Green Lantern, Dana Point, California

**HEADLANDS INVESTMENTS, LLC**

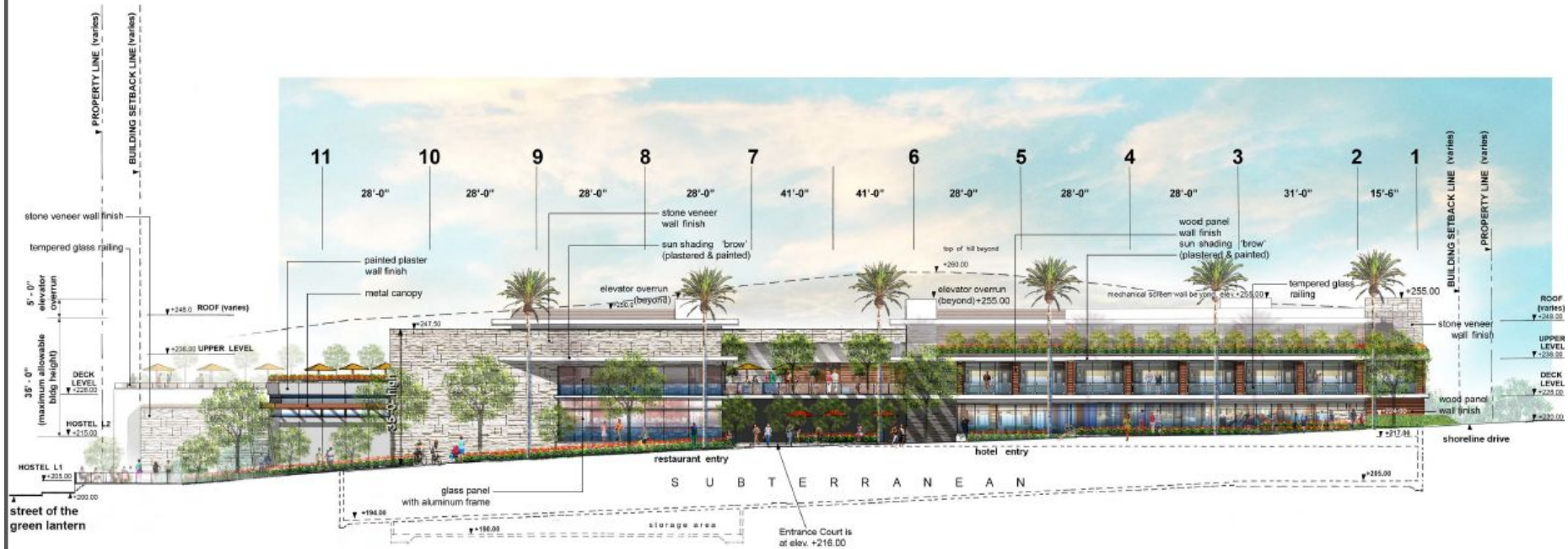
384 Forest Avenue, Suite 26 Laguna Beach, CA 92651

Tel: 949.715.2001

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**NORTH ELEVATION**  
PACIFIC COAST HIGHWAY

0' 5' 10' 20' 40'

June 15, 2017

### *The Wave Resort at the Strand*

Intersection of Pacific Coast Highway and Street of the Green Lantern, Dana Point, California

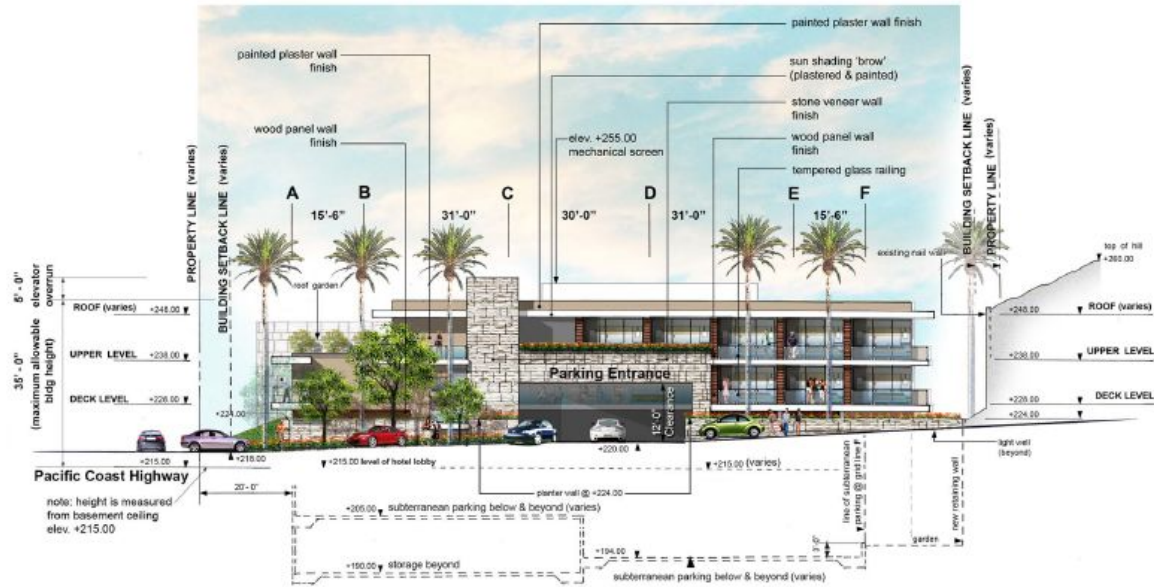
**HEADLANDS INVESTMENTS, LLC**

384 Forest Avenue, Suite 26 Laguna Beach, CA 92651  
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**STOUTENBOROUGH**

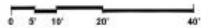
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**WEST ELEVATION**  
Shoreline Drive

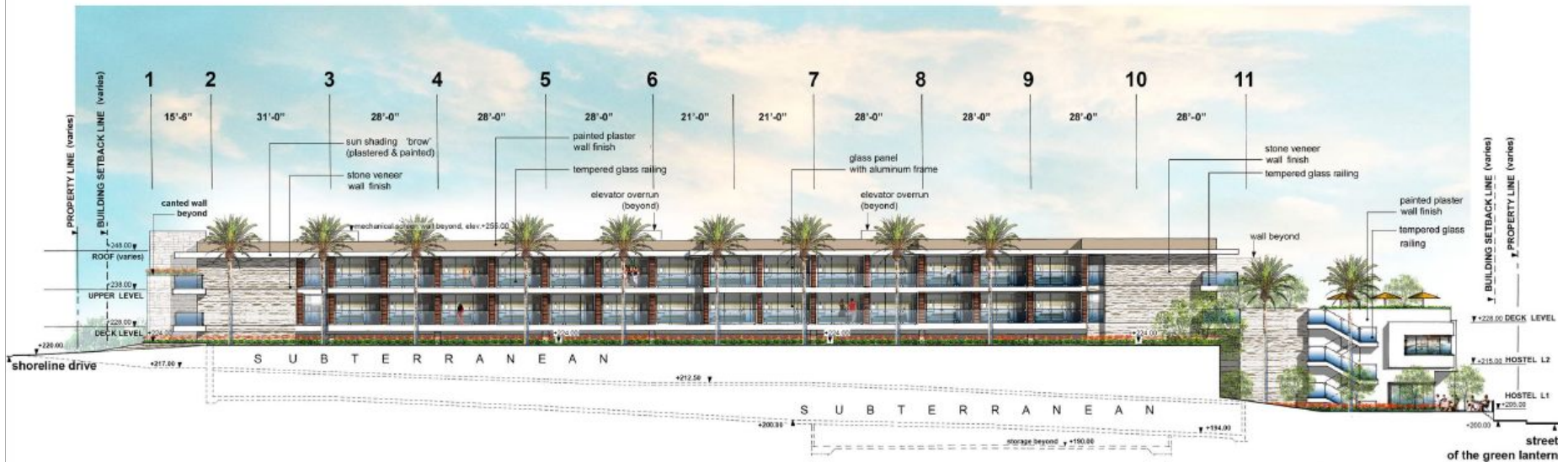
June 15, 2017



**The Wave Resort at the Strand**  
Intersection of Pacific Coast Highway and Street of the Green Larians, Dana Point, California

**HEADLANDS INVESTMENTS, LLC**  
384 Forest Avenue, Suite 26 Laguna Beach, CA 92653  
Tel: 949.715.2001

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**SOUTH ELEVATION**

June 15, 2017

### *The Wave Resort at the Strand*

Intersection of Pacific Coast Highway and Street of the Green Larians, Dana Point, California

HEADLANDS INVESTMENTS, LLC

384 Forest Avenue, Suite 26 Laguna Beach, CA 92651  
Tel: 949.715.2001

S T O U T E N B O R O U G H ■

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June 15, 2017

## BUILDING ENVELOPE DIAGRAM (EAST & NORTH ELEVATION)

### *The Wave Resort at the Strand*

Intersection of Pacific Coast Highway and Street of the Green Lantern, Dana Point, California

HEADLANDS INVESTMENTS, LLC

384 Forest Avenue, Suite 26 Laguna Beach, CA 92651

Tel: 949.715.2001

STOUTENBOROUGH

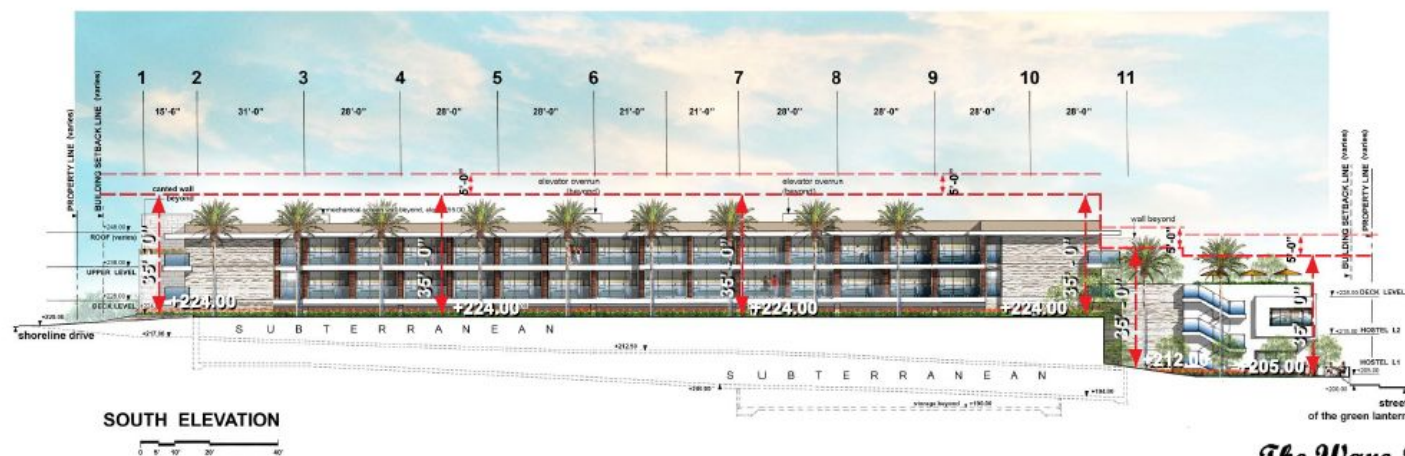
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June 15, 2017

**BUILDING ENVELOPE DIAGRAM (WEST & SOUTH ELEVATION)**

CARTER A. MUDGE

ATTORNEY

Mailing address:

668 N. Coast Highway, #1223

Laguna Beach, CA 92651

(949) 715-3417

FACSIMILE

(949) 315-3067

CARTER.MUDGE@COX.NET

June 22, 2018

Via email only email: [chuck.posner@coastal.ca.gov](mailto:chuck.posner@coastal.ca.gov)

Chuck Posner

Supervisor of Planning

California Coastal Commission,

South Coast Area Office

200 Oceangate, 10th Floor

Long Beach, CA 90802-4302

Re: Appeal No. A-5-DPT-17-0063 (Wave Resort at the Stand, Dana Point)

Property Address: 34075 Pacific Coast Highway, Dana Point, CA 92629

My client: Surfrider Foundation, South Orange County Chapter

Project Applicant: Headlands Investments, LLC

Dear Mr. Posner:

At its December 15, 2017 meeting, the Commission found a “substantial issue” with the City of Dana Point’s approval of this project and ordered *de novo* review. One of the critical issues focused on by the appeal (and by the Commissioners during the hearing) was whether the certified Headlands Development and Conservation Plan (“HDCP”) permits construction of a hotel in addition to a hostel in Planning Area 4 (where the proposed project is located)

The HDCP allows for development of one hotel and does not permit a second hotel in Planning Area 4. The prior owner of the property comprising Planning Area 4 knew this and didn’t even try when it entitled the property for retail/restaurant/office space in 2008. The City of Dana Point knew this too when, in 2014, its bond proposal for a Facilities Maintenance District repeatedly distinguished between the “commercial/office” lots of Planning Area 4 and the “hotel/luxury inn” lots of Planning Area 9.

The HDCP does not permit development of a second hotel in Planning Area 4, and upon this *de novo* review the Coastal Commission must reject the Project Applicant’s application for a hotel.

**DISCUSSION**

**2008 Project and Entitlements** In 2008, on the eve of the Great Recession, a prior developer, Strand Village Partners, LLC, sought and obtained approval of Coastal Development Permit CDP07-21 for a commercial building with retail and office space, two small cafés, a restaurant and a 40-bed hostel with visitor’s information center and 170 parking spaces. There was no proposal



06/22/2018

for a hotel because Strand Village Partners and the City understood the HDCP did not permit a hotel in Planning Area 4 where the project is located. The HDCP permits a hotel only in Planning Area 9, just down the road. A copy of the City of Dana Point's Planning Commission's Regular Meeting Action Agenda from its March 11, 2008 meeting approving the project are attached as Exhibit 1, the meeting minutes as Exhibit 2.

The meeting minutes show the Planning Commissioners unanimously approved the commercial/retail project. They enthusiastically endorsed Strand Village Partners' plan. Strand Village Partners did not propose a hotel because plainly a hotel is not permitted in that Planning Area.

The current project applicant, Headlands Investments, LLC, states that the project "doesn't pencil out" unless there is a hotel. Presumably Strand Village Partners wanted to maximize its profit just as much as Headlands Investments, LLC, and if the zoning had permitted a hotel and that was the only way to make the development profitable, then Strand Village Partners would have proposed a hotel. It did not because it recognized the economic reality that a hotel is not permitted in Planning Area 4.

Strand Village Partners proposed a commercial project that was consistent with HDCP and the Surfrider Foundation did not oppose that project. The City of Dana Point is being inconsistent in its treatment of the zoning for this project. The Planning Commission and prior developer plainly understood in 2008 that a Planning Area 4 is not zoned for a hotel. The passage of a decade has not changed the zoning.

**2014 City of Dana Point Bond Proposal** In 2014 the City of Dana Point reaffirmed that Planning Area 4 was not hotel property. In 2014 the City was considering an Authorization To Issue City Of Dana Point Community Facilities District No. 2006-1 (CFD 2006-1), 2014 Special Tax Bonds (Headlands). The February 14, 2014 Agenda Report attached as Exhibit 3 contains the following elements which show the City considered the zoning for Planning Area 4 as being limited to commercial/retail use and as excluding a second hotel:

1. P.2/165: the Headlands Development contains "1.5 acres of commercial property [Planning Area 4] and 2.8 acres of hotel property [Planning Area 9] ("Tax Area 2")."

Comment: if the City of Dana Point considered Planning Area 4 to allow zoning for a more profitable hotel, it would have referred to it as "commercial and hotel property." The City did not and has never considered the property to be zoned for a hotel until the current submittal by Headlands Investments, LLC.

2. P.7/165: The 3 lots in Planning Area 4 (owned by an entity other than Headlands Reserve, LLC) are referred to as "commercial parcels," while the 3 lots in Planning Area 9 (owned by Headlands Reserve, LLC) are referred to as "commercial (hotel) lots." Clearly, the City of Dana Point distinguished between the retail/commercial lots and the purely hotel lots and considered them to have distinct zoning requirements that did not include a second hotel in Planning area 4

06/22/2018

3. P.17/165 marks the start of the proposed Bond Purchase Contract. This is an exhaustive document analyzing the proposed bond issue and the development of the Dana Point Headlands. At P.86/165 [p.87] the document identifies “an approximately 1.5-acre commercial site and an approximately 2.8-acre hotel site.”<sup>1</sup> It does not identify two hotel sites.
4. P.87/165 (p.88) the Bond Purchase Contract again distinguishes between “residential, commercial and hotel property.” If all commercial property were hotel property, there would be no need to distinguish between the two. There is express acknowledgment that the hotel parcel is a hotel parcel, and the commercial parcel is not for hotels.
5. P. 88/165 (p. 89) reinforces the distinction between “commercial property” and “hotel property”: “The property in the District is proposed for development into 118 custom residential homes comprising Tax Zone No. 1, and approximately 1.5 acres of commercial property and approximately 2.8 acres of hotel property comprising Tax Zone No. 2.”
6. P.107/165 (p.107) comments on the failed effort by Strand Village Partners to develop a mixed commercial property on Planning Area 4, while the hotel/resort property (Planning Area 9) was still owned by the original developer or related entities:

“Additionally, approximately 1.5 acres of property was sold to Strand Village Partners LLC (an entity unrelated to the Developer) for construction of an up to 35,000 square-foot mixed commercial project. Development of the mixed commercial project did not proceed and the approximately 1.5 acres is currently owned by Arcus Private Capital Solutions LLC. The remaining 49 custom residential lots and approximately 2.8 acres of hotel/resort property are owned by the Developer or related entities.” [Emphasis added.]

7. P.124/165 (p.125) highlights this succinctly: “The commercial site (Strand Village) is permitted for up to 35,000 square feet of building and the [separate] hotel site is permitted for up to 100,750 square feet of building, including up to 90 hotel rooms that can include fractional interest/hotel condominiums.”

Comment: The City of Dana Point is flip-flopping on its determination that Planning Area 4 (Strand Village) is permitted for commercial/retail and not for hotels. The hotel is supposed to be in Planning Area 9 only.

8. P.125/185 (p.126) Commenting on the compromises made during the Environmental Review process, the document notes the Local Coastal Plan and Land Use Plans were modified “to allow development of up to 125 single-family residential lots, visitor-serving commercial land use, including a 65-90-room inn, an approximately 35,000-square-foot

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<sup>1</sup> The document is missing page 84 which throws the pagination off by one page.

06/22/2018

commercial site and 68.5 acres of public parks, conserved habitat, coastal trails and open space.”

Comment: The bond contract acknowledges there supposed to be *one* seaside inn and *one* commercial site in the two separate planning areas.

9. PP.129-130 (pp.130-131) This section describes the “commercial parcels” as follows:

“Commercial Parcels. There are six commercial/hotel parcels on the site. Three contiguous parcels are located on the southwest corner of Pacific Coast Highway and Street of the Green Lantern and are zoned to permit construction of an approximately 35,000 square foot, two-story commercial building with shared parking. The 1.5 acre-site was sold by the Developer to a non-Developer related entity and that purchaser did not proceed with its proposed development of the site. The property is currently owned by another non- Developer related entity, which is not expected to develop the property itself, but which is expected to market the property for sale in its current condition.

The three remaining commercial/hotel parcels are contiguous and are located on the Street of the Green Lantern on the southwest portion of the site adjacent to the Headlands Reserve. The parcels are owned by Headlands Reserve LLC and may be developed as a 90-unit boutique hotel, spa and resort commercial facility. The finished project will likely be operated by an experienced national resort operator. The Developer cannot predict the time period at which development will proceed.”

Comment: It could not be clearer that the 1.5 acre site in Planning Area 4 has never previously been considered as a “hotel” parcel.

## CONCLUSION

Consistency of position and plain meaning are important. The HDCP does not permit a second hotel in Planning Area 4 and the City of Dana Point has never thought it did, until now. The project applicant is “looking for zebras in a herd of horses” when it attempts to find such permission in the certified plan. The proposal must be rejected upon this *de novo* review.

Very truly yours,



CARTER A. MUDGE

/gus  
Encls.

cc:



Re: Appeal No. A-5-DPT-17-0063 (Wave Resort at the Stand, Dana Point)al.  
06/22/2018

1. South Coast Staff Area Staff [SouthCoast@coastal.ca.gov](mailto:SouthCoast@coastal.ca.gov)
2. Karl Schwing, Director SD and South Coast  
[Karl.Schwing@coastal.ca.gov](mailto:Karl.Schwing@coastal.ca.gov)

## **EXHIBIT 1**

**CITY OF DANA POINT  
PLANNING COMMISSION  
REGULAR MEETING ACTION AGENDA**

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March 11, 2008  
5:05 – 5:50 p.m.  
7:00 – 8:15 p.m.

City Hall Offices  
Council Chamber (#210)  
33282 Golden Lantern  
Dana Point, CA 92629

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**CALL TO ORDER** – Chairwoman Fitzgerald called the meeting to order.

Commissioners Present: Commissioner Michelle Brough, Commissioner Ed Conway, Vice-Chairman Norman Denton, Chairwoman Liz Anderson Fitzgerald, Commissioner J. Scott Schoeffel, and Alternate Michael Dec

Staff Present: Kyle Butterwick (Director), John Tilton (Architect/Planning Manager), and Erica Demkowicz (Senior Planner)

**A. FIELD TRIP TO THE HEADLANDS COMMERCIAL SITE LOCATED AT THE CORNER OF PACIFIC COAST HIGHWAY AND STREET OF THE GREEN LANTERN.**

**B. ADJOURNMENT**

**Chairwoman Fitzgerald** announced the *next regular* meeting of the Planning Commission will be held on Tuesday, March 11, 2008, beginning at 7:00 p.m. (or as soon thereafter) in the Council Chamber located at 33282 Golden Lantern, Suite 210, Dana Point, California.

**CALL TO ORDER** – Chairwoman Fitzgerald called the meeting to order.

**PLEDGE OF ALLEGIANCE** – Kyle Butterwick (Director) led the Pledge of Allegiance.

**ROLL CALL**

Commissioners Present: Commissioner Michelle Brough, Commissioner Ed Conway, Vice-Chairman Norman Denton, Chairwoman Liz Anderson Fitzgerald, Commissioner J. Scott Schoeffel, and Alternate Michael Dec



**CITY OF DANA POINT**  
**PLANNING COMMISSION**  
**REGULAR MEETING ACTION AGENDA**

---

March 11, 2008  
5:05 – 5:50 p.m.  
7:00 – 8:15 p.m.

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Staff Present: Kyle Butterwick (Director), John Tilton (Architect/Planning Manager), Mal Richardson (Deputy City Attorney), Erica Demkowicz (Senior Planner), and Denise Jacobo (Planning Secretary)

**C. APPROVAL OF MINUTES**

**ITEM 1:** Minutes of the regular Planning Commission Meeting of February 26, 2008.

**ACTION:** Motion made (Denton) and seconded (Brough) to approve the Minutes of the regular Planning Commission Meeting of February 26, 2008. Motion carried 5-0. (AYES: Brough, Conway, Denton, Fitzgerald, Schoeffel NOES: None ABSENT: None ABSTAIN: None)

**D. PUBLIC COMMENTS**

There were no Public Comments.

**E. CONSENT CALENDAR**

There were no items on the Consent Calendar.

**F. PUBLIC HEARINGS**

**ITEM 2:** Request for Sign Program Permit SPP07-06 to allow the creation of a sign program in conjunction with various site improvements, including an increase in the height of an existing gas-pump canopy to 18 feet and new landscaping improvements at 34306 Pacific Coast Highway. (Continued from the regular Planning Commission meeting of February 26, 2008)

Recommendation: That the Planning Commission table the request for Sign Program Permit SPP07-06.

**ACTION:** Motion made (Schoeffel) and seconded (Conway) to table the request for Sign Program Permit SPP07-06. Motion carried 5-0. (AYES: Brough, Conway, Denton, Fitzgerald, Schoeffel NOES: None ABSENT: None ABSTAIN: None)

**CITY OF DANA POINT  
PLANNING COMMISSION  
REGULAR MEETING ACTION AGENDA**

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March 11, 2008  
5:05 – 5:50 p.m.  
7:00 – 8:15 p.m.

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PAGE 3

**ITEM 3: Coastal Development Permit CDP07-21 and Site Development Permit SDP07-61 to allow a 35,000 square foot, two-story commercial development. A Conditional Use Permit CUP07-33 to allow a shared parking program is also required in conjunction with the proposed development. The commercial building will include retail and office space, two small cafés, a restaurant, a 40-bed hostel with visitor's information center and 170 parking spaces. The proposed commercial development was originally included in the City approved Headlands Development and Conservation Plan (HDCP) and the final Environmental Impact Report (EIR) for the project.**

Applicant/

Owner: David Hudson/Strand Village Partners, LLC

Location: The project site is located at the southwest corner of Pacific Coast Highway and Street of the Green Lantern in Dana Point, California.

Request: The applicant is requesting a Coastal Development Permit and Site Development Permit to allow the construction of a 35,000 square foot, two-story commercial building. The applicant is also requesting a Conditional Use Permit to allow a shared parking program in conjunction with the proposed development. The commercial building will include approximately 21,950 square feet of retail and office space, two small cafés, a restaurant, a 40-bed hostel with visitor's information center and 170 parking spaces.

Environmental: Pursuant to the provisions of the California Environmental Quality Act (CEQA), Environmental Impact Report (SCH#2001071015) was prepared and certified for the development.

Recommendation: That the Planning Commission adopt the attached Draft Resolution approving Coastal Development Permit (CDP07-21), Site Development Permit (SDP07-61) and Conditional Use Permit (CUP07-33).

There were five (5) requests to speak on this item.

**ACTION: Motion made (Fitzgerald) and seconded (Denton) to approve Resolution No. 08-03-11-06 approving Coastal Development Permit CDP07-21 and Site Development Permit SDP07-61 to allow a 35,000 square foot, two-story commercial development and a Conditional Use Permit CUP07-33 to allow a shared parking program in conjunction with the proposed development. Motion to approve with**

**CITY OF DANA POINT  
PLANNING COMMISSION  
REGULAR MEETING ACTION AGENDA**

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March 11, 2008  
5:05 – 5:50 p.m.  
7:00 – 8:15 p.m.

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**one added condition carried 5-0.** (AYES: Brough, Conway, Denton, Fitzgerald, Schoeffel NOES: None ABSENT: None ABSTAIN: None)

**G. NEW BUSINESS**

There was no New Business.

**H. STAFF REPORTS**

**Kyle Butterwick (Director)** addressed the Wicked Garden's noise activities and stated that Code Enforcement will follow up on the matter.

He reported that the Mitigated Negative Declaration for the Mobile Home Park site has been in circulation. He added that Staff is preparing their written responses received on the Environmental document to be part of the Staff Report coming to the Planning Commission Public Hearing in approximately six weeks.

He reported that he appeared and testified before the Coastal Commission last week concerning the proposed extension of time for proposed modifications to the Headlands trails and mid-strand accessway. The Coastal Commission did continue it for twelve (12) months, but they will try to bring this item to a hearing within 60-90 days.

He reported the Town Center Plan is getting closer; the Coastal Commission is meeting at Santa Barbara in April.

**John Tilton (Architect/Planning Manager)** stated that Wicked Garden would need to apply for a special use permit for its activities.

**I. COMMISSIONER COMMENTS**

**Commissioner Schoeffel** congratulated Staff for an outstanding presentation on such an important project (Item #3).

**Vice-Chairman Denton** concurred with Commissioner Schoeffel. He announced that a Harbor Meeting will be held on Wednesday, March 12, 2008 at 7:00 p.m. to see the Marina layout of the Harbor.



**CITY OF DANA POINT  
PLANNING COMMISSION  
REGULAR MEETING ACTION AGENDA**

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March 11, 2008  
5:05 – 5:50 p.m.  
7:00 – 8:15 p.m.

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**Commissioner Conway** stated that he has lived in Dana Point nearly 30 years, and was happy to see the Headlands developing nicely.

**Chairwoman Fitzgerald** commended Erica Demkowicz (Senior Planner) on handling the finest presentation on a very difficult project.

**J. ADJOURNMENT**

**Chairwoman Fitzgerald** adjourned the meeting to the *next regular* meeting of the Planning Commission will be held on Tuesday, March 25, 2008, beginning at 7:00 p.m. (or as soon thereafter) in the Council Chamber located at 33282 Golden Lantern, Suite 210, Dana Point, California.

**The meeting adjourned at 8:15 p.m.**

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FF#0120-10/PC Minutes

## **EXHIBIT 2**

**CITY OF DANA POINT  
PLANNING COMMISSION  
REGULAR MEETING MINUTES**

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March 11, 2008  
5:05 – 5:50 p.m.  
7:00 – 8:15 p.m.

City Hall Offices  
Council Chamber (#210)  
33282 Golden Lantern  
Dana Point, CA 92629

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**CALL TO ORDER** – Chairwoman Fitzgerald called the meeting to order.

Commissioners Present: Commissioner Michelle Brough, Commissioner Ed Conway, Vice-Chairman Norman Denton, Chairwoman Liz Anderson Fitzgerald, Commissioner J. Scott Schoeffel, and Alternate Michael Dec

Staff Present: Kyle Butterwick (Director of Community Development), John Tilton (City Architect/Planning Manager), and Erica Demkowicz (Senior Planner)

**A. FIELD TRIP TO THE HEADLANDS COMMERCIAL SITE LOCATED AT THE CORNER OF PACIFIC COAST HIGHWAY AND STREET OF THE GREEN LANTERN.**

**B. ADJOURNMENT**

**Chairwoman Fitzgerald** announced the *next regular* meeting of the Planning Commission will be held on Tuesday, March 11, 2008, beginning at 7:00 p.m. (or as soon thereafter) in the Council Chamber located at 33282 Golden Lantern, Suite 210, Dana Point, California.

**CALL TO ORDER** – Chairwoman Fitzgerald called the meeting to order.

**PLEDGE OF ALLEGIANCE** – Kyle Butterwick (Director) led the Pledge of Allegiance.

**ROLL CALL**

Commissioners Present: Commissioner Michelle Brough, Commissioner Ed Conway, Vice-Chairman Norman Denton, Chairwoman Liz Anderson Fitzgerald, Commissioner J. Scott Schoeffel, and Alternate Michael Dec



**CITY OF DANA POINT  
PLANNING COMMISSION  
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Staff Present: Kyle Butterwick (Director of Community Development), John Tilton (City Architect/Planning Manager), Mal Richardson (Deputy City Attorney), Erica Demkowicz (Senior Planner), and Denise Jacobo (Planning Secretary)

**C. APPROVAL OF MINUTES**

**ITEM 1:** Minutes of the regular Planning Commission Meeting of February 26, 2008.

**ACTION:** Motion made (Denton) and seconded (Brough) to approve the Minutes of the regular Planning Commission Meeting of February 26, 2008.  
Motion carried 5-0. (AYES: Brough, Conway, Denton, Fitzgerald, Schoeffel  
NOES: None ABSENT: None ABSTAIN: None)

**D. PUBLIC COMMENTS**

There were no Public Comments.

**E. CONSENT CALENDAR**

There were no items on the Consent Calendar.

**F. PUBLIC HEARINGS**

**ITEM 2:** Request for Sign Program Permit SPP07-06 to allow the creation of a sign program in conjunction with various site improvements, including an increase in the height of an existing gas-pump canopy to 18 feet and new landscaping improvements at 34306 Pacific Coast Highway. (Continued from the regular Planning Commission meeting of February 26, 2008)

Recommendation: That the Planning Commission table the request for Sign Program Permit SPP07-06.

**Kyle Butterwick** (Director) noted that the Applicant was still working out the details and recommend the Planning Commission table the item.

**CITY OF DANA POINT  
PLANNING COMMISSION  
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There being no requests to speak on this item, Chairwoman Fitzgerald opened and closed the Public Hearing.

**ACTION:** Motion made (Schoeffel) and seconded (Conway) to table the request for Sign Program Permit SPP07-06. Motion carried 5-0. (AYES: Brough, Conway, Denton, Fitzgerald, Schoeffel NOES: None ABSENT: None ABSTAIN: None)

**ITEM 3:** Coastal Development Permit CDP07-21 and Site Development Permit SDP07-61 to allow a 35,000 square foot, two-story commercial development. A Conditional Use Permit CUP07-33 to allow a shared parking program is also required in conjunction with the proposed development. The commercial building will include retail and office space, two small cafés, a restaurant, a 40-bed hostel with visitor's information center and 170 parking spaces. The proposed commercial development was originally included in the City approved Headlands Development and Conservation Plan (HDCP) and the final Environmental Impact Report (EIR) for the project.

Applicant/

Owner: David Hudson/Strand Village Partners, LLC

Location: The project site is located at the southwest corner of Pacific Coast Highway and Street of the Green Lantern in Dana Point, California.

Request: The applicant is requesting a Coastal Development Permit and Site Development Permit to allow the construction of a 35,000 square foot, two-story commercial building. The applicant is also requesting a Conditional Use Permit to allow a shared parking program in conjunction with the proposed development. The commercial building will include approximately 21,950 square feet of retail and office space, two small cafés, a restaurant, a 40-bed hostel with visitor's information center and 170 parking spaces.

No hotel

Environmental: Pursuant to the provisions of the California Environmental Quality Act (CEQA), Environmental Impact Report (SCH#2001071015) was prepared and certified for the development.

Recommendation: That the Planning Commission adopt the attached Draft Resolution approving Coastal Development Permit (CDP07-21), Site Development Permit (SDP07-61) and Conditional Use Permit (CUP07-33).

**CITY OF DANA POINT  
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**Erica Demkowicz** (Senior Planner) presented the staff report.

**Chairwoman Fitzgerald opened the Public Hearing.**

**David Hudson** (Strand Village Partners, LLC - Applicant) thanked the Staff for thoroughly covering the project. He stated that the development team focused on the site as being a landmark destination. He described their intent to provide a lively pedestrian atmosphere, the right services, parking, hostel and information center and follow the resident's concerns. He stated he was available to answer any questions.

**John Grofik** (Dana Point – Regatta Homeowners Association Representative) stated that the project was exciting and he commended the design team for contacting the neighboring residents to address their concerns. He stated the potential concern of noise from the structure's roof garden. He noted the Wicked Garden Restaurant, which entertains as a night club, has been a major disturbance to nearby homeowners. He asked the Planning Commission to require proper sound barriers and limit the use of alcohol on the outdoor patios.

**Craig Williamson** (Dana Point) stated that he liked the amenities offered and he looks forward to visiting the project for dining and shopping.

**Steve Cary** (Dana Point) stated his concern about the parking lot's right-turn exit to Green Lantern. He also stated that the roof top gardens landscape material should not exceed the buildings height limit. He added that the development looks great.

**Richard Dietmeier** (Dana Point – South Coast Water District Representative) stated the project's shape and form were nice. He highlighted on the importance of restaurants installing grease interceptors. He encouraged the Planning Commission to establish retrofitting grease interceptors in the new development.

**David Hudson** (Strand Village Partners, LLC - Applicant) addressed the community's concerns. He stated that to buffer noise, the team designed a planter wall made with a glass partition in conformance with noise standards. He stated that the roof top garden is comprised to create a garden setting. He noted the plumbing issue as a familiar topic and assured they would install grease interceptors. He stated that the parking lot exits are both right turns on Green Lantern and Shoreline Drive.



**CITY OF DANA POINT  
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**Vice Chairman Denton** asked if there would be limited use of the Eco Garden after hours.

**David Hudson** (Strand Village Partners, LLC - Applicant) replied that the hostel will retain a live-in manager to help monitor and secure the open space above the hostel. He also mentioned that they are in the process of drafting a security plan for the site, which will include securing all eco garden/deck areas upon closure of the restaurant.

**Chairwoman Fitzgerald** asked Staff to describe the traffic signal configuration.

**Erica Demkowicz** (Senior Planner) stated that the traffic signal configuration serves two purposes, commercial and residential traffic. She added that the signal on Shoreline Drive would also serve to slow traffic on Pacific Coast Highway entering the Town Center.

**Chairwoman Fitzgerald closed the Public Hearing.**

**Commissioner Conway** stated that he toured the site and verified that the height, lighting, and noise concerns were addressed. He felt it was a magnificent site and he see's the project as a gateway to Town Center.

**Commissioner Brough** concurred with Commissioner Conway and commended the developer for creating a cordial relationship while addressing many of the neighbors' concerns. She added it was a nice job.

**Vice Chairman Denton** concurred and commended the developer for addressing the neighbors' and being a good neighbor to nearby residents. He stated that it's a beautiful and exciting project, the beginning of a landmark in years to come and the entrance and gateway to Town Center. He stated it is a job well done and supported the project.

**Commissioner Schoeffel** agrees with all that's been said. He expressed the concerns and fears heard from the citizens during the evening, based on amplified music. He was pleased to hear from the proponent about not utilizing live music and securing the open space after businesses are closed. He noted the good points made about grease interceptors. He added that he would be happy to endorse the project.

**CITY OF DANA POINT  
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**Chairwoman Fitzgerald** concurred with her fellow Commissioners, and she motioned in support of the project with the assumption that the grease and noise issue would be added in the conditions.

**Commissioner Schoeffel** suggested a condition of approval to be securing the publicly accessible spaces after the business hours of the establishment. He added that this would go a long way to assist the operator.

**ACTION:** Motion made (Fitzgerald) and seconded (Denton) to approve Resolution No. 08-03-11-06 approving Coastal Development Permit CDP07-21 and Site Development Permit SDP07-61 to allow a 35,000 square foot, two-story commercial development and a Conditional Use Permit CUP07-33 to allow a shared parking program in conjunction with the proposed development with the added condition that the upper public deck areas be secured after hours. Motion to approve with one added condition carried 5-0. (AYES: Brough, Conway, Denton, Fitzgerald, Schoeffel NOES: None ABSENT: None ABSTAIN: None)

**G. NEW BUSINESS**

There were no New Business items.

**H. STAFF REPORTS**

**Kyle Butterwick (Director)** addressed the Wicked Garden's noise activities and stated that Code Enforcement will follow up on the matter.

He reported that the Mitigated Negative Declaration for the Mobile Home Park site has been in circulation. He added that Staff is preparing their written responses received on the Environmental document to be part of the Staff Report coming to the Planning Commission Public Hearing in approximately six weeks.

He reported that he appeared and testified before the Coastal Commission last week concerning the proposed extension of time for proposed modifications to the Headlands trails and mid-strand accessway. The Coastal Commission did continue it for twelve (12) months, but they will try to bring this item to a hearing within 60-90 days.

**CITY OF DANA POINT  
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He reported the Town Center Plan is getting closer; the Coastal Commission is meeting in Santa Barbara in April.

**John Tilton (City Architect/Planning Manager)** stated that Wicked Garden would need to apply for a special use permit for its activities.

**I. COMMISSIONER COMMENTS**

**Commissioner Schoeffel** congratulated Staff for an outstanding presentation on such an important project (Item #3).

**Vice-Chairman Denton** concurred with Commissioner Schoeffel. He reported that the Harbor Plan Meeting is scheduled to present an update of the Marina layout at 7:00 p.m. on Wednesday, March 12, 2008.

**Commissioner Conway** stated that he has lived in Dana Point nearly 30 years, and was happy to see the Headlands developing nicely.

**Chairwoman Fitzgerald** commended Erica Demkowicz (Senior Planner) on handling the finest presentation on a very difficult project.

**J. ADJOURNMENT**

**Chairwoman Fitzgerald** adjourned the meeting to the *next regular* meeting of the Planning Commission will be held on Tuesday, March 25, 2008, beginning at 7:00 p.m. (or as soon thereafter) in the Council Chamber located at 33282 Golden Lantern, Suite 210, Dana Point, California.

**The meeting adjourned at 8:15 p.m.**

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Liz Anderson Fitzgerald, Chairwoman  
Planning Commission

## **EXHIBIT 3**



**CITY OF DANA POINT**  
**AGENDA REPORT**

Reviewed By:	
DH	X
CM	X
CA	X

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**DATE: FEBRUARY 18, 2014**

**TO: CITY MANAGER/ HONORABLE MAYOR AND CITY COUNCIL**

**FROM: MIKE KILLEBREW, ASSISTANT CITY MANAGER**

**SUBJECT: AUTHORIZATION TO ISSUE CITY OF DANA POINT COMMUNITY FACILITIES DISTRICT NO. 2006-1 (CFD 2006-1), 2014 SPECIAL TAX BONDS (Headlands)**

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**RECOMMENDED ACTION:**

That the City Council adopt a resolution entitled:

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF DANA POINT ACTING AS THE LEGISLATIVE BODY OF COMMUNITY FACILITIES DISTRICT NO. 2006-1 OF THE CITY OF DANA POINT AUTHORIZING THE ISSUANCE OF ITS 2014 SPECIAL TAX BONDS IN A PRINCIPAL AMOUNT NOT TO EXCEED TWENTY SIX MILLION TWO HUNDRED FOURTY-FIVE THOUSAND DOLLARS (\$26,245,000) AND APPROVING CERTAIN DOCUMENTS AND TAKING CERTAIN OTHER ACTIONS IN CONNECTION THEREWITH.

**BACKGROUND:**

Twelve years ago, on February 12, 2002 the City adopted Ordinance No. 02-02 approving the Headlands Development Agreement ("DA01-01") between the City and Headlands Reserve LLC ("HRLLC"). DA01-01 contains provisions which state that upon the request of HRLLC, both parties shall cooperate in establishing a financing district to fund construction of public facilities, public parks and open space in conjunction with the Headlands development.

On April 26, 2006, the City approved and adopted documents necessary to initiate the Community Facilities District No. 2006-1 ("CFD 2006-1") legal proceedings under the Mello-Roos Act, and scheduled a public hearing for June 14, 2006 to consider the official formation of CFD 2006-1. The documents necessary to establish CFD 2006-1 included the City of Dana Point Statement of Goals and Policies for the Use of the Mello-Roos Community Facilities Act of 1982 and, a Resolution declaring the City's intention to incur bonded indebtedness for proposed CFD 2006-1.

Areas identified separately- one is hotel  
and one is commercial

The City Council held a public hearing pursuant to the above referenced documents on June 14, 2006. Following the hearing, the City Council determined to form CFD 2006-1 and the necessity to incur bonded indebtedness by adopting Resolutions No. 06-06-14-11, No. 06-06-14-12 and No. 06-06-14-13, thus establishing CFD 2006-1. A proposition was then submitted to the qualified electors of CFD 2006-1 in order to finance the acquisition, construction and installation of certain public facilities, and to pay for the maintenance, operation, replacement and repair of certain of those public facilities.

The City Council then called the special election and submitted the levy of the special taxes, the incurring of bonded indebtedness and the establishment of an appropriations limit to the qualified electors of CFD 2006-1 (at the time there was a single landowner, HRLLC). The City Clerk publicly read the ballot as being in favor of levying the special tax, incurring bonded indebtedness and establishing an appropriations limit. The City Council then adopted Resolution 06-06-14-14 declaring the results of the special election and directing the recording of a notice of special tax lien on parcels within CFD 2006-1.

In total, the development encompasses 121.3 gross acres located east of and bordered by the Pacific Ocean, north of Scenic Drive, and west of Pacific Coast Highway and Street of the Green Lantern. Property in CFD 2006-1 includes 33 acres for 118 custom residential lots ("Tax Area 1") and for which a map is attached as (**Supporting Document B**); and, 1.5 acres of commercial property and 2.8 acres of hotel property ("Tax Area 2"). Additional property that is not subject to the special tax, yet is still part of the overall development, includes approximately 34.7 acres of recreation open space, 34.0 acres of conservation open space and 2.5 acres of public right-of-way.

Public facilities constructed and paid for by the developer in accordance with the above mentioned DA01-01 include, but are not limited to: City's Nature Interpretive Center; Center for Natural Land Management Conservation Park; the City's Hilltop, Harbor Point and Strand Vista Parks; Funicular; revetment and revetment walkway; new City- and County-owned restrooms at the Strand; Strand Vista Park Veteran's Memorial; County North Strand stairs; Switch Back trail; in addition to streets, medians, storm drains, storm water treatment, sewer and water system upgrades.

CFD 2006-1 is legally authorized to issue up to \$45 million of bonds, proceeds of which are eligible to reimburse HRLLC for costs incurred in constructing the above mentioned public improvements. However, the amount was reduced administratively to not more than \$40 million of bonds as documented in the 1<sup>st</sup> Amendment to the Acquisition Agreement between the City and HRLLC, dated November 8, 2006. The City has reviewed costs incurred by HRLLC to construct the public improvements covered by CFD 2006-1, and has approved \$43,593,307 as being eligible for reimbursement. To date, HRLLC has been reimbursed \$17,416,174 from prior bond proceeds and also from special tax prepayments by 4 property owners. Remaining approved costs eligible for reimbursement total \$26,177,133.

The 1<sup>st</sup> Amendment to the Acquisition Agreement states that "The Developer agrees to lower the maximum Bond authorization from \$45 million to \$40 million, and to condition

the sale of the Bond, among other things, to the sale of at least 18 lots (consisting of at least 10 different owners), and an aggregate appraised value of at least 5 times the amount of the CFD bond debt.” These conditions are more restrictive than is provided for in the City’s adopted Statement of Goals and Policies.

It is important to note that the action to reduce the maximum debt amount, though legally binding between the City and HRLLC, was not formalized by proceedings under the Mello-Roos Act which requires submission to the qualified CFD electors; therefore, the reduction in the debt authorization level could, and is recommended to be rescinded by City Council action.

On December 14, 2009, the City and HRLLC entered into the 2<sup>nd</sup> Amendment to the Acquisition Agreement which addressed concerns expressed regarding the aesthetics of proposed structural improvements (e.g. coin/currency collection equipment) to the Funicular necessary to collect fares from the public for riding the funicular. The fare was contemplated in the CFD 2006-1 as an offset to required special maintenance taxes. The 2<sup>nd</sup> Amendment provided the option for the City to not charge fares, but in exchange for not charging fares the City was required to contribute \$30,000 per year toward funicular maintenance costs.

A 3<sup>rd</sup> Amendment to the Acquisition Agreement is proposed for City Council approval, and if approved would raise the debt authorization level back to \$45 million; in exchange for this consideration by the City, the requirement that the City pay \$30,000 per year for Funicular maintenance would be amended to be not more than \$30,000 per year, and only required if the City does not charge fares and the maintenance tax collected from CFD 2006-1 is not sufficient to cover funicular maintenance costs in any given year (**See Supporting Document G**).

The City and other public agencies have accepted the public facilities included in the CFD, and have approved certain associated costs incurred by the developer that are eligible for reimbursement from proceeds of CFD 2006-1 issued debt, as follows:

**CFD 2006-1  
Cost of Public Facilities  
Total Approved Facility Value  
and Reimbursements To Date**

<b>Entity / Component</b>	<b>Cost</b>
<u><i>City of Dana Point:</i></u>	
Storm Drain System	\$ 6,184,584.43
Street-related Improvements	3,152,304.51
Park-related Improvements*	14,480,803.17
Dry Utilities	4,097,145.55
Masonry Walls / Concrete Improvements	7,014,469.21
Subtotal	34,929,306.87
<u><i>County of Orange:</i></u>	
Harbor Parking Lot Storm Water Treatment	692,404.62
Subtotal	692,404.62
<u><i>South Coast Water District:</i></u>	
Sewer/Water Systems, including Lift Station	7,384,625.25
SCWD Sewer Fees	586,970.02
Subtotal	7,971,595.27
Total Approved Costs	43,593,306.76
Reimbursements to Date	(17,416,173.71)
Eligible Costs Remaining	\$ 26,177,133.05
* Includes County North Strand Beach Access	



The following table lists the maximum special taxes that may be levied per year on each parcel located in CFD 2006-1 as prescribed by the rate and method of apportionment approved in the special election:

**CFD 2006-1 Maximum Annual Special Tax  
July 1, 2013 to June 30, 2014**

<b>Land Use Class</b>	<b>Facilities Tax(1)</b>	<b>Maintenance Tax(1)(2)</b>
Residential Property	\$ 25,700 per parcel	\$ 2,463 per parcel
Non-Residential Property	\$ 15,000 per acre	\$ 880 per acre

*(1) Special Taxes apply to non-Developer owned parcels deemed "Custom Lot Property" first; if additional revenue is necessary then special taxes will be levied on other parcels deemed "Final Map Property" in accordance with the Rate & Method of Apportionment.*

*(2) The initial maximum annual Maintenance Special Tax for residential property (\$2,100/parcel) and non-residential property (\$750/acre) have been adjusted by the Consumer Price Index (CPI-U).*

### 2008 Bonds

On June 3, 2008 the City Council authorized the issuance of the 2008 Special Tax Bonds ("2008 Bonds") as the first series of CFD 2006-1 bonds. On July 2, 2008, the 2008 Bonds with a par value of \$8,710,000 were sold, with uses as shown below:

<b>2008 Bond Proceeds</b>		
<b>Use</b>		<b>Amount</b>
Project Proceeds to Improvement Fund	\$	7,282,872.85
Debt Service Reserve Fund		608,707.50
Costs of Issuance		570,000.00
Underwriter's Discount		142,987.50
Original Issue Discount		55,432.15
First Year CFD Administration Costs		50,000.00
Principal Amount of 2008 Bonds	\$	8,710,000.00

2013 Bonds

On May 7, 2013, the City Council authorized the issuance of the 2013 Special Tax Bonds ("2013 Bonds"), as the second series of CFD 2006-1 bonds, and included additional Project Proceeds and monies to defease the 2008 Bonds that were still outstanding at lower interest rates. The net present value savings provided by the 2008 Bonds' defeasance was over \$750,000. The uses of the 2013 Bonds were as follows:

<b>2013 Bond Proceeds</b>		
<b>Use</b>	<b>Amount</b>	<b>Toward Max (1)</b>
Project Proceeds to Improvement Fund	\$ 9,068,955.48	\$ 9,068,955.48
Escrow Fund for 2008 Bonds	8,323,064.38	--
Debt Service Reserve Fund	1,079,850.00	606,491.10
Underwriter's Discount	209,458.15	119,402.20
Costs of Issuance	170,699.35	95,872.25
Capitalized Interest	192,158.03	129,026.78
Net Original Issue Discount	51,944.20	36,692.30
Administrative Expenses	23,068.14	5,857.21
Special Tax Fund	81,579.62	(17,297.32)
<b>Less:</b>		
Funds Available from 2008 Bonds	(1,315,777.35)	
Principal Amount of 2013 Bonds	\$ 17,885,000.00	\$ 10,045,000.00

**(1) The \$10,045,000 shown here is applied toward CFD 2006-1's Legally Authorized maximum bond issuance of \$45 million. Coupled with the 2008 Bond amount of \$8,710,000, total issued to date is \$18,755,000, leaving \$26,245,000 of bonds allowed to be issued.**

The size of the 2013 Bonds was based on the amount of special taxes to be paid from 45 custom residential lots sold and owned by non-HRLLC related entities (i.e. 3<sup>rd</sup> parties) and 2 custom residential lots still owned by HRLLC and for which building permits had been issued.

### 2014 Bonds (Proposed)

It is recommended that the \$26,245,000 remaining authorization of CFD 2006-1 bonds be exercised at this time. Property sales at the development have been occurring consistently the past year, and the number of 3<sup>rd</sup> party owners now available to make special tax payments has increased to a point where staff is comfortable recommending issuance of bonds up to the maximum debt authorization level of \$45 million.

Property ownership, and related proportion of maximum annual special taxes, is currently as follows:

Property Owner	Acreage	No. of Lots	Maximum Annual Special Tax	Percent of Maximum Annual Special Tax
<i>Residential</i>				
Non-HRLLC Entities	n/a	65	\$ 1,670,500	55.79%
HRLLC Entities	n/a	49	1,259,300	42.06
<b>Subtotal</b>	n/a	114	\$ 2,929,800	97.85
<i>Commercial Lots</i>				
Non-HRLLC Entity	1.49	3	\$ 22,350	0.75
HRLLC	2.80	3	42,000	1.40
<b>Subtotal</b>	4.29	6	\$ 64,350	2.15
<b>Total Taxable Property</b>	n/a	120	\$ 2,994,150	100.00%

### Property Values and City CFD Goals & Policies

Commercial lots- distinguished from commercial (hotel) lots

#### Non-HRLLC Owned Parcels

A total of 69 residential parcels have been sold to-date, from which special taxes have been prepaid on 4 of the parcels (lots 51, 62, 105 and 110), leaving 65 non-HRLLC residential parcels subject to the special tax. In addition, 3 commercial parcels have been sold to Arcus Private Capital Solutions LLC and will be subject to the special tax beginning December 2014.

#### HRLLC Owned Parcels

A total of 49 residential parcels are still owned by HRLLC, with HRLLC having pulled building permits on 2 of the parcels. The 2 parcels with building permits are considered Developed Property per CFD 2006-1's Rate & Method of Apportionment, and began paying special taxes in December 2013. The remaining 47 residential parcels owned by HRLLC, in addition to the 3 commercial (hotel) lots, will be subject to the special tax beginning December 2014.

Combined, the 68 non-Developer owned parcels and the 52 Developer owned parcels mentioned above, make up the total of 120 parcels from which the amount of special

tax, net of the amount necessary to service the 2013 bonds, is being used to size the proposed 2014 bonds. The 120 properties have in aggregate an annual maximum special tax of \$2,994,150; they also have an aggregate appraised value of approximately \$486.7 million.

The 2013 bonds outstanding par amount of \$17,885,000, coupled with the proposed 2014 Bonds not to exceed par amount of \$26,245,000, would result in \$44,130,000 of outstanding bonds. Comparing the \$44,130,000 of outstanding bonds to the appraised value of \$486.7 million mentioned above, would result in a value to lien ratio of just over 11 to 1 (i.e. \$486.7 million appraised value divided by a \$44.13 million bond issue amount). Note that the City Council adopted CFD Statement of Goals and Policies ("CFD Goals & Policies") requires at least a 3 to 1 value to lien ratio, and the 1<sup>st</sup> Amendment to the Acquisition Agreement mentioned above sets the minimum ratio at 5 to 1.

In order to proceed with the issuance and sale of the 2014 bonds, the City Council must adopt a resolution (**Action Document A**) authorizing their issuance and authorize execution of the legal and financing documents required for bond issuance. The related financing and legal documents include the Bond Purchase Contract, First Supplemental Fiscal Agent Agreement, Preliminary Official Statement, Continuing Disclosure Agreement, Third Amendment to Acquisition Agreement, and Letter Agreement between HRLLC and City related to expediting foreclosure proceedings.

Attached is a Letter Agreement (**Action Document B**) proposed between HRLLC and the City, whereby HRLLC is required to provide timely notice of special taxes paid on parcels still under HRLLC ownership. The Letter Agreement is proposed in order to expedite foreclosure proceedings to the extent possible should HRLLC miss a special tax payment, and addresses matters regarding the concentration of ownership due to the number of parcels subject to the special tax that are still owned by HRLLC, and special tax payment cash flows necessary to make timely bond payments.

### **DISCUSSION:**

The following paragraphs provide a layman's summary of each of the legal and financing documents to assist with seeing the overall picture of this financing, and in no way serves as an adequate substitute for the full review necessary to make an informed decision as to moving forward with the CFD 2014 Bond offering:

## **FINANCING AND LEGAL DOCUMENTS**

### **Authorizing Resolution**

The Authorizing Resolution provides for the issuance and sale of the CFD 2014 Bonds, authorizes execution and delivery of necessary documents, and directs staff to take other actions necessary to complete the financing.

**Bond Purchase Contract**

Provides for the sale of the CFD 2014 Bonds to the underwriter, Stifel (formerly Stone & Youngberg), and specifies the underwriter's discount, interest rates, and terms for payment of the purchase price. It also contains representations by the City, has conditions precedent to the underwriter's obligation to purchase the bonds at closing, specifies documents to be delivered when the bonds are sold, and identifies the sources of funds to pay expenses.

**First Supplemental Fiscal Agent Agreement**

The First Supplemental Fiscal Agent Agreement amends the Fiscal Agent Agreement approved with the 2013 bonds between the City and Wells Fargo, with Wells Fargo acting as the fiscal agent for CFD 2006-1. This first supplemental agreement is the basic issuance document for the 2014 bonds, which are on parity with the 2013 bonds, and lists the terms of the bonds, including payment dates, maturities, redemption provisions, registration, transfer, exchange, etc. The agreement creates the legal structure for the security for the bonds, including:

- Creates and grants the fiscal agency;
- Defines specifically what revenues (i.e. the Facilities Special Tax) and other collateral are pledged/committed to the payment of interest and repayment of the bonds;
- Establishes and describes the various bond funds and accounts in which the bond proceeds are to be deposited and held by the fiscal agent, and the procedure for disbursement and investment of moneys in those funds and accounts;
- Describes the flow of funds (establishes the priority for uses of the pledged Facilities Special Tax);
- Describes the provisions for defeasance of the bonds (to allow for refunding of the bonds); and,
- Specifies various fiscal agent-related provisions—providing for removal of the fiscal agent and appointment of a new fiscal agent, as well as compensation, indemnification, and rights and obligations of the fiscal agent.

**Preliminary Official Statement (POS)**

The Preliminary Official Statement is intended to provide sufficient disclosure to potential investors as to the structure of the financing. Under federal securities laws, the issuer is obligated to disclose all information that a "reasonable investor" would consider materially important in deciding whether to purchase the CFD 2014 Bonds. This includes terms of bonds, security, risk factors, as well as financial, operating and background information. The final "Official Statement" will be dated when the bonds are sold and will contain the final terms of the bonds. The Preliminary Official Statement is complete except for interest rates and final bond maturities, since those are not established until the bonds actually sell.



### **Continuing Disclosure Agreement**

The continuing disclosure agreement lists information the issuer agrees to provide each year, and more often if/when necessary, as long as the CFD 2014 Bonds are outstanding. The information to be reported is deemed important to keeping investors informed, and is required by the Securities & Exchange Commission (SEC).

### **CONCLUSION:**

If authorized by the City Council, CFD 2006-1's 2014 Bonds will be sized to coincide with the Facilities Special Tax revenue anticipated from 114 residential lots and 6 commercial lots. CFD 2006-1 has an appraised value of \$486.7 million, and taken together the outstanding 2013 Bonds and proposed 2014 Bonds are estimated to have an over 11 to 1 value-to-debt ratio, which is much better than the 3 to 1 minimum ratio required by the City's CFD Goals & Policies.

Presently, the par amount of the bonds to be sold is estimated at approximately \$26,245,000, which is also the not to exceed authorization being requested. However, the actual amount of the bonds will not be determined until the time of pricing in March. The then current bond market conditions and investor interest in purchasing the 2014 Bonds will determine the actual interest rates the CFD will pay on the bonds, and thus the actual principal amount of the 2014 Bonds.

Subject to the City Council's approval of the 2014 Bond's requisite legal and financing documents, and authorization of the sale of the bonds, it is currently contemplated that the Preliminary Official Statement for the bonds will be printed and mailed to potential investors on February 19, 2014. At present, it is anticipated that the 2014 Bonds will be offered for sale by the underwriter on or about February 27, 2014, if not earlier, and that bond proceeds will be available at the closing, currently expected to occur in early March 2014.

### **ACTION DOCUMENT:**

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### **SUPPORTING DOCUMENTS:**

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**ACTION DOCUMENT A****RESOLUTION NO. \_\_\_\_\_****RESOLUTION OF THE CITY COUNCIL OF THE CITY OF DANA POINT ACTING AS THE LEGISLATIVE BODY OF COMMUNITY FACILITIES DISTRICT NO. 2006-1 OF THE CITY OF DANA POINT AUTHORIZING THE ISSUANCE OF ITS 2014 SPECIAL TAX BONDS IN A PRINCIPAL AMOUNT NOT TO EXCEED TWENTY-SIX MILLION TWO HUNDRED FORTY-FIVE THOUSAND DOLLARS (\$26,245,000) AND APPROVING CERTAIN DOCUMENTS AND TAKING CERTAIN OTHER ACTIONS IN CONNECTION THEREWITH**

THE CITY COUNCIL OF THE CITY OF DANA POINT, CALIFORNIA, DOES HEREBY RESOLVE AS FOLLOWS:

WHEREAS, the City Council of the City of Dana Point (hereinafter sometimes referred to as the “legislative body of the District”), has heretofore undertaken proceedings and declared the necessity to issue bonds (the “2008 Special Tax Bonds”) on behalf of Community Facilities District No. 2006-1 of the City of Dana Point (the “District”) pursuant to the terms and provisions of the Mello-Roos Community Facilities Act of 1982, as amended, being Chapter 2.5, Part 1, Division 2, Title 5 of the Government Code of the State of California (the “Act”); and

WHEREAS, pursuant to Resolution Nos. 06-06-14-12 and 06-06-14-13 adopted by the legislative body of the District on June 14, 2006, the bond proposition (the “Proposition”) was submitted to the qualified electors within the District and was unanimously approved at an election held on June 14, 2006; and

WHEREAS, based upon Resolution Nos. 06-06-14-12 and 06-06-14-13 and the election, the District was authorized to issue bonds in one or more series, pursuant to the Act in the maximum amount of Forty-Five Million Dollars (\$45,000,000), as reduced by contract pursuant to the First Amendment to Acquisition Agreement, dated November 8, 2006, to an aggregate principal amount not to exceed Forty Million Dollars (\$40,000,000); and

WHEREAS, the legislative body of the District has determined that it would be in the public interest to issue Parity Bonds (the “2014 Special Tax Bonds”) pursuant to Section 2.14 of the Fiscal Agent Agreement, dated as of June 1, 2013, by and between the District and Wells Fargo Bank, National Association (the “2013 Fiscal Agent Agreement”) to provide additional funds to the District; and

WHEREAS, the legislative body of the District has determined in accordance with Government Code Section 53360.4 that a negotiated sale of the 2014 Special Tax Bonds to Stifel, Nicolaus & Company, Incorporated (the “Underwriter”) in accordance with the terms of

the Bond Purchase Contract approved as to form by this legislative body herein will result in a lower overall cost to the District than a public sale; and

NOW, THEREFORE, BE IT RESOLVED, that the City Council of the City of Dana Point, acting as the legislative body of Community Facilities District No. 2006-1 of the City of Dana Point, hereby resolves as follows:

**Each of the above recitals is true and correct and is adopted by the legislative body of the District.**

**The City of Dana Point, by its Resolution No. 06-06-14-14 adopted on June 14, 2006, has declared that the Proposition presented to the qualified electors of the District on June 14, 2006 had received a favorable vote of more than two-thirds of the qualified electors voting at said election, and that said Proposition has carried, and accordingly, the legislative body of the District is presently authorized to issue from time to time, as determined by the legislative body, bonds for the benefit of the District for the purposes set forth in the Proposition and to take the necessary steps to levy the special tax authorized by the Proposition.**

**The issuance of the 2014 Special Tax Bonds in a principal amount not to exceed \$26,245,000 is hereby authorized with the exact principal amount to be determined by the official signing of the Bond Purchase Contract in accordance with Section 6 below. The legislative body of the District hereby determines that it is prudent in the management of its fiscal affairs to issue the 2014 Special Tax Bonds. The 2014 Special Tax Bonds shall mature on the dates and pay interest at the rates set forth in the Bond Purchase Contract to be executed on behalf of the District in accordance with Section 6 hereof. All other provisions of the 2014 Special Tax Bonds shall be governed by the terms and conditions set forth in the First Supplemental Fiscal Agent Agreement dated, as of January 1, 2014 (the "First Supplemental Fiscal Agent Agreement" together with the 2013 Fiscal Agent Agreement, the "Fiscal Agent Agreement"), by and between the District and Wells Fargo Bank, National Association, as Fiscal Agent (the "Fiscal Agent"), on file with the City Clerk and to be executed by the Mayor, Mayor Pro Tem, City Manager, Director of Administrative Services or City Clerk (collectively, the "Designated Officials"), with such additions thereto and changes therein as the officers executing the same deem necessary to cure any ambiguity or defect therein if such addition or change does not materially alter the substance or content thereof, to insert the offering price(s), interest rate(s), selling compensation, principal amount per maturity, redemption dates and prices and such other related terms and provisions as limited by Section 6 hereof, or to conform any provisions therein to the Bond Purchase Contract or the Official Statement delivered to the purchasers of any bonds to be issued by the District. Approval of such changes shall be conclusively evidenced by the execution and delivery of the First Supplemental Fiscal Agent Agreement by any such officers. Capitalized terms used in this Resolution which are not defined herein have the meanings ascribed to them in the Fiscal Agent Agreement.**

**The 2014 Special Tax Bonds shall be executed on behalf of the District by the manual or facsimile signature of the Mayor acting ex officio as the chair of the legislative body of the District, and the seal of the District, if any, shall be impressed or imprinted thereon and**

attested with the manual or facsimile signature of the Clerk of the legislative body of the District.

The covenants set forth in the Fiscal Agent Agreement are hereby approved, shall be deemed to be covenants of the City Council in its capacity as the legislative body of the District, and shall be complied with by the District and its officers and shall apply to the 2014 Special Tax Bonds. The Fiscal Agent Agreement, as supplemented by the First Supplemental Fiscal Agent Agreement, shall constitute a contract between the District and the owners of the 2014 Special Tax Bonds.

The form of the Bond Purchase Contract presented at this meeting is hereby approved and any one of the Designated Officials is hereby authorized to execute the Bond Purchase Contract on behalf of the District, with such additions thereto and changes therein relating to dates and numbers as are necessary to conform the Bond Purchase Contract to the dates, amounts and interest rates applicable to the 2014 Special Tax Bonds as of the sale date. Approval of such additions and changes shall be conclusively evidenced by the execution and delivery of the Bond Purchase Contract; provided, however, that the Bond Purchase Contract shall be signed only if the 2014 Special Tax Bonds are to be purchased at a price equal to the principal amount thereof less the Underwriter's discount and original issue discount or plus original issue premium, if any, set forth in the Bond Purchase Contract. The City Manager, his designee, or the Director of Administrative Services is authorized to determine the day on which the 2014 Special Tax Bonds are to be priced in order to attempt to produce the lowest borrowing cost for the District and may reject any terms if determined not to be in the best interests of the District.

The form of the Preliminary Official Statement presented at this meeting is hereby approved, and the Underwriter is hereby authorized to distribute the Preliminary Official Statement to prospective purchasers of the 2014 Special Tax Bonds in the form hereby approved, together with such additions thereto and changes therein as are determined necessary by the City Manager, or his designee, with the advice of bond counsel, to make such Preliminary Official Statement final as of its date for purposes of Rule 15c2-12 of the Securities and Exchange Commission. The Designated Officials are each hereby authorized to execute a final Official Statement in the form of the Preliminary Official Statement, together with such changes as are determined necessary by the City Manager, or his designee, to make such Official Statement complete and accurate as of its date. The Underwriter is further authorized to distribute the final Official Statement for the 2014 Special Tax Bonds and any supplement thereto to the purchasers thereof upon its execution on behalf of the District as described above.

The form of the Continuing Disclosure Agreement (the "Continuing Disclosure Agreement") on file with the Clerk is hereby approved and the City Manager or Director of Administrative Services, is hereby authorized and directed, for and in the name of and on behalf of the City, to execute, acknowledge and deliver said Continuing Disclosure Agreement in substantially the form presented at this meeting with such changes therein as the City Manager or Director of Administrative Services may approve, such approval to be conclusively evidenced by the execution and delivery thereof.

**The form of the Third Amendment to Acquisition Agreement and the Foreclosure Letter Agreement presented at this meeting is hereby approved and any of the Designated Officers is hereby authorized to execute the Third Amendment to Acquisition Agreement and the Foreclosure Letter Agreement.**

**In accordance with the requirements of Section 53345.8 of the Act, the legislative body of the District hereby determines that the value of the real property in the District subject to the special tax to pay debt service on the 2014 Special Tax Bonds is at least three times the principal amount of all bonds outstanding that are secured by a special tax levied pursuant to the Act or a special assessment levied on property within the District. This determination is based on the full cash value of such property as shown on the ad valorem assessment roll or upon an appraisal of the property within the District by a state certified real estate appraiser, as defined in Business and Professions Code Section 11340(c).**

**For purposes of Section 53363.2 of the Act, the legislative body of the District hereby further finds and determines that: (i) it is expected that the purchase of the 2014 Special Tax Bonds will occur on the Closing Date (as such term is defined in the First Supplemental Fiscal Agent Agreement); (ii) the date, denomination, maturity dates, places of payment and form of each series of such Bonds shall be as set forth in the First Supplemental Fiscal Agent Agreement, as executed; (iii) the not to exceed interest rate to be paid on the 2014 Special Tax Bonds shall be 7%; (iv) the maturity date of the bond shall not be later than September 1, 2045; (v) the place of payment for the 2014 Special Tax Bonds shall be as set forth in the First Supplemental Fiscal Agent Agreement; and (vi) the designated costs of issuing the 2014 Special Tax Bonds shall be as described in Section 53363.8(a) of the Act, and as otherwise described in the First Supplemental Fiscal Agent Agreement, in the Official Statement for the 2014 Special Tax Bonds and the closing certificates for the 2014 Special Tax Bonds, including but not limited to, Bond Counsel fees and expenses, underwriter's discount, printing costs for the Official Statement, Special Tax Consultant fees and expenses, Financial Advisor fees and expenses, initial Fiscal Agent fees, costs of issuance of the 2014 Special Tax Bonds, and costs of City staff incurred in connection with the sale and issuance of the 2014 Special Tax Bonds.**

**The Designated Officials and the other officers and staff of the City of Dana Point and the District responsible for the fiscal affairs of the District are each hereby authorized and directed to take any actions and execute and deliver any and all documents (including a Continuing Disclosure Agreement) as are necessary to accomplish the issuance, sale and delivery of the 2014 Special Tax Bonds in accordance with the provisions of this Resolution and the fulfillment of the purposes of the 2014 Special Tax Bonds as described in the First Supplemental Fiscal Agent Agreement, including providing certificates to the Underwriter as to the accuracy of any information relating to the City of Dana Point and the District which is included within the Official Statement of the District. In the event that all Designated Officials are unavailable to sign any document authorized for execution herein, any other member of the legislative body of the District, or his/her written designee, may sign such document. Any document authorized herein to be signed by the City Clerk may be signed by a duly appointed deputy clerk.**



**Fieldman, Rolapp & Associates, Inc. is hereby designated as financial advisor to the City and Rutan & Tucker, LLP is hereby designated as bond counsel to the City in connection with the issuance and sale of the 2014 Special Tax Bonds. The City Manager or the Director of Administrative Services is hereby authorized and directed to execute agreements with such firms for their services with respect to the 2014 Special Tax Bonds, in forms acceptable to the City Manager, the Director of Administrative Services and the City Attorney; provided that any and all compensation payable to such firms shall be contingent upon the sale and issuance of the 2014 Special Tax Bonds.**

**PASSED, APPROVED AND ADOPTED** this 18<sup>th</sup> day of February, 2014.

CITY COUNCIL OF THE CITY OF DANA POINT  
ACTING IN ITS CAPACITY AS THE  
LEGISLATIVE BODY OF COMMUNITY  
FACILITIES DISTRICT 2006-1 OF THE CITY OF  
DANA POINT

By: \_\_\_\_\_  
Its: \_\_\_\_\_

ATTEST:

\_\_\_\_\_

STATE OF CALIFORNIA    )  
COUNTY OF ORANGE    ) ss  
CITY OF DANA POINT    )

I, Kathy M. Ward, City Clerk of the City of Dana Point, do hereby certify that the foregoing Resolution No. \_\_\_\_\_ was duly adopted and passed at a regular meeting of the City Council on the 18th day of February, 2014, by the following roll-call vote, to wit:

AYES:

NOES:

ABSENT:

ABSTAIN:

\_\_\_\_\_  
KATHY M. WARD, CITY CLERK

## SUPPORTING DOCUMENT B



**SUPPORTING DOCUMENT C**

**[\$[Principal Amount]  
COMMUNITY FACILITIES DISTRICT NO. 2006-1  
OF THE CITY OF DANA POINT  
2014 SPECIAL TAX BONDS  
  
BOND PURCHASE CONTRACT**

[Purchase Date], 2014

Community Facilities District No. 2006-1  
of the City of Dana Point  
33282 Golden Lantern  
Dana Point, California 92629

Honorable Members of the City Council of the City of Dana Point as the legislative body of Community Facilities District No. 2006-1 of the City of Dana Point:

The undersigned, Stifel, Nicolaus & Company, Incorporated (the “**Underwriter**”), offers to enter into this Bond Purchase Contract (this “**Purchase Contract**”) with the Community Facilities District No. 2006-1 of the City of Dana Point (the “**District**” and the “**City**,” respectively), which Purchase Contract will be binding upon the District and the Underwriter upon the acceptance hereof by the District. This offer is made subject to its acceptance by the District by execution of this Purchase Contract and its delivery of this Purchase Contract to the Underwriter on or before 11:00 p.m., California time, on the date hereof and, if not so accepted, will be subject to withdrawal by the Underwriter upon written notice delivered to the District at any time prior to the acceptance hereof by the District. All capitalized terms used herein and not otherwise defined shall have the meanings ascribed to such terms in the Fiscal Agent Agreement, dated as of June 1, 2013 (the “**Original Fiscal Agent Agreement**”), by and between the District and Wells Fargo Bank, National Association, as fiscal agent (the “**Fiscal Agent**”) as supplemented by a First Supplemental Fiscal Agent Agreement, dated as of [Authorization Month] 1, 2014, by and between the District and the Fiscal Agent (the “**Supplemental Fiscal Agent Agreement**” and together, with the Original Fiscal Agent Agreement, the “**Fiscal Agent Agreement**”).

The District acknowledges and agrees that (i) the purchase and sale of the Bonds (as hereinafter defined) pursuant to this Purchase Contract is an arm’s-length commercial transaction between the District and the Underwriter, (ii) in connection therewith and with the discussions, undertakings and procedures leading up to the consummation of such transaction, the Underwriter is and has been acting solely as principal and not as the agent or fiduciary of the District, (iii) the Underwriter has not assumed an advisory or fiduciary responsibility in favor of the District with respect to (a) the offering of the Bonds or the process leading thereto (whether or not the Underwriter, or any affiliate of the Underwriter, has advised or is currently advising the District on other matters) or (b) any other obligation to the District with respect to the offering contemplated hereby, except the obligations expressly set forth in this Purchase Contract or otherwise imposed by law, (iv) the Underwriter has financial interests that differ from those of the District, and (v) the District has consulted its own legal, financial and other advisors to the extent it has deemed appropriate in connection with this transaction. The District acknowledges that it has previously provided the Underwriter with an acknowledgement of receipt of the required Underwriter disclosure under Rule G-17 of the Municipal Securities Rulemaking Board (“**MSRB**”).

**1. Purchase and Sale.** Upon the terms and conditions and upon the basis of representations, warranties and agreements hereinafter set forth, the Underwriter hereby agrees to purchase from the District for offering to the public, and the District hereby agrees to sell to the Underwriter for such purpose, all (but not less than all) of \$[Principal Amount] aggregate principal amount of Community Facilities District No. 2006-1 of the City of Dana Point 2014 Special Tax Bonds (the “**Bonds**”), at an aggregate purchase price of \$\_\_\_\_\_ (constituting the aggregate principal amount of the Bonds, less a net original issue discount of \$\_\_\_\_\_, and less an Underwriter’s discount of \$\_\_\_\_\_). The Bonds shall be dated the Closing Date (as defined herein) and shall have the maturities, shall bear interest at the rates per annum and shall be subject to redemption as set forth in Appendix A attached hereto. The Bonds shall be in book-entry form, shall bear CUSIP® numbers and shall be in fully-registered form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company (“**DTC**”), New York, New York. The Bonds shall initially be in authorized denominations of \$5,000 principal or maturity amount or any integral multiple thereof.

Payment for and delivery of the Bonds, and the other actions contemplated hereby, shall take place on [Closing Date], 2014, or such other date as may be agreed to between the District and the Underwriter (the “**Closing Date**”).

**2. Authorization and Purpose.** The Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Section 53311 *et seq.* of the California Government Code) (the “**Act**”), and are being issued pursuant to a resolution adopted on [February \_\_], 2014, by the City Council, acting as the legislative body of the District (the “**Authorizing Resolution**”), and the Fiscal Agent Agreement. The Bonds are payable from the revenues generated by a special tax to be levied on the taxable real property within the District (the “**Special Tax**”) pursuant to a Rate and Method of Apportionment of Special Tax (the “**Rate and Method of Apportionment**”) approved by the legislative body of the District and the qualified electors within the District.

The proceeds of the Bonds shall be used by the District as described in the Official Statement (as defined below) (i) to finance, either directly or indirectly, the acquisition and construction of certain public infrastructure facilities, (ii) to increase the amount on deposit in the reserve fund to the Reserve Requirement applicable upon issuance of the Bonds, (iii) to pay capitalized interest on the Bonds through September 1, 2014, and (iv) to pay the costs related to issuing the Bonds. The Bonds constitute a special, limited obligation of the District payable from the Special Tax Revenues and all moneys deposited in the Bond Fund and the Reserve Fund and, until disbursed as provided in the Fiscal Agent Agreement, in the Special Tax Fund (as such funds shall be established under the Fiscal Agent Agreement). The Bonds are subject to redemption prior to maturity as provided in the Fiscal Agent Agreement.

This Purchase Contract, the Fiscal Agent Agreement and the Continuing Disclosure Agreement, [dated as of the Closing Date], substantially in the form set forth in Appendix E to the Official Statement (the “**Continuing Disclosure Agreement**”), by and among the District, Willdan Financial Services Incorporated, as dissemination agent (the “**Dissemination Agent**”), and the Fiscal Agent, are collectively referred to herein as the “**Community Facilities District Documents**.”

**3. Public Offering.** The Underwriter agrees to make a *bona fide* public offering of all the Bonds initially at the public offering prices (or yields) set forth in Appendix A attached hereto and by this reference incorporated herein. Subsequent to the initial public offering, the Underwriter reserves the right to change the public offering prices (or yields) as it deems necessary in connection with the marketing of the Bonds; provided that the Underwriter shall not change the interest rates set forth in Appendix A. The Bonds may be offered and sold to certain dealers at prices lower than such initial public offering prices. The Underwriter reserves the right to: (i) over-allot or effect transactions which stabilize or maintain the

market price of the Bonds at levels above those that might otherwise prevail in the open market; and (ii) discontinue such stabilizing, if commenced, at any time without prior notice.

**4. Delivery of Official Statement.** As soon as practicable, and no later than seven (7) business days after its acceptance hereof, but in no event less than three days prior to the Closing, and in sufficient time to accompany any confirmation that requests payment from a purchaser, the District shall deliver (or cause to be delivered) to the Underwriter (i) one copy of the Official Statement dated the date hereof relating to the Bonds (which, together with all appendices attached thereto and such amendments or supplements thereto as shall be approved by the Underwriter and the District, is hereinafter called the “**Official Statement**”), manually executed on behalf of the District by its duly authorized officer, and (ii) such reasonable number of certified or conformed copies of the Official Statement as the Underwriter may request in order to comply with Rule 15c2-12 of the Securities and Exchange Commission (“**Rule 15c2-12**”), applicable MSRB rules and other regulatory requirements relating to the issuance and sale of the Bonds.

The District hereby authorizes the use of the Official Statement in connection with the public offering and sale of the Bonds. The District also consents to and ratifies the use by the Underwriter prior to the date hereof of the Preliminary Official Statement dated [POS Date], 2014, relating to the Bonds (which, together with the cover page and all appendices, exhibits, maps, reports and statements included therein and attached thereto, is herein called the “**Preliminary Official Statement**”) in connection with the public offering of the Bonds and the use by the Underwriter of the Preliminary Official Statement and the Fiscal Agent Agreement and other documents or contracts to which the District or the City is a party, including this Purchase Contract, and all information contained therein, and all other documents, certificates and written statements furnished by the District to the Underwriter in connection with the transactions contemplated by this Purchase Contract or in connection with the offer and sale of the Bonds by the Underwriter.

The District represents that it has deemed the Preliminary Official Statement to be “final” as of its date within the meaning of Rule 15c2-12, except for the omission of no more than the following information: the offering price(s), interest rate(s), selling compensation, aggregate principal amount, principal amount per maturity and delivery dates, and any other matters permitted to be omitted under Rule 15c2-12. It is an express condition of the offer of the Underwriter made hereby that the District deliver the Official Statement, in a form deemed by the District to be final, and without omissions, within seven (7) business days of the date hereof but in no event less than three days prior to the Closing; and the delivery of an Official Statement executed by an authorized representative of the District shall conclusively establish that the District deems the document so delivered to be final. A failure of the District to comply with the requirements of the preceding sentence shall entitle the Underwriter to rescind its offer hereunder.

The Underwriter agrees that prior to the time the Official Statement relating to the Bonds is available, the Underwriter will send to any potential purchaser of the Bonds, upon the request of such potential purchaser, a copy of the most recent Preliminary Official Statement. The Preliminary Official Statement and/or the Official Statement may be delivered in printed and/or electronic form to the extent permitted by applicable rules of the MSRB and as may be agreed to by the District and the Underwriter. The District confirms that it does not object to distribution of the Preliminary Official Statement or the Official Statement in electronic form. A copy of the most recent Preliminary Official Statement sent to a potential purchaser shall be sent by first-class mail or electronically (or other equally prompt means) not later than the first business day following the day upon which each such request is received.

The District authorizes the Underwriter to file, and the Underwriter agrees to file or cause to be filed on or before the Closing Date, the Official Statement with the MSRB or its designee (including the MSRB’s Electronic Municipal Market Access system) or other repositories approved from time to time



by the Securities and Exchange Commission (either in addition to or in lieu of the filings referred to above). The Underwriter hereby represents that it will provide, consistent with the requirements of MSRB Rule G-32, for the delivery of a copy of the Official Statement to each customer who purchases any Bonds during the underwriting period (as such term is defined in MSRB Rule G-11), and that it will otherwise comply with all applicable statutes and regulations in connection with the offering and sale of the Bonds, including, without limitation, Rule 15c2-12 and MSRB Rule G-32.

To assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5), the District will undertake, pursuant to the Fiscal Agent Agreement and pursuant to that certain Continuing Disclosure Agreement, by the Community Facilities District and agreed to and accepted by Willdan Financial Services Incorporated, as Dissemination Agent, in the form attached to the Official Statement as Appendix E (the “**Continuing Disclosure Agreement**”), to provide annual reports and notices of certain events. A description of this undertaking is set forth in the Preliminary Official Statement and will also be set forth in the Official Statement.

**5. District Representations, Warranties, and Covenants.** The District represents, warrants and covenants to the Underwriter that:

(a) Due Organization, Existence, and Authority of City and the District. The City is duly organized and existing as a general law city under the laws of the State of California (the “**State**”). The District is a community facilities district duly organized and validly existing under the Act. The City has, and at the Closing Date will have, the requisite legal right, power and authority (i) to enter into the Community Facilities District Documents, on behalf of itself and the District, as applicable, (ii) to adopt the Authorizing Resolution, (iii) to levy the Special Tax and (iv) to carry out and consummate the transactions on its part contemplated by the Community Facilities District Documents, the Authorizing Resolution and the Official Statement.

The Special Tax has been duly and lawfully authorized and may be levied under the Act and, pursuant to the Act, the Special Tax constitutes a valid and legally binding lien on the properties upon which it has been levied.

(b) Due Authorization and Approval of Community Facilities District Documents. By all necessary official action, the City has, for itself or on behalf of the District, duly authorized and approved the adoption or execution and delivery by the District or the City of, and the performance by the District or the City of, the obligations on its respective part contained in the Authorizing Resolution and the Community Facilities District Documents and has approved the use by the Underwriter of the Preliminary Official Statement and the Official Statement and, as of the date hereof, such authorizations and approvals are in full force and effect and have not been amended, modified or rescinded. The City Council, as the legislative body of the District, has duly and validly called, held and conducted an election within the District to approve the levy of the Special Taxes and the issuance of bonds, including the Bonds. When executed and delivered by the parties thereto, the Community Facilities District Documents will constitute the legal, valid and binding obligations of the District or the City, as applicable, enforceable against the District or the City, as applicable, in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or affecting creditors’ rights generally. The District and the City have complied, and will at the Closing Date be in compliance in all respects, with the terms of the Authorizing Resolution and the Community Facilities District Documents.

(c) Official Statement Accurate. The information with respect to the District, the City, the Authorizing Resolution and the Community Facilities District Documents in the Official Statement is, and at all times subsequent to the date of the Official Statement up to and including the Closing Date will

be, true and correct in all material respects, and the Official Statement does not and will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(d) Proceedings Affecting Use of Official Statement. The District will advise the Underwriter promptly of the institution of any proceedings known to it by any governmental agency prohibiting or otherwise affecting the use of the Official Statement in connection with the offering, sale or distribution of the Bonds.

(e) Agreement to Amend or Supplement Official Statement. During the period ending on the 25th day after the End of the Underwriting Period (as defined below), the District (i) shall not adopt any amendment of or supplement to the Official Statement to which, after having been furnished with a copy, the Underwriter objects in writing or which is disapproved by the Underwriter (the Underwriter's approval of such amendment or supplement may not be unreasonably withheld) and (ii) shall notify the Underwriter promptly if any event shall occur, or information comes to the attention of the District that is reasonably likely to cause the Official Statement (whether or not previously supplemented or amended) to contain any untrue statement of a material fact or to omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. If, in the opinion of the Underwriter, such event requires the preparation and distribution of a supplement or amendment to the Official Statement, the District shall immediately prepare and furnish the Underwriter (at the expense of the District) a reasonable number of copies of an amendment or supplement to the Official Statement (in form and substance satisfactory to the Underwriter) which will amend or supplement the Official Statement so that it will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances existing at the time such supplemental Official Statement is delivered to a purchaser, not misleading. If any such amendment or supplement of the Official Statement shall occur after the Closing Date, the District also shall furnish, or cause to be furnished, such additional legal opinions, certificates, instruments and other documents as the Underwriter may reasonably deem necessary to evidence the truth and accuracy of any such amendment or supplement to the Official Statement. For purposes hereof, the phrase "**End of the Underwriting Period**" shall occur on the later of (a) the Closing Date or (b) when the Underwriter no longer retains an unsold balance of the Bonds; unless otherwise advised in writing by the Underwriter on or prior to the Closing Date, or otherwise agreed to by the Underwriter, the District may assume that the End of the Underwriting Period is the Closing Date.

(f) No Breach or Default. As of the time of acceptance hereof and as of the Closing Date, except as otherwise disclosed in the Official Statement, the District and the City are not, nor will either be, in breach of or in default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States of America, or any applicable judgment or decree or any trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the District or the City is a party or is otherwise subject; and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute a default or event of default under any such instrument which breach, default or event could have a material adverse effect on the ability of the District or the City to perform its obligations under the Authorizing Resolution or the Community Facilities District Documents and, as of such times, except as disclosed in the Official Statement, the authorization, execution and delivery of the Community Facilities District Documents and compliance by the District or the City with the provisions of each of such agreements or instruments does not and will not conflict with or constitute a breach of or default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States of America, or any applicable judgment, decree, license, permit, trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the District or the City (or any of their respective officers) is subject, or by which it or any of its properties are bound, nor will any such authorization, execution, delivery or compliance result in the creation or imposition of any lien, charge or other security

interest or encumbrance of any nature whatsoever upon any of its assets or properties or under the terms of any such law, regulation or instrument, except as may be provided by the Authorizing Resolution or the Community Facilities District Documents.

(g) No Litigation. At the time of acceptance hereof and as of the Closing Date, there is not and will be no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body (collectively and individually, an “**Action**”) pending with respect to which the District or the City has been served with process or, to the best knowledge of the District, threatened, in which any such Action (i) questions the creation, organization, existence, authority or powers of the District or the City or the titles of the officers of the District or the City to their respective offices; (ii) in any way questions the formation or existence of the District or the titles of the City Council of the City as the legislative body of the District, (iii) affects, contests or seeks to prohibit, restrain or enjoin the issuance, sale or delivery of any of the Bonds, the lien, the levy or the collection of the Special Tax, or the payment or collection of any amounts pledged or to be pledged to pay the principal of and interest on the Bonds, or in any way contests or affects the validity of the Authorizing Resolution, the Bonds or the Community Facilities District Documents or the consummation of the transactions on the part of the District or the City contemplated thereby or by the Official Statement, or contests the exclusion of the interest on the Bonds from federal or State income taxation; (iv) may result in any material adverse change relating to the financial condition of the District or the City; or (v) contests the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any supplement or amendment thereto or asserts that the Preliminary Official Statement or the Official Statement contained any untrue statement of a material fact or omitted to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and as of the time of acceptance hereof and as of the Closing Date, to the knowledge of the officer of the District executing this Purchase Contract, there is no basis for any action, suit, proceeding, inquiry or investigation of the nature described in clauses (i) through (iv) of this sentence.

(h) Further Cooperation: “Blue Sky”. The District will furnish such information, execute such instruments and take such other action at the expense of and in cooperation with the Underwriter as the Underwriter may reasonably request at the sole cost and expense of the Underwriter in order (i) to qualify the Bonds for offer and sale under the “Blue Sky” or other securities laws and regulations of such states and other jurisdictions of the United States of America as the Underwriter may designate and (ii) to determine the eligibility of the Bonds for investment under the laws of such states and other jurisdictions and will use its best efforts to continue such qualifications in effect so long as is required for the distribution of the Bonds; *provided, however*, that the District will not be required to execute a special or general consent to service of process or qualify as a foreign corporation in connection with any such qualification in any jurisdiction.

(i) Bonds Issued Pursuant to the Fiscal Agent Agreement. The Bonds, the Fiscal Agent Agreement, the Resolution of Formation and the Community Facilities District Documents conform as to form and tenor to the descriptions thereof contained in the Official Statement. The District represents that the Bonds, when issued, executed and delivered in accordance with the Fiscal Agent Agreement and sold to the Underwriter as provided herein, will be validly issued and outstanding obligations of the District, entitled to the benefits of the Fiscal Agent Agreement and the security of the pledge of the proceeds of the levy of the Special Taxes received by the Community Facilities District. The Fiscal Agent Agreement creates a valid pledge of the moneys in certain funds and accounts established pursuant to such Fiscal Agent Agreement, including the investments thereof, subject in all cases to the provisions of such Fiscal Agent Agreement permitting the application thereof for the purposes and on the terms and conditions set forth therein.

(j) Special Taxes. The Special Taxes of the District, constituting the security for the Bonds, have been duly and lawfully authorized and may be levied under the Act and the Constitution and the applicable laws of the State; and, pursuant to the Act, such Special Taxes, when levied, will constitute a valid and legally binding lien on the properties upon which they have been levied.

(k) Consents and Approvals. All authorizations, approvals, licenses, permits, consents, elections and orders of or filings with any governmental authority, legislative body, board, agency or commission having jurisdiction in the matters which are required by the Closing Date that would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by the District or the City of its obligations in connection with the Authorizing Resolution or the Community Facilities District Documents have been duly obtained or made and are in full force and effect, except the filing of Form 8038-G with the Internal Revenue Service; however, such form shall be filed by the District in a timely manner so as to ensure the tax-exempt status of the Bonds.

(l) No Other Obligations. Between the date of this Purchase Contract and the Closing Date, neither the City nor the District will offer or issue any bonds, notes or other obligations for borrowed money not previously disclosed to the Underwriter.

(m) No Transfer Taxes. The issuance and sale of the Bonds are not subject to any transfer or other documentary stamp taxes of the State or any political subdivision thereof.

(n) Certificates. Any certificate signed by any authorized officer of the City, on behalf of the District or the City, and delivered to the Underwriter in connection with the issuance and sale of the Bonds shall be deemed to be a representation and covenant by the District or the City, as applicable, to the Underwriter as to the statements made therein.

(o) Covenants and Cooperation. The District will faithfully perform and abide by all of its covenants and undertakings contained in the Authorizing Resolution and the Community Facilities District Documents, as the same may be amended from time to time, until such time as the Bonds have been paid in full or moneys have been set aside in an amount sufficient to pay all then outstanding Bonds at maturity or to the date of redemption if redeemed prior to maturity, plus unpaid interest thereon and premium, if any.

(p) Public Debt. Except as disclosed in the Official Statement as of the date of this Purchase Contract, to the best of the District's knowledge and without investigation of any kind, no other public debt secured by the Special Tax or any other tax or assessment levied by the District or the City on the land in the District is in the process of being authorized and no assessment districts or community facilities districts have been or are in the process of being formed by the City which include any portion of the land within the District. All outstanding debt and all authorized but unissued debt of the District or the City which is applicable to the property within the District is accurately described in the Official Statement.

(q) Tax-Exempt Status. The District shall not take or omit to take, as is appropriate, any action which would adversely affect the exclusion from gross income under federal tax law of the interest on the Bonds or which would cause the Bonds to become arbitrage bonds under Section 148 of the Code and the regulations thereunder.

(r) Continuing Disclosure. The District will undertake, pursuant to the Continuing Disclosure Agreement, to provide annual reports and notices of certain events to certain information repositories. A description of this undertaking is set forth in the Preliminary Official Statement and will also be set forth in the Official Statement. The City will promptly prepare and distribute all documents or

reports as required now or in the future to be prepared and distributed pursuant to the Continuing Disclosure Agreement. Neither the City nor the District, nor any other community facilities districts formed by the City, have failed to comply with any continuing disclosure undertaking previously entered into pursuant to the provisions of Rule 15c2-12.

(s) Compliance with Goals and Policies. The issuance of the Bonds complies with the policies for management of community facilities districts adopted by the City, pursuant to Section 53312.7 of the Act.

**6. The Closing.** At 9:00 a.m., Pacific time, on the Closing Date, or at such other time or on such earlier or later business day as shall have been mutually agreed upon by the District and the Underwriter, (i) the District will deliver the Bonds to the Underwriter through the facilities of DTC utilizing DTC's FAST delivery system, in definitive form bearing CUSIP® numbers, or such other place as the District and the Underwriter shall mutually agree upon, and (ii) the District will deliver the closing documents hereinafter mentioned at the offices of Rutan & Tucker, LLP, Costa Mesa, California ("**Bond Counsel**"), or another place to be mutually agreed upon by the District and the Underwriter. The Underwriter will accept delivery and pay the purchase price of the Bonds as set forth in Section 1 hereof in immediately available funds by wire transfer to or upon the order of the District or its designee. These payments and deliveries, together with the delivery of the aforementioned documents, are herein called the "**Closing.**"

**7. Closing Conditions.** The Underwriter has entered into this Purchase Contract in reliance upon the representations and covenants herein and the performance by the District of its obligations hereunder, both as of the date hereof and as of the Closing Date and in reliance upon the representations and covenants set forth in the various documents and certificates referenced in Section 8 hereof. The Underwriter's obligations under this Purchase Contract are and shall be subject to the following additional conditions:

(a) City/District Bring-Down Representations. The representations and covenants of the District contained herein shall be true and correct as of the date hereof and at the time of the Closing, as if made on the Closing Date.

(b) Executed Agreements and Performance Thereunder. At the time of the Closing, (i) the Community Facilities District Documents shall be in full force and effect and shall not have been amended, modified or supplemented, except with the written consent of the Underwriter, (ii) there shall be in full force and effect such resolutions and ordinances, including the Authorizing Resolution (collectively, the "**Resolutions**"), as, in the opinion of Bond Counsel, shall be necessary in connection with the transactions on the part of the District or the City contemplated by the Official Statement and the Community Facilities District Documents, (iii) the District or the City shall perform or have performed its respective obligations required or specified in the Community Facilities District Documents to be performed at or prior to Closing, and (iv) the Official Statement shall not have been supplemented or amended except as otherwise may have been agreed to in writing by the Underwriter.

(c) No Default. At the time of the Closing, no default shall have occurred or be existing under this Purchase Contract, the Resolutions or the Community Facilities District Documents; and the District shall not be in default in the payment of principal or interest on any of its bonded indebtedness which default shall materially adversely impact the ability of the District or the City to make payments on the Bonds.

(d) Closing Documents. At or prior to the Closing, the Underwriter shall have received each of the documents (which may be in electronic form) required under Section 8 below.

(e) Termination Events. The Underwriter shall have the right to terminate this Purchase Contract, without liability therefor, by written notification to the District if at any time at or prior to the Closing:

(i) any event or circumstance shall occur which causes any statement contained in the Official Statement to be materially misleading or results in a failure of the Official Statement to state a material fact necessary to make the statements in the Official Statement, in the light of the circumstances under which they were made, not misleading and, in either such event, the District or the City refuse to permit the Official Statement to be supplemented to supply such statement or information, or the effect of the Official Statement as so supplemented is to materially adversely affect the market price or marketability of the Bonds or the ability of the Underwriter to enforce contracts for the sale of the Bonds; or

(ii) the marketability of the Bonds or the market price thereof, or the ability of the Underwriter to enforce contracts for the sale of the Bonds in the reasonable opinion of the Underwriter, has been materially adversely affected by an amendment to the Constitution of the United States of America or by any legislation in or by the Congress of the United States of America or by the State, or the amendment of legislation pending as of the date of this Purchase Contract in the Congress of the United States of America, or the recommendation to Congress or endorsement for passage (by press release, other form of notice or otherwise) of legislation by the President of the United States of America, any member of the President's Cabinet, the Treasury Department of the United States of America, the Internal Revenue Service or the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives, or the proposal for consideration of legislation by either such Committee, or the presentment of legislation for consideration as an option by either such Committee, or by the staff of the Joint Committee on Taxation of the Congress of the United States of America, or the favorable reporting for passage of legislation to either House of the Congress of the United States of America by a Committee of such House to which such legislation has been referred for consideration, or any decision of any federal or State court or any ruling or regulation (final, temporary or proposed) or official statement on behalf of the United States Treasury Department, the Internal Revenue Service or other federal or State authority materially adversely affecting the federal or State tax status of the District or the City, the interest on bonds or notes or obligations of the general character of the Bonds or the market price of the Bonds; or

(iii) legislation shall be enacted by or introduced in the Congress of the United States of America, or shall have been favorably reported out of committee or be pending in committee, or shall have been recommended to the Congress for passage by the President of the United States of America or a member of the President's Cabinet, or a decision by a court of the United States of America shall be rendered, or a stop order, ruling, regulation or official statement by, or on behalf of, the Securities and Exchange Commission or any other governmental agency having



**jurisdiction of the subject matter shall be issued or made to the effect that the issuance, offering or sale of obligations of the general character of the Bonds, or the issuance, offering or sale of the Bonds, including all underlying obligations, as contemplated hereby or by the Official Statement, is in violation or would be in violation of, or that obligations of the general character of the Bonds, or the Bonds, are not exempt from registration under, any provision of the federal securities laws, including the Securities Act of 1933, as amended and as then in effect, or that the Fiscal Agent Agreement is required to be qualified under the Trust Indenture Act of 1939, as amended and as then in effect; or**

**(iv) additional material restrictions not in force as of the date hereof, including minimum or maximum prices for trading, having been fixed and in force, or maximum ranges for prices for securities having been required and in force shall have been imposed upon trading in securities generally by any governmental authority or by any national securities exchange which restrictions materially adversely affect the Underwriter's ability to market the Bonds; or**

**(v) a material disruption in securities settlement, payment or clearance services affecting the Bonds shall have occurred; or**

**(vi) any new restriction on transactions in securities materially affecting the market for securities (including the imposition of any limitation or interest rates) or the extension of credit by, or a charge to the net capital requirements of credit by, or a charge to net capital requirements of, underwriters shall have been established by the New York Stock Exchange, the SEC, any other federal or State agency or the Congress of the United States of America, or by Executive Order; or**

**(vii) a general suspension of trading in securities on the New York Stock Exchange or other major exchange of a general banking moratorium shall have been established by federal, State of New York or State authorities; or**

**(viii) a general banking moratorium shall have been established by federal or State authorities; or**

**(ix) the United States of America has become engaged in hostilities which have resulted in a declaration of war or a national emergency or there has occurred any other outbreak or escalation of hostilities or a national or international calamity or crisis, financial or otherwise, the effect of such outbreak, calamity or crisis on the financial markets of the United States of America, being such as, in the reasonable opinion of the Underwriter, would affect materially and adversely the ability of the Underwriter to market the Bonds or the ability of the Underwriter to enforce contracts for the sale of the Bonds (it being agreed by the Underwriter that there is no outbreak, calamity or crisis of such character as of the date hereof); or**

**(x) except as disclosed in or contemplated by the Official Statement, any material adverse change in the affairs of the District or the City shall have occurred; or**

- (xi) a decision by a court of the United States of America shall be rendered, or a stop order, release, regulation or no-action letter by or on behalf of the SEC or any other governmental agency having jurisdiction of the subject matter shall have been issued or made, to the effect that the issuance, offering or sale of the Bonds, including the underlying obligations as contemplated by this Purchase Contract or by the Official Statement, or any document relating to the issuance, offering or sale of the Bonds, is or would be in violation of any provision of the federal securities laws at the Closing Date, including the Securities Act, the Exchange Act and the Trust Indenture Act; or
- (xii) the commencement of any action, suit or proceeding described in Section 5(g).

**8. Closing Documents.** At or prior to the Closing, the Underwriter shall receive two copies (which may be in electronic format) of each of the following documents:

(a) Bond Opinion. An approving opinion of Bond Counsel, dated the Closing Date and substantially in the form included as Appendix F to the Official Statement, together with a letter from such counsel, dated the Closing Date and addressed to the Underwriter, to the effect that such opinion addressed to the District may be relied upon by the Underwriter to the same extent as if such opinion were addressed to the Underwriter;

(b) Supplemental Opinion. *A supplemental opinion of Bond Counsel, dated the Closing Date and addressed to the Underwriter, and dated the Closing Date, in form and substance acceptable to counsel for the Underwriter to the following effect:*

(i) the Community Facilities District Documents have been duly authorized, executed, and delivered by the District and constitute legal, valid and binding obligations of the District, enforceable in accordance with their respective terms, except as enforcement thereof may be limited by bankruptcy, insolvency, moratorium or other laws affecting enforcement of creditors' rights or by the application of equitable principles if equitable remedies are sought;

(ii) the City is duly organized and existing as a general law city under the laws of the State, and the District is duly organized and validly existing as a community facilities district under the Act;

(iii) the Special Tax constitutes a valid and legally binding lien on the properties upon which it has been levied;

(iv) the execution and delivery of the Community Facilities District Documents by the City, for itself or acting on behalf of the District, and compliance with the provisions thereof under the circumstances contemplated thereby, do not in any material respect conflict with or constitute on the part of the District or the City a violation or breach of, or default under, any existing law or regulation to which the District or the City is subject;

(v) the Bonds conform as to form and tenor to the descriptions thereof contained under the caption “THE BONDS” in the Official Statement, and the statements contained in the Official Statement under the captions “INTRODUCTION,” “THE BONDS,” “SECURITY FOR THE BONDS,” “TAX MATTERS,” APPENDIX A – “Summary of Certain Provisions of the Fiscal Agent Agreement,” and APPENDIX F – “Proposed Form of Bond Counsel Opinion,” insofar as such statements purport to summarize certain provisions of the Act, the Bonds, the Community Facilities District Documents, the Resolutions or applicable provisions of the United States Internal Revenue Code of 1986, are accurate in all material respects; and

(vi) the Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Fiscal Agent Agreement is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended;

(c) Opinion of City Attorney. An opinion of the City Attorney, dated the Closing Date and addressed to the Underwriter, substantially in the form of Appendix B hereto;

(d) Opinion of Counsel to Fiscal Agent. An opinion of counsel to the Fiscal Agent, dated the Closing Date and addressed to District, the City and the Underwriter, substantially in the form of Appendix C hereto;

(e) Opinion of Counsel to Underwriter. An opinion of McFarlin & Anderson LLP, Laguna Hills, California, as counsel to the Underwriter (“Underwriter’s Counsel”), dated the Closing Date and addressed to the Underwriter and the District concerning such matters as the Underwriter may request, substantially in the form of Appendix D hereto;

(f) Closing Certificate of City and District. A certificate of the City, for itself and on behalf of the District, dated the Closing Date, signed by a duly authorized representative of the City, substantially in the form of Appendix E hereto;

(g) Closing Certificate of Bank. A certificate of the Bank, dated the Closing Date, substantially in the form of Appendix F hereto;

(h) Bank Incumbency Certificate. A certified copy of a certificate of an officer of Wells Fargo Bank, National Association, certifying as to the incumbency, signature and signing authority of the officers who have executed and delivered the Fiscal Agent Agreement and agreed to accept the duties of the Fiscal Agent under the Fiscal Agent Agreement;

(i) Closing Certificate of Special Tax Consultant. A certificate of Willdan Financial Services Incorporated, as Special Tax Consultant (the "Special Tax Consultant"), dated the Closing Date, substantially in the form of Appendix G hereto;

(j) Certificate Regarding Boundaries of the District. A certificate of the Special Tax Consultant dated the Closing Date, substantially in the form of Appendix H hereto;

(k) Tax Certificate. A tax certificate dated the Closing Date and prepared by Bond Counsel, executed by the City for itself and the District and satisfactory to the Underwriter;

(l) City/District Documents. Fully executed copies of each of the Community Facilities District Documents;

(m) Official Statement. One copy of the Official Statement and each supplement or amendment, if any thereto, manually executed on behalf of the District, by their respective authorized officers, and such reasonable number of certified or conformed copies of the foregoing as the Underwriter may request in order to comply with Rule 15c2-12, applicable MSRB rules and other regulatory requirements relating to the issuance and sale of the Bonds;

(n) Resolutions and Ordinance. Copies certified by the City Clerk of the City of each Resolution and Ordinance of the District or the City relating to the Community Facilities District Documents (the "Formation Documents"), the transactions contemplated thereby, the formation of the District, the levy of the Special Tax or the issuance of the Bonds;

(o) Form 8038-G. Evidence that the federal tax information form 8038-G has been prepared by Bond Counsel for filing in connection with the Bonds;

(p) Issue Price Certificate. The certification of the Underwriter regarding the prices at which the Bonds have been reoffered to the public, in substantially the form attached as Appendix I;

(q) CDIAC Statements. Copies of the statements with respect to the sale of the Bonds required to be delivered to the California Debt and Investment Advisory Committee pursuant to Sections 53583 and 8855(g) of the California Government Code;

(r) Certificate of Developer. A certificate of Headlands Reserve LLC (the "Developer"), dated the Closing Date, pledging to provide to the City by December 15 of each year, commencing December 15, 2014, information about the development status of the parcels in the District, including information regarding the number of custom residential lots sold, the number of custom residential lots remaining to be sold and the status of ownership and development of the commercial parcels, as of November 1 of each year, until the ownership of the residential lots by the Developer and related entities is less than ten (10) lots;

(s) Letter of Representations. A copy of the Blanket Letter of Representations to DTC relating to the Bonds signed by the District;

(t) Certificate Regarding Review of Disclosure Compliance. A certificate of Willdan Financial Services Incorporated, substantially in the form of Appendix J hereto, dated the Closing Date and addressed to the Underwriter, the District and the City;

(u) Certificate of the Appraiser. A certificate of Harris Realty Appraisal, as Appraiser (the “Appraiser”), dated the Closing Date, substantially in the form of Appendix K hereto.

(v) Local Goals and Policies. A copy of the local goals and policies adopted pursuant to Section 53312.7 of the Act;

(w) Boundary Map. A copy of the recorded Boundary Map of the Community Facilities District;

(x) Notice of Special Tax Lien. A copy of the Notice of Special Tax Lien recorded with the County Recorder; and

(y) Additional Documents. Such additional legal opinions, certificates, instruments and other documents as the Underwriter or their counsel may reasonably deem necessary.

If the District shall be unable to satisfy the conditions contained in this Purchase Contract, or if the obligations of the Underwriter shall be terminated for any reason permitted by this Purchase Contract, this Purchase Contract shall terminate and neither the Underwriter nor the District shall be under further obligation hereunder, except as further set forth in Section 8 hereof.

Three transcripts (which may be in electronic form for the Underwriter and Underwriter’s Counsel) containing the documents listed in this Section, together with any other documents relating to the authorization and issuance of the Bonds, will be provided to the Underwriter, Underwriter’s Counsel and the Fiscal Agent within a reasonable time of the Closing Date.

#### **9. Costs and Expenses.**

(a) The Underwriter shall be under no obligation to pay, and the District shall pay or cause to be paid from any legally available funds, the following expenses incident to the issuance of the Bonds and performance of the obligations of the District hereunder: (i) the costs of the preparation and printing of the Bonds; (ii) the fees and disbursements of Bond Counsel; (iii) the cost of printing and mailing of the Preliminary Official Statement and Official Statement and any supplements and amendments thereto, including a reasonable number of copies thereof for distribution by the Underwriter; (iv) the fees and disbursements of the City Attorney, (v) the fee of \$2,500 to McFarlin & Anderson LLP to address their opinion to the District, and (vi) the fees and disbursements of accountants, advisers, appraisers and any other experts or consultants retained by the District or the City, including, without limitation, the fees and expenses of the Fiscal Agent and its counsel, the Financial Advisor and the Special Tax Consultant.

(b) The Underwriter shall pay the following expenses: (i) all advertising expenses in connection with the public offering of the Bonds; (ii) the CDIA fee; (iii) the CUSIP® Service Bureau fee; and (iv) all other expenses incurred by the Underwriter in connection with its public offering and distribution of the Bonds, including the fees and disbursements of Underwriter’s Counsel and “Blue Sky” fees, except as noted in Section 8(a) above.

**10. Notices.** Any notice or other communication to be given to the District or the City under this Purchase Contract may be given by delivering the same in writing to such entities at 33282 Golden Lantern, Dana Point, California 92629, Attention: Director of Administrative Services.

Any notice or other communication to be given to the Underwriter under this Purchase Contract may be given by delivering the same in writing to Stifel, Nicolaus & Company, Incorporated, One Montgomery Street, 35<sup>th</sup> Floor, San Francisco, California 94104 Attention: Sara Brown. Notices may be

given by personal or courier delivery, registered or certified mail, facsimile transmission or electronic communication, provided that delivery by facsimile transmission or electronic communication must be confirmed by the sender.

**1. Entire Agreement.** This Purchase Contract is made solely for the benefit of the District and the Underwriter (including their respective successors and assigns), and no other person shall acquire or have any right hereunder or by virtue hereof. The term "successor" shall not include any owner of any Bonds merely by virtue of such holding. All of the representations, warranties and agreements of the City, for itself and as the legislative body of the District, contained in this Purchase Contract shall remain operative and in full force and effect regardless of (i) any investigations made by or on behalf of the Underwriter, or (ii) delivery of any payment for the Bonds pursuant to this Purchase Contract. The agreements contained in this section and in Section 12 shall survive any termination of this Purchase Contract.

**12. Survival of Representations and Warranties.** All representations and warranties of the parties made in, pursuant to, or in connection with this Purchase Contract shall survive the execution and delivery of this Purchase Contract, notwithstanding any investigation by the parties. All statements contained in any certificate, instrument or other writing delivered by a party to this Purchase Contract or in connection with the transactions contemplated by this Purchase Contract constitute representations and warranties by such party under this Purchase Contract.

**13. Counterparts.** This Purchase Contract may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

**14. Severability.** In case any one or more of the provisions contained herein shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

**15. Governing Law.** The validity, interpretation and performance of this Purchase Contract shall be governed by the laws of the State of California.

**16. No Assignment.** The rights and obligations created by this Purchase Contract shall not be subject to assignment by the Underwriter or the District without the prior written consent of the other party hereto.

STIFEL, NICOLAUS & COMPANY,  
INCORPORATED

By: \_\_\_\_\_  
Title: Managing Director

Accepted as of the date first stated above:

COMMUNITY FACILITIES DISTRICT NO. 2006-1  
OF THE CITY OF DANA POINT

By: \_\_\_\_\_  
Mayor

Time of Execution: [Purchase Date], 2014  
\_\_\_ p.m. PST



## APPENDIX A

### MATURITY SCHEDULE

<u>Maturity Date</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>
<i>Serial Bonds:</i>				
2014	\$	%	%	
2015				
2016				
2017				
2018				
2019				
2020				
2021				
2022				
2023				
2024				
2025				
2026				
2027				
2028				
2029				
2030				
2031				
2032				
2033	_____			
Subtotal				
<i>Term Bonds:</i>				
2038	\$	%	%	
2045				

<sup>C</sup> Priced to call on March 1, 20\_\_ at a price of 103.

<sup>CC</sup> Priced to call on September 1, 20\_\_ at price of 100.

### REDEMPTION TERMS

**Optional Redemption.** The Bonds maturing on or prior to September 1, 2023, are not subject to optional redemption. The Bonds maturing on or after September 1, 2024, are subject to optional call and redemption prior to maturity, as a whole or in part, with maturities to be determined by the District and by lot within a maturity, on any Interest Payment Date on or after September 1, 2023, from funds derived by the District from any source, 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.

**Special Mandatory Redemption from Special Tax Prepayments.** The Bonds are subject to special mandatory redemption prior to maturity, as a whole or in part, to be determined by the District and by lot

within a maturity, on any Interest Payment Date on or after September 1, 2014 from prepayments of the Special Tax deposited in the Special Tax Prepayments Subaccount established under the Fiscal Agent Agreement, at a redemption price (expressed as a percentage of the principal amount of Bonds called for redemption) as set forth below, together with accrued interest thereon to the date fixed for redemption:

Redemption Dates	Redemption Prices
September 1, 2014 to and including March 1, 2021	103%
September 1, 2021 and March 1, 2022	102
September 1, 2022 and March 1, 2023	101
September 1, 2023 and thereafter	100

**Mandatory Sinking Payment Redemption.** The Bonds maturing on September 1, 2045 (the “2045 Term Bonds”), are subject to mandatory sinking payment redemption in part on September 1, 20\_\_, 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
20__	\$
2041	
2042	
2045	
2044	
2045 (maturity)	

The amounts in the foregoing tables shall be reduced as a result of any prior partial redemption of the Bonds pursuant to optional redemption or special mandatory redemption as specified in writing from an authorized officer to the Fiscal Agent.

**APPENDIX B****FORM OF OPINION OF CITY ATTORNEY**

[LETTERHEAD OF CITY ATTORNEY]

[Closing Date], 2014

Community Facilities District No. 2006-1  
of the City of Dana Point  
33282 Golden Lantern  
Dana Point, California 92629

Stifel, Nicolaus & Company, Incorporated  
One Montgomery Street, 35<sup>th</sup> Floor  
San Francisco, California 94104

**Re:                   Community Facilities District No. 2006-1  
                         of the City of Dana Point  
                         2014 Special Tax Bonds**

Ladies and Gentlemen:

We are the City Attorney for the City of Dana Point (the “City”) and have represented the City and Community Facilities District No. 2006-1 of the City of Dana Point (the “District”) in connection with the issuance of Community Facilities District No. 2006-1 of the City of Dana Point 2014 Special Tax Bonds (the “Bonds”). This opinion is provided pursuant to Section 8(c) of that certain Bond Purchase Contract, dated [Purchase Date], 2014 (the “Purchase Contract”), by and between the City, for itself and on behalf of the District, and Stifel, Nicolaus & Company, Incorporated, as underwriter. Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Purchase Contract.

As counsel to the District and the City in connection with the issuance, sale and delivery of the Bonds, we have examined the record of proceedings submitted to me relative to the issuance, sale and delivery of the Bonds, including, but not limited to, the form of the Bonds, the Resolutions, the Community Facilities District Documents, the Official Statement, various certifications provided by the District, the City and the Fiscal Agent, and documents and certifications relating to the Bonds and such other documents as are in our opinion necessary to enable me to express an informed opinion as to the matters discussed below.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions. The opinions may be affected by actions or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether or not any such actions or events have occurred. As to questions of fact material to our opinions, we have relied upon the documents and matters referred to above, and have not undertaken any independent investigation to verify the authenticity of signatures (other than those of the District or the City) or the accuracy of the factual matters represented, warranted or certified therein. In making our examination of the documents referenced herein, we have assumed that each party to the documents referenced herein, other than the District and the City, has the power to enter into and perform its obligations thereunder, has duly

authorized, executed and delivered such documents and that such documents constitute legal, valid and binding obligations of such party.

Based on the foregoing, we are of the opinion that:

(1) The City is a municipal corporation duly organized and existing under the laws of the State of California.

(2) The District is duly organized and validly existing as a community facilities district under the laws of the State, with full legal right, power and authority to issue the Bonds and to perform all of its obligations under the Bonds and the Community Facilities District Documents.

(3) The representations of the District and the City set forth in the Community Facilities District Documents are, as to all matters of law, true and accurate in all material respects on and as of the date hereof as though made on such date.

(4) The resolutions and ordinance adopted by the City Council of the City (the "City Council") (i) authorizing the formation of the District, (ii) authorizing the levy of the Special Tax, and (iii) approving the execution and delivery of the Bonds and the Community Facilities District Documents, were duly adopted at meetings of the City Council, which were called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout; and such resolutions and ordinance are in full force and effect and have not been modified, amended or rescinded as of the date hereof.

(5) The Special Tax constitutes a valid and legally binding lien on the properties upon which it has been levied.

(6) The City has full right and lawful authority to execute and deliver, individually or on behalf of the District, as applicable, the Community Facilities District Documents and the Official Statement; the Community Facilities District Documents and the Official Statement have been duly authorized, executed and delivered by the City for itself or on behalf of the District, as applicable; and the Community Facilities District Documents are legal, valid, and binding obligations of the District or the City, as applicable, enforceable in accordance with their respective terms, except as such enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws relating to or limiting creditors' rights generally and by the principles of equity if equitable remedies are sought.

(7) The execution and delivery of the Community Facilities District Documents and compliance by the District or the City with the provisions thereof, under the circumstances contemplated thereby, do not and will not in any material respect conflict with or constitute on the part of the District or the City a breach of or default under any agreement or other instrument applicable to or binding upon the District or the City or any existing law, regulation, court order or consent decree to which the District or the City is subject.

(8) The Official Statement has been duly executed and delivered on behalf of the City, acting for itself and on behalf of the District, by an authorized officer of the City.

(9) Except as stated in the Official Statement, there is no action, suit, proceeding or investigation before or by any court, public board or body pending with respect to which the District or the City has been served with process, or, to our knowledge, threatened, wherein an unfavorable decision, ruling or finding would: (a) affect the creation, organization, existence or powers of the District or the

City, or the titles of their respective officers or the City Council members to their respective offices; (b) enjoin or restrain the issuance, sale and delivery of the Bonds, the lien, the levy and the collection of the Special Tax, or the pledge thereof; (c) in any way question or affect any of the rights, powers, duties or obligations of the District or the City with respect to the Special Tax or the moneys and assets pledged or to be pledged to pay the principal of, premium, if any, or interest on the Bonds; (d) in any way question or affect any authority for the issuance of the Bonds, the validity or enforceability of the Bonds or the Community Facilities District Documents; (e) in any way question or affect the transactions contemplated by the Community Facilities District Documents or the Official Statement; (f) contesting in any way the completeness or accuracy of the Preliminary Official Statement or the Official Statement, or any amendment or supplement thereto; (g) except as disclosed in the Official Statement, wherein an unfavorable decision, ruling or finding would result in any material adverse change in the ability of the District to pledge the Net Taxes or to pay debt service on the Bonds; or (h) contesting the status of the interest on the Bonds as excludable from gross income for federal income tax purposes or as exempt from any applicable State tax.

(10) The statements in the Official Statement that purport to summarize the Formation Documents, the Community Facilities District Documents, the Rate and Method of Apportionment and the Special Tax fairly and accurately summarize the content thereof (excluding any financial or statistical data and forecasts included therein, as to which no opinion need be expressed).

We do not purport to express any opinion herein concerning any law other than the laws of the United States of America and the laws of the State of California.

We have not undertaken any duty and expressly disclaim any responsibility to advise you as to events occurring after the date hereof with respect to the Bonds or other matters discussed in the Official Statement.

This opinion is limited to the matters expressly set forth above, and no opinion is implied or may be inferred beyond the matters expressly so stated. This opinion is issued with all the exclusions and limitations set forth herein.

Respectfully submitted,

Rutan & Tucker, LLP

**APPENDIX C****FORM OF OPINION OF COUNSEL TO FISCAL AGENT**

[LETTERHEAD OF FISCAL AGENT'S COUNSEL]

[Closing Date], 2014

Community Facilities District No. 2006-1  
of the City of Dana Point  
33282 Golden Lantern  
Dana Point, California 92629

Stifel, Nicolaus & Company, Incorporated  
One Montgomery Street, 35<sup>th</sup> Floor  
San Francisco, California 94104

**Re: Community Facilities District No. 2006-1  
of the City of Dana Point  
2014 Special Tax Bonds**

Ladies and Gentlemen:

I am Senior Counsel for Wells Fargo & Company, the parent corporation of Wells Fargo Bank, National Association, a national banking association. As such, I have reviewed, or have had reviewed on my behalf, the provisions of (i) the Fiscal Agent Agreement, dated as of June 1, 2013 (the "Original Fiscal Agent Agreement"), by and between Community Facilities District No. 2006-1 of the City of Dana Point (the "District" and the "City," respectively) and Wells Fargo Bank, National Association, as fiscal agent (the "Fiscal Agent") as supplemented by a First Supplemental Fiscal Agent Agreement, dated as of [Authorization Month] 1, 2014, each by and between the District and the Fiscal Agent (the "Supplemental Fiscal Agent Agreement" and together, with the Original Fiscal Agent Agreement, the "Fiscal Agent Agreement") and the Bank, as Fiscal Agent, (ii) the Continuing Disclosure Agreement, dated as of [Authorization Month] 1, 2014 (the "Continuing Disclosure Agreement" and together with the Fiscal Agent Agreement, the "Agreements"), by and among the District, Willdan Financial Services, in its capacity as Dissemination Agent, and the Bank. In addition, I am generally familiar with the Articles of Association and the Bylaws of the Bank and am also familiar with the corporate proceedings of the Bank with regard to its authorization, execution and delivery of the Fiscal Agent Agreement and the Continuing Disclosure Agreement, which documents shall be collectively referred to hereinafter as the "Agreements." Capitalized terms used herein shall have the respective meanings ascribed to them in the Agreements, except as otherwise defined herein.

For purposes of this opinion, I have assumed the genuineness of all signatures, the authenticity of all documents submitted to me as originals and the conformity with originals of all documents submitted to me as copies (other than those of the Bank). In making my examination of documents executed by entities other than the Bank, I have assumed that each such other entity had the power to enter into and perform all its obligations thereunder and also have assumed the due authorization of all requisite action and due execution of such documents by each such entity. Where questions of fact material to my opinions



expressed below were not established independently, I have relied upon statements of officers of the Bank as contained in their certificates.

Based upon the foregoing, I am of the opinion that:

1. The Bank is a national banking association validly existing and in good standing under the laws of the United States of America.
2. The Bank is duly eligible and qualified to act as Fiscal Agent under the Fiscal Agent Agreement.
3. The Bank has all requisite power, authority and legal right to execute and deliver the Agreements and to perform its obligations under the Agreements and has taken all necessary corporate action to authorize the execution and delivery of and the performance of its obligations under the Agreements.
4. The Bank has duly executed and delivered the Agreements. Assuming the due authorization, execution and delivery thereof by the other parties thereto, the Agreements are the legal, valid and binding agreements of the Bank, enforceable in accordance with their terms, except to the extent enforceability thereof may be subject to (i) bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights and remedies heretofore or hereinafter enacted, and (ii) the application of equitable principles and the exercise of judicial discretion in appropriate cases.
5. The District's Bonds have been duly authenticated by the Bank.
6. The execution, delivery and performance of the Agreements does not now, and will not upon consummation of the transactions contemplated thereby in accordance with the existing terms thereof conflict with, result in a breach of or constitute a default under, any term or provision of the Articles of Association or Bylaws of the Bank, any existing term or provision of any agreement, contract, instrument or indenture of any nature whatsoever, known to me, to which the Bank is a party or by which it is bound, or, to my knowledge, any existing order, judgment, writ, injunction or decree of any court or governmental authority having jurisdiction over the Bank, nor will it, to my knowledge, conflict with or constitute a breach of or default under any law or administrative regulation to which the Bank is subject (except that no representation, warranty or agreement is made herein with respect to any federal or state securities or Blue Sky laws or regulations) or result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the property or assets of the Bank.
7. To my knowledge, there are no actions, proceedings or investigations pending or threatened against the Bank before any court, administrative agency or tribunal (i) asserting the invalidity of the Agreements, (ii) seeking to prevent the consummation of any of the transactions contemplated thereby, or (iii) that might materially and adversely affect the performance by the Bank of its obligations under, or the validity or enforceability of, the Agreements. For purposes of the foregoing, I have not regarded any actions, proceedings or investigations "threatened" unless the potential litigants or governmental authority has manifested to a member of the Wells Fargo & Company Law Department having responsibility for litigation matters involving the corporate trust activities of the Bank present intention to initiate such proceedings.

I advise you that I am admitted to practice in the State of Utah (the "State"), and do not purport to be an expert in or generally familiar with or qualified to express legal opinions based on the laws of any jurisdiction other than the federal laws of the United States ("Federal") and the State. In giving these opinions, I have assumed with your permission that the applicable laws of the State of California do not

differ in any material respect from applicable Federal and State laws. These opinions are further limited to such State and Federal laws in effect as of the date hereof.

The foregoing opinions are being furnished to you solely for your benefit and that of your counsel and may not be relied upon by, nor may copies be delivered to, any other person without my prior written consent, except that a copy of the opinion may be include in the transcript of the financing.

Very truly yours,

#### **APPENDIX D**

#### **FORM OF OPINION OF COUNSEL TO UNDERWRITER**

[Closing Date], 2014

Stifel, Nicolaus & Company, Incorporated  
One Montgomery Street, 35<sup>th</sup> Floor  
San Francisco, California 94104

Community Facilities District No. 2006-1  
of the City of Dana Point  
33282 Golden Lantern  
Dana Point, California 92629

**Re: Community Facilities District No. 2006-1  
of the City of Dana Point  
2014 Special Tax Bonds**

Ladies and Gentlemen:

We have acted as counsel for Stifel, Nicolaus & Company, Incorporated, as Underwriter, in connection with the Underwriter's purchase from the City of Dana Point, California (the "City"), for itself and as the legislative body of Community Facilities District No. 2006-1 of the City of Dana Point (the "District"), of its 2014 Special Tax Bonds in the aggregate principal amount of \$[Principal Amount] (the "Bonds"), pursuant to the Bond Purchase Contract, dated [Purchase Date], 2014 (the "Bond Purchase Contract"), between the City, for itself and as the legislative body of the District, and the Underwriter. The Bonds are being issued pursuant to a Fiscal Agent Agreement, dated as of June 1, 2013 (the "Original Fiscal Agent Agreement"), by and between the District and Wells Fargo Bank, National Association, as fiscal agent (the "Fiscal Agent") as supplemented by a First Supplemental Fiscal Agent Agreement, dated as of [Authorization Month] 1, 2014, by and between the District and the Fiscal Agent (the "Supplemental Fiscal Agent Agreement" and together, with the Original Fiscal Agent Agreement, the "Fiscal Agent Agreement"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Bond Purchase Contract.

In that connection, we have been furnished with and have reviewed certain portions of the Fiscal Agent Agreement, the Official Statement of the District dated [Purchase Date], 2014, the Bond Purchase Contract, certificates of the City, the District, the Fiscal Agent and others, the opinions referred to in Section 8 of the Bond Purchase Contract and such other records, opinions and documents as we have deemed appropriate as a basis for the conclusions hereinafter expressed. As to questions of fact material to the statements made below, we have relied upon representations and information supplied to us by representatives of the City, the District and upon representations and certificates of various other public officials. In the course of our

representation, nothing has come to our attention that caused us to believe that any of the factual representations upon which we have relied are untrue; but we have made no other factual investigations. We assume that any electronic version of the Official Statement is identical in all respects to the printed version.

In arriving at the conclusions hereinafter expressed, we are not expressing any opinion or view on, and with your permission are assuming and relying on, the validity, accuracy and sufficiency of the records, documents, certificates and opinions referred to above (including the accuracy of all factual matters represented and legal conclusions contained therein), including, without limitation, representations and legal conclusions regarding the due authorization, issuance, delivery, validity and enforceability of the Bonds, the exclusion of interest on the Bonds from gross income for federal income tax purposes, that interest on the Bonds is exempt from State of California personal income taxes, and the legality, validity and enforceability of the special taxes, the payments with respect to which are, pledged to the payment of the Bonds. We have assumed that all records, documents, certificates and opinions that we reviewed, and the signatures thereto, are genuine.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the opinion that the Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Fiscal Agent Agreement is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended.

We are not passing upon and do not assume any responsibility for the accuracy, completeness or fairness of any of the statements contained in the Official Statement and make no representation that we have independently verified the accuracy, completeness or fairness of any such statements. However, in our capacity as Underwriter's counsel, to assist the Underwriter in part of its responsibility with respect to the Official Statement, we participated in telephone conferences with representatives of the Underwriter, the City, the District, Rutan & Tucker, LLP, as bond counsel, Willdan Financial Services Incorporated, as special tax consultant, and others, during which conferences the contents of the Official Statement and related matters were discussed. No inquiry was made of other attorneys in our firm not working directly on the issuance of the Bonds who may have information material to the issuance. Based on our participation in the above-mentioned conferences (which did not extend beyond the date of the Official Statement) and in reliance thereon and on the records, documents, certificates and opinions herein mentioned (as set forth above), we advise you that, during the course of our representation of the Underwriter on this matter, no facts came to the attention of the attorneys in our firm rendering legal services to the Underwriter in connection with such representation which caused us to believe that the Official Statement as of its date and as of the Closing Date (except that no opinion is expressed as to any financial, statistical, economic, engineering or demographic data or forecasts, numbers, charts, tables, graphs, estimates, projections, assumptions or expressions of opinion, any information about feasibility, valuation, appraisals, market absorption, real estate, archaeological or environmental matters, the Appendices thereto or any information about debt service requirements, book-entry, The Depository Trust Company, any letter of credit or tax exemption included or referred to therein, which we expressly exclude from the scope of this paragraph and as to which we express no opinion or view) contained any untrue statement of a material fact or omitted to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

By acceptance of this letter you acknowledge that the preceding paragraph is neither a legal opinion nor a guarantee regarding the Official Statement; rather it is a statement of negative assurance regarding our view as to any material misstatements or omissions in the Official Statement based on the limited activities discussed above performed by the attorneys in our firm working on this matter as underwriter's counsel. We advise you that, other than reviewing the various certificates and opinions required by Section 8 of the Bond Purchase Contract regarding the Official Statement, we have not taken any steps since the date of the Official Statement to verify the accuracy of the statements contained in the Official Statement as of the date hereof.

We are furnishing this letter to you pursuant to Section 8(e) of the Bond Purchase Contract. Our engagement with respect to this matter has terminated as of the date hereof and we disclaim any obligation to update this letter. This letter is not to be used, circulated, quoted or otherwise referred to or relied upon for any other purpose or by any other person or to be filed with any governmental or other administrative agency or other person or entity for any purpose without our prior written consent. We express no opinion herein with respect to compliance with, or applicability of, any "blue sky" laws of any state as they relate to the offer or sale of the Bonds. This letter is not intended to, and may not, be relied upon by the owners of the Bonds or by any other party to whom it is not specifically addressed.

The foregoing represent our interpretation of applicable law to the facts as described herein. We bring to your attention that our legal opinion and conclusions are an expression of professional judgment and are not a guarantee of a result.

Very truly yours,

MCFARLIN & ANDERSON LLP

#### **APPENDIX E**

**§[Principal Amount]  
COMMUNITY FACILITIES DISTRICT NO. 2006-1  
OF THE CITY OF DANA POINT  
2014 SPECIAL TAX BONDS**

**CLOSING CERTIFICATE OF CITY AND DISTRICT**

The undersigned, on behalf of the City of Dana Point, California (the "City"), for itself and on behalf of Community Facilities District No. 2006-1 of the City of Dana Point (the "District"), hereby makes the following certifications pursuant to Section 8(f) of the Bond Purchase Contract, dated [Purchase Date], 2014 (the "Purchase Contract"), by and between the City, for itself and on behalf of the District, and Stifel, Nicolaus & Company, Incorporated, as underwriter. Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Purchase Contract.

- (1) I am a duly authorized officer of the City and, as such, I am familiar with the facts herein certified and authorized and qualified to certify the same.
- (2) The representations and warranties of the District and the City contained in the Purchase Contract are true and correct in all material respects on and as of the Closing Date as if made on the Closing Date.
- (3) The District and the City have complied with all agreements and covenants and satisfied all conditions on their part to be complied with or satisfied under the Purchase Contract at or prior to the Closing Date.
- (4) The resolutions adopted by the City Council of the City (the "City Council") (i) authorizing the formation of the District, (ii) authorizing the levy of the Special Tax and (iii) approving the execution and delivery of the Bonds and the Community Facilities District Documents, were duly adopted at meetings of the City Council, which were called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout; and such resolutions are in full force and effect and have not been modified, amended or rescinded as of the date hereof.

(5) No authorization, approval, consent or other order of any governmental entity or regulatory authority having jurisdiction over the activities of the District or the City that has not been obtained is or will be required for the valid authorization, execution and delivery of the Community Facilities District Documents by the City or the performance by the City of its obligations under the Community Facilities District Documents.

(6) No event affecting the District or the City has occurred since the date of the Official Statement which should be disclosed in the Official Statement in order to make the statements therein with respect to the District or the City not misleading in any material respect.

Dated: [Closing Date], 2014

COMMUNITY FACILITIES DISTRICT NO.  
2006-1 OF THE CITY OF DANA POINT

By: \_\_\_\_\_  
Authorized Signatory

#### **APPENDIX F**

**\$(Principal Amount)**  
**COMMUNITY FACILITIES DISTRICT NO. 2006-1**  
**OF THE CITY OF DANA POINT**  
**2014 SPECIAL TAX BONDS**

#### **CLOSING CERTIFICATE OF BANK**

The undersigned, on behalf of Wells Fargo Bank, National Association (the "Bank"), acting as fiscal agent under that certain Fiscal Agent Agreement, dated as of June 1, 2013 (the "Original Fiscal Agent Agreement"), by and between the Community Facilities District No. 2006-1 of the City of Dana Point (the "District") and the Bank as supplemented by a First Supplemental Fiscal Agent Agreement, dated as of [Authorization Month] 1, 2014, by and between the District and the Bank (the "Supplemental Fiscal Agent Agreement" and together, with the Original Fiscal Agent Agreement, the "Fiscal Agent Agreement"). and the Continuing Disclosure Agreement, dated as of [Closing Month] 1, 2014 (the "Continuing Disclosure Agreement"), by and among the District, Willdan Financial Services Incorporated, in its capacity as Dissemination Agent, and the Bank, hereby makes the following certifications pursuant to Section 8(g) of the Bond Purchase Contract, dated [Purchase Date], 2014 (the "Purchase Contract"), by and between the District and Stifel, Nicolaus & Company, Incorporated, as underwriter. Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Purchase Contract.

(1) I am a duly authorized officer of the Bank and, as such, I am familiar with the facts herein certified and authorized and qualified to certify the same.

(2) The Bank has been duly organized and is validly existing and in good standing as a national banking association under the laws of the United States of America, with full corporate power to undertake its obligations under each of the Fiscal Agent Agreement and the Continuing Disclosure Agreement (collectively, the "Agreements").

(3) The Bank has duly authorized, executed and delivered each of the Agreements and by all proper corporate action has authorized the acceptance of its respective obligations thereunder.

(4) The Bonds have been validly authenticated and delivered by the Bank in accordance with the terms of the Fiscal Agent Agreement.

(5) Pursuant to the Fiscal Agent Agreement, the Bank will apply the proceeds from the Bonds to the purposes specified in the Fiscal Agent Agreement.

(6) No authorization, approval, consent, or other order of any governmental entity or regulatory authority having jurisdiction over the banking and trust activities of the Bank that has not been obtained is or will be required for the valid authorization, execution and delivery of the Agreements by the Bank or the performance by the Bank of its obligations under the Agreements.

(7) The execution and delivery by the Bank of the Agreements, and compliance with the respective provisions thereof, will not conflict with or constitute a breach of or default under, the Bank's duties or obligations under any law, administrative regulation, court decree, resolution, charter, bylaws, agreement, instrument or commitment applicable to or binding upon the Bank.

(8) The Bank is duly authorized to accept the obligations created by the Agreements and to authenticate the Bonds pursuant to the terms of the Fiscal Agent Agreement, and the Bank has authenticated and delivered the Bonds in accordance with the terms of the Fiscal Agent Agreement.

Dated: [Closing Date], 2014

WELLS FARGO BANK, NATIONAL  
ASSOCIATION, as Fiscal Agent

By:

\_\_\_\_\_  
Authorized Signatory

## **APPENDIX G**

**\$(Principal Amount)  
COMMUNITY FACILITIES DISTRICT NO. 2006-1  
OF THE CITY OF DANA POINT  
2014 SPECIAL TAX BONDS**

### **CLOSING CERTIFICATE OF SPECIAL TAX CONSULTANT**

The undersigned, on behalf of Willdan Financial Services Incorporated (the "Special Tax Consultant"), hereby makes the following certifications pursuant to Section 8(i) of the Bond Purchase Contract, dated [Purchase Date], 2014 (the "Purchase Contract"), by and between Community Facilities District No. 2006-1 of the City of Dana Point (the "District" and the "City," respectively), and Stifel, Nicolaus & Company, Incorporated, as underwriter. Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Purchase Contract.



(1) The undersigned is an authorized officer of the Special Tax Consultant and, as such, is familiar with the facts herein certified and is authorized and qualified to certify the same.

(2) The Special Tax Consultant assisted the City, acting as the legislative body of the District, in the administration of the Rate and Method of Apportionment of Special Tax (the "Rate and Method") as set forth in Appendix B to the Official Statement for the Bonds.

(3) The Special Tax, if levied and collected in accordance with the Rate and Method, will annually yield sufficient revenue to make timely payments of the principal of and interest on the Bonds and to pay annual administrative expenses of the District and the City related to the levy and collection of the Special Tax (no representation is made as to the actual amounts that will be collected in future years).

(4) That the Special Taxes, if collected in the maximum amounts permitted pursuant to the Rate and Method, would generate estimated administrative expense of \$50,000 (escalating each year in accordance with the Fiscal Agent Agreement), plus at least 110% of the maximum debt service payable with respect to the Bonds, payable from such Special Taxes, assuming that the debt service schedule shown in the Official Statement is true and correct.

(5) All information supplied by the Special Tax Consultant for use in the Official Statement is true and correct, and, as of the date of the Official Statement and as of the date hereof, the information contained in the Official Statement relating to the District, the Special Tax and the Rate and Method, and any other data or information provided by the Special Tax Consultant and included in the Official Statement, does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading.

[UPDATE]

(6) As of the date of the Official Statement and as of the date hereof, the information contained in those portions of the Official Statement entitled "INTRODUCTION – Professionals Involved in the Offering," "SECURITY FOR THE BONDS – Rate and Method," "THE DISTRICT – Property Ownership," "– Value-to-Lien Ratio; Fiscal Year 2013-14 Special Tax Levy," "– Special Tax Levy by Land Use Category," "– Special Tax Collections," "– Top Owners of Taxable Property," "– Estimated Assessed Values," and "– Estimated Value to Lien Ratios," "PROFESSIONAL FEES," Appendix B and Appendix E, and the other data provided by the Special Tax Consultant and included in the Official Statement, does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading.

The District and Stifel, Nicolaus & Company, Incorporated, are entitled to rely on this Certificate.

Dated: [Closing Date], 2014

WILLDAN FINANCIAL SERVICES  
INCORPORATED

By: \_\_\_\_\_  
Authorized Representative

**APPENDIX H**

**CERTIFICATE REGARDING BOUNDARIES  
OF THE COMMUNITY FACILITIES DISTRICT**

Community Facilities District No. 2006-1  
of the City of Dana Point  
33282 Golden Lantern  
Dana Point, California 92629

Stifel, Nicolaus & Company, Incorporated  
One Montgomery Street, 35<sup>th</sup> Floor  
San Francisco, California 94104

The undersigned authorized representative of Willdan Financial Services Incorporated hereby certifies the following:

The parcels set forth on Exhibit A hereto have been included within the boundaries of Community Facilities District No. 2006-1 of the City of Dana Point (the "District").

There have been no lot line adjustments affecting the boundaries of the District which would affect the taxability of parcels included within such District.

Dated: [Closing Date], 2014

WILLDAN FINANCIAL SERVICES  
INCORPORATED

By: \_\_\_\_\_  
Authorized Representative

**EXHIBIT A****COMMUNITY FACILITIES DISTRICT NO. 2006-1  
OF THE CITY OF DANA POINT  
2014 SPECIAL TAX BONDS**

List of Parcels Included Within  
the Boundaries of  
the Community Facilities District  
Orange County

Note: Acreages are based on Assessor's Parcel Map information and are approximate.

**APPENDIX I****COMMUNITY FACILITIES DISTRICT NO. 2006-1  
OF THE CITY OF DANA POINT  
2014 SPECIAL TAX BONDS****UNDERWRITER ISSUE PRICE CERTIFICATE**

The undersigned, on behalf of Stifel, Nicolaus & Company, Incorporated, as Underwriter ("Underwriter") of the \$[Principal Amount] Community Facilities District No. 2006-1 of the City of Dana Point 2014 Special Tax Bonds (the "Bonds"), hereby makes the representations, and provides the certifications, contained in this certificate based on the information available to it concerning the Bonds to the City of

Dana Point Community Facilities District No. 2006-1 (the “Community Facilities District”) and Rutan & Tucker, LLP, Bond Counsel, as follows:

**1. Issue Price.**

1.1 As of the date a purchase contract was signed with respect to the Bonds (the “Sale Date”), we reasonably expected to sell a substantial amount of each maturity (i.e., at least 10%) of the Bonds to the general public (excluding bond houses, brokers, or similar persons acting in the capacity of underwriter or wholesalers) in a bona fide public offering at the prices listed on Attachment A (the “Initial Offering Prices”).

1.2 In our opinion, and based upon our estimate as of the Sale Date, the Initial Offering Prices of the Bonds set forth in Schedule A are within a reasonable range of, and should reflect, the fair market prices of the Bonds as of the Sale Date.

1.3 As of the date of execution of the attached Tax Exemption Certificate, all of the Bonds have actually been offered to the general public at the prices listed in Attachment A.

1.4 As of the Sale Date, at least 10% of each maturity of the Bonds [(excluding the Bond maturities for \_\_\_\_\_)] was initially sold to the general public for the respective Initial Offering Prices.

**2. Reserve Fund.**

The funding of the Reserve Fund as provided in the Tax Certificate is reasonably required, was a vital factor in marketing the Bonds, facilitated the marketing of the Bonds at an interest rate comparable to that of bonds and other tax-exempt obligations of a similar type and is not in excess of the amount necessary for such purpose.

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### 3. Defined Terms

Capitalized terms used in this certificate, unless otherwise defined herein or in the Fiscal Agent Agreement, dated as of June 1, 2013 (the “Original Fiscal Agent Agreement”), by and between the District and Wells Fargo Bank, National Association, as fiscal agent (the “Fiscal Agent”) as supplemented by a First Supplemental Fiscal Agent Agreement, dated as of [Authorization Month] 1, 2014, by and between the District and the Fiscal Agent (the “Supplemental Fiscal Agent Agreement” and together, with the Original Fiscal Agent Agreement, the “Fiscal Agent Agreement”). shall have the meaning(s) given to such terms in the Tax Certificate provided in connection with the execution and delivery of the Bonds.

Dated: [Closing Date], 2014

STIFEL, NICOLAUS & COMPANY,  
INCORPORATED, as Underwriter

By: \_\_\_\_\_  
Managing Director

## APPENDIX J

### CERTIFICATE REGARDING COMPLIANCE WITH CONTINUING DISCLOSURE OBLIGATIONS

Community Facilities District No. 2006-1  
of the City of Dana Point  
33282 Golden Lantern  
Dana Point, California 92629

Stifel, Nicolaus & Company, Incorporated  
One Montgomery Street, 35<sup>th</sup> Floor  
San Francisco, California 94104

The undersigned authorized representative of Willdan Financial Services Incorporated hereby certifies the following:

1. Willdan Financial Services Incorporated has served as dissemination agent with respect to an existing continuing disclosure undertaking of the City of Dana Point (the “City”) with respect to Community Facilities District No. 2006-1 of the City of Dana Point (the “District”) for more than five years. During the last five years, the City has no other outstanding obligations whether for itself or with respect to an assessment district, a reassessment district or a community facilities district financing.

2. In our role as dissemination agent, we assist in the preparation of the annual reports required under the undertaking with respect to the District’s outstanding bonds, and it is our practice to review the content of the filings and the requirements of the disclosure undertaking to assure that required information is included in each annual report.

3. The annual reports made for each of the past five years have been made in a timely manner consistent with the requirements of the applicable undertaking.

4. For the past five years, with respect to significant event notices, such as those relating to redemption of bonds, notices of the applicable event have been made within a reasonable time period.

Dated: [Closing Date], 2014

WILLDAN FINANCIAL SERVICES  
INCORPORATED

By: \_\_\_\_\_  
Authorized Representative

#### **APPENDIX K**

### **COMMUNITY FACILITIES DISTRICT NO. 2006-1 OF THE CITY OF DANA POINT 2014 SPECIAL TAX BONDS**

#### **CLOSING CERTIFICATE OF APPRAISER**

The undersigned, on behalf of Harris Realty Appraisal (the "Appraiser"), hereby makes the following certifications pursuant to Section 8(u) of the Bond Purchase Contract, dated [Purchase Date], 2014 (the "Purchase Agreement"), by and between the Community Facilities District No. 2006-1 of the City of Dana Point (the "District"), and Stifel, Nicolaus & Company, Incorporated, as underwriter. Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Purchase Agreement.

1. The Appraiser has prepared the appraisal report on the property located within the District, dated November 10, 2013 (the "Appraisal").
2. The form of the Appraisal set forth in Appendix C of the Official Statement may be included by the Underwriter in the Preliminary Official Statement and the Official Statement.
3. All information supplied by the Appraiser for use in the Official Statement is true and correct, and, as of the date of the Official Statement and as of the date hereof, neither the Appraisal nor the information under the captions "INTRODUCTION – Appraisal," and "Professionals Involved in the Offering," "SECURITY FOR THE BONDS – Appraised Property Values," "THE DISTRICT – Value to Lien Ratios; Fiscal Year 2014-15 Special Tax Levy," "– Special Tax Levy by Land Use Category," "– Top Owners of Taxable Property," "– Appraised Value to Burden Ratio," and "– Estimated Value to Lien Ratios," "RISK FACTORS – Assessed Property Values and Value-to-Lien Ratios" and "PROFESSIONAL FEES," contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.
4. No events or occurrences have been ascertained by the Appraiser or have come to its attention that would materially change the opinion set forth in its Appraisal.

Dated: [Closing Date], 2014

HARRIS REALTY APPRAISAL

By: \_\_\_\_\_  
Authorized Signatory

**COMMUNITY FACILITIES DISTRICT NO. 2006-1  
OF THE CITY OF DANA POINT  
2014 SPECIAL TAX BONDS**

**RULE 15c2-12 CERTIFICATE**

The undersigned hereby certifies and represents that he is the City Manager of the City of Dana Point (the "City"), and, as such, is duly authorized pursuant to Resolution No. 13-05-07-03 to execute and deliver this Certificate and further hereby certifies and reconfirms on behalf of Community Facilities District No. 2006-1 of the City of Dana Point (the "District") as follows:

1. This Certificate is delivered in connection with the offering and sale of the COMMUNITY FACILITIES DISTRICT NO. 2006-1 OF THE CITY OF DANA POINT 2014 SPECIAL TAX BONDS (the "Bonds"), in order to enable the underwriter of the Bonds to comply with Securities and Exchange Commission Rule 15c2-12 under the Securities Exchange Act of 1934 (the "Rule").
2. In connection with the offering and sale of the Bonds there has been prepared a Preliminary Official Statement, setting forth information concerning the Bonds, the District and the City (the "Preliminary Official Statement").
3. As used herein, "Permitted Omissions" shall mean the offering price(s), interest rate(s), selling compensation, aggregate principal amount, principal amount per maturity, dates of mandatory sinking fund redemption, delivery dates, ratings and other terms of the Bonds depending on such matters, all with respect to the Bonds.
4. The Preliminary Official Statement is, except for the Permitted Omissions, deemed final as of its date within the meaning of Rule 15c2-12.

IN WITNESS WHEREOF, I have hereunto set my hand as of [POS Date], 2014.

COMMUNITY FACILITIES DISTRICT NO. 2006-1  
OF THE CITY OF DANA POINT

By: \_\_\_\_\_  
Name:  
Title:



**SUPPORTING DOCUMENT D**

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**FIRST SUPPLEMENTAL FISCAL AGENT AGREEMENT**

**Dated as of January 1, 2014**

**by and between the**

**COMMUNITY FACILITIES DISTRICT NO. 2006-1 OF THE  
CITY OF DANA POINT**

**and**

**WELLS FARGO BANK, NATIONAL ASSOCIATION**

**as Fiscal Agent**

**Relating to:**

**\$ \_\_\_\_\_**

**Community Facilities District No. 2006-1 of the  
City of Dana Point  
2014 Special Tax Bonds**

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# **FIRST SUPPLEMENTAL FISCAL AGENT AGREEMENT**

§ \_\_\_\_\_

## **Community Facilities District No. 2006-1 of the City of Dana Point 2014 Special Tax Bonds**

**THIS FIRST SUPPLEMENTAL FISCAL AGENT AGREEMENT** (the “Agreement”) is made and entered into as of January 1, 2014, by and between the Community Facilities District No. 2006-1 of the City of Dana Point (the “District”), and Wells Fargo Bank, National Association, a national banking association duly organized and existing under the laws of the United States of America, as fiscal agent (the “Fiscal Agent”).

### **R E C I T A L S**

A. The City Council of the City of Dana Point (the “City Council”) has formed the District under the provisions of the Mello-Roos Community Facilities Act of 1982, as amended (Section 53311, et seq. of the California Government Code) (the “Act”) and Resolution No. 06-06-14-11 of the City Council of the City of Dana Point adopted on June 14, 2006 (the “Resolution of Formation”);

B. The City Council, as the legislative body of the District, is authorized under the Act to levy special taxes to pay for the costs of facilities and services within the District and to authorize the issuance of bonds secured by said special taxes levied for facilities under the Act;

C. Under the provisions of the Act, on May 7, 2013, the City Council adopted its Resolution No. 13-05-07-03, which authorized the issuance and sale of the Community Facilities District No. 2006-1 of the City of Dana Point 2013 Special Tax Bonds (the “2013 Bonds”), in the aggregate principal amount of not to exceed \$17,885,000, provided that such issuance would be in accordance with the Act and the Fiscal Agent Agreement, and raised funds to pay additional costs of the project and authorized the execution thereof;

D. The 2013 Bonds refunded the District’s 2008 Special Tax Bonds (the “2008 Bonds”) and raised funds to pay additional costs of the Project;

E. The City Council has determined that it is in the public interest to provide additional funds to the District through the issuance of the 2014 Special Tax Bonds (the “2014 Bonds”) on parity with the 2013 Bonds;

F. It is in the public interest and for the benefit of the City, the District and the owners of the 2014 Bonds (the “Owners”) that the District enter into this Agreement to provide for the issuance of the 2014 Bonds, the disbursement of proceeds of the Bonds, the disposition of the special taxes securing the 2014 Bonds and the administration and payment of the 2014 Bonds; and

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G. The District has determined that all things necessary to cause the 2014 Bonds, when executed by the District and issued as in the Act, the Resolution and this Agreement to be legal, valid and binding, and special obligations of the District in accordance with their terms, and all things necessary to cause the creation, authorization, execution and delivery of this Agreement and the creation, authorization, execution and issuance of the 2014 Bonds, subject to the terms hereof, have in all respects been duly authorized.

**NOW, THEREFORE, IN CONSIDERATION** of the covenants and provisions herein set forth and for other valuable consideration the receipt and sufficiency of which are hereby acknowledged, the parties hereto do hereby agree as follows:

## ARTICLE I

### STATUTORY AUTHORITY AND DEFINITIONS

#### **Section 1.01** Authority for this Agreement.

This Agreement is entered into pursuant to the provisions of the Act and the Resolution.

#### **Section 1.02** Agreement for Benefit of Owners.

The provisions, covenants and agreements herein set forth to be performed by or on behalf of the District are for the equal benefit, protection and security of the Owners. All of the Bonds, without regard to the time or times of their issuance or maturity, will be of equal rank without preference, priority or distinction of any of the Bonds over any other thereof, except as expressly provided in or permitted by this Agreement. The Fiscal Agent may become the Owner of any of the Bonds in its own or any other capacity with the same rights it would have if it were not Fiscal Agent.

#### **Section 1.03** Definitions.

Unless the context otherwise requires, for all purposes of this Agreement, of any Supplemental Agreement, and of any certificate, opinion or other document herein mentioned, the terms defined in this Section 9.03 have the meanings herein specified. All references herein to "Articles," "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Agreement, and the words "herein," "hereof," "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Article, Section or subdivision hereof.

**"Acquisition Agreement"** means that certain Acquisition Agreement by and between the City of Dana Point and Headlands Reserve LLC, dated as of June 1, 2006, as amended on November 8, 2006, December 14, 2009 and February 18, 2014 and as it may be further amended from time to time.

**"Act"** means the Mello-Roos Community Facilities Act of 1982, as amended, being Sections 53311 et seq. of the California Government Code.

**"Administrative Expenses"** means the following actual or reasonably estimated costs

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directly related to the administration of the District: the costs of computing the Special Taxes and of preparing the annual Special Tax collection schedules (whether by the Director of Administrative Services or designee thereof or both); the costs of collecting the Special Taxes (whether by the County or otherwise); the costs of remitting the Special Taxes to the Fiscal Agent for the Bonds; the costs of the Fiscal Agent (including its legal counsel) in the discharge of the duties required of it under this Fiscal Agent Agreement; the costs of the District or its designee in complying with the disclosure requirements of applicable federal and state securities laws and of the Act, the District's Continuing Disclosure Certificate and this Agreement including those related to public inquiries regarding the Special Tax and disclosures to Owners and the Original Purchaser; the costs of the District or its designee related to any appeal of the Special Tax; any amounts required to be rebated to the federal government in order for the City to comply with Section 5.12; and an allocable share of the salaries of the City staff directly relating to the foregoing. Administrative Expenses shall also include amounts advanced by the City for any other administrative purposes of the District, including, but not limited to, costs related to prepayments of Special Taxes; recordings related to the prepayment, discharge or satisfaction of Special Taxes; amounts advanced to ensure compliance with Section 5.12; and the costs of commencing and pursuing to completion any foreclosure action arising from delinquent Special Taxes.

**“Administrative Expense Fund”** means the fund by that name established by Section 4.07(A) hereof.

**“Agreement”** means this First Supplemental Fiscal Agent Agreement, as it may be amended or supplemented from time to time by any additional Supplemental Agreement adopted pursuant to the provisions hereof.

**“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 Sections 2.03(A)(iii) and (iv), 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 Sections 2.03(A)(iii) and (iv)).

**“Auditor”** means the auditor/controller of the County of Orange.

**“Authorized Investments”** or **“Qualified Investments”** means, subject to applicable law:

1. (a) Direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America (“United States Treasury Obligations”), (b) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America, (c) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America, or (d) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed

directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.

2. Federal Housing Administration debentures.

3. The listed obligations of government-sponsored agencies which are not backed by the full faith and credit of the United States of America:

- Federal Home Loan Mortgage Corporation (FHLMC)  
Participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)  
Senior Debt obligations
- Farm Credit Banks (formerly: Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives) Consolidated system-wide bonds and notes
- Federal Home Loan Banks (FHL Banks)  
Consolidated debt obligations
- Federal National Mortgage Association (FNMA)  
Senior debt obligations
- Mortgage-backed securities (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)
- Student Loan Marketing Association (SLMA)  
Senior debt obligations (excluded are securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date)
- Financing Corporation (FICO)  
Debt obligations
- Resolution Funding Corporation (REFCORP)  
Debt obligations

4. Unsecured certificates of deposit, time deposits, deposit accounts and bankers' acceptances (having maturities of not more than 30 days) of any bank the short-term obligations of which are rated "A-1" or better by S&P, including the Fiscal Agent and its affiliates.

5. Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC), in banks which have capital and surplus of at least \$5 million.

6. Commercial paper (having original maturities of not more than 270 days rated at least "A-1+" by S&P and "Prime-1" by Moody's).

7. Money market funds rated “AAm” or “Aam-G” by S&P, or better (including funds for which the Fiscal Agent and its affiliates provide investment advisory or other management services).

8. “State Obligations,” which means:

A. Direct general obligations of any state of the United States of America or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated “A3” by Moody’s and “A” by S&P, or better, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated.

B. Direct general short-term obligations of any state agency or subdivision or agency thereof described in (A) above and rated “A-1+” or better by S&P and “Prime-1” or better by Moody’s.

C. Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state, state agency or subdivision described in (A) above and rated “AA” or better by S&P and “Aa” or better by Moody’s.

9. Pre-refunded municipal obligations rated “AAA” by S & P and “Aaa” by Moody’s meeting the following requirements:

A. the municipal obligations are (1) not subject to redemption prior to maturity or (2) the trustee for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions;

B. the municipal obligations are secured by cash or United States Treasury Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations;

C. the principal of and interest on the United States Treasury Obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on the municipal obligations (“Verification”);

D. the cash or United States Treasury Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations;

E. no substitution of a United States Treasury Obligation shall be permitted except with another United States Treasury Obligation and upon delivery of a new Verification; and

F. the cash or United States Treasury Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent.

10. Repurchase agreements:

With (1) any domestic bank (including the Fiscal Agent), or domestic branch of a foreign bank, the long term debt of which is rated at least “A” by S&P and Moody’s; or (2) any broker-dealer with “retail customers” or a related affiliate thereof which broker-dealer has, or the parent company (which guarantees the provider) of which has, long-term debt rated at least “A” by S&P and Moody’s, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation; or (3) any other entity rated “A” or better by S&P and Moody’s, provided that:

A. The market value of the collateral is maintained at levels and upon such conditions as would be acceptable to S&P and Moody’s to maintain an “A” rating in an “A” rated structured financing (with a market value approach);

B. The Fiscal Agent or a third party acting solely as agent therefor or for the District (the “Holder of the Collateral”) has possession of the collateral or the collateral has been transferred to the Holder of the Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferees books);

C. In the case of Public Securities Association Master Repurchase Agreements, the repurchase agreement shall state and an opinion of counsel shall be rendered at the time such collateral is delivered that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);

D. All other requirements of S&P and Moody’s in respect of repurchase agreements shall be met;

E. In the case of Public Securities Association Master Repurchase Agreements, the repurchase agreement shall provide that if during its term the provider’s rating by either Moody’s or S&P is withdrawn or suspended or falls below “A-” by S&P or “A3” by Moody’s, as appropriate, the provider must, at the direction of the District or the Fiscal Agent, within 10 days of receipt of such direction, repurchase all collateral and terminate the agreement, with no penalty or premium to the District or Fiscal Agent.

Notwithstanding the above, if a repurchase agreement has a term of 270 days or less (with no evergreen provision), collateral levels need not be as specified in (A) above, so long as such collateral levels are 103% or better and the provider is rated at least “A” by S&P and Moody’s, respectively.

11. Investment agreements with a domestic or foreign bank or corporation the long-term debt of which or, in the case of a guaranteed corporation the long-term debt, or, in the case of an insurance company, the long-term debt paying ability, of the guarantor is rated at least “AA” by S&P and “Aa” by Moody’s; provided that, by the terms of the investment agreement:

A. interest payments are to be made to the Fiscal Agent at times and in amounts as necessary to pay debt service (or, if the investment agreement is for the Improvement Fund, construction draws) on the Bonds;

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B. the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven days' prior notice; the District and the Fiscal Agent hereby agree to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;

C. the investment agreement shall state that it is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof;

D. the District and the Fiscal Agent receives the opinion of domestic counsel (which opinion shall be addressed to the District and the Fiscal Agent) that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and of foreign counsel (if applicable) in form and substance acceptable, and addressed to the District, and the Fiscal Agent;

E. the investment agreement shall provide that if during its term

(1) the provider's rating by either S&P or Moody's falls below "AA-" or "Aa3", respectively, the provider shall, at its option, within 10 days of receipt of publication of such downgrade, either (i) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the Fiscal Agent or a third party acting solely as agent therefor (the "Holder of the Collateral") collateral free and clear of any third-party liens or claims the market value of which collateral is maintained at levels and upon such conditions as would be acceptable to S&P and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach); or (ii) repay the principal of and accrued but unpaid interest on the investment; and

(2) the provider's rating by either S&P or Moody's is withdrawn or suspended or falls below "A-" or "A3", respectively, the provider must, at the direction of the District or the Fiscal Agent, within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the District or Fiscal Agent;

F. The investment agreement shall state and an opinion of counsel shall be rendered, in the event collateral is required to be pledged by the provider under the terms of the investment agreement at the time such collateral is delivered, that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession); and

G. The investment agreement must provide that if during its term

(1) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the District or the Fiscal Agent be accelerated and amounts invested and accrued, but unpaid interest thereon shall be repaid to the District or Fiscal Agent, as appropriate; and

(2) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("event of insolvency"), the

provider's obligations shall automatically be accelerated and amounts invested and accrued, but unpaid interest thereon shall be repaid to the District or Fiscal Agent, as appropriate.

12. The State of California's Local Agency Investment Fund ("LAIF") established by Government Code Section 16429.1. The Fiscal Agent may restrict investments in LAIF if required to keep money available for the purposes of this Agreement.

**"Authorized Amount"** means the \$45,000,000 principal amount of Bonds provided for in the Acquisition Agreement.

**"Authorized Officer"** means the City Manager, the Assistant City Manager, the Director of Administrative Services, or any other officer or employee authorized by the City Council of the City or by an Authorized Officer to undertake the action referred to in this Agreement as required to be undertaken by an Authorized Officer.

**"Bond Counsel"** means Rutan & Tucker, LLP or any attorney or firm of attorneys selected by the District with expertise in rendering opinions as to the legality and tax-exempt status of securities issued by public entities.

**"Bond Fund"** means the fund by that name established by Section 4.05(A).

**"Bond Register"** means the books for the registration and transfer of Bonds maintained by the Fiscal Agent under Section 10.08 of the Fiscal Agent Agreement.

**"Bond Year"** with respect to the 2014 Bonds means the one-year period beginning on September 2nd in each year and ending on September 1st in the following year, except that the first Bond Year will begin on the Closing Date and end on September 1, 2014.

**"Bonds"** means the 2013 Bonds and the 2014 Bonds and any Parity Bonds issued hereunder.

**"2014 Bonds"** means Community Facilities District No. 2006-1 of the City of Dana Point, 2014 Special Tax Bonds.

**"2013 Bonds"** means the Community Facilities District No. 2006-1 of the City of Dana Point 2013 Special Tax Bonds.

**"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 Fiscal Agent has its principal corporate trust office are authorized or obligated by law or executive order to be closed.

**"Capitalized Interest Account"** means the fund by that name established as a subaccount of the Bond Fund by Section 4.05(A).

**"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.

**"City"** means the City of Dana Point, California.

**“Closing Date”** with respect to the 2014 Bonds, means \_\_\_\_\_, 2014, being the date upon which there is delivery of the Bonds in exchange for the amount representing the purchase price of the 2014 Bonds by the Original Purchaser.

**“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 temporary and final regulations promulgated, and applicable official public guidance published, under the Code.

**“Continuing Disclosure Agreement”** means the Continuing Disclosure Agreement by and among the District, Willdan Financial Services as dissemination agent, and the Fiscal Agent, as Fiscal Agent, dated 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 District or City and related to the authorization, sale and issuance of the 2014 Bonds, which items of expense include, but are not limited to, printing costs, costs of reproducing and binding documents, closing costs, filing and recording fees, initial fees and charges of the Fiscal Agent including its first annual administration fee and fees and expenses of its counsel, expenses incurred by the District or City in connection with the issuance of the 2014 Bonds and the establishment of the District including costs related to any mitigation agreement or other agreement related to 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 2014 Bonds and other costs, charges and fees in connection with the foregoing.

**“Costs of Issuance Fund”** means the fund by that name established by Section 4.03(A).

**“County”** means the County of Orange, California.

**“DTC”** means The Depository Trust Company, New York, New York, and its successors and assigns.

**“Debt Service”** means the scheduled amount of interest and amortization of principal payable by reason of Sections 2.02(D) and 2.03(A)(iii) and (iv) of the Fiscal Agent Agreement on the Outstanding 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 Section 10.13.

**“Developed Property”** has the meaning given such term in the Rate and Method of Apportionment.

**“District”** means the Community Facilities District No. 2006-1 of the City of Dana Point formed by the City under the Act and the Resolution of Formation.

**“District Value”** means the market value of all parcels of real property in the District that are 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, as determined by reference to (i) an appraisal performed within three (3) months of the date of issuance of any proposed Parity Bonds by an MAI appraiser (the “Appraiser”) selected by the City, and/or (ii) the assessed value of nondelinquent parcels and improvements thereon as shown on the then current County real property tax roll available to the Authorized Officer, as set forth in the Authorized Officer’s Certificate required in Section 10.14(f) hereof. The City shall not 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.

**“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 Fiscal Agent:

(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.

**“Final Map Property”** has the meaning given such term in the Rate and Method of Apportionment.

**“First Supplement Fiscal Agent Agreement”** or **“Agreement”** means this First Supplemental Fiscal Agent Agreement, dated as of January 1, 2014, supplementing the Fiscal Agent Agreement, both by and between the District and the Fiscal Agent.

**“Fiscal Agent”** means Wells Fargo Bank, National Association, as the Fiscal Agent appointed by the District and acting as an independent fiscal agent with the duties and powers herein provided, its successors and assigns, and any other corporation or association which may at any time be substituted in its place, as provided in Section 7.01.

**“Fiscal Agent Agreement”** means that Fiscal Agent Agreement, dated as of June 1, 2013, by and between the District and the Fiscal Agent, as amended by this First Supplemental Fiscal Agent Agreement and future supplemental agreements.

**“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.

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**“Improvement Fund”** means the fund by that name established pursuant to Section 4.02(A) of the Fiscal Agent Agreement.

**“Independent Financial Consultant”** means any consultant or firm of such consultants appointed by an Authorized Officer, and who, or each of whom: (i) is judged by the Authorized Officer to have 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 City or the District; (iii) does not have any substantial interest, direct or indirect, with or in the City or the District, or any owner of real property in the City or the District, or any real property in the District; and (iv) is not connected with the District as an officer or employee of the City, but who may be regularly retained to make reports to the City or the District.

**“Information Services”** means the Municipal Securities Rulemaking Board Electronic Municipal Market Access (EMMA) system accessible at the [emma.msrb.org](http://emma.msrb.org) website, and, in accordance with then current guidelines of the Securities and Exchange Commission, such other services providing information with respect to called bonds as the Authority may designate in a Written Request delivered to the Fiscal Agent.

**“Interest Payment Dates”** means March 1 and September 1 of each year, commencing September 1, 2014.

**“Master Developer”** means Headlands Reserve LLC, a Delaware limited liability company, or its assignee pursuant to the Acquisition Agreement.

**“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.

**“Ordinance”** means any ordinance adopted by the legislative body of District providing for the levy of the Special Taxes.

**“Original Purchaser”** means the first purchaser of the Bonds from the District.

**“Outstanding”**, when used as of any particular time with reference to Bonds and Parity Bonds, means (subject to the provisions of Section 8.04 of the Fiscal Agent Agreement) all Bonds except: (i) Bonds and Parity Bonds theretofore canceled by the Fiscal Agent or surrendered to the Fiscal Agent for cancellation; (ii) Bonds and Parity Bonds paid or deemed to have been paid within the meaning of Section 9.03 of the Fiscal Agent Agreement; and (iii) Bonds and Parity Bonds in lieu of or in substitution for which other Parity Bonds have been authorized, executed, issued and delivered by the District pursuant to this Agreement or any Supplemental Agreement.

**“Owner”** means any person who is the registered owner of any Outstanding Bond.

**“Parity Bonds”** means any bonds issued by the District on a parity with any then Outstanding Bonds, pursuant to Section 12.14 of the Fiscal Agent Agreement.

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

**“Principal Office”** means the principal corporate trust office of the Fiscal Agent set forth in Section 9.06 of the Fiscal Agent Agreement or such other or additional offices as may be designated by the Fiscal Agent. In the case of registration, payment, transfer, and presentation of Bonds, such principal corporate trust office located in Minneapolis, Minnesota.

**“Project”** means the facilities more particularly described in the Resolution of Formation.

**“Rate and Method of Apportionment”** or **“RMA”** means the Rate and Method of Apportionment approved by the qualified electors of the District on June 14, 2006 and attached as Exhibit B to the Notice of Special Tax Lien recorded in the Official Records of the County of Orange on June 20, 2006 as Doc. No. 2006000411690.

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

**“Reserve Fund”** means the fund by that name established pursuant to Section 4.04(A) of the Fiscal Agent Agreement.

**“Reserve Requirement”** means, as of any date of calculation by the District, 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 initial principal amount of the Bonds issued hereunder and initially shall mean an amount equal to \$\_\_\_\_\_.

**“Resolution”** means Resolution No. \_\_\_\_\_, adopted by the City Council of the City on January 21, 2014, authorizing issuance of the Bonds.

**“Resolution of Formation”** means Resolution No. 06-06-14-11 adopted by the City Council on June 14, 2006.

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

**“Securities Depositories”** means The Depository Trust Company, 55 Water Street, New York, New York 10041-0099, Fax (212) 855-3274; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and such other securities depositories as the District may designate in a written direction of an Authorized Officer delivered to the Fiscal Agent.

**“Special Tax Fund”** means the fund by that name established by Section 4.06(A) of the Fiscal Agent Agreement.

**“Special Tax Prepayments”** means the proceeds of any Special Tax prepayments received by the District, as calculated pursuant to the Rate and Method of Apportionment, less

any administrative fees or penalties collected as part of any such prepayment.

**“Special Tax Prepayments Subaccount”** means the account by that name established by Section 4.05(A) of the Fiscal Agent Agreement.

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

**“Special Taxes”** means the Facilities Maximum Annual Special Tax (as defined in the Rate and Method of Apportionment) levied within the District pursuant to the Act, the Ordinance, the Rate and Method of Apportionment and this Agreement.

**“Supplemental Agreement”** means an agreement the execution of which is authorized by a resolution that has been duly adopted by the legislative body of the District under the Act and which agreement amends or supplements this Agreement, but only if and to the extent that such agreement is specifically authorized under this Agreement.

**“Tax Consultant”** means any independent financial or tax consultant retained by the District for the purpose of computing the Special Taxes.

## **ARTICLE X**

### **2014 BONDS**

#### **Section 10.01** Principal Amount; Designation.

2014 Bonds in the aggregate principal amount of \_\_\_\_\_ Million \_\_\_\_\_ Hundred \_\_\_\_\_ Thousand Dollars (\$\_\_\_\_\_) are hereby authorized to be issued by the District under and subject to the terms of the Resolution and this Agreement, the Act and other applicable laws of the State of California. The Bonds shall be designated as the “Community Facilities District No. 2006-1 of the City of Dana Point 2014 Special Tax Bonds.”

#### **Section 10.02** Terms of the Bonds.

##### **(A) Form; Denominations.**

The 2014 Bonds shall be issued as fully registered Bonds without coupons in the denomination of \$5,000 or any integral multiple in excess thereof

##### **(B) Date of 2014 Bonds.**

The 2014 Bonds shall be dated the Closing Date.

##### **(C) CUSIP Identification Numbers.**

“CUSIP” identification numbers shall be imprinted on the 2014 Bonds, but such numbers



will not constitute a part of the contract evidenced by the 2014 Bonds and any error or omission with respect thereto shall not constitute cause for refusal of any purchaser to accept delivery of and pay for the 2014 Bonds. In addition, failure on the part of the District or the Fiscal Agent to use such CUSIP numbers in any notice to Owners shall not constitute an event of default or any violation of the District's contract with such Owners and shall not impair the effectiveness of any such notice.

**(D) Maturities, Interest Rates.**

The 2014 Bonds shall mature and become payable on September 1 in each of the years, and shall bear interest at the rates per annum, as follows:

<u>Bond Component</u>	<u>Maturity Date (September 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
Serial Bond:			

Term Bond:

Term Bond 2045:

**(E) Interest.**

The Bonds shall bear interest at the rates set forth above payable on the Interest Payment Dates in each year. Interest shall be calculated on the basis of a 360-day year composed of twelve 30-day months. Each Bond shall bear interest from the Interest Payment Date preceding the date of authentication thereof unless (i) it is authenticated on an Interest Payment Date, in which event it shall bear interest from such date of authentication, or (ii) it is authenticated prior to an Interest Payment Date and after the close of business on the Record Date preceding such Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (iii) it is authenticated prior to the Record Date preceding the first Interest Payment Date, in which event it shall bear interest from the Closing Date; provided, however, that if at the time of authentication of a Bond, interest is in default thereon, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

**(F) Method of Payment.**

Interest on the Bonds (including the final interest payment upon maturity or earlier redemption) is payable by check of the Fiscal Agent mailed on the Interest Payment Dates by first class mail to the registered Owner thereof at the registered Owner's address as it appears on the registration books maintained by the Fiscal Agent at the close of business on the Record Date preceding the Interest Payment Date, or by wire transfer (i) to the Depository (so long as the Bonds are in book-entry form pursuant to Section 10.13), or (ii) to an account within the United States made on such Interest Payment Date upon written instructions of any Owner of \$1,000,000 or more in aggregate principal amount of Bonds, which instructions shall continue in effect until revoked in writing, or until such Bonds are transferred to a new Owner. The principal of the Bonds and any premium on the Bonds are payable by check in lawful money of the United States of America upon surrender of the Bonds at the Principal Office of the Fiscal Agent. All Bonds paid by the Fiscal Agent pursuant to this Section shall be canceled by the Fiscal Agent. The Fiscal Agent shall destroy the canceled Bonds and issue a certificate of destruction thereof to the District, if it so requests.

**Section 10.03 Redemption.****(A) Redemption Dates.****(i) Optional Redemption.**

The 2014 Bonds are subject to optional call and redemption prior to maturity, as a whole or in part, with maturities to be determined by the District and by lot within a maturity, on any Interest Payment Date on or after \_\_\_\_\_, from funds derived by the District from any source, at a redemption price (expressed as a percentage of the principal amount of the 2014 Bonds to be redeemed), as set forth below, together with accrued interest thereon to the date fixed for redemption:

Redemption Dates	Redemption Prices
March 1, 20__ to and including	103%

March 1, 20__	September 1, 20__ and March 1,	102
20__	September 1, 20__ and March 1,	101
20__	September 1, 20__ and thereafter	100

**(ii) Special Mandatory Redemption from Special Tax Prepayments.**

The 2014 Bonds are subject to special mandatory redemption prior to maturity, as a whole or in part, to be determined by the District and by lot within a maturity, on any Interest Payment Date on or after March 1, 20\_\_ from prepayments of the Special Tax deposited in the Special Tax Prepayments Subaccount established under the Fiscal Agent Agreement, at a redemption price (expressed as a percentage of the principal amount of Bonds called for redemption) as set forth below, together with accrued interest thereon to the date fixed for redemption:

	Redemption Dates	Redemption Prices
March 1, 20__	March 1, 20__ to and including	103%
20__	September 1, 20__ and March 1,	102
20__	September 1, 20__ and March 1,	101
20__	September 1, 20__ and thereafter	100

**(iii) Mandatory Sinking Payment Redemption.**

The 2014 Bonds maturing on September 1, 20\_\_ (the “20\_\_ Term Bonds”), are subject to mandatory sinking payment redemption in part on September 1, 20\_\_, 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
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The 2014 Bonds maturing on September 1, 2045 (the “2045 Term Bonds”), are subject to mandatory sinking payment redemption in part on September 1, 20\_\_, 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

The amounts in the foregoing tables shall be reduced as a result of any prior partial redemption of the Bonds pursuant to Section 10.03(A)(i) or (ii) above as specified in writing by an Authorized Officer to the Fiscal Agent, pro rata among sinking fund payments.

**Section 10.04** Form of 2014 Bonds.

The 2014 Bonds, the form of Fiscal Agent's certificate of authentication and the form of assignment, to appear thereon, shall be substantially in the forms, respectively, set forth in Exhibit A attached hereto and by this reference incorporated herein, with necessary or appropriate variations, omissions and insertions, as permitted or required by this Agreement, the Resolution and the Act.

## ARTICLE XI

### FUNDS AND ACCOUNTS

**Section 11.01** Deposits of 2014 Bond Proceeds.

The proceeds of the purchase of the 2014 Bonds by the Original Purchaser in the amount of \$\_\_\_\_\_ thereof shall be paid to the Fiscal Agent, who shall forthwith set aside, pay over and deposit such proceeds on the Closing Date as follows:

- (A) \$\_\_\_\_\_ to the Reserve Fund (being an amount necessary to bring the balance in the Reserve Fund up to the Reserve Requirement as of the Closing Date);
- (B) \$\_\_\_\_\_ to the Costs of Issuance Fund;
- (C) \$\_\_\_\_\_ to the Capitalized Interest Account of the Bond Fund (being an amount sufficient to cover interest payments due on the 2014 Bonds through September 1, 2014).
- (D) \$\_\_\_\_\_ to the Administrative Expense Fund; and
- (E) \$\_\_\_\_\_ to the Improvement Fund.

The Fiscal Agent may, in its discretion, establish a temporary fund or account in its books and records to facilitate such transfers.

**ARTICLE XII****EFFECT OF SUPPLEMENTAL INDENTURE****Section 12.01** Effect of Supplemental Indenture

**This Agreement constitutes a Supplemental Agreement within the meaning of the Fiscal Agent Agreement. The 2014 Bonds constitute parity bonds within the meaning of Section 2.14 of the Fiscal Agent Agreement. Unless stated otherwise herein, all provisions of the Fiscal Agent Agreement shall apply in full force to the 2013 Bonds and the 2014 Bonds. If, and to the extent, the Indenture refers to any fund, account, subaccount, or other accounting classification where money or funds are deposited or placed in reference to the 2013 Bonds, said provisions shall equally apply, except as expressly provided herein, to the 2014 Bonds.**

[Signature Page Follows]

IN WITNESS WHEREOF, the District and the Fiscal Agent have caused this Fiscal Agent Agreement to be executed as of the date first above written.

COMMUNITY FACILITIES DISTRICT NO. 2006-1  
OF THE CITY OF DANA POINT

By: \_\_\_\_\_  
Steven H. Weinberg,  
Mayor of the City of Dana Point on behalf of  
Community Facilities District No. 2006-1 of the  
City of Dana Point

WELLS FARGO BANK, NATIONAL  
ASSOCIATION, as Fiscal Agent

By: \_\_\_\_\_  
Authorized Officer

**EXHIBIT A**

**FORM OF BOND**

No. \_\_\_\_\_ \$ \_\_\_\_\_

**UNITED STATES OF AMERICA  
STATE OF CALIFORNIA  
COMMUNITY FACILITIES DISTRICT NO. 2006-1 OF THE  
CITY OF DANA POINT  
2014 SPECIAL TAX BOND**

<b>INTEREST RATE</b>	<b>MATURITY DATE</b>	<b>DATED</b>	<b>CUSIP</b>
%	September 1, __	_____, 2014	235839

**REGISTERED OWNER:** CEDE & CO.

**PRINCIPAL AMOUNT:** THOUSAND DOLLARS

The Community Facilities District No. 2006-1 of the City of Dana Point (the "District"), for value received, hereby promises to pay solely from the Special Tax (as hereinafter defined) to be collected in the District or from amounts in the funds and accounts held under the Agreement (as hereinafter defined), to the registered owner named above, or registered assigns, on the

maturity date set forth above, unless redeemed prior thereto as hereinafter provided, the principal amount set forth above, and to pay interest on such principal amount from the Dated Date set forth above, or from the most recent interest payment date to which interest has been paid or duly provided for, semiannually on March 1 and September 1, commencing September 1, 2014 (each an "Interest Payment Date"), at the interest rate set forth above, until the principal amount hereof is paid or made available for payment. The principal of this Bond is payable to the registered owner hereof in lawful money of the United States of America upon presentation and surrender of this Bond at the Principal Office (as defined in the Agreement referred to below) of Wells Fargo Bank, National Association (the "Fiscal Agent") in Minneapolis, Minnesota. Interest on this Bond shall be paid by check of the Fiscal Agent mailed on each interest payment date to the registered owner hereof as of the close of business on the 15th day of the month preceding the month in which the interest payment date occurs whether or not such day is a Business Day (the "Record Date") at such registered owner's address as it appears on the registration books maintained by the Fiscal Agent, or (i) to the Depository Trust Company (so long as the Bonds are in book-entry-only form), or (ii) otherwise upon written request filed with the Fiscal Agent prior to any Record Date by a registered owner of at least \$1,000,000 in aggregate principal amount of Bonds, by wire transfer in immediately available funds to the depository for the bonds or to an account in the United States designated by such registered owner in such written request, respectively.

The issuance of this Bond was authorized by the qualified electors of the District pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, Sections 53311, et seq., of the California Government Code (the "Mello-Roos Act") for the purpose of financing and refinancing the construction and acquisition of certain public facilities within and in the vicinity of the District (the "Project"), and is one of the Bonds designated "Community Facilities District No. 2006-1 of the City of Dana Point 2014 Special Tax Bonds" (the "Bonds") in the aggregate principal amount of \$\_\_\_\_\_. The creation of the Bonds and the terms and conditions thereof are provided for by resolution adopted by the City Council of the City on May 7, 2013 (the "Resolution"), and the Fiscal Agent Agreement, dated as of June 1, 2013, between the District and the Fiscal Agent, as amended and supplemented by the First Supplemental Fiscal Agent Agreement, dated as of January 1, 2014, by and between the District and the Fiscal Agent, and this reference incorporates the Resolution and the Agreement herein, and by acceptance hereof the owner of this Bond assents to said terms and conditions. The Resolution is adopted and the Agreement is entered into under, and this Bond is issued under, and all are to be construed in accordance with, the laws of the State of California. All capitalized terms used herein, unless defined herein, shall have the meaning given such terms in the Agreement.

Pursuant to the Mello-Roos Act, the Agreement and the Resolution, the principal of and interest on this Bond are payable solely from the annual facilities special tax authorized under the Mello-Roos Act to be collected within the District (the "Special Tax") and certain funds held under the Agreement.

Interest shall be calculated on the basis of a 360 day year composed of twelve 30 days months. Interest on this Bond shall be payable from the interest payment date preceding the date of authentication hereof, unless (i) it is authenticated on an interest payment date, in which event it shall bear interest from such date of authentication, or (ii) it is authenticated prior to an Interest

Payment Date and after the close of business on the Record Date preceding such Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (iii) such date of authentication is prior to the Record Date preceding the first Interest Payment Date, in which event interest will be payable from the Dated Date set forth above; provided however, that if at the time of authentication of this Bond, interest is in default hereon, this Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment hereon.

Payment hereof shall be limited to the Special Tax, except to the extent that provision for payment has been made by the District, as may be permitted by law. The Bonds do not constitute obligations of the District for which the District is obligated to levy or pledge, or has levied or pledged, general or special taxation other than described hereinabove.

The Bonds are subject to optional call and redemption prior to maturity, as a whole or in part, with maturities to be determined by the District and by lot within a maturity, on any Interest Payment Date on or after \_\_\_\_\_, from funds derived by the District from any source, at a redemption price (expressed as a percentage of the principal amount of the Bonds to be redeemed), as set forth below, together with accrued interest thereon to the date fixed for redemption:

Redemption Dates	Redemption Prices
March 1, 20__ to and including March 1, 20__	103%
September 1, 20__ and March 1, 20__	102
September 1, 20__ and March 1, 20__	101
September 1, 20__ and thereafter	100

The Bonds are subject to special mandatory redemption prior to maturity, as a whole or in part, to be determined by the District and by lot within a maturity, on any Interest Payment Date on or after \_\_\_\_\_ from prepayments of the Special Tax deposited in the Special Tax Prepayments Subaccount established under the Fiscal Agent Agreement, at a redemption price (expressed as a percentage of the principal amount of Bonds called for redemption) as set forth below, together with accrued interest thereon to the date fixed for redemption:

Redemption Dates	Redemption Prices
March 1, 20__ to and including March 1, 20__	103%
September 1, 20__ and March 1, 20__	102
September 1, 20__ and March 1, 20__	101
September 1, 20__ and thereafter	100

The Bonds maturing on September 1, 20\_\_ (the "20\_\_ Term Bonds"), are subject to mandatory sinking payment redemption in part on September 1, 20\_\_, 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

The Bonds maturing on September 1, 20\_\_ (the “20\_\_ Term Bonds”), are subject to mandatory sinking payment redemption in part on September 1, 20\_\_, 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

In the event of a redemption of less than all of the Bonds, the Bonds shall be redeemed by lot within a maturity, and among maturities in the manner specified in the Agreement. Notice of redemption with respect to the Bonds to be redeemed shall be given to the registered owners thereof, in the manner, to the extent and subject to the provisions of the Agreement.

This Bond shall be registered in the name of the owner hereof, as to both principal and interest. Each registration and transfer of registration of this Bond shall be entered by the Fiscal Agent in books kept by it for this purpose and authenticated by its manual signature upon the certificate of authentication endorsed hereon.

No transfer or exchange hereof shall be valid for any purpose unless made by the registered owner, by execution of the form of assignment endorsed hereon, and authenticated as herein provided, and the principal hereof, interest hereon and any redemption premium shall be payable only to the registered owner or to such owners order. The Fiscal Agent shall require the registered owner requesting transfer or exchange to pay any tax or other governmental charge required to be paid with respect to such transfer or exchange. No transfer or exchange hereof shall be required to be made (i) fifteen days prior to the date established by the Fiscal Agent 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. Exchanges may only be made for Bonds in authorized denominations as provided in the Agreement.

The Agreement and the rights and obligations of the District thereunder may be modified or amended as set forth therein.

The Agreement contains provisions permitting the District to make provision for the payment of the interest on, and the principal and premium, if any, of any of the Bonds so that the Bonds shall no longer be deemed to be outstanding under the terms of the Agreement.

The Bonds are not general obligations of the District, but are special obligations of the District payable solely from the Special Tax Revenues and funds pledged therefor under the Agreement. Neither the faith and credit nor the taxing power of the City (except to the limited extent set forth therein), the County or the State of California or any political subdivision thereof is pledged to the payment of the Bonds.

This Bond shall not become valid or obligatory for any purpose until the certificate of authentication and registration hereon endorsed have been dated and signed by the Fiscal Agent.

UNLESS THIS BOND IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY TO THE FISCAL AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY BOND ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR SUCH OTHER NAME AS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY AND ANY PAYMENT IS MADE TO CEDE & CO., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

IT IS HEREBY CERTIFIED, RECITED AND DECLARED that all acts, conditions and things required by law to exist, happen and be performed precedent to and in the issuance of this Bond have existed, happened and been performed in due time, form and manner as required by law, and that the amount of this Bond does not exceed any debt limit prescribed by the laws or Constitution of the State of California.

*[Signature Page Follows]*

IN WITNESS WHEREOF, Community Facilities District No. 2006-1 of the City of Dana Point has caused this Bond to be signed on behalf of the District by the Mayor of the City of Dana Point by his manual signature and countersigned by the manual signature of the City Clerk.

COMMUNITY FACILITIES DISTRICT NO.  
2006-1 OF THE CITY OF DANA POINT

By: \_\_\_\_\_  
Steven H. Weinberg,  
Mayor of the City of Dana Point on behalf  
of Community Facilities District No. 2006-  
1 of the City of Dana Point

ATTEST:

By: \_\_\_\_\_  
Kathy M. Ward,  
City Clerk of the City of Dana Point

# FISCAL AGENT'S CERTIFICATE OF AUTHENTICATION

This is one of the Bonds described in the Resolution and in the Agreement which has been authenticated on \_\_\_\_\_.

WELLS FARGO BANK, NATIONAL ASSOCIATION,  
as Fiscal Agent

By: \_\_\_\_\_  
Authorized Officer

## ASSIGNMENT

For value received the undersigned hereby sells, assigns and transfers unto

\_\_\_\_\_ (Name, Address and Tax Identification or Social security Number Of Assignee) the within-registered Bond and hereby Irrevocably constitutes and appoints(s) \_\_\_\_\_ attorney, to transfer the same on the registration books of the Fiscal Agent with full power of substitution in the premises.

Dated:

Signature Guaranteed:

must be guaranteed by an eligible guarantor.	Note:	Signature(s)
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Note: The signatures on this Assignment must correspond with the name(s) as written on the face of the within Bond in every particular without alteration or enlargement or any change whatsoever

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[Signature Page Follows] .....	70

**SUPPORTING DOCUMENT E****PRELIMINARY OFFICIAL STATEMENT DATED \_\_\_\_\_, 2014****NEW ISSUE – FULL BOOK-ENTRY****NO RATING APPLIED FOR**

*In the opinion of Rutan & Tucker, LLP, Costa Mesa, California (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants and agreements, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See “TAX MATTERS.”*

**\$(Principal Amount - 24,625,000)\*  
COMMUNITY FACILITIES DISTRICT NO. 2006-1  
OF THE CITY OF DANA POINT  
2014 SPECIAL TAX BONDS**

**Dated: Date of Delivery****Due: September 1, as shown below**

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

The Community Facilities District No. 2006-1 of the City of Dana Point (the “District”) 2014 Special Tax Bonds (the “Bonds”) are being issued in the aggregate principal amount of \$(Principal Amount - 24,625,000)\*. The Bonds are being issued by the District in order to (i) finance the acquisition and/or construction of certain public improvements serving the property within the District (the “Facilities”), (ii) increase the amount on deposit in the reserve fund to the Reserve Requirement applicable upon issuance of the Bonds, (iii) pay capitalized interest on the Bonds through September 1, 2014, and (iv) pay the costs related to the issuance of the Bonds. See “ESTIMATED SOURCES AND USES OF PROCEEDS,” “FACILITIES FINANCED WITH BOND PROCEEDS” and “THE HEADLANDS RESERVE DEVELOPMENT.”

The Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Section 53311 *et seq.* of the California Government Code) (the “Act”). The Bonds are being issued pursuant to a resolution (the “Authorizing Resolution”) of the City Council (the “City Council”) of the City of Dana Point (the “City”), acting as the legislative body of the District, and a Fiscal Agent Agreement, dated as of June 1, 2013 (the “Original Fiscal Agent Agreement”), as supplemented by a First Supplemental Fiscal Agent Agreement, dated as of [Authorization Month] 1, 2014, by and between the District and Wells Fargo Bank, National Association, as fiscal agent (the “Fiscal Agent”) (the “Supplemental Fiscal Agent Agreement” and together, with the Original Fiscal Agent Agreement, the “Fiscal Agent Agreement”). The Bonds are payable from the revenues generated by a Special Tax (as defined herein) to be levied on the taxable real property within the District. The Special Tax will be levied in accordance with the rate and method of apportionment approved by the City Council, acting as the legislative body of the District, and the qualified electors within the District. The Bonds are payable on a basis co-equal to the District’s 2013 Bonds presently outstanding in the amount of \$17,885,000. See “THE BONDS,” “SECURITY FOR THE BONDS – Pledge Under Fiscal Agent Agreement; Special Tax Revenues,” and APPENDIX B – “Rate and Method of Apportionment.”

The Bonds will be dated the date of their delivery, will be available in denominations of \$5,000 or integral multiples thereof (the “Authorized Denominations”), and will mature in the years and amounts as set forth in the Maturity Schedule on the inside cover. Interest on the Bonds is payable on March 1 and September 1 of each year, commencing September 1, 2014.

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\*Preliminary, subject to change.

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**The Bonds are subject to optional redemption, special mandatory redemption from prepayment of Special Taxes and mandatory sinking payment redemption as described herein.**

The Bonds will be delivered in fully-registered form only and, when executed and delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Beneficial ownership interests in the Bonds may be purchased in book-entry form only in the Authorized Denominations, as described in this Official Statement. See APPENDIX G – "Book-Entry-Only System."

**EXCEPT WITH RESPECT TO THE SPECIAL TAXES OF THE DISTRICT, NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE DISTRICT, THE STATE OF CALIFORNIA (THE "STATE"), OR ANY POLITICAL SUBDIVISION OF THE STATE IS PLEDGED TO THE PAYMENT OF THE BONDS. THE BONDS ARE NOT GENERAL OBLIGATIONS OF THE CITY OR THE DISTRICT, BUT ARE SPECIAL OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM SPECIAL TAXES AND FROM AMOUNTS IN CERTAIN OF THE FUNDS CREATED UNDER THE FISCAL AGENT AGREEMENT, ALL AS MORE FULLY DESCRIBED HEREIN.**

*The Bonds are offered when, as, and if issued by the District and accepted by the Underwriter, subject to the approval as to their legality of Rutan & Tucker, LLP, Costa Mesa, California, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriter by McFarlin & Anderson LLP, Laguna Hills, California, and for the City and the District by Rutan & Tucker, LLP, as City Attorney. It is anticipated that the Bonds will be available in book-entry form for delivery through the facilities of DTC on or about [Closing Date], 2014.*

[INSERT LOGO:

**STIFEL**

Dated: [Purchase Date], 2014

## MATURITY SCHEDULE

**[\$[Principal Amount - 24,625,000]\*  
COMMUNITY FACILITIES DISTRICT NO. 2006-1  
OF THE CITY OF DANA POINT  
2014 SPECIAL TAX BONDS**

**\$\_\_\_\_\_ Serial Bonds**  
Base CUSIP® No. 235839<sup>†</sup>

Maturity (September 1)	Principal Amount	Interest Rate	Yield	CUSIP® No. <sup>†</sup>	Maturity (September 1)	Principal Amount	Interest Rate	Yield	CUSIP® No. <sup>†</sup>
2015	\$	%	%		2025	\$	%	%	
2016					2026				
2017					2027				
2018					2028				
2019					2029				
2020					2030				
2021					2031				
2022					2032				
2023					2033				
2024					20__				

\$\_\_\_\_\_ % 2014 Term Bonds due September 1, 20\_\_ Yield \_\_\_\_\_% CUSIP® No. 235839 <sup>†</sup>

\*Preliminary, subject to change.

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\$ \_\_\_\_\_ % 2014 Term Bonds due September 1, 2045 Yield \_\_\_\_\_ % CUSIP® No. 235839 \_\_\_\_<sup>†</sup>

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<sup>†</sup> CUSIP® is a registered trademark of the American Bankers Association. Copyright 1999-2014 by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. CUSIP® data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for CUSIP Global Services. Neither the Underwriter nor the District is responsible for the selection or correctness of the CUSIP® numbers set forth herein.

## **CITY OF DANA POINT**

### **City Council**

Lisa A. Bartlett, Mayor  
 Steven H. Weinberg, Mayor Pro Tem  
 William P. Brough, Council Member  
 Carlos N. Olvera, Council Member  
 Scott Schoeffel, Council Member

### **City Officials and Staff**

Douglas C. Chotkevys, City Manager  
 Mike Killebrew, Assistant City Manager  
 A. Patrick Munoz, City Attorney  
 Kathy M. Ward, City Clerk

## **SPECIAL SERVICES**

### **Bond Counsel**

Rutan & Tucker, LLP  
 Costa Mesa, California

### **Underwriter's Counsel**

McFarlin & Anderson LLP  
 Laguna Hills, California

### **Financial Advisor**

Fieldman, Rolapp & Associates, Inc.  
 Irvine, California

### **Special Tax Consultant**

Willdan Financial Services Incorporated

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Temecula, California

**Appraiser**

Harris Realty Appraisal  
Newport Beach, California

**Fiscal Agent**

Wells Fargo Bank, National Association  
Los Angeles, California

**GENERAL INFORMATION ABOUT THE OFFICIAL STATEMENT**

***Use of Official Statement.*** This Official Statement is submitted in connection with the offer and sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract with the purchasers of the Bonds. All information for investors regarding the District and the Bonds is contained in this Official Statement. While the City maintains an internet website for various purposes, none of the information on this website is intended to assist investors in making any investment decision or to provide any continuing information with respect to the Bonds or any other bonds or obligations of the District or the City.

***Estimates and Forecasts.*** When used in this Official Statement and in any continuing disclosure by the District, in any press release and in any oral statement made with the approval of an authorized officer of the District or any other entity described or referenced herein, 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, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are 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 District or any other entity described or referenced herein since the date hereof. The District does not plan to issue any updates or revision to the forward-looking statements set forth in this Official Statement.

***Limited Offering.*** No dealer, broker, salesperson or other person has been authorized by the District 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 the District or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

***Involvement of Underwriter.*** The Underwriter has submitted the following statement for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. The information and expressions of opinions herein

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are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or any other entity described or referenced herein since the date hereof. All summaries of the documents referred to in this Official Statement are made subject to the provisions of such documents, respectively, and do not purport to be complete statements of any or all of such provisions.

***Stabilization of Prices.*** In connection with this offering, the Underwriter may over allot 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 Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the public offering prices set forth on the inside cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

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.

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[INSERT VICINITY MAP]

[INSERT AERIAL PHOTOGRAPH]

**OFFICIAL STATEMENT**

**[\$[Principal Amount - 24,625,000]\***  
**COMMUNITY FACILITIES DISTRICT NO. 2006-1**  
**OF THE CITY OF DANA POINT**  
**2014 SPECIAL TAX BONDS**

**INTRODUCTION**

*This introduction contains only a brief summary of certain of the terms of the Bonds being offered. A full review should be made of the entire Official Statement, including the cover page and the appendices. All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement. References to and summaries of provisions of the laws of the State of California or any documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions thereof. Capitalized terms used herein and not otherwise defined shall have the definitions ascribed to them in the Fiscal Agent Agreement, some of which are set forth in Appendix A hereto.*

**General**

This Official Statement, which includes the cover page and appendices hereto, provides information concerning the issuance by the Community Facilities District No. 2006-1 of the City of Dana Point (the “District”) of \$[Principal Amount - 24,625,000]\* aggregate principal amount of its 2014 Special Tax Bonds (the “Bonds”).

**The District and Property Ownership**


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\*Preliminary, subject to change.

The District was formed pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Section 53311 *et seq.* of the California Government Code) (the “Act”), and Resolution No. 06-06-14-11 (the “Resolution of Formation”), adopted on June 14, 2006, by the City Council of the City (the “City Council”), acting as the legislative body of the District, in order to finance the acquisition and/or construction of certain public improvements (the “Facilities”). The land within the District has been developed with a total of 118 custom residential lots, an approximately 1.5-acre commercial site and an approximately 2.8-acre hotel site. The western portion of the District south of Selva Road, comprising 70 residential lots and the private beach club, is referred to as the “North Strand” and the eastern portion of the District, comprising 48 residential lots, is referred to as the “South Strand.” The residential portion is generally referred to herein as “The Strand at Headlands.” All property within the District, comprising approximately 33.0 acres of Custom Lot residential property and approximately 4.3 acres of non-residential property, is subject to the Special Tax (as defined herein). The residential lots are all in a finished condition, with all utilities stubbed to each lot. The District consists of two separate tax zones: Tax Zone No. 1 consisting of the 118 custom residential lots and Tax Zone No. 2 consisting of the non-residential properties. See “THE DISTRICT” and “FACILITIES FINANCED WITH BOND PROCEEDS.”

The project site, of which the District is a portion, is comprised of approximately 121.3 gross acres within Tract No. 16331 (the “Project Site”) located east of and generally bordered by the Pacific Ocean, north of Scenic Drive, and west of Pacific Coast Highway and Street of the Green Lantern in the City of Dana Point (the “City”). The Project Site includes approximately 12.74 acres of property on which the beach club and the private streets are located that are owned by the homeowners’ association (the “Association”) and not subject to the Special Tax. The Project Site also includes approximately 34.7 acres of recreation open space, 34.0 acres of conservation open space and 2.5 acres of public right-of-way which is not subject to the Special Tax.

At the time the District was formed, Headlands Reserve LLC, a Delaware limited liability company (“Headlands Reserve LLC”), owned all of the land within the Project Site, including the 37.4 acres of land within the District. Since formation, Headlands Reserve LLC (the “Developer”) and its related entities have completed the grading and subdivision of the site into custom residential lots and commercial/hotel parcels. As of January 24, 2014, 69 custom residential lots and 1.5 acres of commercial property have been sold to non-Developer related entities. In addition, the Developer has obtained building permits for two residential lots. (The residential property becomes Developed Property under the Rate and Method for a fiscal year (a) when a residential parcel has been conveyed by the Developer to an unrelated third party prior to May 1 of the prior fiscal year or (b) when a building permit for new construction was issued prior to May 1 of the prior fiscal year.) The commercial property will become Developed Property under the Rate and Method of Apportionment of Special Tax for the District (the “Rate and Method”) for a fiscal year when a building permit is issued for development of such property prior to May 1 of the preceding fiscal year. As of the date hereof, no building permits have been issued for the commercial property. The Rate and Method describes a special tax that may be levied for facilities (the “Special Tax”) and a special tax that may be levied for maintenance (the “Maintenance Special Tax”) and the methodology for determining the amount of the Special Tax and the Maintenance Special Tax on each parcel of taxable property. Only the Special Tax is pledged to repayment of the Bonds though both are collected on the real property tax bill.

Of the 69 residential lots sold to non-Developer related entities as of January 24, 2014, 4 lots have been cleared of the Special Tax by prepayment and thus are no longer subject to levy of the Special Tax. As of such date, the Developer and its related entities owned 49 residential lots.<sup>1</sup> Since the January 24, 2014 date of value, an additional \_\_\_\_ residential lots have been sold to non-developer related third parties.

---

<sup>1</sup>[Confirm:] In October and December 2007, Headlands Reserve LLC transferred title of 12 lots in the North Strand to related entities. All but 4 of the 12 lots have since been sold to non-Developer related entities. For convenience of reference, 43 lots owned by the Developer and 4 lots owned by Developer related entities (lots 45, 52, 64 and 65) are aggregated and referenced herein as owned by the Developer.

All residential, commercial and hotel property (except any parcels that have prepaid) is subject to the Special Tax pursuant to the Rate and Method. The Bonds were sized from the Special Tax Revenues anticipated from all of the lots subject to the Special Tax.

### **Authorization and Purpose of Bonds**

The Bonds were authorized to be issued pursuant to the Act and pursuant to a resolution, adopted on \_\_\_\_\_, 2014, by the City Council, acting as the legislative body of the District (the “Authorizing Resolution”), and a Fiscal Agent Agreement, dated as of June 1, 2013 the “Original Fiscal Agent Agreement”), as supplemented by a First Supplemental Fiscal Agent Agreement, dated as of [Authorization Month] 1, 2014, by and between the District and Wells Fargo Bank, National Association, as fiscal agent (the “Fiscal Agent”) (the “Supplemental Fiscal Agent Agreement” and together, with the Original Fiscal Agent Agreement, the “Fiscal Agent Agreement”). The District has authorized a not-to-exceed amount of \$45,000,000<sup>1</sup> of bonded indebtedness. The District issued its first series of bonds, the 2008 Special Tax Bonds (the “2008 Bonds”), in the aggregate amount of \$8,710,000 on July 2, 2008. The District issued its second series of bonds, the 2013 Special Tax Bonds (the “2013 Bonds”) in the aggregate amount of \$17,885,000 on June 13, 2013 which refunded the 2008 Bonds and financed the acquisition and/or construction of Facilities. Taking into account the non-refunding portion of the principal amount of the 2013 Bonds, together with the Bonds in the aggregate amount of \$[Principal Amount – 24,625,000\*], the remaining bonded indebtedness of the District is \$1,620,000.\*

The Bonds are payable from the revenues generated by the Special Tax to be levied on the taxable real property within the District pursuant to the Rate and Method approved by the City Council, acting as the legislative body of the District, and the qualified electors within the District on June 14, 2006. See “THE BONDS,” “SECURITY FOR THE BONDS – Pledge Under Fiscal Agent Agreement; Special Tax Revenues,” and APPENDIX B – “Rate and Method of Apportionment.”

The Bonds are being issued to provide moneys (i) to finance the acquisition and/or construction of the Facilities, (ii) to fund a Reserve Fund for the Bonds established pursuant to the Fiscal Agent Agreement, (iii) to fund capitalized interest on the Bonds through September 1, 2014 and (iv) to pay the costs related to the issuance of the Bonds. See “ESTIMATED SOURCES AND USES OF PROCEEDS” and “FACILITIES FINANCED WITH BOND PROCEEDS.”

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<sup>1</sup> The authorized bonded indebtedness was contractually reduced to \$40,000,000 by operation of the First Amendment to Acquisition Agreement entered into by Headlands Reserve LLC and the City on November 8, 2006; however, pursuant to the Third Amendment to Acquisition Agreement to be entered into by Headlands Reserve LLC and the City in connection with the issuance of the Bonds, the contractual reduction will be eliminated.

### Future Series of Bonds

The District may issue up to an additional \$1,620,000\* aggregate principal amount of bonds ("Parity Bonds") on a parity with the Bonds to fund authorized facilities. See "SECURITY FOR THE BONDS – Parity Bonds" below.

### The Development

commercial lots distinguished from hotel lots

The property in the District is proposed for development into 118 custom residential homes comprising Tax Zone No. 1, and approximately 1.5 acres of commercial property and approximately 2.8 acres of hotel property comprising Tax Zone No. 2. The Project Site, in addition to the property in the District, includes approximately 12.74 acres of Association property (beach club and private streets), 34.7 acres of recreation open space, 34.0 acres of conservation open space and 2.5 acres of public right-of-way. The Association property, the open space and public right-of-way are not included in the District and not subject to the Special Tax. More information regarding the location, ownership and land uses of property within the District is set forth in "THE DISTRICT" and "THE HEADLANDS RESERVE DEVELOPMENT."

### Security for the Bonds

*Special Taxes.* Principal of and interest on the Bonds, the 2013 Bonds and any Parity Bonds are payable on a parity basis from the Special Tax, which is defined in the Rate and Method as the Facilities Maximum Annual Special Tax, to be levied and collected within the District and moneys held in certain funds and accounts established under the Fiscal Agent Agreement. The District has covenanted to comply with all requirements of the Act and the Fiscal Agent Agreement to assure the timely collection of the Special Tax, including, without limitation, the enforcement of delinquent Special Taxes. Any Special Taxes received by the District, including, but not limited to, proceeds from the sale of property collected pursuant to the foreclosure provisions of the Fiscal Agent Agreement for the delinquency of Special Taxes and proceeds from any security for payment of Special Taxes taken in lieu of foreclosure, will be deposited into the Special Tax Fund in accordance with the terms of the Fiscal Agent Agreement. See "SECURITY FOR THE BONDS – Pledge Under Fiscal Agent Agreement; Special Tax Revenues" and APPENDIX B – "Rate and Method of Apportionment."

*Reserve Fund.* In order to further secure the payment of principal of and interest and premium, if any, on the Bonds, a Reserve Fund has been established in accordance with the provisions of the Fiscal Agent Agreement. The Fiscal Agent Agreement provides that there be maintained in the Reserve Fund an amount equal to the Reserve Requirement (as defined therein) so long as any Bonds remain outstanding. Amounts on deposit in the Reserve Fund will be used and withdrawn by the Fiscal Agent 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 the payment of the principal of, and interest and any premium on, the Bonds or for the purpose of redeeming Bonds, all in accordance with the Fiscal Agent Agreement. In no event shall amounts in the Reserve Fund be used to pay fees or expenses of the Fiscal Agent or its counsel. See "SECURITY FOR THE BONDS – Reserve Fund."

*Covenant to Commence Superior Court Foreclosure.* The District has covenanted with and for the benefit of the registered owners of the Bonds that it will order, and cause to be commenced as provided in the Fiscal Agent Agreement, 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 Fiscal Agent Agreement. See "SECURITY FOR THE BONDS – Covenant to Commence Superior Court Foreclosure for Delinquent Special Taxes."

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\* Preliminary, subject to change.

**Appraisal**

An appraisal of the land and existing improvements for the development within the District, dated November 10, 2013 (the "Narrative Appraisal Report"), was prepared by Harris Realty Appraisal, Newport Beach, California (the "Appraiser") in connection with the issuance of the Bonds. An appraisal report, in summary format (the "Summary Appraisal Report," and collectively, with the Narrative Appraisal Report, the "Appraisal"), that must be read in conjunction with the Narrative Appraisal Report which had a November 1, 2013, date of value, has a January 24, 2014, date of value, and provides sufficient information to state that if the property were to be appraised as of January 24, 2014, the value would "Not Be Less Than" the value reported as of November 1, 2013. The purpose of the Narrative Appraisal Report was to estimate the aggregate market value of the "as is" condition of the property as of the November 1, 2013 date of value, allocated to the 120 residential and commercial lots subject to the levy of Special Taxes, which as of November 1, 2013, consisted of the following: 62 Custom Lots individually owned (including 18 completed dwellings, six lots with dwellings under construction and 38 parcels with no improvements completed or underway), 52 Custom Lots owned by the Developer or related entities (including two lots with construction underway) and six non-residential parcels consisting of 4.3 acres. The Summary Appraisal Report notes that 3 additional Custom Lot sales occurred between November 1, 2013, and January 24, 2014, resulting in 65 individual ownerships and 49 Custom Lots owned by the Developer or related entities and that one additional custom home was under construction. Four Custom Lots have prepaid their Special Tax and were not included in the Appraisal and one lot has been developed with a community beach club, is not subject to the levy of Special Taxes and has not been included in the Appraisal. The Appraisal also reflects the proposed District bond financing, together with the effective tax rate which ranges from approximately 1.23% to 1.73% based on recent base sale prices of the lots and including special taxes for the District and other overlapping debt. The Appraisal is based on certain assumptions expressed therein. Subject to these assumptions, the Appraiser estimated in the Narrative Appraisal Report that the fee simple market value of the Taxable Property within the District (subject to the lien of the Special Taxes), as of November 1, 2013, was \$486,700,000 and in the Summary Appraisal Report stated that if the property were to be appraised as of January 24, 2014, the value would not be less than that reported as of November 1, 2013.

The market values reported in the Appraisal result in an approximate value-to-lien ratio of 11.45:1,\* calculated with respect to the Bonds and the 2013 Bonds. There was no other direct and overlapping bonded debt as of the Assessor's equalized assessment roll for Fiscal Year 2013-14. The value-to-lien ratios of individual parcels will differ from the foregoing aggregate values. See "THE DISTRICT – Direct and Overlapping Debt." See also "RISK FACTORS – Assessed Property Values and Value-to-Lien Ratios" herein and APPENDIX C – "APPRAISAL" appended hereto for further information on the Appraisal and for limiting conditions relating to the Appraisal.

**Continuing Disclosure**

The District will covenant in its Continuing Disclosure Agreement, for the benefit of the Owners and Beneficial Owners of the Bonds, to provide an annual report (each, an "Annual Report") containing certain financial information and operating data relating to the District and the Bonds for each fiscal year. The specific nature of the information to be contained in the Annual Reports and certain other terms of this continuing disclosure obligation are summarized in APPENDIX E – "Form of Continuing Disclosure Agreement." The District and the City have never failed to comply with any previous undertaking to provide Annual Reports and notices of listed events.

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\*Preliminary, subject to change.



**Forward Looking Statements**

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

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

**Special Obligations**

THE BONDS ARE SPECIAL OBLIGATIONS OF THE DISTRICT AND ARE PAYABLE SOLELY FROM AND SECURED SOLELY BY A PLEDGE OF SPECIAL TAXES AND OF MONEYS ON DEPOSIT IN CERTAIN FUNDS AND ACCOUNTS ESTABLISHED UNDER THE FISCAL AGENT AGREEMENT. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE DISTRICT (EXCEPT TO THE LIMITED EXTENT DESCRIBED HEREIN), THE STATE OF CALIFORNIA (THE “STATE”), OR ANY POLITICAL SUBDIVISION OF THE STATE IS PLEDGED TO THE PAYMENT OF THE BONDS. OTHER THAN THE SPECIAL TAXES WITHIN THE DISTRICT, NO TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS. THE BONDS ARE NOT A GENERAL OBLIGATION OF THE DISTRICT, BUT ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM THE NET SPECIAL TAXES LEVIED IN THE DISTRICT, AS MORE FULLY DESCRIBED HEREIN.

Certain risk factors should be considered, in addition to other matters described herein, in evaluating the investment quality of the Bonds. See “RISK FACTORS.”

This Official Statement contains brief descriptions of, among other things, the City, the District, the Bonds and the Fiscal Agent Agreement. Such descriptions do not purport to be comprehensive or definitive. All references in this Official Statement to any documents are qualified in their entirety by reference to such documents, and references to the Bonds are qualified in their entirety by reference to the form of the Bonds included in the Fiscal Agent Agreement. Copies of the Fiscal Agent Agreement and other documents described in this Official Statement may be obtained from the District or from the Fiscal Agent. The District may charge a fee for copying and mailing any documents requested.

### Professionals Involved in the Offering

Wells Fargo Bank, National Association, Los Angeles, California, will serve as the Fiscal Agent, paying agent, registrar, authentication and transfer agent for the Bonds and will perform the functions required of it under the Fiscal Agent Agreement for the payment of the principal of and interest and any premium on the Bonds. Rutan & Tucker, LLP, Costa Mesa, California, is serving as Bond Counsel to the District. Fieldman, Rolapp & Associates, Inc., Irvine, California, is serving as Financial Advisor to the District. Stifel, Nicolaus & Company, Incorporated, San Francisco, California, is acting as Underwriter in connection with the issuance and delivery of the Bonds. McFarlin & Anderson LLP, Laguna Hills, California, is acting as Underwriter's Counsel. Rutan & Tucker, LLP, Costa Mesa, California, is serving as counsel to the City and the District.

The appraisal work was done and the appraisal report provided by Harris Realty Appraisal, Newport Beach, California. Willdan Financial Services Incorporated ("Willdan Financial Services"), Temecula, California, acted as Special Tax Consultant and will serve as administrator and dissemination agent to the District.

*Except for some Special Tax Consultant fees paid from Special Taxes, payment of the fees and expenses of Bond Counsel, Rutan & Tucker, LLP, in its role as counsel to the District ("District Counsel"), the Underwriter, the Underwriter's Counsel, the Financial Advisor and the Fiscal Agent is contingent upon the sale and delivery of the Bonds. Fees of the Appraiser are not contingent upon the sale and delivery of the Bonds but are expected to be paid from proceeds of the Bonds.*

### ESTIMATED SOURCES AND USES OF PROCEEDS

The following table describes the estimated sources and application of funds in connection with the sale of the Bonds.

#### Sources of Funds:

Principal Amount of Bonds	\$	
Less: Net Original Issue Discount		
Less: Underwriter's Discount		
Total Sources	\$	_____

#### Uses of Funds:

Deposit to Improvement Fund	\$	
Deposit to Capitalized Interest Account of the Bond Fund <sup>(1)</sup>		
Deposit to Debt Service Reserve Fund <sup>(2)</sup>		
Deposit to Costs of Issuance Fund <sup>(3)</sup>		
Total Uses	\$	_____

<sup>(1)</sup>Interest is funded for a portion of debt service due through September 1, 2014.

<sup>(2)</sup>Amounts required to increase the deposit in the Reserve Fund to the Reserve Requirement.

<sup>(3)</sup>Includes legal fees, printing costs, consulting fees, the Appraisal and other costs of issuance.

## THE BONDS

### General Provisions

The Bonds are authorized to be issued pursuant to the Act and are being issued pursuant to the Authorizing Resolution and the Fiscal Agent Agreement. The Bonds will be issued in fully-registered form without coupons and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). See APPENDIX G – “Book-Entry-Only System.” So long as the Bonds are in book-entry-only form, “Owners” or “Bond Owners” means DTC and not the Beneficial Owners (as defined in Appendix G) of the Bonds.

The District has authorized bonds secured by the Special Tax in a total principal amount not to exceed \$45,000,000.<sup>1</sup>

The Bonds will be issued in the aggregate principal amount of \$[Principal Amount - 24,625,000\*] in denominations of \$5,000 or any integral multiple thereof. Principal of the Bonds will be payable on September 1 in the years and in the principal amounts set forth on the inside cover page hereof. Interest on the Bonds will accrue from the date of original issuance of the Bonds (the date of delivery) at the rates per annum set forth on the inside cover page hereof (computed on the basis of a 360-day year consisting of twelve 30-day months) and will be payable semi-annually on March 1 and September 1, commencing September 1, 2014 (each, an “Interest Payment Date”). Each Bond bears interest from the Interest Payment Date next preceding the date of authentication thereof, unless (i) such Bond is authenticated on an Interest Payment Date, in which event such Bond shall bear interest from such date of authentication, or (ii) such Bond is authenticated prior to an Interest Payment Date and after the close of business on the Record Date preceding such Interest Payment Date, in which event such Bond shall bear interest from such Interest Payment Date, or (iii) such Bond is authenticated prior to the Record Date preceding the first Interest Payment Date, in which event such Bond shall bear interest from the date of the Bonds; *provided, however*, that if at the time of authentication of a Bond, interest is in default thereon, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon. The term “Record Date” means the fifteenth day of the month next preceding an Interest Payment Date, whether or not such day is a business day.

Interest on the Bonds will be payable by check of Wells Fargo Bank, National Association, Los Angeles, California, as Fiscal Agent, mailed to the registered owner thereof (the “Owner”) at the address of such Owner shown on the Bond registration books maintained by the Fiscal Agent, or by wire transfer at the written request of any Owner of Bonds in the aggregate principal amount of \$1,000,000 or more. Principal of the Bonds and any premium is payable upon presentation and surrender at the principal corporate trust office of the Fiscal Agent in Minneapolis, Minnesota. While the Bonds are held in DTC book-entry form, all such payments will be made to Cede & Co. as the Owner of the Bonds for subsequent transmittal to the Beneficial Owners. See APPENDIX G – “Book-Entry-Only System.”

### Redemption Provisions

*Optional Redemption.\** The Bonds maturing on or prior to September 1, 2023, are not subject to optional redemption. The Bonds maturing on or after September 1, 2024, are subject to optional call and redemption prior to maturity, as a whole or in part, with maturities to be determined by the District and by lot within a maturity, on any Interest Payment Date on or after September 1, 2023, from funds derived by the District from any source, 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.

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<sup>1</sup> See footnote 1 on page 2 regarding the Third Amendment to the Acquisition Agreement which reinstated the authorization in the amount of bonds that can be issued by the District to \$45,000,000.

\*Preliminary, subject to change.

\*Preliminary, subject to change.

*Special Mandatory Redemption from Special Tax Prepayments.* \* The Bonds are subject to special mandatory redemption prior to maturity, as a whole or in part, to be determined by the District, and by lot within a maturity, on any Interest Payment Date on or after September 1, 2014, from prepayments of the Special Tax deposited in the Special Tax Prepayments Subaccount established under the Fiscal Agent Agreement, at a redemption price (expressed as a percentage of the principal amount of Bonds called for redemption) as set forth below, together with accrued interest thereon to the date fixed for redemption:

	Redemption Dates	Redemption Prices
March 1, 2021	September 1, 2014 to and including	103%
	September 1, 2021 and March 1, 2022	102
	September 1, 2022 and March 1, 2023	101
	September 1, 2023 and thereafter	100

*Mandatory Sinking Payment Redemption.* The Bonds maturing on September 1, 20\_\_ (the “20\_\_ Term Bonds”), are subject to mandatory sinking payment redemption in part on September 1, 20\_\_, 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
20__	\$
20__	
20__	
20__	
20__ (Maturity)	

The Bonds maturing on September 1, 2045 (the “2045 Term Bonds”), are subject to mandatory sinking payment redemption in part on September 1, 20\_\_, 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
20__	\$
20__	
20__	
20__	
2045 (Maturity)	

To the extent there is a redemption of the 20\_\_ Term Bonds or the 20\_\_ Term Bonds pursuant to optional redemption or special mandatory redemption, the Sinking Payment schedules indicated above shall be reduced pro rata pursuant to written instructions from an authorized officer to the Fiscal Agent.

*Purchase of Bonds in Lieu of Redemption.* In lieu of any redemption under the Fiscal Agent Agreement, moneys in the Bond Fund may be used and withdrawn by the Fiscal Agent for purchase of outstanding Bonds, upon the filing with the Fiscal Agent of a written direction of an Authorized Officer requesting such purchase, at public or private sale as and when, and at such prices (including brokerage and

other charges) as such written direction may provide, 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 Fiscal Agent Agreement.

*Selection of Bonds for Partial Redemption.* If less than all of the outstanding Bonds or any given portion thereof are to be redeemed, the Fiscal Agent shall select the Bonds to be redeemed from all Bonds or such given portion thereof not previously called for redemption, from such maturities as selected by the District as directed in writing by an authorized officer (who shall specify Bonds to be redeemed so as to maintain, as much as practicable, the same debt service profile for the Bonds and all Parity Bonds as in effect prior to such redemption) and by lot within a maturity, such selection within a maturity to be done in any manner which the Fiscal Agent deems appropriate; *provided, however*, that the portion of any Bond of a denomination of more than \$5,000 to be redeemed shall be in the principal amount of \$5,000 or a multiple thereof, and that in selecting portions of such Bonds for redemption, the Fiscal Agent shall treat each such Bond as representing that number of Bonds of \$5,000 denominations which is contained by dividing the principal amount of such Bond to be redeemed in part by \$5,000.

*Notice of Redemption.* So long as the Bonds are in book-entry form registered in the name of Cede & Co., as nominee for DTC, the Fiscal Agent will give any notice of redemption or any other notices required to be given to Owners only to DTC. Any failure of DTC to advise any Participant (as defined in Appendix G), or of any Participant to notify the applicable Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the Bonds called for redemption or any other action premised on such notice. See APPENDIX G – “Book-Entry-Only System.”

Under the Fiscal Agent Agreement, the Fiscal Agent shall cause notice of any redemption to be mailed by first-class mail, postage prepaid, at least thirty (30) days but not more than sixty (60) days prior to the date fixed for redemption, to the Original Purchaser, to the Securities Depository, 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 Fiscal Agent; but such mailing shall not be a condition precedent to such redemption and failure to mail or to receive any such notice, or any defect therein, shall not affect the validity of the proceedings for the redemption of such Bonds.

*Conditional Redemption Notice and Rescission of Redemption.* Any redemption notice may specify that redemption of the Bonds designated for redemption on the specified date will be subject to the receipt by the District or the Fiscal Agent, as applicable, of moneys sufficient to cause such redemption (and will specify the proposed source of such moneys), and neither the District nor the Fiscal Agent will have any liability to the Owners of any Bonds, or any other party, as a result of the District’s failure to redeem the Bonds designated for redemption as a result of insufficient moneys therefor.

Additionally, the District may rescind any optional redemption of the Bonds, and notice thereof, for any reason on any date prior to the date fixed for such redemption by causing written notice of the rescission to be given to the Owners of the Bonds so called for redemption. Notice of rescission of redemption will be given in the same manner in which notice of redemption was originally given. The actual receipt by the Owner of any Bond of notice of such rescission will not be a condition precedent to rescission, and failure to receive such notice or any defect in such notice will not affect the validity of the rescission. Neither the District nor the Fiscal Agent will have any liability to the Owners of any Bonds, or any other party, as a result of the District’s decision to rescind a redemption of any Bonds pursuant to the Fiscal Agent Agreement.

*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 shall have been deposited in the Bond Fund, such Bonds so called shall cease to be entitled to any benefit under the Fiscal Agent Agreement other than the right to receive payment of the redemption price, and no interest shall accrue thereon on or after the redemption date specified in such notice.

**Debt Service for the Bonds**

The following table sets forth the annual debt service requirements for the Bonds, assuming no optional or special mandatory redemption.

<u>Year (September 1)</u>	<u>Principal Due on Bonds</u>	<u>Interest Due on Bonds</u>	<u>Total Debt Service Due</u>	<u>2013 Bonds Debt Service</u>	<u>Aggregate Debt Service</u>
2014	\$	\$			\$
2015					
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					
2024					
2025					
2026					
2027					
2028					
2029					
2030					
2031					
2032					
2033					
2034					
2035					
2036					
2037					
2038					
2039					
2040					
2041					
2042					
2043					
2044					
2045					
TOTAL	\$	\$			\$

## SECURITY FOR THE BONDS

### Pledge Under Fiscal Agent Agreement; Special Tax Revenues

Pursuant to the Act and the Fiscal Agent Agreement, the Bonds, the 2013 Bonds and any Parity Bonds shall be secured by a first pledge (which pledge shall be effected in the manner and to the extent provided in the Fiscal Agent Agreement) of all of the Special Tax Revenues, and all moneys deposited in the Bond Fund and the Reserve Fund and, until disbursed as provided in the Fiscal Agent Agreement, in the Special Tax Fund. The Special Tax Revenues and all moneys deposited into said funds (except as otherwise provided in the Fiscal Agent Agreement) are dedicated to the payment of the principal of, and interest and any premium on, the Bonds, the 2013 Bonds and any Parity Bonds as provided in the Fiscal Agent Agreement and in the Act until all of the Bonds, the 2013 Bonds and any Parity Bonds have been paid and retired or until moneys or Federal Securities (as defined in the Fiscal Agent Agreement) have been set aside irrevocably for that purpose in accordance with the Fiscal Agent Agreement.

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 facilities acquired with the proceeds of the Bonds are not in any way pledged to pay the debt service on the Bonds. Any proceeds of condemnation or destruction of any facilities financed with the proceeds of the Bonds are not pledged to pay the debt service on the Bonds and are free and clear of any lien or obligation imposed under the Fiscal Agent Agreement.

The levies of Special Taxes are subject to certain limitations. For instance, certain properties within the District are exempt from the Special Tax pursuant to law or the Rate and Method. In addition, the annual levy of Special Taxes on each parcel within the District is constrained by the Maximum Annual Special Tax rate applicable to such parcel, including the limitation imposed by Section 53321 of the Act. See APPENDIX B – “Rate and Method of Apportionment” and “RISK FACTORS – Maximum Rates” and “– Exempt Properties.”

All Special Tax Revenues received by the District will be deposited into the Special Tax Fund. It is expected that the Special Taxes levied by the District, will be collected for the District by the Treasurer-Tax Collector of the County of Orange (the “County”) in the same manner and at the same time as *ad valorem* property taxes are collected by the County. Special Taxes may, however, be collected by the District through direct billing of the affected property owners. The District has covenanted in the Fiscal Agent Agreement to annually determine or cause to be determined whether or not any owners of property within the District are delinquent in the payment of Special Taxes and to initiate judicial foreclosure proceedings in the event of the discovery of any such delinquencies. See “TABLE 3 – MAXIMUM ANNUAL SPECIAL TAX LEVY BY LAND USE CATEGORY” for a description of the Special Tax that can be levied by property type (land use classification) as a result of the issuance of the Bonds, as calculated by Willdan Financial Services (the “Special Tax Consultant”).

“TABLE 1 – DISTRICT PROPERTY OWNERSHIP” presents ownership information relating to 65 parcels of Custom Lot Property owned by non-Developer related entities as of January 24, 2014 and 49 Custom Lots owned by the Developer. (The Developer has obtained building permits for two of such 49 residential lots.)

For purposes of sizing the Bonds, Special Taxes are assumed to be levied on all lots in the District, except the four Custom Lots for which Special Taxes have been prepaid and the one lot on which a beach club has been built. No assurance can be given, and investors should not assume, that any of the Final Map Property will be reclassified as Developed Property under the Rate and Method. See “THE BONDS – Debt Service for the Bonds” for the debt service table.

The Rate and Method requires that the Special Taxes for any fiscal year be based on certain information determined based on the status of the property prior to May 1 of the previous fiscal year. The Special Tax Consultant will use the property ownership and development information above for purposes of

determining the Special Tax levy for Fiscal Year 2014-15 and future fiscal years. See “THE HEADLANDS RESERVE DEVELOPMENT.”

The obligations of the District under the Fiscal Agent Agreement and the Bonds are special obligations of the District, payable solely from the Special Tax Revenues and the funds pledged therefor under the Fiscal Agent Agreement. Neither the faith and credit nor the taxing power of the City, the County, the State, or any political subdivision of the State is pledged to the payment of the Bonds.

The District has covenanted in the Fiscal Agent Agreement that it will not consent or conduct proceedings with respect to a reduction in the Maximum Annual 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, the 2013 Bonds and any Parity Bonds in such fiscal year or such greater amount based upon anticipated delinquencies in the payment of the Special Taxes, plus a reasonable estimate of Administrative Expenses for such fiscal year. In addition, the District has covenanted in the Fiscal Agent Agreement 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 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 District having insufficient Special Tax Revenues to pay the principal of and interest on the Bonds remaining outstanding following such tender, assuming Special Taxes are levied in the future.

The Special Taxes will be levied against taxable property within the District; they do not constitute a personal indebtedness of the respective property owners. There is no assurance that the property owners will be financially able to pay the annual Special Taxes or that they will pay such Special Taxes even if financially able to do so. See “RISK FACTORS – Collection of Special Tax; Foreclosure.”

#### **Rate and Method**

*General.* On June 14, 2006, pursuant to the request of a landowner petitioner and the provisions of the Act, the City established the District. The District is authorized to issue bonded indebtedness and to levy Special Taxes to fund certain public street, sewer, water, storm drain, park, landscaping and dry utility improvements, sewer annexation charges and all appurtenances and appurtenant work (the “Facilities”). The District is also authorized to levy the Maintenance Special Tax to finance certain services to include the maintenance and operation of park facilities consisting of a public funicular (inclined elevator), landscaped slopes, maintenance of revetment walkways and revetment, and certain storm drain water quality improvements and related appurtenances (the “Maintenance Services”). Pursuant to such authority, the Special Tax and the Maintenance Special Tax may be levied and collected against all Taxable Property within the District for the Facilities and the Maintenance Services, respectively, according to the Rate and Method, a copy of which is set forth in Appendix B hereto.

The qualified electors of the District approved the Rate and Method, and the levy of Special Taxes pursuant thereto, on June 14, 2006. Capitalized terms used in the following paragraphs but not defined herein have the meanings given them in the Rate and Method.

*Rate and Method.* The Rate and Method provides the means by which the District may annually levy the Special Taxes within the District up to the applicable Maximum Annual Special Tax. The Bonds and Parity Bonds are proposed to be issued in several series to fund the Facilities; and the Bonds and the 2013 Bonds are secured by the Special Taxes levied pursuant to the Rate and Method.

*Facilities Special Tax Requirement.* Annually, at the time of levying the Special Tax, the District will levy the Special Tax on each Assessor’s Parcel of Developed Property or Final Map Property in the Tax Zone on which the property is located in an amount equal to the Facilities Maximum Annual Special Tax applicable to each such Assessor’s Parcel (up to \$25,700 per Final Map Property or Custom Lot Property in



Tax Zone No. 1 or \$15,000 per acre for Final Map Property or Non-Residential Property for Tax Zone No. 2). The Facilities Special Tax Requirement is the amount required in any fiscal year to: (i) pay principal and interest on Bonds and Parity Bonds which are due in the calendar year that begins in such fiscal year; (ii) create and/or replenish reserve funds for the Bonds and Parity Bonds; (iii) cure any delinquencies in the payment of principal or interest on Bonds, the 2013 Bonds and Parity Bonds which have occurred in the prior fiscal year and, based on existing delinquencies in the payment of Special Taxes, are expected to occur in the fiscal year in which the tax will be collected; (iv) pay directly for acquisition and/or construction of public improvements which are authorized to be financed by the District provided that the inclusion of such amount does not cause an increase in the levy of the Facilities Maximum Annual Special Tax on Final Map Property; (v) pay for reserve funds for repair and replacement costs associated with the funicular provided that the inclusion of such amount does not cause an increase in the levy of the Facilities Maximum Annual Special Tax on Final Map Property; and (vi) pay Facilities Administrative Expenses. The Rate and Method provides that the Facilities Maximum Annual Special Tax shall be levied until principal and interest on the Bonds, the 2013 Bonds and any Parity Bonds have been repaid, the District's costs of constructing or acquiring authorized Facilities from Facilities Maximum Annual Special Tax proceeds have been paid and all Facilities Administrative Expenses have been reimbursed, but in no event shall the Facilities Maximum Annual Special Tax be levied later than Fiscal Year 2046-47.

*Maintenance Special Tax Requirement.* Annually, at the time of levying the Special Tax, the District will levy the Special Tax on each Assessor's Parcel of Developed Property or Final Map Property in the Tax Zone on which the property is located in an amount equal to the Maintenance Maximum Annual Special Tax applicable to each such Assessor's Parcel (\$2,462.64 for Fiscal Year 2013-14 per Final Map Property or Custom Lot Property in Tax Zone No. 1 or \$879.51 for Fiscal Year 2013-14 per acre for Final Map Property or Non-Residential Property for Tax Zone No. 2). The Maintenance Special Tax Requirement means the amount required in any fiscal year for the District to: (i) pay Maintenance Services; (ii) pay reasonable Maintenance Administrative Expenses; (iii) pay any amounts required to establish or replenish any repair or replacement reserve funds; and (iv) pay for reasonably anticipated delinquent Maintenance Maximum Annual Special Taxes based on the delinquency rate for Maintenance Maximum Annual Special Taxes levied in the previous fiscal year; less (i) the amount of funicular usage fees or tolls collected by the City in the preceding fiscal year and (ii) any surplus of funds available from the previous fiscal year's Maintenance Maximum Annual Special Tax levy, as determined by the District Administrator. The Maintenance Maximum Annual Special Tax shall be levied and collected as necessary to meet the Maintenance Special Tax Requirement and shall be levied in perpetuity. **The Maintenance Special Tax is not a security of the Bonds and will not be pledged to pay bond debt service.**

*Developed and Final Map Property; Exempt Property.* The Rate and Method provides that for each fiscal year, the District Administrator shall determine (i) the Tax Zone in which the Assessor's Parcel is located, (ii) whether each Assessor's Parcel of Taxable Property is Developed Property or Final Map Property, (iii) for Developed Property, which Parcels are Custom Lot Property and Non-Residential Property, and (iv) the Special Tax Requirement in accordance with the Rate and Method. "Developed Property" means all Custom Lot Property as defined in the Rate and Method and for Non-Residential Property, all parcels for which a building permit was issued for a non-residential structure prior to May 1 of the preceding fiscal year. "Custom Lot Property" means, for each fiscal year, any Custom Lot (a) that has been conveyed by the Developer to an unrelated third party prior to May 1 of the prior fiscal year or (b) for which a building permit for new construction was issued prior to May 1 of the prior fiscal year. "Final Map Property" means, for each fiscal year, all Taxable Property within the last Final Map for Tract No. 16331, which was approved by the City and recorded with the County, excluding Developed Property. "Non-Residential Property" means all Assessor's Parcels within the boundaries of the District for which a building permit has been issued for construction of a structure that will serve as a retail, office or other commercial establishment, including hotel property, pursuant to law or the provisions of the Rate and Method. See "APPENDIX B – Rate and Method of Apportionment."

*Exemptions.* The District shall classify as Exempt Property: (i) Public Property, (ii) Assessor's Parcels used exclusively by a homeowners' association, or (iii) Assessor's Parcels with public or utility easements making impractical their utilization for other than the purposes set forth in the easement, provided that no such classification would reduce the sum of all Taxable Property to less than 29.768 Acres for Tax Zone No. 1 or 3.86 Acres for Tax Zone No. 2 within the District. Exempt status will be assigned by the District Administrator in the chronological order in which property becomes Property Owner Association Property or Public Property.

*Developed Property.* The Facilities Maximum Annual Special Tax and the Maintenance Maximum Annual Special Tax for Developed Property, as further described in the Rate and Method, are shown below:

Land Use Class	Facilities Annual Tax		Maintenance Annual Tax <sup>(1)</sup>	
	<u>Tax Zone No. 1</u>	<u>Tax Zone No. 2</u>	<u>Tax Zone No. 1</u>	<u>Tax Zone No. 2</u>
<u>Developed Property</u>				
Custom Lot Property	\$25,700 per lot		\$2,462.64 per lot	
Non-Residential Property		\$15,000 per acre		\$879.51 per acre

<sup>(1)</sup>Adjusted to Fiscal Year 2013-14 values pursuant to the Rate and Method.

*Final Map Property.* The Facilities Maximum Annual Special Tax and the Maintenance Maximum Annual Special Tax for Final Map Property, as further described in the Rate and Method, are shown below:

Land Use Class	Facilities Annual Tax		Maintenance Annual Tax <sup>(1)</sup>	
	<u>Tax Zone No. 1</u>	<u>Tax Zone No. 2</u>	<u>Tax Zone No. 1</u>	<u>Tax Zone No. 2</u>
Final Map Property	\$25,700 per lot	\$15,000 per acre	\$2,462.64 per lot	\$879.51 per acre

<sup>(1)</sup>Adjusted to Fiscal Year 2013-14 values pursuant to the Rate and Method.

*Method of Apportionment.* The Rate and Method provides that, commencing in Fiscal Year 2006-07 and for each following fiscal year, the District shall levy the Facilities Maximum Annual Special Tax until the amount of Facilities Maximum Annual Special Taxes equals the Facilities Maximum Annual Special Tax Requirement as follows:

First: In any fiscal year, the Facilities Maximum Annual Special Tax shall be levied Proportionately on each Parcel of Custom Lot Property and Non-Residential Property up to 100% of the Facilities Maximum Annual Special Tax for each Parcel for such fiscal year until the amount levied equals the Facilities Special Tax Requirement for the fiscal year;

Second: If additional revenue is needed in order to meet the Facilities Special Tax Requirement after applying the first step, the Facilities Maximum Annual Special Tax shall be levied Proportionately on each Assessor's Parcel of Final Map Property, excluding Association Property, up to 100% of the Facilities Maximum Annual Special Tax for Final Map Property for such fiscal year until the amount levied equals the Facilities Special Tax Requirement for the fiscal year;

Third: If additional revenue is needed after the first two steps in order to meet the Facilities Special Tax Requirement, the Facilities Maximum Annual Special Tax shall be levied

Proportionately on each Parcel of Taxable Association Property within the District, up to 100% of the Facilities Maximum Annual Special Tax for Final Map Property for such fiscal year until the amount levied equals the Facilities Special Tax Requirement for the fiscal year (at present there is no Taxable Association Property in the District); and

Fourth: If additional revenue is needed after the first three steps have been completed in order to meet the Facilities Special Tax Requirement, the Facilities Maximum Annual Special Tax shall be levied Proportionately on each Parcel of Taxable Public Property within the District, up to 100% of the Facilities Maximum Annual Special Tax for Final Map Property for such fiscal year until the amount levied equals the Facilities Special Tax Requirement for the fiscal year (at present there is no Taxable Public Property in the District).

The Rate and Method provides that, commencing in Fiscal Year 2006-07 and for each following fiscal year, the District shall levy the Maintenance Maximum Annual Special Tax until the amount of Maintenance Maximum Annual Special Taxes equals the Maintenance Maximum Annual Special Tax Requirement as follows:

First: In any fiscal year, the Maintenance Maximum Annual Special Tax shall be levied Proportionately on each Parcel of Custom Lot Property and Non-Residential Property up to 100% of the Maintenance Maximum Annual Special Tax for each Parcel for such fiscal year until the amount levied equals the Maintenance Special Tax Requirement for the fiscal year;

Second: If additional revenue is needed in order to meet the Maintenance Special Tax Requirement after applying the first step, the Maintenance Maximum Annual Special Tax shall be levied Proportionately on each Assessor's Parcel of Final Map Property, excluding Association Property, up to 100% of the Maintenance Maximum Annual Special Tax for Final Map Property for such fiscal year until the amount levied equals the Maintenance Special Tax Requirement for the fiscal year;

Third: If additional revenue is needed after the first two steps in order to meet the Maintenance Special Tax Requirement, the Maintenance Maximum Annual Special Tax shall be levied Proportionately on each Parcel of Association Property within the District, up to 100% of the Maintenance Maximum Annual Special Tax for Final Map Property for such fiscal year until the amount levied equals the Maintenance Special Tax Requirement for the fiscal year (at present there is no Taxable Association Property in the District); and

Fourth: If additional revenue is needed after the first three steps have been completed in order to meet the Maintenance Special Tax Requirement, the Maintenance Maximum Annual Special Tax shall be levied Proportionately on each Parcel of Taxable Public Property within the District, up to 100% of the Maintenance Maximum Annual Special Tax for Final Map Property for such fiscal year until the amount levied equals the Maintenance Special Tax Requirement for the fiscal year (at present there is no Taxable Public Property in the District).

On July 1, 2007, and on each July 1 thereafter, the Maintenance Maximum Annual Special Taxes listed as the levy for the 2006-07 Fiscal Year shall be changed by an amount equal to the annual percentage change in the United States Department of Labor, Bureau of Labor Statistics, Consumer Price Index of All Urban Consumers (CPI-U), for the Los Angeles-Riverside-Orange County Area, for the previous calendar year.

*Prepayment of Special Tax.* The Facilities Maximum Annual Special Tax obligation for an Assessor's Parcel of Developed Property or of certain Final Map Property may be prepaid in full or in part, pursuant to the terms of Section G of the Rate and Method *provided* that there are no delinquent Special Taxes, penalties, or interest charges outstanding with respect to such Assessor's Parcel. The Prepayment Amount for an applicable Assessor's Parcel is calculated based on Bond Redemption Amounts and other costs, less certain credits, all as specified in APPENDIX B – "Rate and Method of Apportionment."

*Limitations under Section 53321 of the Act.* In the event the District was to levy Special Taxes on Developed Property at less than the Facilities Maximum Annual Special Tax, pursuant to Section 53321 of the Act and the Rate and Method, the Special Tax levied against an Assessor's Parcel used for private residential purposes, defined as property classified as Custom Lot Property, shall under no circumstances increase more than 10% as a consequence of delinquency or default by the owner of any other Assessor's parcel(s) and shall, in no event, exceed the sum of the Facilities Maximum Annual Special Tax and the Maintenance Maximum Annual Special Tax in effect for the fiscal year in which the Special Tax is being levied. See "RISK FACTORS – Maximum Rates" herein.

#### **Limited Liability of Property Owners; No Assurances**

No owner of property within the District will be personally liable for the payment of the Special Taxes to be applied to pay the principal of and interest on the Bonds. In addition, there is no assurance that any property owner will be able to pay the Special Taxes or that any property owner will pay such Special Taxes even if it is financially able to do so. Furthermore, no representation is made that any owner of Final Map Property will have moneys available (or that it will advance such moneys, if available) to develop any of its property that is classified as Final Map Property under the Rate and Method in order that such property shall be reclassified as Developed Property under the Rate and Method.

#### **Reserve Fund**

The District has established a Reserve Fund to be held by the Fiscal Agent in an amount equal to the Reserve Requirement. The term "Reserve Requirement" is defined in the Fiscal Agent Agreement as 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 initial principal amount of the Bonds and any Parity Bonds issued hereunder. Moneys on deposit in the Reserve Fund will be used to make transfers to the Bond Fund in the event and to the extent of a deficiency in the Bond Fund of the amount then required to pay the principal of and interest and premium, if any, on the Bonds, the 2013 Bonds and any Parity Bonds, or for the purpose of redeeming the Bonds, the 2013 Bonds and any Parity Bonds. \$1,079,850.00 was the amount previously deposited to the Reserve Fund from proceeds of the 2013 Bonds.

Moneys in the Reserve Fund in excess of the Reserve Requirement (including interest earnings) shall be deposited to the following funds and accounts in the order of priority as follows: (i) in the Improvement Fund until completion of the Project and all costs of the Project have been paid in accordance with the Acquisition Agreement (as defined below), and (ii) thereafter in the Bond Fund. See APPENDIX A – "Summary of Certain Provisions of the Fiscal Agent Agreement."

#### **Covenant to Commence Superior Court Foreclosure for Delinquent Special Taxes**

Pursuant to Section 53356.1 of the Act, the District has covenanted with and for the benefit of the Owners that it shall order, and cause to be commenced as provided in the Fiscal Agent Agreement, 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.

On or about February 15 and June 15 of each fiscal year, an Authorized Officer shall compare the amount of Special Taxes to be collected on the December 10 and April 10 installments of the secured property tax bills to the amount of Special Tax Revenues actually received by the District in said installments, and proceed as set forth below: If the Authorized Officer determines that any single parcel subject to the Special Tax in the District is delinquent in the payment of Special Taxes, then the Authorized 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. If the delinquency remains uncured,

foreclosure proceedings shall be commenced by the District by October 1 following such determination. See "RISK FACTORS – Collection of Special Tax; Foreclosure."

Based on a determination of the Special Tax Consultant after review of the Orange County tax collection records, property tax payments were current as of January 22, 2014, for all parcels. See Table 5 – "Special Tax Collections and Delinquencies."

The ability of the District to foreclose the lien of delinquent unpaid Special Taxes may be limited in certain instances and may require prior consent of the obligee in the event the property is owned by or in receivership of FDIC. See "RISK FACTORS – Bankruptcy and Foreclosure Delay," "– Payments by FDIC and other Federal Agencies" and "– Billing of Special Taxes."

If the Reserve Fund is depleted, there could be a default or a delay in payments to the Owners of the Bonds pending prosecution of foreclosure proceedings and receipt by the District of foreclosure sale proceeds, if any. However, within the limits of the Rate and Method and subject to the Maximum Annual Special Tax, the District may adjust the Special Taxes levied on all property within the District to provide an amount required to pay debt service with respect to the Bonds, including defaulted interest and principal payments, and to replenish the Reserve Fund.

IN THE EVENT SUPERIOR COURT FORECLOSURE OR FORECLOSURES ARE NECESSARY, THERE MAY BE A DELAY IN PAYMENTS TO BOND OWNERS PENDING PROSECUTION OF THE FORECLOSURE PROCEEDINGS AND RECEIPT BY THE DISTRICT OF THE PROCEEDS OF THE FORECLOSURE SALE; IT IS ALSO POSSIBLE THAT NO BID FOR THE PURCHASE PRICE OF APPLICABLE PROPERTY WOULD BE RECEIVED AT THE FORECLOSURE SALE. SEE "RISK FACTORS." NOTWITHSTANDING ANY OTHER PROVISION OF THE FISCAL AGENT AGREEMENT, THE DISTRICT IS NOT OBLIGATED TO ADVANCE AVAILABLE FUNDS TO CURE ANY DEFICIENCY IN THE BOND FUND ESTABLISHED IN THE FISCAL AGENT AGREEMENT.

No assurance can be given that a judicial foreclosure action, once commenced, will be completed or that it will be completed in a timely manner. If a judgment of foreclosure and order of sale is obtained, the District as judgment creditor must cause a Notice of Levy to be issued. Under current law, a judgment debtor (property owner) has 120 days from the date of service of the Notice of Levy in which to redeem the property to be sold, which period under recent legislation may be shortened to 20 days for parcels other than those on which a dwelling unit for not more than four persons is located. If a judgment debtor fails to redeem and the property is sold, his only remedy is an action to set aside the sale, which must be brought within 90 days of the date of sale. If, as a result of such an action, a foreclosure sale is set aside, the judgment is revived and the judgment creditor is entitled to interest on the revived judgment as if the sale had not been made (Section 701.680 of the California Code of Civil Procedure). The constitutionality of the aforementioned legislation, which repeals the former one-year redemption period, has not been tested; and there can be no assurance that, if tested, such legislation will be upheld. Any parcel subject to foreclosure sale must be sold at the minimum bid price (equal to the sum of delinquent Special Tax installments, penalties, interest, attorney's fees, and costs of collection and sale) unless a lesser minimum bid price is authorized by the Owners of 75% of the principal amount of the Bonds outstanding.

#### **No Obligation of the City Upon Delinquency**

The City is under no obligation to transfer any funds of the City into the Bond Fund for the payment of the principal of or interest on the Bonds if a delinquency occurs in the payment of any Special Taxes. See "– Covenant to Commence Superior Court Foreclosure for Delinquent Special Taxes" above for a discussion of the District's obligation to foreclose Special Tax liens upon delinquencies. Further, neither the City nor the District is under any obligation to advance its own funds to pay foreclosure costs.

**Prepayment of Special Tax**

A property owner may, subject to certain conditions, prepay its Special Taxes and thereby cause a redemption of Bonds. See “THE BONDS – Redemption Provisions – *Special Mandatory Redemption from Special Tax Prepayments*” and APPENDIX B – “Rate and Method of Apportionment.”

**Appraised Property Values**

An appraisal of the land and existing improvements for the development within the District, dated November 10, 2013 (the “Narrative Appraisal Report”), was prepared by Harris Realty Appraisal, Newport Beach, California (the “Appraiser”) in connection with the issuance of the Bonds. An appraisal report, in summary format (the “Summary Appraisal Report,” and collectively, with the Narrative Appraisal Report, the “Appraisal”), that must be read in conjunction with the Narrative Appraisal Report which had a November 1, 2013, date of value, has a January 24, 2014, date of value, and provides sufficient information to state that if the property were to be appraised as of January 24, 2014, the value would “Not Be Less Than” the value reported as of November 1, 2013. The purpose of the Narrative Appraisal Report was to estimate the aggregate market value of the “as is” condition of the property as of the November 1, 2013 date of value, allocated to the 120 residential and commercial lots subject to the levy of Special Taxes, which as of November 1, 2013, consisted of the following: 62 Custom Lots individually owned (including 18 completed dwellings, six lots with dwellings under construction and 38 parcels with no improvements completed or underway), 52 Custom Lots owned by the Developer or related entities (including two lots with construction underway) and six non-residential parcels consisting of 4.3 acres. The Summary Appraisal Report notes that 3 additional Custom Lot sales occurred between November 1, 2013, and January 24, 2014, resulting in 65 individual ownerships and 49 Custom Lots owned by the Developer or related entities and that one additional custom home was under construction. Four Custom Lots have prepaid their Special Tax and were not included in the Appraisal and one lot has been developed with a community beach club, is not subject to the levy of Special Taxes and has not been included in the Appraisal. The Appraisal also reflects the proposed District bond financing, together with the effective tax rate which ranges from approximately 1.23% to 1.73% based on recent base sale prices of the lots and including special taxes for the District and other overlapping debt. The Appraisal is based on certain assumptions expressed therein. Subject to these assumptions, the Appraiser estimated in the Narrative Appraisal Report that the fee simple market value of the Taxable Property within the District (subject to the lien of the Special Taxes), as of November 1, 2013, was \$486,700,000 and in the Summary Appraisal Report stated that if the property were to be appraised as of January 24, 2014, the value would not be less than that reported as of November 1, 2013.

The market values reported in the Appraisal result in an approximate value-to-lien ratio of 11.45:1,\* calculated with respect to the Bonds and the 2013 Bonds. There was no other direct and overlapping bonded debt as of the Assessor’s equalized assessment roll for Fiscal Year 2013-14. The value-to-lien ratios of individual parcels will differ from the foregoing aggregate values. See “THE DISTRICT – Direct and Overlapping Debt.” See also “RISK FACTORS – Assessed Property Values and Value-to-Lien Ratios” herein and APPENDIX C – “APPRAISAL” appended hereto for further information on the Appraisal and for limiting conditions relating to the Appraisal.

The analysis of the completed-sold homes is of the aggregate value and on a mass-appraisal basis by means of the “Direct Comparison Approach” which considers recent closed and pending sales in the District as well as recent re-sales of homes within the District.

*The City, the Underwriter and the District make no representation as to the accuracy or completeness of the Appraisal. See Appendix C for more information relating to the Appraisal.*

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\*Preliminary, subject to change.

**Parity Bonds**

The District may from time to time issue Parity Bonds up to the total authorized bonded indebtedness in addition to the Bonds and the 2013 Bonds authorized under the Fiscal Agent Agreement, by means of a Supplemental Agreement and without the consent of any Owners, upon compliance with the provisions of the Fiscal Agent Agreement. Based on the amount of debt issued to finance the Facilities to date and including the Bonds, the amount of Parity Bonds that could be issued in the future to finance the Facilities is \$1,620,000.\* Any such Parity Bonds shall be on a parity with the Bonds and the 2013 Bonds under the Fiscal Agent Agreement and shall be secured by a lien on the Special Tax Revenues and funds pledged for the payment of the Bonds under the Fiscal Agent Agreement. The District may issue the Parity Bonds subject to the following specific conditions precedent:

(a) *Current Compliance.* The District shall be in compliance on the date of issuance of the Parity Bonds with all covenants set forth in the Fiscal Agent Agreement and all Supplemental Agreements.

(b) *Payment Dates.* The Supplemental Agreement providing for the issuance of such Parity Bonds shall provide that interest thereon shall be payable on March 1 and September 1, and principal thereof shall 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).

(c) *Funds and Accounts; Reserve Fund Deposit.* The Supplemental Agreement providing for the issuance of such Parity Bonds may provide for the establishment of separate funds and accounts and shall provide for a deposit to the Reserve Fund in an amount necessary so that the amount on deposit therein, following the issuance of such Parity Bonds, is equal to the Reserve Requirement. ]

(d) *Value-to-Lien Ratio.* The District Value shall be at least ten (10) times the sum of: (i) the aggregate principal amount of all outstanding Bonds and 2013 Bonds, plus (ii) the aggregate principal amount of the series of Parity Bonds proposed to be issued, plus (iii) the aggregate principal amount of any assessment district liens on the parcels in the District subject to the levy of Special Taxes, plus (iv) a 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 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 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 projected 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.

For purposes hereof, the Fiscal Agent Agreement defines the term "District Value" as the market value of all parcels of real property in the District that are 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 non-delinquent parcels, the value of the then existing improvements, as determined by reference to (i) an appraisal performed within three (3) months of the date of issuance of any proposed Parity Bonds by an MAI appraiser (the "Appraiser") selected by the City, and/or (ii) the assessed value of nondelinquent parcels and improvements thereon as shown on the then current County real property tax roll available to the Authorized Officer, as set forth in the Authorized Officer's Certificate required pursuant to the Fiscal Agent Agreement.

(e) *Special Tax Coverage.* The District shall obtain a certificate of a Tax Consultant to the effect that the amount of the Special Taxes that may be levied on taxable parcels not currently delinquent in each fiscal year shall be at least the sum of (a) one hundred ten percent (110%) of the total Annual Debt Service for each such fiscal year on the Bonds and the proposed Parity Bonds plus, (b) an allowance for estimated annual Administrative Expenses anticipated to be levied in future fiscal years.

**Debt Service Coverage for the Bonds**

The following table sets forth the annual debt service coverage from Developed Property and from all taxable property within the District. Debt service assumes no optional or special mandatory redemption.

Year (Sept. 1)	Total Debt Service Due on Bonds and Parity Bonds	CFD Admin.	Maximum Annual Special Tax Levy from Developed Property <sup>(1)</sup>	Coverage From Dev. Property <sup>(2)*</sup>	Maximum Special Tax on Res. Final Map	Maximum Special Tax on Non-Res.	Total Coverage <sup>*</sup>
2015	\$	\$	\$	%	\$	\$	%
2016							
2017							
2018							
2019							
2020							
2021							
2022							
2023							
2024							
2025							
2026							
2027							
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2040							
2041							
2042							
2043							
2044							
2045							

<sup>(1)</sup>Assumes for Fiscal Year 2014-15 and following years, 67 custom residential lots categorized as Developed Property as of January 24, 2014. Actual levy in each fiscal year will depend on lots sales and issuance of building permits for Developer owned property as of May 1 preceding the applicable fiscal year. Interest on the Bonds is capitalized through September 1, 2014.

<sup>(2)</sup>Maximum Annual Special Tax Levy from Developed Property less Estimated CFD Administrative Expenses divided by Total Debt Service.

Source: Willdan Financial Services as to Special Taxes and Stifel, Nicolaus & Company, Incorporated as to debt service and coverage.

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\*Preliminary, subject to change.



## THE DISTRICT

### General Description

The City Council, acting as legislative body of the District, established the District and authorized the levy of the Special Tax pursuant to the Act and Resolution No. 06-06-14-11, adopted by the City Council on June 14, 2006, for the purpose of financing various public improvements in support of the development by the Developer. Pursuant to a special election on June 14, 2006, qualified voters approved the levy of the Special Tax in accordance with the Rate and Method to secure the payment of principal and interest with respect to the Bonds (and any Parity Bonds). See APPENDIX B – “Rate and Method of Apportionment.”

The land within the District has been developed with a total of 118 custom residential lots, an approximately 1.5-acre commercial site and an approximately 2.8-acre hotel site. The western portion of the District south of Selva Road comprising 70 residential lots and the private beach club is referred to as the “North Strand” and the eastern portion of the District comprising 48 residential lots is referred to as the “South Strand.” All property within the District, comprising approximately 33.0 acres of custom lot residential property and 4.3 acres of non-residential property, except property on which the Special Tax has been prepaid, is subject to the Special Tax. The District consists of two separate tax zones, Tax Zone No. 1 consisting of the 118 custom residential lots and Tax Zone No. 2 consisting of the non-residential properties.

The Project Site, of which the District is a portion, is comprised of approximately 121.3 gross acres within Tract No. 16331 located east of and generally bordered by the Pacific Ocean, north of Scenic Drive, and west of Pacific Coast Highway and Street of the Green Lantern in the City. The Project Site includes approximately 12.74 acres of property on which the beach club and the private streets are located that are owned by the Association and not subject to the Special Tax. The Project Site also includes approximately 34.7 acres of recreation open space, 34.0 acres of conservation open space and 2.5 acres of public right-of-way which is not subject to the Special Tax.

### Property Ownership

At the time the District was formed, the Developer owned all of the land within the District. The Developer developed the property within the District with a total of 118 custom residential lots and approximately 4.3 acres of non-residential land. As of January 24, 2014, 69 custom residential lots have been sold to non-Developer related entities. Additionally, approximately 1.5 acres of property was sold to Strand Village Partners LLC (an entity unrelated to the Developer) for construction of an up to 35,000 square-foot mixed commercial project. Development of the mixed commercial project did not proceed and the approximately 1.5 acres is currently owned by Arcus Private Capital Solutions LLC. The remaining 49 custom residential lots and approximately 2.8 acres of hotel/resort property are owned by the Developer or related entities.

Of the 69 lots sold to non-Developer-related entities as of January 24, 2014, four lots have been cleared of the Special Tax by prepayment and thus are no longer subject to levy of the Special Tax. As of January 24, 2014, of the 49 custom residential lots owned by Developer-related entities, two parcels have been issued building permits and construction is underway. As described under “SECURITY FOR THE BONDS,” these two parcels are taxed as Developed Property.

As of the date of the Appraisal, of the 65 taxable lots not owned by the Developer, 18 custom dwellings have been completed and nine custom dwellings are currently under construction.

[Since January 24, 2014, \_\_ additional lots have sold to non-Developer-related entities, bringing the number of parcels that will be Developed Property for Fiscal Year 2014-15 to not less than \_\_\_\_].

All residential, commercial and hotel property is subject to the Special Tax pursuant to the Rate and Method (excluding lots which have prepaid the Special Tax obligation in full). The Bonds were sized from the Special Tax Revenues anticipated from all of the lots within the District, except the four Custom Lots for which Special Taxes have been prepaid.

A summary of property ownership within the District, as of January 24, 2014, is set forth below.

**Table 1**  
**Community Facilities District No. 2006-1**  
**of the City of Dana Point**  
**2014 Special Tax Bonds**

**DISTRICT PROPERTY OWNERSHIP**  
**(As of January 24, 2014)**

<b>Property Owner</b>	<b>Acreage</b>	<b>No. of Lots<sup>(1)</sup></b>	<b>Maximum Annual Special Tax<sup>(2)</sup></b>	<b>Percentage of Maximum Annual Special Tax</b>
<i>Residential Lots</i>				
Non-Developer Related Entities	N/A	65	\$1,670,500	55.79%
Developer-owned Developed Property (2 lots) and Final Map Property (47 lots)	N/A	49	1,259,300	42.06
<b>Subtotal</b>	<b>N/A</b>	<b>114</b>	<b>\$2,929,800</b>	<b>97.85%</b>
<i>Commercial Lots</i>				
Arcus Private Capital Solutions LLC	1.49	3	\$22,350	0.75%
Developer-owned	2.80	3	42,000	1.40
<b>Subtotal</b>	<b>4.29</b>	<b>6</b>	<b>\$64,350</b>	<b>2.15%</b>
<b>Total Taxable Property</b>	<b>N/A</b>	<b>120</b>	<b>\$2,994,150</b>	<b>100.00%</b>

<sup>(1)</sup> Not inclusive of the 4 prepaid parcels.

<sup>(2)</sup> Maximum Annual Special Tax rate under the Rate and Method of Apportionment. Maximum Annual Special Tax rate does not include the Maintenance Special Tax component.

*Source: Sales information provided by Headlands Reserve, LLC; Special Tax information compiled by Willdan Financial Services.*

The Rate and Method requires that the Special Taxes for any fiscal year be based on certain information as of April 30 of the previous fiscal year. The Special Tax Consultant will use the property ownership and development information above, together with information on additional lots sold or building permits issued by April 30, 2014, for purposes of determining the Special Tax levy for Fiscal Year 2014-15. See "THE HEADLANDS RESERVE DEVELOPMENT."

**Value-to-Lien Ratio; Fiscal Year 2014-15 Special Tax Levy**

The ratio of the appraised value of the Taxable Property within the District of \$486,700,000 to the total lien of the Bonds and the 2013 Bonds is approximately [11.45]:1.\* The ratio of the appraised value of 62 of the individually owned Custom Lots and two Developer owned Custom Lots of \$350,200,000 to the proportion of the total lien of the Bonds and 2013 Bonds with respect to such property is approximately 15:1.\* The ratio of the aggregate appraised value of the 47 residential lots owned by the Developer and of the 3 residential lots sold since November 1, 2013, to individual owners within the District for which no building permits have been issued of \$124,700,000 to the proportion of the total lien of the Bonds and 2013 Bonds is approximately 6.84:1.\* See APPENDIX B – "Rate and Method of Apportionment" and "RISK FACTORS – Assessed Property Values and Value-to-Lien Ratios."

\*Preliminary, subject to change.

[INSERT MAP OF RESIDENTIAL LOTS]

**Sales of Residential Lots; Development Restrictions**

The table below lists the sales price and date of sale for the residential lots that have sold and closed escrow to non-Developer related entities as of January 24, 2014:

**Table 2**  
**CUSTOM RESIDENTIAL LOT SALES HISTORY**  
**AS OF JANUARY 24, 2024<sup>(1)</sup>**

**Off-Beachfront Lots (Count = 49 lots)**

<b>Lot Number</b>	<b>Price<sup>(2)</sup></b>	<b>Lot SF</b>	<b>\$/SF</b>	<b>Close of Escrow</b>
25	\$4,250,000	10,283	\$413.30	12/6/2006
14	3,675,000	9,947	369.46	12/6/2006
21	4,125,000	9,479	435.17	12/7/2006
27	5,475,000	13,096	418.07	12/7/2006
20	4,525,000	9,567	472.98	12/11/2006
24	4,175,000	10,110	412.96	12/13/2006
13	3,700,000	9,791	377.90	12/12/2006
11	5,750,000	20,394	281.95	12/13/2006
22	4,100,000	9,373	437.43	12/15/2006
23	4,125,000	9,528	432.93	12/15/2006
12	3,725,000	9,992	372.80	12/29/2006
15	3,875,000	10,211	379.49	12/29/2006
16	4,325,000	10,975	394.08	4/5/2007
30	5,425,000	11,297	480.22	8/9/2007
26	5,775,000	13,875	416.22	9/7/2007
34	5,925,000	13,635	434.54	10/23/2007
35	5,125,000	10,356	494.88	10/31/2007
6	4,425,000	11,330	390.56	5/13/2008
110 <sup>(3)</sup>	4,300,000	26,893	159.89	4/29/2009
115	1,600,000	11,675	137.04	11/23/2010
116	1,600,000	11,712	136.61	11/10/2010
111	2,450,000	18,509	132.37	7/19/2011
112	2,450,000	13,855	176.83	7/19/2011
113	2,425,000	14,001	173.20	8/15/2011
105 <sup>(3)</sup>	1,850,000	12,537	147.56	4/9/2012
82	1,650,000	12,938	127.53	5/11/2012
81	1,642,000	14,010	117.20	11/16/2012
98	1,755,000	11,819	148.49	1/22/2013
32	4,882,500	21,692	225.08	2/14/2013
10	5,152,500	25,167	204.73	5/2/2013

31	5,152,500	20,451	251.94	5/2/2013
91	3,467,500	19,829	174.87	5/2/2013
97	1,657,500	12,083	137.18	5/2/2013
106	1,900,000	11,728	162.01	5/15/2013
99	1,732,500	11,421	151.69	5/22/2013
90	3,505,500	17,038	205.75	5/28/2013
19	4,300,000	9,433	455.85	6/14/2013
95	2,700,000	12,335	218.89	6/14/2013
104	2,422,500	11,690	207.23	6/14/2013
100	2,517,500	14,182	177.51	7/1/2013
107	2,870,000	11,894	241.30	9/16/2013
108	2,975,000	12,088	246.11	9/20/2013
102	2,250,000	18,087	124.40	10/18/2013
117	2,500,000	11,583	215.83	10/18/2013
101	2,117,500	16,475	128.53	10/22/2013
118	2,300,000	15,993	143.81	10/22/2013
119	2,075,000	21,307	97.39	10/22/2013
40 <sup>(1)</sup>	5,300,000	9,884	536.22	11/15/2013
33 <sup>(1)</sup>	5,581,250	13,173	423.69	12/16/2013
<b>Off-Beach Avg.</b>	<b>\$3,501,658</b>	<b>13,647</b>	<b>\$256.58</b>	

<b>Beachfront Lots (Count = 20 lots)</b>				
<b>Lot Number</b>	<b>Price</b>	<b>Lot SF</b>	<b>\$/SF</b>	<b>Close of Escrow</b>
56	\$7,525,000	11,037	\$681.80	12/6/2006
48	7,950,000	10,389	765.23	12/7/2006
51 <sup>(3)</sup>	7,950,000	10,174	781.40	12/8/2006
58	7,475,000	11,802	633.37	12/12/2006
57	7,495,000	10,852	690.66	12/12/2006
55	7,540,000	10,753	701.20	12/14/2006
54	7,550,000	10,477	720.63	12/14/2006
50	7,635,000	10,068	758.34	12/15/2006
49	7,650,000	9,982	766.38	12/15/2006
53	7,575,000	10,338	732.73	1/10/2007
47	8,500,000	10,348	821.41	3/23/2007
46	9,000,000	10,336	870.74	8/9/2007
62 <sup>(3)</sup>	12,000,000	11,246	1,067.05	1/20/2010
67	8,775,000	10,461	838.83	10/31/2012
68	8,600,000	10,329	832.61	10/15/2012
69	8,600,000	10,248	839.19	2/15/2013
60	10,200,000	11,719	870.38	5/15/2013
61	10,500,000	11,110	945.09	5/15/2013
63	11,000,000	10,703	1,027.75	6/10/2013
66 <sup>(1)</sup>	11,850,000	10,652	1,112.47	12/12/2013
<b>Beach Average</b>	<b>\$8,768,500</b>	<b>11,212</b>	<b>\$782.09</b>	
<b>Avg. of 69 lots</b>	<b>\$5,028,279</b>	<b>12,779</b>	<b>\$393.48</b>	

- (1) Includes lots 33, 40 and 66 sold after the November 1, 2013 date of value in the Narrative Appraisal Report but included in the Summary Appraisal Report dated January 2014.
- (2) Price shown is based on records from the Orange County Tax Collector's Office.
- (3) Lots 51, 62, 105 and 110 prepaid their Special Taxes and are no longer part of the security for the Bonds.
- (4) Average price and \$/square foot is based on lots for which sales price information is available.
- (5) 69 lots does not include 4 lots (lots 45, 52, 64 and 65) sold to entities related to the Developer.

*Source: Headlands Reserve LLC, except as indicated.*

The documentation for each sale includes the recording of an "Instrument Imposing a Mortgage Lien, Option to Repurchase and Right of First Refusal." In this document the buyer represents that it purchased the property to construct a single-family residence; that the design must be approved by the Design Review Committee; that the home will be at least 4,200 square feet in size; and that construction will commence within 24 months and be completed within 60 months after the sale of the lot records. Furthermore, the buyer cannot resell or transfer the lot prior to the completion of construction of a home on the lot without the prior approval of the seller and in such event, the buyer shall pay the seller 66.67% of the fair market value, less the original purchase price plus certain of the buyer's carrying costs. Lastly, the buyer grants the seller an exclusive option to repurchase the property if the buyer violates any of the provisions provided in the above instrument. Due to the economic downturn after 2008, the Developer has not enforced the requirement that construction commence within 24 months and be completed within 60 months after the sale of the lot records.

**Special Tax Levy by Land Use Category**

The following table shows the Maximum Annual Special Taxes by land use category as of January 24, 2014:

**Table 3  
Community Facilities District No. 2006-1  
of the City of Dana Point  
2014 Special Tax Bonds**

**Maximum Annual Special Tax Levy by Land Use Category<sup>(1)</sup>**

<b>Land Use Classification</b>	<b>Number of Parcels</b>	<b>Maximum Special Tax Rate<sup>(1)</sup></b>	<b>Maximum Annual Special Tax</b>	<b>Percentage Share of Special Tax</b>
Custom Lot Property	64	\$25,700	\$1,644,800	54.93%
Final Map Property	50	25,700	1,285,000	42.92
Non-Residential Property	6	\$15,000/acre	64,350	2.15
<b>Total</b>	<b>120</b>		<b>\$2,994,150</b>	<b>100.00%</b>

<sup>(1)</sup> Maximum Annual Special Tax as detailed in the Rate and Method of Apportionment. Maximum Annual Special Tax Rate does not include the Maintenance Special Tax Component.

*Source: Willdan Financial Services.*



**Table 4**  
**Community Facilities District No. 2006-1**  
**of the City of Dana Point**  
**2014 Special Tax Bonds**

**Maximum Annual Special Tax Levy and**  
**Appraised Value by Land Use Category**

<b>Development Status</b>	<b>Number of Parcels</b>	<b>Number of Building Permits Issued</b>	<b>Total Appraised Value <sup>(1)</sup></b>	<b>Maximum Annual Special Tax <sup>(2)</sup></b>	<b>Percentage Share of Maximum Special Tax</b>
<i>Developed Property</i>					
Improved Custom Lot Property <sup>(3)</sup>	20	20	\$180,000,000	\$514,000	17.17%
Unimproved Custom Lot Property <sup>(4)(5)</sup>	44	9	170,200,000	1,130,800	37.77
<b>Subtotal</b>	<b>64</b>	<b>29</b>	<b>\$350,200,000</b>	<b>\$1,644,800</b>	<b>54.93%</b>
<i>Undeveloped Property</i>					
Unimproved Final Map Property	50	0	\$124,700,000	\$1,285,000	42.92%
Unimproved Non-Residential Property	6	0	11,800,000	64,350	2.15
<b>Subtotal</b>	<b>56</b>	<b>0</b>	<b>\$136,500,000</b>	<b>\$1,349,350</b>	<b>45.07%</b>
<b>Total</b>	<b>120</b>	<b>29</b>	<b>\$486,700,000</b>	<b>\$2,994,150</b>	<b>100.00%</b>

<sup>(1)</sup> Appraised values from Narrative Appraisal Report provided by Harris Realty Appraisal.

<sup>(2)</sup> Maximum Annual Special Tax rate under the Rate and Method of Apportionment. Maximum Annual Special Tax rate does not include the Maintenance Special Tax component.

<sup>(3)</sup> 18 certificates of occupancy have been issued as of January 24, 2014.

<sup>(4)</sup> Developed Property as defined by the Rate and Method includes properties that have been conveyed from the Developer to an unrelated third party or for which building permits have been issued prior to May 1 in any tax year. As a result, there may be properties that are considered Developed Property even though they do not reflect improved value and may not have issued building permits.

<sup>(5)</sup> Includes two parcels owned by the Developer for which building permits have been issued.

*Source: Willdan Financial Services.*

### **Special Tax Collections**

The Special Tax on Developed Property authorized for the 2012-13 Fiscal Year in the District was \$622,703.88 which was levied against 36 parcels. Of those parcels, all had paid both installments of Special Taxes as of September 10, 2013. For the 2012-13 Fiscal Year, no Special Taxes were levied on Final Map Property or Undeveloped Property. The Special Tax on Developed Property for the 2013-14 Fiscal Year in the District was \$1,063,203.38 levied against 43 parcels. Of those parcels, all had paid the first installments and 9 had paid the first and second installments of Special Taxes as of January 22, 2014.

Table 5 below sets forth the Special Tax collections for Fiscal Years 2008-09 through the first installment of Fiscal Year 2013-14. Historically, no foreclosure actions have been commenced with respect to parcels in the District. The District has been successful in collecting delinquent payments to enable payment of debt service without a draw on the Reserve Fund. The Board of Supervisors of the County adopted its Teeter Plan on June 29, 1993, but the Special Tax to be levied to pay the principal of and interest on the Bonds is not subject to the Teeter Plan adopted by the County.

**Table 5**  
**Community Facilities District No. 2006-1**  
**of the City of Dana Point**  
**2014 Special Tax Bonds**

**Special Tax Collections and Delinquencies**

Subject Fiscal Year <sup>(1)</sup>							As of September 10, 2013		
<b>Fiscal Year Ending June 30</b>	<b>Aggregate Annual Special Tax<sup>(2)</sup></b>	<b>Total Annual Special Taxes Collected</b>	<b>Parcels Levied</b>	<b>Parcels Delinquent</b>	<b>Fiscal Year Amount Delinquent<sup>(3)</sup></b>	<b>Fiscal Year Delinquency Rate</b>	<b>Remaining Parcels Delinquent</b>	<b>Remaining Amount Delinquent<sup>(3)</sup></b>	<b>Remaining Delinquency Rate</b>
2009	\$719,600.00	\$719,600.00	28	3	\$77,100.00	10.71%	0	\$0.00	0.00%
2010	710,405.10	710,405.10	30	2	35,520.25	5.00	0	0.00	0.00
2011	696,608.13	696,608.13	29	3	72,062.91	10.34	0	0.00	0.00
2012	624,308.69	624,308.69	31	1	20,138.99	3.23	0	0.00	0.00
2013	622,703.88	622,703.88	36	2	25,945.99	4.17	0	0.00	0.00
2014	1,063,203.38	642,867.16	43	0	0.00	N/A	N/A	N/A	N/A

<sup>(1)</sup> Delinquency information as of June 30 in the fiscal year in which the Special Taxes were levied, except Fiscal Year 2013-14, which is as of January 22, 2014, and which generally reflects payment of the first installment for Fiscal Year 2013-14 and the payment by 9 parcels of both installments.

<sup>(2)</sup> Does not include the Maintenance Special Tax component.

<sup>(3)</sup> Amount does not include any penalties, interest or fees.

*Source: Orange County Tax Collector, as compiled by Willdan Financial Services.*

**Top Owners of Taxable Property**

As of January 24, 2014, there were 120 parcels in the District on which the Special Tax is assumed to be levied through maturity of the Bonds. Top owners of taxable property, including the Developer, which is responsible for payment of Special Tax on 49 residential parcels and 3 hotel site parcels, are set forth below.

**Table 6**  
**Community Facilities District No. 2006-1**  
**of the City of Dana Point**  
**2014 Special Tax Bonds**

**Top Owners of Taxable Property and Allocation of Maximum Annual Special Tax Liability**

<b>Merchant Builder and/or Property Owner Name</b>	<b>Number of Parcels</b>	<b>Assessed Value<sup>(2)</sup></b>	<b>Maximum Annual Special Tax<sup>(3)</sup></b>	<b>Percentage Share of Special Tax</b>
Headlands Reserve LLC	52 <sup>(1)</sup>	\$136,208,992	\$1,301,300	43.45%
Mathur, Sanjay TR	2	13,049,708	51,400	1.72
White H2O LLC	2	13,049,708	51,400	1.72
Wagner Community Property TR	2	7,210,526	51,400	1.72
Li, Jinrong	2	7,210,526	51,400	1.72
Buss, James H	2	7,210,526	51,400	1.72

SFC Holdings LLC	2	7,210,526	51,400	1.72
Constructora Camabuga SA DE CV	2	7,210,526	51,400	1.72
12051 Summit Circle LLC	2	7,210,526	51,400	1.72
Arcus Private Capital Solutions LLC	4	6,905,263	48,050	1.59
<b>Subtotal</b>	<b>72</b>	<b>\$212,476,827</b>	<b>\$1,760,550</b>	<b>58.80%</b>
All Remaining Property Owners	48	\$274,223,173	\$1,233,600	41.20%
<b>Total</b>	<b>120</b>	<b>\$486,700,000</b>	<b>\$2,994,150</b>	<b>100.00%</b>

- (1) Total includes four residential parcels owed by Developer-related entities and three hotel site parcels.  
 (2) Appraised values from Narrative Appraisal Report provided by Harris Realty Appraisal.  
 (3) Maximum Annual Special Tax as detailed in the Rate and Method of Apportionment. Maximum Annual Special Tax does not include the Maintenance Special Tax component.

*Source: Willdan Financial Services.*

### Estimated Assessed Values

The assessed values, direct and overlapping debt and total tax burden on individual parcels vary among parcels within the District. The value of individual parcels is significant because in the event of a delinquency in the payment of Special Taxes, the District may foreclose only against delinquent parcels. There is only a nominal amount of other direct and overlapping tax and assessment debt allocable thereto. See Table 10 below. This gross assessed valuation may not be representative of the actual market value of property in the District because Article XIII A of the California Constitution limits any increase in appraised value to no more than 2% a year unless a property is sold or transferred. See “RISK FACTORS – Assessed Property Values and Value-to-Lien Ratios.” As a consequence, assessed values may be less than actual market values unless the property has recently changed ownership or has been reappraised.

The following table shows the historical assessed valuation for parcels taxed in the District for Fiscal Year 2008-09 through 2013-14 and the historical number of parcels taxed in the District.

**Table 7  
Community Facilities District No. 2006-1  
of the City of Dana Point  
2014 Special Tax Bonds**

#### Historical Assessed Valuation for Taxable Parcels

<b>Fiscal Year</b>	<b>Assessed Value of Parcels Taxed<sup>(1)</sup></b>	<b>Number of Parcels Taxed</b>	<b>Aggregate Assessed Value for Taxable Parcels</b>	<b>Aggregate Number of Taxable Parcels</b>
2008-09	\$166,624,400	28	\$272,231,034	123 <sup>(2)</sup>
2009-10	188,710,775	30	280,290,414	123
2010-11	200,601,206	29 <sup>(3)</sup>	291,502,602	121 <sup>(4)</sup>
2011-12	205,100,450	31	293,794,432	121
2012-13	221,955,574	36	310,053,792	121
2013-14	249,399,812	43 <sup>(5)</sup>	335,392,780	120 <sup>(5)</sup>

<sup>(1)</sup> Only includes assessed values for parcels that were levied for the Special Tax.

<sup>(2)</sup> APN 672-641-28 prepaid its Facilities Special Tax in 2006.

<sup>(3)</sup> APN 672-593-31 prepaid its Facilities Special Tax Obligation during Fiscal Year 2009-10 and thus, was not levied in Fiscal Year 2010-11.

<sup>(4)</sup> APN 672-651-27 prepaid its Facilities Special Tax Obligation during Fiscal Year 2009-10 prior to becoming developed, as defined by the Rate and Method, therefore, it was never taxed.

<sup>(5)</sup> APN 672-593-36 prepaid its Facilities Special Tax Obligation during Fiscal Year 2012-13 and thus, was not levied in Fiscal Year 2013-14.

*Source: Orange County Secured Rolls, as compiled by Willdan Financial Services.*

### Appraised Value to Burden Ratio

The District has not undertaken to commission annual appraisals of the market value of property in the District for purposes of its Annual Reports pursuant to the District Continuing Disclosure Agreement, and information regarding property values for purposes of a direct and overlapping debt analysis which may be contained in such reports will be based on assessed values as determined by the County Assessor. See APPENDIX E hereto for the form of the Continuing Disclosure Agreement.

The table below shows the approximate projected value to burden ratio by Land Use classification for the property in the District based on the appraised values set forth in the Appraisal, the proposed principal amount of the Bonds and the outstanding 2013 Bonds.

*No assurance can be given that 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 8**  
**Community Facilities District No. 2006-1**  
**of the City of Dana Point**  
**2014 Special Tax Bonds**

**Appraised Values and Value to Burden Ratios (Projected Fiscal Year 2014-15 Special Tax Levy)**

<b>Land Use Classification</b>	<b>Number of Parcels/Lots</b>	<b>Appraised Value<sup>(1)</sup></b>	<b>Principal Amount of Bonds and 2013 Bonds*</b>	<b>Value to Burden Ratio*</b>	<b>Estimated Fiscal Year 2014-15 Assigned Special Tax</b>	<b>Percentage Share of Special Tax</b>
Custom Lot Property	64	\$350,200,000	\$23,352,353	15.00:1	\$1,644,800	58.22%
Final Map Residential	50	124,700,000	18,244,026	6.84:1	1,124,036	539.79
Final Map Non-Residential	6	11,800,000	913,621	12.92:1	56,289	1.99
Total	120	\$486,700,000	\$42,510,000	11.45:1	\$2,825,125	100.00%

<sup>(1)</sup> Appraised values from Narrative Appraisal Report provided by Harris Realty Appraisal.

\*Preliminary; subject to change.

Source: Willdan Financial Services.

**Assessed Value to Burden Ratio**

The following table shows the assessed value by land use category for the lots subject to the levy of Special Taxes under the Rate and Method:

**Table 9**  
**Community Facilities District No. 2006-1**  
**of the City of Dana Point**  
**2014 Special Tax Bonds**

**Assessed Value by Land Use Category**  
**Fiscal Year 2013-14**

<b>Rate and Method Classification</b>	<b>Number of Parcels</b>	<b>Fiscal Year 2013-14 Assessed Value<sup>(1)(2)</sup></b>	<b>Allocable Share of Bonds and 2013 Bonds<sup>(4)*</sup></b>	<b>Value-to- Burden Ratio<sup>*</sup></b>
Custom Lot Property	64	\$267,433,753	\$23,352,353	11.45:1
Final Map Residential	50	48,152,312	18,244,026	2.64:1
Final Map Non-Residential	6	19,806,715	913,621	21.68:1
<b>Total</b>	<b>120</b>	<b>\$335,392,780</b>	<b>\$42,510,000</b>	<b>7.89:1</b>

<sup>(1)</sup> Assessed values obtained from the Orange County Assessor's Fiscal Year 2013-14 Secured Roll as of January 2013.

<sup>(2)</sup> Developed Property as defined by the Rate and Method includes properties that have been conveyed from the Developer to an unrelated third party or for which building permits have been issued prior to May 1. As a result, there may be properties that are considered Developed Property even though they do not reflect improved value and may not have issued building permit. The properties may be considered Developed Property for Fiscal Year 2014-15 based on status of ownership and development as of May 1, 2014 (e.g., sales since November 1, 2013, result in 67 parcels categorized as Custom Lot Property for Fiscal Year 2014-15.

<sup>(4)</sup> Allocable Share of Bonds is the proportionate share of the 2014-15 Facilities Maximum Special Tax multiplied by the total Bonds and 2013 Bonds.

\* Preliminary, subject to change.

*Source: Willdan Financial Services.*

**Direct and Overlapping Debt**

Table 10 below sets forth the existing authorized indebtedness payable from taxes and assessments that may be levied within the District prepared by California Municipal Statistics, Inc. as of December 1, 2013 (the "Debt Report"). The Debt Report is included for general information purposes only. In certain cases, the percentages of debt calculations are based on assessed values, which will change significantly as sales occur and assessed values increase to reflect housing values. The District and the Underwriter believe the information is current as of its date, but make no representation as to its completeness or accuracy. Other public agencies, such as the County, may issue additional indebtedness at any time, without the consent or approval of the District.

**TABLE 10  
DIRECT AND OVERLAPPING DEBT**

**CITY OF DANA POINT COMMUNITY FACILITIES DISTRICT NO. 2006-1**

2013-14 Local Secured Assessed Valuation: \$335,392,780

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 12/1/13</u>
Metropolitan Water District	0.015%	\$ 25,349
Capistrano Unified School District School Facilities Improvement District No. 1	0.737	258,621
South Coast Water District	4.215	80,931
<b>City of Dana Point Community Facilities District No. 2006-1</b>	<b>100.</b>	<b><u>17,885,000</u></b> <sup>(1)</sup>
<b>TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$18,249,901</b>

OVERLAPPING GENERAL FUND DEBT:

Orange County General Fund Obligations	0.076%	\$128,993
Orange County Pension Obligations	0.076	167,195
Orange County Board of Education Certificates of Participation	0.076	11,955
Municipal Water District of Orange County Water Facilities Corporation	0.091	7,063
Capistrano Unified School District Certificates of Participation	0.494	<u>90,178</u>
<b>TOTAL GROSS OVERLAPPING GENERAL FUND DEBT</b>		<b>\$405,384</b>
Less: MWDOC Water Facilities Corporation (100% supported)		<u>7,063</u>
<b>TOTAL NET OVERLAPPING GENERAL FUND DEBT</b>		<b>\$398,321</b>
 <b>GROSS COMBINED TOTAL DEBT</b>		 <b>\$18,655,285</b> <sup>(2)</sup>
<b>NET COMBINED TOTAL DEBT</b>		<b>\$18,648,222</b>

<sup>(1)</sup>Excludes issue to be sold.

<sup>(2)</sup> Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

Ratios to Assessed Valuation:

<b>Direct Debt (\$17,885,000)</b> .....	<b>5.33%</b>
Total Direct and Overlapping Tax and Assessment Debt....	5.44%
Gross Combined Total Debt .....	5.56%
Net Combined Total Debt.....	5.56%

Source: California Municipal Statistics, Inc.

### Overlapping Assessment and Community Facilities Districts

*Additional Debt Payable from Taxes or Assessments.* Neither the City nor the District has any control over the amount of additional debt payable from taxes or assessments levied on all or a portion of the property within a special district which may be incurred in the future by other governmental agencies, including, but not limited to, the County, the City or any other governmental agency having jurisdiction over all or a portion of the property within the District. Furthermore, nothing prevents the owners of property within the District from consenting to the issuance of additional debt by other governmental agencies which would be secured by taxes or assessments on a parity with the Special Taxes. To the extent such indebtedness is payable from assessments, other special taxes levied pursuant to the Act or taxes, such assessments, special taxes and taxes will be secured by liens on the property within a district on a parity with a lien of the Special Taxes.

Accordingly, the debt on the property within the District could increase, without any corresponding increase in the value of the property therein, and thereby severely reduce the ratio that exists at the time the Bonds are issued between the value of the property and the debt secured by the Special Taxes and other taxes and assessments which may be levied on such property. The incurring of such additional indebtedness could also affect the ability and willingness of the property owners within the District to pay the Special Taxes when due.

Moreover, in the event of a delinquency in the payment of Special Taxes, no assurance can be given that the proceeds of any foreclosure sale of the property with delinquent Special Taxes would be sufficient to pay the delinquent Special Taxes. See "RISK FACTORS."

### Estimated Value-to-Lien Ratios

Table 11 sets forth Value-to-Lien category ranges for all the parcels within the District which are subject to the levy of Special Taxes utilizing the appraisal values.

**Table 11  
Community Facilities District No. 2006-1  
of the City of Dana Point  
2014 Special Tax Bonds**

**Assessed Value and Value-to-Lien Ratio \***

<b>Value-to-Lien Category</b>	<b>Number of Parcels *</b>	<b>Maximum Special Tax<sup>(1)*</sup></b>	<b>Percentage Share of Maximum Special Tax *</b>	<b>Allocable Share 2013 Bonds and Bonds<sup>(2)*</sup></b>	<b>Appraised Value<sup>(3)*</sup></b>	<b>Value-to- Lien Ratio *</b>
25:1 and above	18	\$462,600	15.45%	\$6,567,849	\$170,000,000	25.88
15:1 to 24.99:1	4	102,800	3.43	1,459,522	23,522,857	16.12
10:1 to 14.99:1	10	167,150	5.58	2,373,143	31,477,143	13.26
5:1 to 9.99:1	88	2,261,600	75.54	32,109,486	261,700,000	8.15
<b>Total</b>	<b>120</b>	<b>\$2,994,150</b>	<b>100.00%</b>	<b>\$42,510,000</b>	<b>\$486,700,000</b>	<b>11.45</b>

<sup>(1)</sup> Maximum Annual Special Tax as detailed in the Rate and Method of Apportionment. Maximum Annual Special Tax does not include the Maintenance Special Tax component.



- (2) Allocable Share of Bonds is the proportionate share of the Maximum Annual Special Tax on all taxable lots multiplied by the total 2013 Bonds in the amount of \$17,885,000 and the Bonds in the amount of \$24,625,000.\*
- (3) Appraised values from Narrative Appraisal Report provided by Harris Realty Appraisal. Value based on a per-lot average.
- \*Preliminary, subject to change.

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*Source: Special Tax information provided by Willdan Financial Services.*

Table 12 below sets forth representative Fiscal Year 2013-14 overall tax rates applicable to lots within the District. The table also sets forth those entities with fees, charges, *ad valorem* taxes and special taxes regardless of whether those entities have issued debt. The estimated tax rates and amounts presented below are based on currently available information. The actual amounts charged may vary and may increase or decrease in future years.

**Table 12**  
**Community Facilities District No. 2006-1**  
**of the City of Dana Point**  
**2014 Special Tax Bonds**

**Fiscal Year 2013-14 Tax Rates**  
**(Residential Developed Property)**

<b>Assessed Valuations and Property Taxes</b>	<b>Improved Custom Lot</b>	<b>Improved Custom Lot</b>	<b>Unimproved Custom Lot</b>	<b>Unimproved Commercial Lot</b>
Assessed Value <sup>(2)</sup>	\$4,906,679	\$14,253,480	\$7,500,000	\$3,188,005
Homeowner's Exemption	0	0	0	0
Net Assessed Value <sup>(3)</sup>	\$4,906,679	\$14,253,480	\$7,500,000	\$3,188,005
<b>Ad Valorem Property Taxes</b>				
	<u>Percent of Total AV</u>	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>
General Purposes	1.00000%	\$49,066.79	\$142,534.80	\$75,000.00
Capistrano Unified	0.00972	476.92	1,385.43	729.00
South Coast Water District 1990 Bond	0.00787	386.16	1,121.75	590.24
Metropolitan Water District	0.00350	171.73	498.87	262.50
<b>Total Ad Valorem Property Taxes</b>		<b>\$50,101.60</b>	<b>\$145,540.85</b>	<b>\$76,581.74</b>
<b>Assessments, Special Taxes and Parcel Charges</b>				
Dana Point CFD 2006-1 (Facilities) <sup>(1)(4)</sup>		\$25,700.00	\$25,700.00	\$25,700.00
Dana Point CFD 2006-1 (Maintenance) <sup>(1)</sup>		2,462.64	2,462.64	2,462.64
Mosquito, Fire Ant and Disease Control Assessment		5.02	5.02	2.50
Vector Surveillance and Control Assessment		1.92	1.92	0.10
Metropolitan Water District Water Standby Charge		11.60	11.60	11.60
Sewer Maintenance Charge		N/A	418.44	N/A
Water Capacity Charge		N/A	187.99	N/A
<b>Total Assessments, Special Taxes and Parcel Charges</b>		<b>\$28,181.18</b>	<b>\$28,787.61</b>	<b>\$28,176.84</b>
<b>Total Property Taxes</b>		<b>\$78,282.78</b>	<b>\$174,328.46</b>	<b>\$104,758.58</b>
<b>Total Effective Tax Rate</b>		<b>1.60%</b>	<b>1.22%</b>	<b>1.40%</b>

<sup>(1)</sup> Maximum Annual Special Tax rates used for CFD No. 2006-1.

<sup>(2)</sup> Fiscal Year 2013-14 assessed valuation for three single-family custom lots within CFD No. 2006-1.

<sup>(3)</sup> Net Assessed Value reflects estimated total assessed value for the parcel net of homeowner's exemption. Not all residences qualify for the exemption.

<sup>(4)</sup> Facilities Special Tax is the projected 2014-15 Special Tax.

Source: Orange County Tax Collector, as compiled by Willdan Financial Services.

**Utilities**

All utilities, including gas, water, electricity, sewer, storm drains and telephone service as well as cable service are installed in the streets within the District and connect to existing facilities in the surrounding streets. The entities currently providing service are as follows:

Water & Sewer:	South Coast Water District
Electricity:	San Diego Gas & Electric
Gas:	Southern California Gas Company
Telephone:	AT&T/Cox Communications
Cable:	Cox Communications

**Zoning/Governmental Approvals**

Hotel site and  
commercial site

The Strand at Headlands is governed by The Headlands Development and Conservation Plan ("HDCP"), which was certified by the Coastal Commission in August 2004 and adopted by the City in September 2004. This document incorporates the General Plan Amendment, the Planned Development District zoning, the Local Coastal Plan and Policies, the Local Coastal Implementing Actions Program and the Development Agreement. The Land Use Plan of this document designates the residential lots as Residential and the commercial and hotel sites as Visitor/Recreational/Commercial. The balance of the overall site is designated Recreation and Conservation Open Space.

For the residential development, the maximum permitted densities are 3.5 dwelling units per gross acre for the North Strand area and 2.5 dwelling units per gross acre for the South Strand area.

For the commercial and hotel sites, the zoning district is Visitor/Recreational/Commercial. This designation permits primarily visitor-serving uses, such as restaurants, resort hotels and motel uses, commercial, recreation, specialty and convenience retail goods and services, auto service businesses, open space/recreational uses and community facilities. The commercial site (Strand Village) is permitted for up to 35,000 square feet of building and the hotel site is permitted for up to 100,750 square feet of building, including up to 90 hotel rooms that can include fractional interest/hotel condominiums.

The prior owner of the commercial site received approval of a design plan but development did not proceed at that time. Approvals based on then current development requirements may be required at such time as development occurs in the future.

Additional land use approvals include the final Tract Map No. 16331 which recorded on December 19, 2005, and covers the Project Site. The existing approvals through The Headlands Development and Conservation Plan include all coastal development permits, such that no further Coastal Commission review is required for the construction of the custom homes or commercial projects.

**Drainage/Flood Hazard**

Drainage is within master-planned facilities that have been constructed throughout the overall project as required by the Headlands Conceptual Drainage Plan, the Orange County Drainage Area Management Plan and the National Pollutant Discharge Elimination System (NPDES). Per FEMA Flood Insurance Rate Map No. 060736 0504H, dated February 18, 2004, all of the subject project area is located in Zone X which is outside the 100-year floodplain.

**Soil/Geologic Conditions**

All necessary soil and geologic studies were completed as part of the planning and approval process, and a substantial amount of grading (over 1,000,000 cubic yards of cut/fill) and soils work was required as part of the overall project. Based on information provided by the Developer, all required grading and compacting has been properly completed by the Developer; there are no abnormal soil or geologic conditions that would affect the development of the land as ongoing; and all necessary costs to complete the grading and any required mitigation measures have been spent. The subject property is not located within an Alquist-Priolo Earthquake Fault Hazard Zone.

### Environmental Review

One hotel planned

The City prepared an Environment Impact Report (EIR) for the HDCP in 2001. The City Planning Commission held public hearings for the HDCP on December 5 and December 12, 2001, and the City Council held public hearings for the HDCP on January 8 and January 22, 2002. The City Council certified the Final EIR for the HDCP and approved the HDCP, including amendments to the Local Coastal Program (LCP) (the "LCP Amendment"), General Plan, Zoning Code, Development Agreement and a Planned Development District to regulate and guide implementation of the HDCP and forwarded it (less the Development Agreement) to the California Coastal Commission (the "Coastal Commission") for certification as an amendment to the LCP.

The Coastal Commission reviewed the components related to the LCP Amendment. On January 15, 2004, the Coastal Commission denied certification of the LCP Amendment as originally submitted but certified the City of Dana Point LCP Amendment 1-03, with suggested modifications, and adopted revised findings associated with the certification on August 11, 2004. The Coastal Commission certification was conditioned upon suggested modifications to the LCP Amendment, which would have to be adopted by the City in order for the LCP to become effective.

In response to the action of the Coastal Commission, an Addendum to the previously certified EIR for the HDCP was prepared to serve as the environmental review of the proposed project and suggested modifications, as required pursuant to the provisions of the California Environmental Quality Act (CEQA), Public Resources Code Section 2100 *et seq.* and the State CEQA Guidelines. The suggested modifications were approved by the City and included an amendment to the Dana Point LCP for the 121.3-acre Dana Point Headlands site, including changes to the LCP Land Use Plan (LUP), which includes the Land Use Element, Urban Design Element, Conservation and Open Space Element of the City General Plan and LCP Implementation Program (IP), including the Planned Development District for the site to allow development of up to 125 single-family residential lots, visitor-serving commercial land use, including a 65-90-room inn, an approximately 35,000-square-foot commercial site and 68.5 acres of public parks, conserved habitat, coastal trails and open space.

The Coastal Commission held hearings on the proposed LCP Amendment on October 9, 2003, and January 15, 2004. The Coastal Commission approved the LCP Amendment, with modifications to the project. The changes to the LCP Amendment certified by the Commission result in a net increase in the area designated for preservation of sensitive biological resources and a decrease in areas designated for residential development. Modifications approved by the Commission include the addition of policies to the LUP of the LCP Amendment intended to implement the requirements of the Coastal Act, including the protection of coastal resources and to create and preserve coastal access. Modifications to the IP were made to ensure consistency with the policies and requirements of the LUP.

Two actions which do not affect development of the property within the District are pending with the Coastal Commission. One matter relates to whether the central stairway which provides beach access to the public may be closed at twilight or must remain open 24 hours each day. A second action relates to compliance with the Americans with Disabilities Act and whether the funicular beach access is adequate.

*Endangered Species.* Pacific pocket mouse, gnatcatcher and coastal sage habitat were found to be present on the site. To mitigate for planned development, the project site was included in the analysis for

the Orange County Central/Coastal Natural Community Conservation Plan/Habitat Conservation Plan (NCCP/HCP) Environmental Impact Statement/Environmental Impact Report (EIR/EIS) in 1996. The project site owner is a “Participating Landowner” in the NCCP/HCP Program, and is a signatory to the Implementation Agreement (IA) for the NCCP/HCP Program. The proposed project is a “Planned Activity” under the IA. The NCCP/HCP Program allows for the loss of sensitive species and their habitats because of the development of the project site for a combination of residential, visitor serving commercial, recreational, and open space uses. The NCCP/HCP Program allows for the ‘take’ of approximately 30 acres of coastal sage scrub habitat on the project site, which is outside of the Reserve System established for the NCCP/HCP Program. This take authorization specifically allows for flexibility in the location, intensity, and type of land use on the project site. The authorization covers the biological impacts from the proposed project on the project site. The sub-regional permit also allows for ‘take’ of 44 identified species and their habitats, which may or may not occur on the project site, and which are listed or may be listed in the future under the Endangered Species Act. The sub-regional permit also authorizes ‘take’ of the sensitive plant species on the project site. Requirements for mitigation under the NCCP/HCP Program were identified in the Implementation Agreement, and will reduce project impacts (direct and indirect) and cumulative impacts to a level of less than significant while meeting project objectives.

*CEQA Challenges.* The statutory period within which a court action or proceeding could be filed challenging the City’s CEQA compliance with respect to its approvals granted to-date has expired. The District believes that no further action with respect to environmental compliance is necessary in connection with the formation of the District.

## **FACILITIES FINANCED WITH BOND PROCEEDS**

### **The Facilities**

The Developer constructed major public infrastructure that was necessary to render the property within the District ready for the completion of in-tract public and private improvements by the Developer. The proceeds from the sale of the Bonds will be paid to the Developer to acquire completed Facilities.

### **Acquisition Agreement**

The City, on behalf of the District, and the Developer entered into an Acquisition Agreement, dated as of June 1, 2006 (the “Acquisition Agreement”), which provides, among other things, that the Developer will construct the Facilities pursuant to certain requirements contained in the Acquisition Agreement and which provides guidelines pursuant to which the District may acquire completed segments of the Facilities or pay for discrete portions of the Facilities prior to completion with the proceeds of the Bonds. The Acquisition Agreement has been amended by a First Amendment to Acquisition Agreement, dated as of November 8, 2006, by a Second Amendment to Acquisition Agreement, effective as of December 14, 2009 and by a Third Amendment to Acquisition Agreement, effective as of the date of issuance of the 2014 Bonds. The amendments relate to the amount of bonded debt which may be issued and the maintenance of the funicular.

The Developer paid all costs not covered by Bond and Special Tax proceeds. The Bonds and future Parity Bonds will be issued to reimburse the Developer for authorized costs not previously reimbursed. Facilities included City storm drain systems, public streets, public parks and public utilities. Facilities also included County of Orange stormwater and storm drain facilities and the north Strand beach access, and South Coast Water District sewer and water system facilities.

**Joint Community Facilities Agreement – SCWD**

The City, on behalf of the District, South Coast Water District (the “Sanitary District”) and Headlands Reserve LLC entered into a Joint Community Facilities Agreement, dated May 25, 2006 (the “Joint Community Facilities Agreement – SCWD”), which provides, among other things, that the District will construct, or cause to be constructed, certain Acquisition Facilities (as defined in the Joint Community Facilities Agreement –SCWD) pursuant to certain requirements contained in the Joint Community Facilities Agreement –SCWD, and which provides guidelines pursuant to which the District may acquire the completed Acquisition Facilities and transfer title to such Acquisition Facilities to the Sanitary District.

**Joint Community Facilities Agreement – County of Orange**

The City, on behalf of the District, the County and Headlands Reserve LLC entered into a Joint Community Facilities Agreement, dated June 6, 2006 (the “Joint Community Facilities Agreement”), which provides, among other things, that the District will construct, or cause to be constructed, certain CFD Facilities on County Property (as defined in the Joint Community Facilities Agreement), pursuant to certain requirements contained in the Joint Community Facilities Agreement, and which provides guidelines pursuant to which the District may acquire the completed CFD Facilities on County Property and transfer title to such CFD Facilities on County Property to the County.

**THE HEADLANDS RESERVE DEVELOPMENT**

*The information provided in this section has been provided by Headlands Reserve LLC and has been included because it may be considered relevant to an informed evaluation and analysis of the Bonds and the District. The City, the District and the Underwriter have not independently verified any of the following information and neither makes any representation as to its accuracy or completeness. Furthermore, no assurance can be given that the proposed development of the property within the District will occur or that it will occur in a timely manner or in the configuration or to the density described herein or that Headlands Reserve LLC or any other landowners described herein will or will not retain ownership of any of the land within the District. The Bonds and Special Taxes are not personal obligations of Headlands Reserve LLC or any other landowners. The Bonds are secured solely by the Special Taxes and amounts on deposit in certain of the funds and accounts maintained by the Fiscal Agent under the Fiscal Agent Agreement. See “RISK FACTORS” for a discussion of certain of the risk factors that should be considered in evaluating the investment quality of the Bonds.*

**The Developer**

Headlands Reserve LLC was formed as a limited liability company under the laws of the State of Delaware in April 1998, and was qualified to do business in the State of California in April 1998, for the purpose of purchasing, developing, and constructing improvements on, and owning, maintaining, operating, and selling real property, within California, including the District. Headlands Reserve LLC’s members are MPDSE, Inc., a California corporation, and IHP Investment Fund I, L.P., a California limited partnership, whose managing member is IHP Capital Partners. MPDSE, Inc. acts as the Managing Member of Headlands Reserve LLC.

MPDSE, Inc. (dba Master Plan Developments, Inc.) is a California corporation founded in 1991 and has become a leading California real estate developer, with diverse experience in real estate acquisition, entitlement, finance, construction and marketing. The company’s principals have combined experience of over 50 years in the building and development industries, including mixed-use communities and other development throughout California.

IHP Investment Fund I, L.P. is a for-sale residential equity fund established to finance residential projects, with funding provided by the California Public Employees’ Retirement System (CalPERS) and Pacific Life Insurance Company. IHP Capital Partners is one of the nation’s largest investment firms dedicated primarily to providing equity financing for real estate development. Founded in 1992, IHP Capital Partners is the primary real estate investment vehicle of several of America’s largest financial institutions. The firm invests institutional capital in for-sale residential real estate projects throughout the United States. IHP and its investment partners have created neighborhoods and communities valued at more than \$18 billion.

**Headlands Reserve LLC Experience/No Legal Challenges**

Headlands Reserve LLC has represented that there is no action, suit, proceeding, or investigation before any court, public board or body that has been filed and served or is pending (based on proper service of process having been accomplished) or, to Headlands Reserve LLC's actual knowledge, threatened against Headlands Reserve LLC or any of its members, which, if successful, would materially adversely affect its ability to pay the Special Tax or *ad valorem* tax obligations related to its property within the District.

**Limited Liability of Headlands Reserve LLC and Affiliates; No Assurances**

Neither Headlands Reserve LLC nor any officer, partner, member, or affiliate thereof or any other property owner will be personally liable for the payment of the Special Taxes to be applied to pay the principal of and interest on the Bonds. In addition, there is no assurance that Headlands Reserve LLC or any other property owner will or will not be able to pay the Special Taxes or that Headlands Reserve LLC or any other property owner will pay such Special Taxes even if it is financially able to do so.

**Headlands Reserve LLC's Development Plan**

Headlands Reserve LLC's residential project, sometimes called "The Strand at Headlands," consists of 118 custom home residential lots in the District and in addition, there are six parcels totaling approximately 4.3 acres zoned for visitor recreation/commercial use. As of January 24, 2014, 69 of the residential lots had been sold to non-Developer related entities and of such 69 residential lots, 18 have completed homes and 6 homes are under construction. Of the 69 residential lot sales, four lots have been cleared of the Special Tax by prepayment and thus are no longer subject to the levy of the Special Tax. As of January 24, 2014, the Developer and related entities own 49 residential lots.

In addition, the Developer has two custom homes under construction with completion expected in the second quarter of 2014. These homes are being built based on specification chosen by the Developer for sale to unrelated parties. The Developer expects to move forward with at least four additional specification custom homes in 2014. Homes have been completed on 2 of the 4 custom residential lots for which Special Taxes have been prepaid in full.

Based on information obtained from the Developer, the remaining custom residential lots and specification homes will be offered to prospective purchasers based on market acceptance and conditions. The present status of development activity is as follows:

Custom Residential Lots. Initially, the custom residential lots were anticipated to be sold in phases, based on the determination of the Developer as to the sales potential. The first phase, consisting of 21 lots, was released in October 2006 with all lots being sold within 72 hours. The second phase, consisting of eight lots, was released in February 2007 and the third phase, consisting of ten lots, was released in August 2007. The sales pace slowed in the period from 2008 through 2012 and during that time the Developer transitioned from selling in phases, to making all lots available for sale. As of January 24, 2014, 65 lots subject to the levy of Special Taxes have been sold and closed escrow to individual property owners that are unrelated to the Developer. In addition, the Developer has obtained building permits for two custom residential lots.

Commercial Parcels. There are six commercial/hotel parcels on the site. Three contiguous parcels are located on the southwest corner of Pacific Coast Highway and Street of the Green Lantern and are zoned to permit construction of an approximately 35,000 square foot, two-story commercial building with shared parking. The 1.5 acre-site was sold by the Developer to a non-Developer related entity and that purchaser did not proceed with its proposed development of the site. The property is currently owned by another non-Developer related entity, which is not expected to develop the property itself, but which is expected to market the property for sale in its current condition.

Commercial properties in PA4 and hotel properties in PA9



The three remaining commercial/hotel parcels are contiguous and are located on the Street of the Green Lantern on the southwest portion of the site adjacent to the Headlands Reserve. The parcels are owned by Headlands Reserve LLC and may be developed as a 90-unit boutique hotel, spa and resort commercial facility. The finished project will likely be operated by an experienced national resort operator. The Developer cannot predict the time period at which development will proceed.

#### **Headlands Reserve LLC's Financing Plan**

Headlands Reserve LLC has financed the development of its property in the District from equity provided by its members and the only third party construction loans are those obtained to finance the construction of the two specification homes under construction. The property owned by Headlands Reserve LLC is fully developed and ready for building construction and the remaining residential lots owned by the Developer are available for sale. The Developer will not be providing continuing disclosure. The Developer may choose to construct additional specification homes and to finance such construction of future specification homes using similar construction loans.

### **RISK FACTORS**

*Investment in the Bonds involves risks that may not be appropriate for certain investors. The following is a discussion of certain risk factors that should be considered, in addition to other matters set forth herein, in evaluating the Bonds for investment. The information set forth below does not purport to be an exhaustive listing of the risks and other considerations that may be relevant to an investment in the Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks.*

#### **Risks of Real Estate Secured Investments Generally**

The Bond Owners will be subject to the risks generally incident to an investment secured by real estate, including, without limitation, (i) adverse changes in local market conditions, such as changes in the market value of real property in the vicinity of the District, the supply of or demand for competitive properties in such area, and the market value of residential property or, buildings, and/or sites in the event of sale or foreclosure; (ii) changes in real estate tax rate and other operating expenses, governmental rules (including, without limitation, zoning laws and laws relating to endangered species and hazardous materials), and fiscal policies; and (iii) natural disasters (including, without limitation, earthquakes, landslides, wildfires and floods), which may result in uninsured losses.

#### **Property Ownership**

As of January 24, 2014, non-Developer related entities owned 65 taxable residential lots within the District and the Developer owned two lots for which building permits have been issued and 47 residential lots which constitute Custom Lot Property. In addition, there are 6 commercial lots within the District. See "THE DISTRICT – Property Ownership."

The timely payment of the principal of and interest on the Bonds depends upon the willingness and ability of the landowners in the District to pay the Special Tax installments when due. No property owner is obligated in any manner to continue to own any of the land it presently owns within the District. The Special Taxes are not a personal obligation of any owner of the parcels, and the District can offer no assurance that any current owner or any future owner will be financially able to pay such installments or that it will choose to pay even if financially able to do so. Conditions may affect the willingness of the current landowners, or any successor landowners, to pay Special Tax installments; and there is no assurance that the current landowners, or any successor landowners, will pay such Special Tax installments even if financially able to do so. A failure by the landowners to pay Special Tax installments may result in a default in the payment of debt service on the Bonds.

**Failure to Develop Property; Final Map Property**

Final Map Property (as defined in the Rate and Method) on January 24, 2014, comprised approximately 36.03% (by area) of the total taxable property within the District. The Special Tax Consultant has calculated that Special Taxes on Custom Lot Property and on Final Map property are estimated to be levied at 100% and 87.47%, respectively, of the Maximum Annual Special Tax in Fiscal Year 2014-15. No assurance can be given, and investors should not assume, that any of such Final Map Property will be developed. See "Table 3 – MAXIMUM ANNUAL SPECIAL TAX LEVY BY LAND USE CATEGORY" and APPENDIX B – "Rate and Method of Apportionment."

Property on which a home or commercial building has not yet been completed is less valuable per acre than property on which a home or a commercial building has been constructed and provides less security to the Bond Owners should it be necessary for the District to foreclose on such a lot due to the nonpayment of any Special Taxes. No assurance can be given that the Developer or other owners, if any, within the District will pay any Special Tax levied on their property in the future or that they will be able to pay such Special Taxes on a timely basis. Furthermore, an inability to develop the land within the District, or a slowdown or cessation of such development, could reduce the ability or willingness of such property owners to pay the Special Taxes, and could greatly reduce the value of such property in the event it has to be foreclosed upon to collect delinquent Special Taxes.

**Payment of Special Taxes by Public Entities**

The Act provides that if any property within the District not otherwise exempt from the Special Taxes is acquired by a public entity through a negotiated transaction, or by gift or devise, the Special Taxes will continue to be levied on and enforceable against the public entity that acquired the property. In addition, the Act provides that if property subject to the Special Taxes is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Taxes with respect to that property is to be treated as if it were a special assessment and paid from the eminent domain award. The constitutionality and operative effect of these provisions of the Act have not been tested in the courts. If for any reason property subject to the Special Taxes becomes exempt from taxation by reason of ownership by the federal government, subject to the limitation of the maximum authorized Special Taxes, the Special Taxes will be reallocated to the remaining taxable properties within the District, depending on where such property is located. This would result in the owners of such properties paying a greater amount of the Special Taxes and could have an adverse effect on the timely payment of the Special Taxes. Moreover, if a substantial portion of land within the District becomes exempt from the Special Taxes because of public ownership, or otherwise, the Maximum Annual Special Taxes which could be levied upon the remaining land might not be sufficient to make the payments required to pay principal of and interest on the Bonds when due and a default could occur with respect to the payment of such principal and interest.

**Assessed Property Values and Value-to-Lien Ratios**

The value of the property within the District is a critical factor in determining the credit quality of the Bonds and outstanding 2013 Bonds. If a property owner defaults in the payment of the Special Tax, the only remedy of the District is to commence foreclosure proceedings against the delinquent parcel or parcels in an attempt to obtain moneys to pay the delinquent Special Tax. Reductions in property values within the District due to a downturn in the economy or the real estate market, events such as earthquakes, tsunamis, landslides, wildfires, droughts, floods, stricter land use regulations, or other events may adversely impact the security underlying the Special Tax.

Pursuant to the Appraisal, the aggregate value of the 120 lots within the District as of January 24, 2014, is not less than \$486,700,000 which is approximately 11.45\* times the principal amount of the Bonds

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\*Preliminary, subject to change.

and outstanding 2013 Bonds. See Table 10 under the heading “THE DISTRICT – Direct and Overlapping Debt” for information regarding other direct and overlapping debt tax and assessment debt. The ratios for individual parcels vary widely, however. The value of the individual parcels is significant because, in the event of a delinquency in payment, the only remedy of the District is to foreclose on the delinquent parcel. A parcel with a lower value-to-lien ratio may be less likely to sell at foreclosure or provide sale proceeds adequate to pay all delinquent Special Taxes. See “SECURITY FOR THE BONDS – Assessed Property Values.”

The District can make no representation as to whether the assessed value of the land within the District or the value-to-lien ratio will remain at the values described in the preceding two paragraphs. Moreover, the District can make no assurances, and Bond Owners should not assume, that the property within the District could be sold at its assessed value at a foreclosure sale to collect delinquent Special Taxes. See “SECURITY FOR THE BONDS – Covenant to Commence Superior Court Foreclosure for Delinquent Special Taxes” and “– Assessed Property Values,” and “RISK FACTORS – Bankruptcy and Foreclosure Delay.”

### **Limited Obligation**

Neither the faith and credit nor the taxing power of the City, the State or any political subdivision thereof other than the District is pledged to the payment of the Bonds. Except for the Special Taxes, no other taxes are pledged to the payment of the Bonds. The Bonds are not general or special obligations of the City, the State or any political subdivision thereof nor general obligations of the District, but are special obligations of the District, payable solely from Special Tax revenues and the other assets pledged therefor under the Fiscal Agent Agreement.

### **Bankruptcy and Foreclosure Delay**

The District has covenanted to commence judicial foreclosure proceedings for delinquent Special Taxes. See “SECURITY FOR THE BONDS – Covenant to Commence Superior Court Foreclosure for Delinquent Special Taxes.” However, the ability of the District to foreclose the lien of a delinquent Special Tax payment may be limited by bankruptcy, insolvency or other laws generally affecting creditors’ rights or by State law relating to judicial foreclosure. In addition, the prosecution of a foreclosure could be delayed due to lengthy local court calendars or procedural delays.

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, reorganization, insolvency or other similar laws affecting the rights of creditors generally. Although bankruptcy would not cause the Special Tax lien to become extinguished, bankruptcy of a property owner, or of a partner or other equity owner of a property owner, could result in a stay of enforcement of the lien for the Special Tax or a delay in prosecuting superior court foreclosure proceedings, or adversely affect the ability or willingness of a property owner to pay the Special Taxes, and could result in delinquent Special Taxes not being paid in full. In addition, the amount of any lien on property securing the payment of delinquent Special Taxes could be reduced if the value of the property were determined by the bankruptcy court to have become less than the amount of the lien and the amount of the delinquent Special Taxes in excess of the reduced lien could then be treated as an unsecured claim by the court. Amounts received upon foreclosure sales may not be sufficient to fully discharge delinquent installments. To the extent that a significant percentage of the taxable property in the District is owned by a single property owner, and such owner is the subject of bankruptcy proceedings, the payment of the Special Tax and the ability of the District to foreclose the lien of a delinquent unpaid Special Tax could be extremely curtailed by bankruptcy, insolvency or other laws generally affecting creditors’ rights or by the laws of the State relating to judicial foreclosure. Such a curtailment would increase the likelihood of a delay or default in payment of the principal of and interest on the Bonds.

On July 30, 1992, the United States Court of Appeals for the Ninth Circuit issued its opinion in a bankruptcy case entitled *In re Glasply Marine Industries*. In that case, the court held that *ad valorem* property taxes levied by Snohomish County in the State of Washington after the date that the property owner filed a petition for bankruptcy were not entitled to priority over a secured creditor with a prior lien on the property. The court upheld the priority of unpaid taxes imposed after the filing of the bankruptcy petition as administrative expenses of the bankruptcy estate, payable after all secured creditors. As a result, the secured creditor was able to foreclose on the property and retain all of the proceeds of the sale except the amount of the pre-petition taxes.

According to the court ruling, as administrative expenses, post-petition taxes would have to be paid, assuming that the debtor has sufficient assets to do so. In certain circumstances, payment of such administrative expenses may be allowed to be deferred. Once the property is transferred out of the bankruptcy estate (through foreclosure or otherwise) it would at that time become subject to current *ad valorem* taxes.

*Glasply* is controlling precedent on bankruptcy courts in the State of California. Pursuant to statute, the lien date for general *ad valorem* property taxes levied in the State of California is the January 1 preceding the fiscal year for which the taxes are levied. Therefore, under *Glasply*, a bankruptcy petition filing would prevent the lien for general *ad valorem* property taxes levied in subsequent fiscal years from attaching so long as the property was a part of the estate in bankruptcy. Pursuant to Section 53328.3 of the Act, the lien of a special tax, unlike the lien for general *ad valorem* property taxes, attaches upon recordation of the notice of the special tax lien as provided for under the Act. The Notice of Special Tax Lien was recorded in the Official Records of the County. Thus, before applying *Glasply* to a bankruptcy situation involving special taxes rather than general *ad valorem* property taxes, a court would need to consider the differences in the statutory provisions for creation of the applicable tax lien. If a court were to apply *Glasply* to eliminate the priority as a secured claim of the special tax lien with respect to post petition levies of the Special Tax as against property owners within the District who file for bankruptcy, collections of the Special Tax from such property owners could be reduced.

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

In addition, potential investors should be aware that judicial foreclosure proceedings are not summary remedies and can be subject to significant procedural and other delays caused by crowded court calendars and other factors beyond control of the District or the City. Potential investors should assume that, under current conditions, it is estimated that a judicial foreclosure of the lien of Special Taxes will take up to two or three years from initiation to the lien foreclosure sale. At a Special Tax lien foreclosure sale, each parcel will be sold for not less than the "minimum bid amount" which is equal to the sum of all delinquent Special Tax installments, penalties and interest thereon, costs of collection (including reasonable attorneys' fees), post-judgment interest and costs of sale. Each parcel is sold at foreclosure for the amounts secured by the Special Tax lien on such parcel and multiple parcels may not be aggregated in a single "bulk" foreclosure sale. If any parcel fails to obtain a "minimum bid," the District may, but is not obligated to, seek superior court approval to sell such parcel at an amount less than the minimum bid. Such superior court approval requires the consent of the Owners of 75% of the aggregate principal amount of the outstanding Bonds.

Other laws generally affecting creditors' rights or relating to judicial foreclosure may affect the ability to enforce payment of Special Taxes or the timing of enforcement of Special Taxes. For example, the Soldiers and Sailors Civil Relief Act of 1940 affords protections such as a stay in enforcement of the

foreclosure covenant, a six-month period after termination of such military service to redeem property sold to enforce the collection of a tax or assessment and a limitation on the interest rate on the delinquent tax or assessment to persons in military service if the court concludes the ability to pay such taxes or assessments is materially affected by reason of such service.

#### **Payments by FDIC and other Federal Agencies**

The ability of the District to collect interest and penalties specified by State law and to foreclose the lien of delinquent Special Taxes may be limited in certain respects with regard to properties in which the Federal Deposit Insurance Corporation (the "FDIC"), the Federal National Mortgage Association ("Fannie Mae"), the Federal Home Loan Mortgage Corporation ("Freddie Mac"), the Drug Enforcement Agency, the Internal Revenue Service or other similar federal governmental agencies has or obtains an interest.

Specifically, with respect to the FDIC, in the event that any financial institution making any loan which is secured by real property within the District is taken over by the FDIC, and prior thereto or thereafter the loan or loans go into default, then the ability of the District to collect interest and penalties specified by State law and to foreclose the lien of delinquent unpaid Special Taxes may be limited.

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

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

According to the information presented in the Appraisal, as of January 24, 2014, the FDIC did not own any property in the District. The District is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency in the payment of Special Taxes on a parcel within the District in which the FDIC has or obtains an interest, although prohibiting the lien of the FDIC to be foreclosed out at a judicial foreclosure sale could reduce or eliminate the number of persons willing to purchase a parcel at a foreclosure sale. Such an outcome could cause a draw on the Reserve Fund and perhaps, ultimately, a default in payment on the Bonds.

Similarly, in the event a parcel of taxable property is owned by a federal government entity or federal government sponsored entity, such as Fannie Mae or Freddie Mac, or a private deed of trust secured by a parcel of taxable property is owned by a federal government entity or federal government sponsored entity, such as Fannie Mae or Freddie Mac, the ability to foreclose on the parcel or to collect delinquent Special Taxes may be limited. Federal courts have held that, based on the supremacy clause of the United

States Constitution (“This Constitution, and the Laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, any Thing in the Constitution or Laws of any State to the contrary notwithstanding.”), in the absence of Congressional intent to the contrary, a state or local agency cannot foreclose to collect delinquent taxes or assessments if foreclosure would impair the federal government interest. This means that, unless Congress has otherwise provided, if a federal government entity owns a parcel of taxable property but does not pay taxes and assessments levied on the parcel (including Special Taxes), the applicable state and local governments cannot foreclose on the parcel to collect the delinquent taxes and assessments. Moreover, unless Congress has otherwise provided, if the federal government has a mortgage interest in the parcel and the District wishes to foreclose on the parcel as a result of delinquent Special Taxes, the property cannot be sold at a foreclosure sale unless it can be sold for an amount sufficient to pay delinquent taxes and assessments on a parity with the Special Taxes and preserve the federal government’s mortgage interest. For a discussion of risks associated with taxable parcels within the District becoming owned by the federal government, federal government entities or federal government sponsored entities, see “ – Exempt Properties” below.

### **Billing of Special Taxes**

A special tax formula can result in a substantially heavier property tax burden being imposed upon properties within a community facilities district than elsewhere in a city or county, and this in turn can lead to problems in the collection of the special tax. In some community facilities districts, the taxpayers have refused to pay the special tax and have commenced litigation challenging the special tax, the community facilities district and the bonds issued by the district.

Under provisions of the Act, the Special Taxes are billed to the properties within the District which were entered on the Assessment Roll of the County Assessor by January 1 of the previous fiscal year on the regular property tax bills sent to owners of such properties. Such Special Tax installments are due and payable and bear the same penalties and interest for non-payment as do regular property tax installments. Generally, these Special Tax installment payments cannot be made separately from property tax payments. Therefore, the unwillingness or inability of a property owner to pay regular property tax bills as evidenced by property tax delinquencies may also indicate an unwillingness or inability to make regular property tax payments and installment payments of Special Taxes in the future. See “SECURITY FOR THE BONDS – Covenant to Commence Superior Court Foreclosure for Delinquent Special Taxes” for a discussion of the provisions which apply, and procedures which the District is obligated to follow, in the event of delinquency in the payment of installments of Special Taxes.

### **Collection of Special Tax; Foreclosure**

In order to pay debt service on the Bonds, it is necessary that the Special Tax levied against property within the District be paid in a timely manner. The District has covenanted in the Fiscal Agent Agreement under certain conditions to institute foreclosure proceedings against property with delinquent Special Tax in order to obtain funds to pay debt service on the Bonds. If foreclosure proceedings were instituted, any mortgage or deed of trust holder could, but would not be required to, advance the amount of the delinquent Special Tax to protect its security interest. In the event such superior court foreclosure is necessary, there could be a delay in principal and interest payments to the Owners of the Bonds pending prosecution of the foreclosure proceedings and receipt of the proceeds of the foreclosure sale, if any. No assurances can be given that the real property subject to foreclosure and sale at a judicial foreclosure sale will be sold or, if sold, that the proceeds of such sale will be sufficient to pay any delinquent Special Tax installment. Further, neither the City nor the District is under any obligation to advance its own funds to pay foreclosure costs. Although the Act authorizes the District to cause such an action to be commenced and diligently pursued to completion, the Act does not specify the obligations of the District with regard to purchasing or otherwise acquiring any lot or parcel of property sold at the foreclosure sale if there is no other purchaser at such sale. See “SECURITY FOR THE BONDS – Covenant to Commence Superior Court Foreclosure for Delinquent Special Taxes.”

**Maximum Rates**

Within the limits of the Rate and Method, the District may adjust the Special Tax levied on all property within the District to provide an amount required to pay debt service on the Bonds and other obligations of the District, and the amount, if any, necessary to replenish the Reserve Fund to an amount equal to the Reserve Requirement and to pay all annual Administrative Expenses and make rebate payments to the United States government. However, the amount of the Special Tax that may be levied against particular categories of property within the District is subject to the maximum rates provided in the Rate and Method. There is no assurance that the maximum rates will at all times be sufficient to pay the amounts required to be paid by the Fiscal Agent Agreement. In the event the District was to levy Special Taxes on Developed Property at less than the Facilities Maximum Annual Special Tax, pursuant to Section 53321 of the Act and the Rate and Method, the Special Tax levied against an Assessor's Parcel used for private residential purposes, defined as property classified as Custom Lot Property, shall under no circumstances increase more than 10% as a consequence of delinquency or default by the owner of any other Assessor's parcel(s) and shall, in no event, exceed the sum of the Facilities Maximum Annual Special Tax and the Maintenance Maximum Annual Special Tax in effect for the fiscal year in which the Special Tax is being levied. See "SECURITY FOR THE BONDS – Pledge Under Fiscal Agent Agreement; Special Tax Revenues" and APPENDIX B – "Rate and Method of Apportionment."

**Exempt Properties**

Certain properties are exempt from the Special Tax in accordance with the Rate and Method and applicable provisions of the Act. The Act provides that properties or entities of the State, federal or local government are exempt from the Special Tax; *provided, however*, that property within the District acquired by a public entity through negotiated transactions, or by gift or devise, which is not otherwise exempt from the Special Tax will continue to be subject to the Special Tax. In addition, 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 and be paid from the eminent domain award. The constitutionality and operation of these provisions of the Act have not been tested. If for any reason property subject to the Special Tax becomes exempt from taxation by reason of ownership by a non-taxable entity such as the federal government or another public agency, subject to the limitation of the maximum authorized rate of levy, the Special Tax may be reallocated to the remaining taxable properties within the District. This would result in the owners of such property paying a greater amount of the Special Tax and could have an adverse impact upon the timely payment of the Special Tax; however, the amount of Special Tax to be levied and collected from the property owner is subject to the Maximum Annual Special Tax as set forth in the Rate and Method and to the limitation in the Act that under no circumstances shall Maximum Annual Special Taxes be increased on a parcel used for private residential purposes by more than two percent (2%) in any year and under no circumstances may the Special Taxes levied on any non-residential parcel be increased by more than ten percent (10%) from year to year. If a substantial portion of land within the District became exempt from the Special Tax because of public ownership, or otherwise, the maximum Special Tax which could be levied upon the remaining acreage might not be sufficient to pay principal of and interest on the Bonds when due and a default will occur with respect to the payment of such principal and interest.

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. The Act would prohibit the District from adopting a resolution to reduce the rate of the Special Tax or terminate the levy of the Special Tax unless the District determined that the reduction or termination of the Special Tax "would not interfere with the timely retirement" of the Bonds. See "Constitutional Limitations on Taxation and Appropriations – Proposition 218," below.

**Special Taxes Are Not Personal Obligations**

The current and future owners of land within the District are not personally liable for the payment of the Special Taxes. Rather, the Special Tax is an obligation only of the land within the District. If the value of the land within the District is not sufficient to fully secure the Special Tax, then the District has no recourse against the landowner under the laws by which the Special Tax has been levied and the Bonds have been issued.

**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"). Moneys in the Reserve Fund may be used to pay principal of and interest on the Bonds in the event the proceeds of the levy and collection of the Special Tax against property within the District are insufficient. If moneys in the Reserve Fund are depleted, such moneys 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 Owners pursuant to the Fiscal Agent Agreement. 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 District, at the maximum tax rates, together with other available funds, remains insufficient to pay all such amounts. Thus it is possible that the Reserve Fund will be depleted and not be replenished by the levy of the Special Tax.

**Risks Related to Current Real Estate Market Conditions**

The housing market in southern California experienced significant price appreciation and accelerating demand from approximately 2002 to 2006 but subsequently the housing market weakened substantially, with changes from the prior pattern of price appreciation and a slowdown in demand for new housing and declining prices.

**Economic Uncertainty; State Budget**

*Economic Uncertainty.* The Bonds are being issued at a time of economic uncertainty and volatility. Unemployment rates have decreased to approximately 4.1% for the Dana Point area as of November, 2013 (not seasonally adjusted), as compared to 5.5% for calendar year 2012 and approximately 5.6% (not seasonally adjusted) for Orange County as compared to 7.6% for calendar year 2012. The District cannot predict how long these conditions will last or whether to what extent they may affect the ability of homeowners to pay Special Taxes or the marketability of the Bonds.

*State Budget.* As a result of the slow State and United States of America economies, the State in recent years experienced serious budgetary shortfalls. The effect of the State revenue shortfalls on the local or State economy or on the demand for, or value of, the property within the District cannot be predicted.

**Future Land Use Regulations and Growth Control Initiatives**

Completion of construction of any proposed structures on the vacant land within the District is subject to the receipt of approvals from a number of public agencies concerning the layout and design of such structures, land use, health and safety requirements and other matters. The failure to obtain any such approval could adversely affect the planned development of such land.



Under current State law, it is generally accepted that proposed development is not exempt from future land use regulations until building permits have been issued and substantial work has been performed and substantial liabilities have been incurred in good faith reliance on the permits. It is possible that the construction of the homes and commercial property could be impacted by future land use regulations and restrictions which could cause significant delays and cost increases not currently anticipated, thereby reducing the development potential of such property and the ability or willingness of owners of such property to pay Special Taxes when due, and also could cause the values of such properties to decrease.

### **Geology and Soils**

In connection with development of the property within the District, a certified 2002 Headlands Environmental Impact Report was prepared. The certified 2002 Headlands EIR concluded that the impacts of the proposed project would be less than significant for exposure of project facilities to seismically induced fault rupture, exposure of project facilities to soil instability resulting from subsidence, exposure of project facilities to seismically induced ground shaking and exposure of facilities to damage as a result of bluff retreat on the project site. However, there were six potentially significant impacts, which included the following: (1) exposure of project facilities to seismically related liquefaction/ground failure, (2) excessive damage due to exposure of facilities to seismically induced landslides, (3) exposure of facilities to uncontrolled erosion as a result of site grading or design, (4) exposure of project facilities to landslides or slope instability, (5) exposure of project facilities to uncontrolled groundwater, and (6) exposure of project facilities to damage as a result of expansive soils on the project site. The incorporation of mitigation measures discussed in the certified 2002 Headlands EIR is intended to result in the reduction of all of these impacts to less than significant level.

There were no other Local Coastal Program ("LCP") Amendment modifications that would result in alterations of the existing or planned geologic conditions of the site. Therefore, the LCP Amendment modifications that could have a potential effect on soils and geology were consistent with the certified 2002 Headlands EIR, did not require a major change to the certified 2002 Headlands EIR and did not result in any new significant environmental impacts. Therefore, the comparison of anticipated environmental effects of the proposed modifications with the impacts disclosed in the previous certified EIR supported the required CEQA findings that there was no evidence that the changes to the project required a major change to the certified 2002 Headlands EIR and that the revised HDCP project would not result in any new significant environmental impact nor was there a substantial increase in the severity of impacts from that described in the certified 2002 Headlands EIR.

### **Earthquakes**

In general, seismic exposure at the subject site is typical of coastal Southern California, which is among the most seismically active regions in the United States. As demonstrated by historic seismicity, earthquakes generated by displacement along nearby regional faults should be anticipated during the design life of the project. In general, displacements along faults within an approximately 100 kilometer (62 mile) radius are considered capable of generating ground shaking of engineering significance at a particular site.

The project site is located approximately 55 miles southwest of the active San Andreas Fault Zone (Southern Section), the longest (more than 700 miles) and most significant fault system in California. Other major active or potentially active faults of seismic concern in the region include: (i) the Newport-Inglewood Fault Zone and Offshore Zone of Deformation about 2.1 miles to the southwest (offshore), (ii) the Palos Verdes Fault about 18 miles offshore, and (iii) the Whittier-North Elsinore Fault. An "active" fault is defined by the State of California, and designated in the Alquist-Priolo-Earthquake Fault-Zoning Act of 1972, as having had displacement within the last 11,000 years. Distance from a fault does not guarantee or indicate increased safety from earthquakes. The occurrence of seismic activity in the District could result in substantial damage to properties in the District which, in turn, could substantially reduce the value of such properties and could affect the ability or willingness of the property owners to pay their Special Taxes.

Because the site borders the Pacific Ocean, it may be subject to damage from seismically generated sea waves (tsunamis) and storm waves. Historical records indicate tsunamis occur periodically but have only had wave heights as high as 15 feet along the Southern California coast. The Orange County coastline is somewhat protected by the coastal configuration and by offshore islands, and large magnitude tsunamis have not been recorded. The Dana Point General Plan states that FEMA considers all beachfront properties to be in the coastal high hazard zone, and a recurrence interval of 50 to 100 years has been estimated for significant tsunami damage to harbors and low lying areas in coastal Orange County. However, the Geotechnical Evaluation states that the potential for tsunami damage to most of the project site (i.e. above an elevation of about 20 to 25 feet above mean sea level) is considered negligible. In addition, the Coastal Processes Assessment references a U.S. Army Corps of Engineers report that indicates that the threat of coastal flooding resulting from tsunamis along the Strand Beach area is considered low. The risk is further reduced due to the average elevation of the pads (approximately 30 feet above the beach) and the installation of rip-rap revetment walls to protect the beachfront lots against tidal waves.

Any major damage to structures as a result of seismic activity could result in a greater reliance on Final Map Property in the payment of Special Taxes. In the event of a severe earthquake, there may be significant damage to both property and infrastructure in the District. As a result, a substantial portion of the property owners may be unable or unwilling to pay the Special Taxes when due. In addition, the value of land in the District could be diminished in the aftermath of such an earthquake, reducing the resulting proceeds of foreclosure sales in the event of delinquencies in the payment of Special Taxes.

Certain procedures and design standards are required to be followed during the construction of structures within the District to ensure that each building is designed and constructed to meet, at a minimum, the highest seismic standards required by law, including such conditions and seismic design criteria and parameters based on the 1997 Uniform Building Code (UBC), Volume 2, Chapter 16, Divisions IV and V, applicable for seismic design evaluation of proposed structures, pending any more recent updates of the UBC, or unless more site specific design values are required by the project structural engineer.

### **Hazardous Substances**

*Demolition and Removal of Structures Prior to Development.* The certified 2002 Headlands EIR concluded that potential impacts related to exposure to asbestos-containing material (ACM) released during demolition and removal of then existing structures on site would be reduced to less than significant levels by implementation of conditions, requiring pre-demolition surveys and removal of any ACM in accordance with applicable regulations. The Coastal Commission did not make any LCP Amendment modifications that affect existing hazardous materials on the project site. The structures have been removed in accordance with applicable requirements. See "THE DISTRICT – Environmental Review."

*Proximity to San Onofre Nuclear Generating Station.* The District is located approximately 11 miles from the San Onofre Nuclear Generating Station ("SONGS"). Emergency Planning for an event at SONGS focuses on the area within 10 miles of the plant which is known as the Emergency Planning Zone ("EPZ"). A 10 mile planning area is used because studies have shown that the vast majority of radioactive material that might be released during a catastrophic accident at a nuclear power plant will be so dispersed and diluted after traveling that distance that it will pose a very limited risk to people and property. There is also a Public Education Zone ("PEZ") for those people living or working within 10 to 20 miles of the plant. In a worse-case scenario, it is conceivable that those people in the "PEZ" may be asked to shelter in place.

Unit 1, a first generation Westinghouse pressurized water reactor that operated for 25 years, closed permanently in 1992, and has been dismantled and is used as a storage site for spent fuel. Units 2 and 3 had new steam generator units installed in 2010 and 2011. Since January 2012, Units 2 and 3 have been shut down due to premature wear found on tubes in the steam generators installed in 2010 and 2011, which may have contributed to the accidental release of a small amount of radioactive steam. Plant officials and

regulators have indicated the units will not be restarted until the cause of the tube leak and tube degradation is understood.

The occurrence of an event at SONGS could adversely affect properties in the District which, in turn, could substantially reduce the value of such properties and could affect the ability or willingness of the property owners to pay their Special Taxes.

#### **Disclosure to Future Purchasers**

The District recorded a Notice of the Special Tax Lien for the territory included in the District in the Office of the County Recorder of the County on June 20, 2006, as Document No. 2006-000411690. While title companies normally refer to such notices in title reports, and sellers of property are required to give prospective purchasers of property a "Notice of Special Tax" pursuant to California Government Code Sections 53340.2 and 53341.5 of the Act, 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 commercial facility or residential units or the lending of money thereon. Failure to disclose the existence of the Special Taxes may affect the willingness and ability of future owners of land within the District to pay the Special Taxes when due.

#### **Limited Secondary Market**

No application has been made for a rating for the Bonds, and it is not known whether a rating for the Bonds could be secured either now or in the future. There can be no assurance that there will ever be a secondary market for purchase or sale of the Bonds, and from time to time there may be no market for them, depending upon prevailing market conditions and the financial condition or market position of firms who may comprise the secondary market.

Although the District has covenanted to provide continuing secondary market disclosure, including certain financial and operating information, there can be no assurance that such information will be available to Bond Owners on a timely basis. See "CONTINUING DISCLOSURE." The failure to provide the required annual disclosure information does not give rise to monetary damages, but merely an action for specific performance. Occasionally, because of general market conditions, lack of current information, the absence of a credit rating, or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, secondary market prices for issues depend upon the then prevailing circumstances. Such prices could be substantially different from the original purchase price of the issue.

#### **Loss of Tax Exemption**

As discussed under the caption "TAX MATTERS," the interest on the Bonds could become includable in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds as a result of a failure of the District to comply with certain provisions of the Code. In order to maintain the exclusion from gross income for federal income tax purposes of the interest on the Bonds, the District has covenanted in the Fiscal Agent Agreement not to take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of interest on the Bonds under Section 103 of the Internal Revenue Code of 1986, as amended. Interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued, as a result of acts or omissions of the District in violation of the Code. Should such an event of taxability occur, the Bonds are not subject to early redemption or acceleration and will remain outstanding to maturity or until redeemed under the optional redemption or mandatory sinking fund redemption provisions of the Fiscal Agent Agreement.

**IRS Audit of Tax-Exempt Bond Issues**

The Internal Revenue Service has initiated an expanded program for the auditing or examination of tax-exempt bond issues, including both random and targeted audits and examinations. It is possible that the Bonds will be selected for audit or examination by the Internal Revenue Service. It is also possible that the market value of the Bonds might be affected as a result of such an audit or examination of the Bonds (or by an audit of similar bonds).

**Impact of Legislative Proposals, Clarifications of the Code and Court Decisions on Tax Exemption**

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Owners of the Bonds from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, liquidity of or marketability of, the Bonds. In 2011 and 2012, legislative changes were proposed in Congress, which, if enacted, would result in additional federal income tax being imposed on certain owners of tax-exempt state or local obligations, such as the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation as to which Bond Counsel expresses no opinion. As discussed in this Official Statement under the caption “TAX MATTERS,” interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued as a result of future acts or omissions of the District in violation of its covenants in the Fiscal Agent Agreement. Should such an event of taxability occur, the Bonds are not subject to special redemption or acceleration and will remain outstanding until maturity or until redeemed under one of the other redemption provisions contained in the Fiscal Agent Agreement.

**Constitutional Limitations on Taxation and Appropriations**

*Article XIII A.* On June 6, 1978, California voters approved an amendment (commonly known as “Proposition 13” or the “Jarvis-Gann Initiative”) to the California Constitution. This amendment, which added Article XIII A to the California Constitution, among other things, placed significant limits on the imposition of new *ad valorem* taxes, special taxes, transaction taxes, and sales taxes. Section 4 of Article XIII A permits cities, counties, and special districts, by a two-thirds vote of the qualified electors of the jurisdiction, to impose special taxes, except for *ad valorem* taxes on real property or a transaction tax or sales tax on the sale of real property. The Special Tax is a special tax approved by the voters within the District in accordance with the procedures set forth in Section 4 of Article XIII A. The District has not pledged any taxes other than the Special Taxes to the repayment of the Bonds and, given the limitations on *ad valorem* property taxes imposed by Article XIII A, does not have any *ad valorem* property taxes to repay the Bonds.

Article XIII A does permit the levy of *ad valorem* taxes and the imposition of special assessments to pay interest and redemption charges on bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the votes cast by voters voting at the election proposing the taxes or assessments. Were the qualified voters to approve indebtedness payable from *ad valorem* taxes or assessments against property within the District, those taxes or assessments would be on a parity with the Special Taxes. See “RISK FACTORS – Cumulative Burden of Overlapping Indebtedness and Development Costs.” Article XIII A effectively prohibits the levying of any other *ad valorem* property tax above the 1% limit except for taxes to support indebtedness approved by the voters as described above.

*Article XIII B.* The State of California and State and local government agencies are subject to annual “appropriation limits” imposed by Article XIII B of the California Constitution. Among other things, Article XIII B prohibits the State and local government agencies from spending “appropriations subject to limitation” in excess of the appropriations limit imposed. “Appropriations subject to limitations” include authorizations to spend “proceeds of taxes,” which consist of tax revenues, certain state subventions, and

certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed “the cost reasonably borne by such entity in providing the regulation, product or service.” No limit is imposed on appropriations of funds which are not “proceeds of taxes,” such as appropriations for debt service on indebtedness existing or authorized before January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government, reasonable user charges, or fees and certain other nontax funds. Since the Bonds constitute indebtedness authorized by the voters of the District, the District does not intend to treat the Special Taxes as “appropriations subject to limitation.” Notwithstanding this fact, the Act permits, and the qualified electors in the District have approved, an appropriations limit.

*Proposition 218.* Proposition 218 (“Proposition 218”), a state ballot initiative known as the “Right to Vote on Taxes Act,” was approved by California voters on November 6, 1996. Proposition 218 added Articles XIII C and XIII D to the California Constitution and, with the exception of certain provisions, Articles XIII C and XIII D became effective on November 6, 1996.

Among other things, Proposition 218 imposed certain voting requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges. Under Proposition 218 (i) all taxes imposed by local governments are deemed to be either general taxes or special taxes, (ii) no local government may impose, extend, or increase any general tax unless and until such tax is submitted to the electorate and approved by a majority vote, and (iii) no local government may impose, extend, or increase any special tax unless and until such tax is submitted to the electorate and approved by a two-thirds vote. Special purpose districts, including community facilities districts, have no power to levy general taxes. The Special Taxes were authorized by not less than a two-thirds vote of the property owners within the District who constituted the qualified electors of the District at the time of such vote. The District believes that the issuance of the Bonds does not require the conduct of further proceedings under the Act or Proposition 218, other than as described herein.

Proposition 218 provides that the initiative power shall “not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge.” Thus, Proposition 218 removes limitations on the initiative power in matters of, among other things, the Special Taxes. Consequently, it is conceivable that the voters of the City or the District could, by future initiative, repeal, reduce or prohibit the future imposition or increase of any Special Tax, subject to overriding federal constitutional principles relating to impairment of contracts.

The interpretation and application of Proposition 218 will ultimately be determined by the courts with respect to a number of the matters discussed above, and it is not possible at this time to predict with certainty the outcome of such determination.

### **Future Initiatives**

Articles XIII A and XIII B and Proposition 218 were each submitted to and approved by the voters of the State pursuant to the State’s constitutional initiative process. On March 6, 1995, in *Rossi v. Brown* (9 Cal.4<sup>th</sup> 688), the Supreme Court of the State held that an initiative can repeal a tax ordinance and prohibit the imposition of further such taxes and that the exemption of taxes from the referendum requirements does not apply to initiatives. From time to time, other initiative measures could be adopted by the voters of the State. The adoption of any such initiative might place limitations on the ability of the State, the City, the District and other local districts to increase revenues or to increase appropriations or on the ability of the property owners within the District to complete the proposed Development.

**No Acceleration Provision**

The Bonds do not contain a provision allowing for the acceleration of the Bonds in the event of a payment default or other default under the terms of the Bonds or the Fiscal Agent Agreement. Pursuant to State law, any Owner of any of the Bonds is given the right for the equal benefit and protection of all Owners similarly situated to pursue certain remedies described under "SECURITY FOR THE BONDS."

**Cumulative Burden of Overlapping Indebtedness and Development Costs**

The Special Taxes and any penalties thereon will constitute a lien against the parcels of land on which they will be annually imposed until they are paid. Such lien will be on a parity with all special taxes and special assessments which may be levied by other agencies and is co-equal to and independent of the lien for general property taxes regardless of when they are imposed upon the same property. Neither the City nor the District, however, has control over the ability of other entities and districts to issue indebtedness secured by special taxes or assessments payable from all or a portion of the property within the District. In addition, the landowners within the District may, without the consent or knowledge of the City or the District, petition other public agencies to issue public indebtedness secured by special taxes or assessments. Any such special taxes or assessments may have a lien on such property on a parity with the Special Taxes.

The ability of an owner of land within the District to pay the Special Taxes and the *ad valorem* property tax levy could be adversely affected if additional debt is issued or additional taxes or assessments are levied which are payable by the owners of land within the District. The imposition of additional liens, whether public or private, may reduce the ability or willingness of the landowners to pay the Special Tax, in the case of additional public liens, and increases the possibility that foreclosure proceeds will not be adequate to pay delinquent Special Taxes.

**Private Indebtedness**

Deeds of trust securing home purchases by home buyers or construction financing by such home buyers may encumber those properties within the District. Any such private liens, as well as any future private liens secured by land within the District, are subordinate to the lien securing the Special Tax. Nevertheless, the existence of such private debt could reduce the ability of property owners to pay the Special Tax. In addition, other financial obligations of property owners may also affect their ability to pay the Special Tax.

**Limitations on Remedies**

The enforceability of the rights and remedies of the Bond Owners and the Fiscal Agent, and the obligations incurred by the District as described herein may be subject to the following: the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; usual equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the federal government of the powers delegated to it by the United States Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the Bond Owners to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitations, or modification of their rights.

**TAX MATTERS**

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

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The District has made representations related to certain of these requirements and has covenanted to comply with certain restrictions designed to assure that interest on the Bonds will not be included in federal gross income. Inaccuracy of the representations or failure to comply with the covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of the representations and compliance with the covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any action taken (or not taken) or event occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds.

Should interest on the Bonds become includable in gross income for federal income tax purposes, the Bonds are not subject to early redemption as a result of such event and will remain outstanding until maturity or until otherwise redeemed in accordance with the Fiscal Agent Agreement.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Bonds that is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semi-annually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount greater than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, a purchaser’s basis in a Premium Bond, and under Treasury Regulations, the amount of tax exempt interest received, will be reduced by the amount of amortizable bond premium properly allocable to such purchaser. Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstance.

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

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

In addition, no assurance can be given that any future legislation, including amendments to the Code, if enacted into law, or changes in interpretation of the Code, will not cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent owners of the Bonds from realizing the full current benefit of the tax status of such interest. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. Further, no assurance can be given that the introduction or enactment of any such future legislation, or any action of the Internal Revenue Service ("IRS"), including but not limited to regulation, ruling or selection of the Bonds for audit examination, or the course or result of any IRS examination of the Bonds, or obligations which present similar tax issues, will not affect the market price for the Bonds.

### **CERTAIN LEGAL MATTERS**

The law firm of Rutan & Tucker, LLP, Costa Mesa, California, has been engaged by the City as Bond Counsel in connection with the issuance and sale of the Bonds. In addition, Rutan & Tucker, LLP serves as City Attorney and District Counsel pursuant to an ongoing contract with the City.

As Bond Counsel, Rutan & Tucker, LLP will render its legal opinion, the form of which opinion is set forth in Appendix F, which addresses, among other matters, the legality and validity of the Bonds and the exclusion of interest thereon from gross income for federal income tax purposes. See "TAX MATTERS." Copies of such approving opinion will be available at the time of delivery of the Bonds. Certain matters will be passed upon for the Underwriter by McFarlin & Anderson LLP, Laguna Hills, California. Notwithstanding Rutan & Tucker, LLP's engagement by the City in any other capacity, such opinion of Rutan & Tucker, LLP, as Bond Counsel, is intended to be and is considered by Rutan & Tucker, LLP to be rendered objectively and without bias in favor of the City or any interest of the City. However, potential purchasers of the Bonds should be aware that the District will compensate Rutan & Tucker, LLP for its services as Bond Counsel contingent upon the successful issuance and sale of the Bonds and that the City has instructed and authorized Rutan & Tucker, LLP, in its capacity as Bond Counsel and in its capacity as District Counsel, to take all proper actions which Rutan & Tucker, LLP may take in such capacities to assist the City and the District in completing the issuance and sale of the Bonds.

In no capacity has Rutan & Tucker, LLP advised the City or the District to proceed with the issuance or sale of the Bonds; however, in its capacity as District Counsel and at the direction of the City, Rutan & Tucker, LLP has participated in the negotiation, drafting and review of documents and other aspects of the transaction with the District's legal position of primary importance. In the ordinary course, neither Rutan & Tucker, LLP nor the City considers this role to entail any actual conflict with the interests of purchasers of the Bonds or to compromise the objectivity of Rutan & Tucker, LLP's legal opinion as Bond Counsel as to any of the matters covered by its opinion. However, prospective purchasers of the Bonds and their advisors are encouraged to consider the possibility that in a default or other adverse situation involving the Bonds, the interest of the City and the interests of the Owners of the Bond are likely



to be adverse, and that Rutan & Tucker, LLP, in its capacity as District Counsel, has negotiated, drafted and reviewed documents and other aspects of the transaction in light of such possibility.

### **ABSENCE OF LITIGATION**

The District will certify upon the issuance and delivery of the Bonds that there is no action, suit or proceeding known to be pending or threatened, restraining or enjoining the issuance or sale of the Bonds or in any way contesting or affecting the validity of the foregoing or any proceedings of the City or the District taken with respect to any of the foregoing.

### **NO RATING**

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

### **UNDERWRITING**

The Bonds are being purchased by Stifel, Nicolaus & Company, Incorporated (the “Underwriter”). The Underwriter has agreed to purchase the Bonds at a price of \$\_\_\_\_\_ which purchase price was calculated as the original principal amount of the Bonds, less a net original issue discount of \$\_\_\_\_\_ and less an Underwriter’s discount of \$\_\_\_\_\_. The purchase agreement relating to the Bonds provides that the Underwriter will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in such purchase agreement, the approval of certain legal matters by counsel and certain other conditions.

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

### **CONTINUING DISCLOSURE**

*The District.* The District has covenanted in the Continuing Disclosure Agreement, the form of which is set forth in APPENDIX E – “Form of Continuing Disclosure Agreement” (the “Continuing Disclosure Agreement”), for the benefit of owners and beneficial owners of the Bonds, to provide certain financial information and operating data relating to the District and the Bonds by not later than January 30 in each year, commencing on January 30, 2015 (the “District Annual Report”), and to provide notices of the occurrence of certain enumerated events.

The District Annual Report will be filed by the District or Willdan Financial Services, as the initial Dissemination Agent for the District, with each Nationally Recognized Municipal Securities Information Repository, and with the appropriate State repository, if any (collectively, the “Repositories”), with a copy to the Fiscal Agent and the Underwriter. Any notice of a listed event will be filed by the District, or the Dissemination Agent on behalf of the District, with the Municipal Securities Rulemaking Board, the Repositories or the appropriate State repository, if any, with a copy to the Fiscal Agent and the Underwriter. The specific nature of the information to be contained in the District Annual Report or any notice of a listed event is set forth in the Continuing Disclosure Agreement. The covenants of the District in the Continuing Disclosure Agreement have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the “Rule”); *provided, however*, a default under the Continuing Disclosure Agreement will not, in itself, constitute an Event of Default under the Fiscal Agent Agreement, and the sole remedy under the Continuing Disclosure Agreement in the event of any failure of the District or

the Dissemination Agent to comply with the Continuing Disclosure Agreement will be an action to compel performance.

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

### **PROFESSIONAL FEES**

In connection with the issuance of the Bonds, fees payable to certain professionals, including the Underwriter, McFarlin & Anderson LLP, as underwriter's counsel, Rutan & Tucker, LLP, as Bond Counsel, Fieldman, Rolapp & Associates, Inc., as Financial Advisor, and the Fiscal Agent, are contingent upon the issuance of the Bonds. The fees of Willdan Financial Services, as Special Tax Consultant, are in part contingent upon the issuance of the Bonds. The fees of Harris Realty Appraisal, as Appraiser, are not contingent upon the issuance of the Bonds.

### **MISCELLANEOUS**

References are made herein to certain documents and reports, which are brief summaries thereof and which do not purport to be complete or definitive, and reference is made to such documents and reports for full and complete statement of the contents thereof.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representatives of fact. This Official Statement is not to be construed as a contract or agreement between the District and the purchasers or Owners of any of the Bonds.

The execution and delivery of this Official Statement has been duly authorized by the District.

COMMUNITY FACILITIES DISTRICT NO. 2006-1 OF  
THE CITY OF DANA POINT

By: \_\_\_\_\_  
Douglas C. Chotkevys, City Manager of the City of Dana  
Point, acting on behalf of Community Facilities District  
No. 2006-1 of the City of Dana Point

### **APPENDIX A**

**SUMMARY OF CERTAIN PROVISIONS OF THE FISCAL AGENT AGREEMENT  
APPENDIX B**

**RATE AND METHOD OF APPORTIONMENT**

**APPENDIX C**

**APPRAISAL**

**APPENDIX D**

**GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION  
REGARDING THE CITY OF DANA POINT**

**APPENDIX E****FORM OF CONTINUING DISCLOSURE AGREEMENT****APPENDIX F****PROPOSED FORM OF BOND COUNSEL OPINION****APPENDIX G****BOOK-ENTRY-ONLY SYSTEM**

*The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal of and interest on the Bonds to Direct Participants, Indirect Participants or Beneficial Owners (as such terms are defined below) of the Bonds, confirmation and transfer of beneficial ownership interests in the Bonds and other Bond-related transactions by and between DTC, Direct Participants, Indirect Participants and Beneficial Owners of the Bonds is based solely on information furnished by DTC to the District which the District believes to be reliable, but the District and the Underwriter do not and cannot make any independent representations concerning these matters and do not take responsibility for the accuracy or completeness thereof. Neither the DTC, Direct Participants, Indirect 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.*

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for 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 will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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 a Standard & Poor’s rating of AA+. 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). *The information on such website is not incorporated herein by such reference or otherwise.*

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 the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bonds documents. For example, Beneficial Owners of the 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 Fiscal Agent and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within 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.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption price and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Fiscal Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Fiscal Agent or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption price and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its service as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Fiscal Agent. Under such circumstances, in the event that a successor depository is not obtained, the Bond certificates are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, the Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

#### **Discontinuance of DTC Services**

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

In the event that the Book-Entry System is discontinued, the following provisions would also apply: (i) the Bonds will be made available in physical form, (ii) principal of, and redemption premiums if any, on the Bonds will be payable upon surrender thereof at the trust office of the Fiscal Agent identified in the Fiscal Agent Agreement, and (iii) the Bonds will be transferable and exchangeable as provided in the Fiscal Agent Agreement.

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

#### **APPENDIX H**

#### **BOUNDARY MAP OF COMMUNITY FACILITIES DISTRICT NO. 2006-1**

**SUPPORTING DOCUMENT F****APPENDIX E****FORM OF CONTINUING DISCLOSURE AGREEMENT**

This CONTINUING DISCLOSURE AGREEMENT (the “Disclosure Agreement”) is executed and entered into as of [Authorization Month] 1, 2014, by and among the City of Dana Point Community Facilities District No. 2006-1 (the “Community Facilities District”), Willdan Financial Services, in its capacity as dissemination agent (the “Dissemination Agent”), and Wells Fargo Bank, National Association, in its capacity as fiscal agent (the “Fiscal Agent”), in connection with the issuance of \$[Principal Amount] aggregate principal amount of the Community Facilities District No. 2006-1 of the City of Dana Point 2014 Special Tax Bonds (the “Bonds”);

**WITNESSETH:**

**WHEREAS**, pursuant to the Fiscal Agent Agreement, dated as of June 1, 2013 (the “Original Fiscal Agent Agreement”), as supplemented by a First Supplemental Fiscal Agent Agreement, dated as of [Authorization Month] 1, 2014, by and between the Community Facilities District and Wells Fargo Bank, National Association, as fiscal agent (the “Fiscal Agent”) (the “Supplemental Fiscal Agent Agreement” and together, with the Original Fiscal Agent Agreement, the “Fiscal Agent Agreement”), the Community Facilities District has issued the Bonds, in the aggregate principal amount set forth above; and

**WHEREAS**, the Bonds are payable from and secured by special taxes levied on certain of the property within the Community Facilities District;

**NOW, THEREFORE**, for and in consideration of the mutual premises and covenants herein contained, the parties hereto agree as follows:

Section 1. Purpose of this Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Community Facilities District for the benefit of the owners 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) (as defined below).

Section 2. Definitions. In addition to the definitions set forth in the Fiscal Agent Agreement which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Community Facilities District pursuant to, and described in, Sections 3 and 4 of this Disclosure Agreement.

“Annual Report Date” shall mean January 31 next following the end of the Community Facility District’s fiscal year, which fiscal year end, as of the date of this Disclosure Agreement, is June 30.

“City” shall mean the City of Dana Point, Dana Point, California.

“Community Facilities District” shall mean City of Dana Point Community Facilities District No. 2006-1.

“Disclosure Representative” shall mean the Director of Administrative Services of the City or his or her designee, or such other officer or employee as the Community Facilities District shall designate in writing to the Dissemination Agent from time to time.

“Dissemination Agent” shall mean Willdan Financial Services or any successor Dissemination Agent designated in writing by the Community Facilities District and which has filed with the Community Facilities District and the Fiscal Agent a written acceptance of such designation.

“EMMA System” shall mean the Electronic Municipal Market Access System of the MSRB (as defined below) or such other electronic system designated by the MSRB (as defined below) or the Securities and Exchange Commission (the “S.E.C.”) for compliance with S.E.C. Rule 15c2-12(b).

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“MSRB” shall mean the Municipal Securities Rulemaking Board and any successor entity designated under the Rule as the repository for filings made pursuant to the Rule.

“Participating Underwriter” shall mean Stifel, Nicolaus & Company, Incorporated, Los Angeles, California.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

### Section 3. Provision of Annual Reports.

(a) The Community Facilities District shall, or, shall cause the Dissemination Agent to, not later than the Annual Report Date commencing January 31, 2015, provide to the MSRB through the EMMA System in an electronic format and accompanied by identifying information as prescribed by the MSRB and to the Fiscal Agent an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Not later than fifteen (15) Business Days prior to the Annual Report Date, the Community Facilities District shall provide the Annual Report to the Dissemination Agent. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; *provided* that the audited financial statements of the City may be submitted separately from the balance of the Annual Report and later than the Annual Report Date if not available by that date. If the Community Facilities District’s fiscal year changes, the Community Facilities District shall give notice of such change in the same manner as for a Listed Event under Section 5(d). If the Dissemination Agent has not received a copy of the Annual Report on or before 15 business days prior to the Annual Report Date in any year, the Dissemination Agent shall notify the Community Facilities District of such failure to receive the applicable Annual Report. The Community Facilities District shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the Community Facilities District and shall have no duty or obligation to review such Annual Report.

(b) If the Community Facilities District is unable to provide to the MSRB through the EMMA System and to the Fiscal Agent an Annual Report by the Annual Report Date, the



Dissemination Agent shall send a notice to the MSRB through the EMMA System, if any, in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) **determine each year prior to the Annual Report Date the electronic filing requirements of the MSRB for the Annual Reports;**

(ii) **provide any Annual Report received by it to the MSRB through the EMMA System and to the Fiscal Agent as provided herein; and**

(iii) **if the Dissemination Agent is other than the Community Facilities District and to the extent it can confirm such filing of an Annual Report, file a report with the Community Facilities District, the Fiscal Agent and the Participating Underwriter certifying that an Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and confirming that it has been filed with the MSRB through the EMMA System.**

Section 4. Content of Annual Reports. The Community Facilities District's Annual Report shall contain or incorporate by reference the following:

(a) Audited Financial Statements of the City prepared in accordance with generally accepted accounting principles as promulgated to apply to government entities from time to time by the Governmental Accounting Standards Board. If audited financial statements are not available, at the time required for filing, unaudited financial statements shall be submitted with the Annual Report, and audited financial statements shall be submitted once available.

(b) The following information regarding the Bonds, any Parity Bonds (as defined in the Fiscal Agent Agreement) and any refunding bonds issued by the Community Facilities District:

(i) **Principal amount of Bonds, any Parity Bonds and any refunding bonds outstanding as of a date within 45 days preceding the date of the Annual Report;**

(ii) **Balance in the Special Tax Fund and the Bond Fund as of a date within 45 days preceding the date of the Annual Report;**

(iii) **Balance in the Reserve Fund and statement of the Reserve Requirement as of a date within 45 days preceding the date of the Annual Report;**

(iv) **Balance in the Improvement Fund and each account or subaccount thereunder as of a date within 45 days preceding the date of the Annual Report, and of any other fund not referenced in clauses (i), (ii), (iii) or (iv) hereof;**

(v) **An update of Table 3 – “Maximum Special Tax Levy by Land Use Category,” showing amounts for the current fiscal year’s Special Tax levy;**

(vi) **An update of Table 5 – “Special Tax Collections and Delinquencies,” showing the most recent annual Special Tax levy collection and delinquency information within the Community Facilities District together with a**

**description of (i) the status of foreclosure proceedings, if any, relating to delinquent properties within the Community Facilities District, (ii) the results of foreclosure sales, if any, (iii) the identity of any delinquent taxpayer obligated for greater than 5% of the annual Special Tax levy as of the immediately preceding November 1, if applicable, and (iv) the assessed value of properties owned by delinquent taxpayers obligated for greater than 5% of the annual Special Tax;**

- (vii) An update of Table 6 – “Top Owners of Taxable Property and Allocation of Maximum Special Tax Liability,” with any owners responsible for 5% or more of the annual Special Tax levy;**
- (viii) An update of Table 9 – “Assessed Value by Land Use Category” including all Bonds, any Parity Bonds and any refunding bonds of the Community Facilities District;**
- (ix) A copy of any report for or concerning the Community Facilities District as of the immediately preceding October 31 required under State law; and**
- (x) Any changes to the Rate and Method of Apportionment of Special Tax of the Community Facilities District approved or submitted to the qualified electors of the Community Facilities District for approval prior to the filing of the Annual Report.**

(c) In addition to any of the information expressly required to be provided under paragraphs (a) and (b) of this Section, the Community Facilities District shall provide such further information, if any, as may be necessary to make the required statements required under Section 4(b), in the light of the circumstances under which they are made, not misleading for purposes of applicable federal securities laws.

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 Community Facilities District or related public entities, which have been submitted to the MSRB through the EMMA System or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The Community Facilities District shall clearly identify each such other document so included by reference.

#### Section 5. Reporting of Listed Events.

(a) Pursuant to the provisions of this Section 5, the Community Facilities District shall give, or cause to be given, in a timely manner, not in excess of ten business days after the occurrence of the event, notice of any of the following events with respect to the Bonds, any Parity Bonds and any refunding bonds, if material:

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults, if material;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties;

- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security or other material events affecting the tax status of the security;
- (vii) Modifications to rights of security holders, if material;
- (viii) Bond calls, if material, and tender offers;
- (ix) Defeasances;
- (x) Release, substitution, or sale of property securing repayment of the securities, if material;
- (xi) Rating changes;
- (xii) Bankruptcy, insolvency, receivership or similar event of the obligated person;<sup>(4)</sup>
- (xiii) The consummation of a merger, consolidation or acquisition involving an obligated person or sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (xiv) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) The Dissemination Agent shall, within three business days of obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event, and request that the Community Facilities District promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f). For purposes of this Disclosure Agreement, “actual knowledge” of the occurrence of the Listed Events described under clauses (ii), (iii), (vi), (x), (xi), (xii), (xiii) and (xiv) above shall mean actual knowledge by an officer at the corporate trust office of the Dissemination Agent. The

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<sup>(4)</sup> For the purposes of the event identified in subparagraph (xii), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

Dissemination Agent shall have no responsibility for determining the materiality of any of the Listed Events.

(c) As soon as practicable so as to satisfy the notice requirements of section 5(a), the Community Facilities District shall notify the Dissemination Agent in writing of the occurrence of any of the Listed Events. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (e). The Community Facilities District shall provide the Dissemination Agent with a form of notice of such event in a format suitable for reporting to the MSRB through the EMMA System.

(d) If the Community Facilities District determines that a Listed Event subject to a materiality requirement referenced in clauses (a)(ii), (vii), (x), (xiii) or (xiv) would not be material under applicable federal securities law, the Community Facilities District shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (e).

(e) If the Dissemination Agent has been instructed by the Community Facilities District to report the occurrence of a Listed Event, and has received a notice of the occurrence in a format suitable for filing with the MSRB, the Dissemination Agent shall file a notice of such occurrence with the MSRB through the EMMA System and shall provide a copy of such notice to the Participating Underwriter.

Section 6. Termination of Reporting Obligation. All of the Community Facilities District's obligations hereunder shall terminate upon the earliest to occur of (i) the legal defeasance of the Bonds, (ii) prior redemption of the Bonds or (iii) payment in full of all the Bonds. If such determination occurs prior to the final maturity of the Bonds, the Community Facilities District shall give notice of such termination in the same manner as for a Listed Event under Section 5(e).

Section 7. Dissemination Agent. The Community Facilities District may, from time to time, appoint or engage a Dissemination Agent to assist in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be Willdan Financial Services. The Dissemination Agent may resign by providing thirty days' written notice to the Community Facilities District and the Fiscal Agent (if the Fiscal Agent is not the Dissemination Agent). The Dissemination Agent shall have no duty to prepare the Annual Report nor shall the Dissemination Agent be responsible for filing any Annual Report not provided to it by the Community Facilities District in a timely manner and in a form suitable for filing.

Section 8. Amendment Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Community Facilities District, the Fiscal Agent and the Dissemination Agent may amend this Disclosure Agreement (and the Fiscal Agent and the Dissemination Agent shall agree to any amendment so requested by the Community Facilities District, so long as such amendment does not adversely affect the rights or obligations of the Fiscal Agent or the Dissemination Agent), and any provision of this Disclosure Agreement may be waived, *provided* that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(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 owners of the Bonds in the manner provided in the Fiscal Agent Agreement for amendments to the Fiscal Agent Agreement with the consent of owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the owners 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 Community Facilities District 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 MSRB through the EMMA System in the same manner as for a Listed Event under Section 5(e).

Section 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Community Facilities District from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Community Facilities District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Community Facilities District shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the Community Facilities District or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Fiscal Agent may (and, at the written direction of the Participating Underwriter or the owners of at least 25% aggregate principal amount of Outstanding Bonds, shall, upon receipt of indemnification reasonably satisfactory to the Fiscal Agent), or any owner or beneficial owner of the Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Community Facilities District, the Fiscal Agent or the Dissemination Agent to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Fiscal Agent Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the Community Facilities District, the Fiscal Agent or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Fiscal Agent and Dissemination Agent. Article VII of the Fiscal Agent Agreement is hereby made applicable to this Disclosure Agreement as if this

Disclosure Agreement were (solely for this purpose) contained in the Fiscal Agent Agreement, and the Fiscal Agent and the Dissemination Agent shall be entitled to the protections, limitations from liability and indemnities afforded to the Fiscal Agent thereunder. The Dissemination Agent and the Fiscal Agent shall have only such duties hereunder as are specifically set forth in this Disclosure Agreement. This Disclosure Agreement does not apply to any other securities issued or to be issued by the Community Facilities District. The Dissemination Agent shall have no obligation to make any disclosure concerning the Bonds, the Community Facilities District or any other matter except as expressly set out herein, *provided* that no provision of this Disclosure Agreement shall limit the duties or obligations of the Fiscal Agent under the Fiscal Agent Agreement. The Dissemination Agent shall have no responsibility for the preparation, review, form or content of any Annual Report or any notice of a Listed Event. The fact that the Fiscal Agent has or may have any banking, fiduciary or other relationship with the Community Facilities District or any other party, apart from the relationship created by the Fiscal Agent Agreement and this Disclosure Agreement, shall not be construed to mean that the Fiscal Agent has knowledge or notice of any event or condition relating to the Bonds or the Community Facilities District except in its respective capacities under such agreements. No provision of this Disclosure Agreement shall require or be construed to require the Dissemination Agent to interpret or provide an opinion concerning any information disclosed hereunder. Information disclosed hereunder by the Dissemination Agent may contain such disclaimer language concerning the Dissemination Agent's responsibilities hereunder with respect thereto as the Dissemination Agent may deem appropriate. The Dissemination Agent may conclusively rely on the determination of the Community Facilities District as to the materiality of any event for purposes of Section 5 hereof. Neither the Fiscal Agent nor the Dissemination Agent make any representation as to the sufficiency of this Disclosure Agreement for purposes of the Rule. The Dissemination Agent shall be paid compensation by the Community Facilities District for its services provided hereunder in accordance with its schedule of fees, as amended from time to time, and all expenses, legal fees and advances made or incurred by the Dissemination in the performance of its duties hereunder. The Community Facilities District's obligations under this Section shall survive the termination of this Disclosure Agreement.

Section 12. Beneficiaries. The Participating Underwriter and the owners and beneficial owners from time to time of the Bonds shall be third-party beneficiaries under this Disclosure Agreement. This Disclosure Agreement shall inure solely to the benefit of the Community Facilities District, the Fiscal Agent, the Dissemination Agent, the Participating Underwriter and owners and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 13. Notices. Any notice or communications to or among any of the parties to this Disclosure Agreement shall be given to all of the following and may be given as follows:

If to the Community Facilities District:	City of Dana Point Community Facilities District No. 2006-1 33282 Golden Lantern Dana Point, California 92629 Telephone: (949) 248-3500 Telecopier: (949) 248-9920 Attention: Director of Administrative Services
If to the Dissemination Agent:	Willdan Financial Services 27368 Via Industria, Suite 110 Temecula, California 95290 Telephone: (951) 587-3500 Telecopier: (951) 587-3500

If to the  
Fiscal Agent: Wells Fargo Bank, National Association  
707 Wilshire Boulevard, 17<sup>th</sup> Floor  
Los Angeles, California 90017  
Telephone: (213) 614-3328  
Telecopier: (213) 614-3355  
Attention: Corporate Trust Services

If to the  
Participating  
Underwriter: Stifel, Nicolaus & Company, Incorporated  
One Ferry Building  
San Francisco, California 94111  
Telephone: (415) 445-2332  
Telecopier: (415) 445-2395  
Attention: Municipal Research Department

*provided, however*, that all such notices, requests or other communications may be made by telephone and promptly confirmed by writing. The parties may, by notice given as aforesaid, specify a different address for any such notices, requests or other communications.

Section 14. Future Determination of Obligated Persons. In the event the S.E.C. amends, clarifies or supplements the Rule in such a manner that requires any landowner within the Community Facilities District to be an obligated person as defined in the Rule, nothing contained herein shall be construed to require the Community Facilities District to meet the continuing disclosure requirements of the Rule with respect to such obligated person and nothing in this Disclosure Agreement shall be deemed to obligate the Community Facilities District to disclose information concerning any owner of land within the Community Facilities District except as required as part of the information required to be disclosed by the Community Facilities District pursuant to Section 4 and Section 5 hereof.

Section 15. Severability. In case any one or more of the provisions contained herein shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

Section 16. State of California Law Governs. The validity, interpretation and performance of this Disclosure Agreement shall be governed by the laws of the State of California.

Section 17. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 18. Merger. Any person succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor Dissemination Agent without the filing of any paper or any further act.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK; EXECUTION PAGE FOLLOWS]

**IN WITNESS WHEREOF**, the parties hereto have executed this Disclosure Agreement as of the date first above written.

COMMUNITY FACILITIES DISTRICT NO. 2006-1  
OF THE CITY OF DANA POINT

By: \_\_\_\_\_  
Authorized Officer

WELLS FARGO BANK, NATIONAL  
ASSOCIATION, as Fiscal Agent

By: \_\_\_\_\_  
Authorized Officer

WILLDAN FINANCIAL SERVICES,  
as Dissemination Agent

By: \_\_\_\_\_  
Authorized Officer

[EXECUTION PAGE OF CONTINUING DISCLOSURE AGREEMENT]

**EXHIBIT A**

**NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD**



**OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: Community Facilities District No. 2006-1 of the City of Dana Point

Name of Bond Issue: Community Facilities District No. 2006-1 of the City of Dana Point  
2014 Special Tax Bonds

Date of Issuance: [Closing Date], 2014

NOTICE IS HEREBY GIVEN that the Community Facilities District No. 2006-1 of the City of Dana Point (the "Community Facilities District") has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement, dated as of [Authorization Month] 1, 2014, by and among the Community Facilities District, Wells Fargo Bank, National Association, as Fiscal Agent, and Willdan Financial Services, as Dissemination Agent. [The Community Facilities District anticipates that the Annual Report will be filed by \_\_\_\_\_.]

Dated: \_\_\_\_\_

Willdan Financial Services, as Dissemination  
Agent,  
on behalf of the City of Dana Point  
Community Facilities District No. 2006-1

By: \_\_\_\_\_

cc: Community Facilities District No. 2006-1  
Stifel, Nicolaus & Company, Incorporated  
Wells Fargo Bank, National Association

**SUPPORTING DOCUMENT G****THIRD AMENDMENT TO ACQUISITION AGREEMENT****COMMUNITY FACILITIES DISTRICT NO. 2006-1  
OF THE CITY OF DANA POINT**

Whereas, the Headlands Reserve LLC ("Headlands") and the City of Dana Point ("City") entered an Acquisition Agreement, dated June 1, 2006, related to Community Facilities District No. 2006-1 of the City of Dana Point (the "CFD"); and

Whereas, the Acquisition Agreement was amended by that certain agreement entitled First Amendment to Acquisition Agreement, effective November 8, 2006, which among other things, reduced, by agreement, the maximum amount of bonds of the CFD that could be issued from the maximum bond authorization for the CFD of \$45 million to \$40 million;

Whereas, the Acquisition Agreement was thereafter amended by that certain agreement entitled Second Amendment to Acquisition Agreement, effective December 14, 2009, which among other things implemented the provisions of the project Development Agreement requiring the City to bear a portion of the annual costs of maintenance of a Funicular;

Whereas, the parties desire to amend the Acquisition Agreement to eliminate the \$40 million bond limitation and permit the issuance of bonds of the CFD of up to \$45 million;

Whereas, the parties further wish to amend the Acquisition Agreement to provide that the City will be required to contribute to the annual costs of maintaining the Funicular only to the extent that the Maintenance Special Taxes collected by the District are insufficient for that purpose, while limiting the City's maximum contribution to such costs to \$30,000 per year;

Whereas, the parties wish to enter this Third Amendment to the Acquisition Agreement (the "Third Amendment") to memorialize their agreement to the above provisions.

NOW, THEREFORE, it is agreed by and between the parties hereto as follows:

**Section 1.** The final sentence to the end of the first paragraph in Section 2.5 of the Acquisition Agreement added by the First Amendment to Acquisition Agreement is amended to remove the language lowering the maximum Bond authorization, and shall read as follows:

Developer agrees to condition the sale of the Bond, among other things, to the sale of at least 18 lots (consisting of at least 10 different owners), and an aggregate project appraised value of at least 5 times the amount of the CFD bond debt.

**Section 2.** Section 10.14 of the Acquisition Agreement is amended so as to read in its entirety as follows:

**Section 10.14. Assignment of Maintenance Obligations.** The City and Developer have entered into that certain "Revetment

and Funicular Maintenance Agreement” dated December 1, 2005 (the “Revetment and Funicular Maintenance Agreement”) relating to the construction, maintenance, operation and repair of the “Funicular,” “Revetment” and “Public Access Path” (as defined in the Revetment and Funicular Maintenance Agreement) which are included within the Facilities. The City and Developer have also entered into that certain “Landscaping, Irrigation and Maintenance Agreement” dated December 12, 2005 (the “Landscaping Maintenance Agreement”) relating to the maintenance, repair and replacement of improvements within the “Maintenance Area” (as defined in the Landscaping Maintenance Agreement) which improvements are included within the Facilities. Both the Revetment and Funicular Maintenance Agreement and the Landscaping Maintenance Agreement authorize the Developer to assign the agreements and the Developer’s obligations under the agreements to the District. The Developer hereby assigns and the City hereby accepts, on behalf of the District, when formed, an assignment of the Revetment and Funicular Agreement and the Landscaping Maintenance Agreement and Developer’s obligations under each such agreement effective as to each of Revetment, Public Access Path, Funicular and Maintenance Area upon the completion and acceptance by the City of the respective City Facility or Discrete Component. The City shall be reimbursed by the District for the full and complete cost of said maintenance from the levy and collection of the Maintenance Special Taxes, except as otherwise provided in this Section 10.14. In the event the District lacks sufficient funds from the collection of the Maintenance Special Taxes to reimburse the City for the full and complete cost of said maintenance, in any year in which the City elects not to charge usage fees or tolls for the Funicular, the District shall not be required to reimburse the City for the amount of the shortfall, up to a maximum of \$30,000 per year.

**Section 3.** Except for the modifications expressly made by the terms of this Third Amendment, all terms, conditions, obligations and provisions of the Acquisition Agreement, as well as the First and Second Amendments to the Acquisition Agreement, shall remain unchanged and in full force and effect.

***[Signature page follows]***

IN WITNESS WHEREOF, the parties have executed this Third Amendment to be effective as of January \_\_, 2014.

CITY OF DANA POINT, for itself and on behalf  
of Community Facilities District No. 2006-1 of  
the City of Dana Point

By: \_\_\_\_\_  
Douglas C. Chotkevys, City Manager  
HEADLANDS RESERVE LLC, a Delaware limited  
liability company

By: MPDSE, INC., a California corporation, its  
Managing Member

By: \_\_\_\_\_  
Sanford Edward, President