

Ratings:
Moody's "Aaa"
Standard & Poor's "AAA"
Underlying Rating:
Standard & Poor's "A-"
(See "Ratings")

NEW ISSUE—FULL BOOK-ENTRY ONLY

In the opinion of Orrick, Herrington & Sutcliffe LLP, 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, interest on the Series A 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 further opinion of Bond Counsel, interest on the Series A Bonds is not a specific preference item for purposes of 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 Series A Bonds. See "CONCLUDING INFORMATION — Tax Matters" herein.

\$15,495,000
CITY OF NEWPORT BEACH
SPECIAL IMPROVEMENT DISTRICT NO. 95-1 (CIOSA)
SPECIAL TAX REFUNDING BONDS, SERIES A

Dated: August 1, 2001

Due: September 1, as shown below

The City of Newport Beach Special Improvement District No. 95-1 (CIOSA) (the "District") Special Tax Refunding Bonds, Series A (the "Series A Bonds") are being issued to provide funds (1) to refund the City of Newport Beach Special Improvement District No. 95-1 (CIOSA) Special Tax Bonds, Series A, presently outstanding in the aggregate principal amount of \$5,930,000 and the City of Newport Beach Special Improvement District No. 95-1 (CIOSA) Special Tax Bonds, Series B, presently outstanding in the aggregate principal amount of \$8,925,000 (collectively, the "Prior Bonds"), (2) to fund a Reserve Fund or pay the costs of a reserve fund surety bond for the Series A Bonds, and (3) to pay the costs of issuing the Series A Bonds. Subject to the satisfaction of certain conditions described herein, the District may issue additional parity bonds for the purpose of providing funds to refund any Bonds issued under the Indenture. The Series A Bonds and the Additional Bonds, if any, are collectively referred to herein as the "Bonds."

The Series A Bonds are authorized pursuant to the City of Newport Beach Special Improvement District Financing Code (the "Act") and are issued pursuant to the Indenture, dated as of August 1, 2001, by and between the City of Newport Beach (the "City") and BNY Western Trust Company, as trustee (the "Trustee"). The Bonds are payable from the proceeds of an annual Special Tax to be levied according to the Amended and Restated Rate and Method of Apportionment of Special Tax approved by the City Council of the City and by the qualified landowner elector within the District. Such Special Tax will be collected in the same manner and at the same time as ad valorem property taxes are collected by the Treasurer-Tax Collector of the County of Orange, State of California.

The Series A Bonds are being issued in fully registered book-entry only form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Interest is payable semiannually on March 1 and September 1 of each year (commencing March 1, 2002). Purchasers will not receive certificates representing their interests in the Series A Bonds. Individual purchases will be in principal amounts of \$5,000 or integral multiples thereof. Principal of and interest and premium, if any, on the Series A Bonds will be paid by the Trustee to DTC for subsequent disbursement to DTC participants who are obligated to remit such payments to the beneficial owners of the Series A Bonds. See "THE SERIES A BONDS" herein.

The Series A Bonds are subject to redemption prior to maturity as described herein.

The scheduled payment of principal of and interest on the Series A Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series A Bonds by FINANCIAL SECURITY ASSURANCE INC.



Neither the faith and credit nor the taxing power of the City (except to the limited extent set forth in the Indenture) or of the State of California, or any political subdivision thereof is pledged to the payment of the Bonds.

MATURITY SCHEDULE
\$12,495,000 Serial Bonds

Maturity Date (September 1)	Principal Amount	Interest Rate	Yield	CUSIP No.	Maturity Date (September 1)	Principal Amount	Interest Rate	Yield	CUSIP No.
2002	\$395,000	3.500%	2.650%	657186BS3	2011	\$730,000	4.100%	4.170%	657186CB9
2003	465,000	3.500	2.900	657186BT1	2012	760,000	4.300	4.380	657186CC7
2004	510,000	3.500	3.000	657186BU8	2013	790,000	4.500	4.570	657186CD5
2005	550,000	3.500	3.100	657186BV6	2014	830,000	4.600	4.680	657186CE3
2006	600,000	3.500	3.300	657186BW4	2015	865,000	4.700	4.780	657186CF0
2007	645,000	3.500	3.500	657186BX2	2016	905,000	4.875	4.900	657186CG8
2008	650,000	3.700	3.700	657186BY0	2017	950,000	4.875	5.000	657186CH6
2009	675,000	3.900	3.900	657186BZ7	2018	995,000	5.000	5.050	657186CJ2
2010	705,000	4.000	4.000	657186CA1	2019	475,000	5.000	5.070	657186CK9

\$3,000,000 5.00% Term Bonds Due September 1, 2022 — Price: 100% CUSIP No. 651786CL7
(plus accrued interest)

Investment in the Series A Bonds involves risks which may not be appropriate for some investors. See "SPECIAL RISK FACTORS" for a discussion of special risk factors that should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the Series A Bonds.

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF ANY INVESTMENT DECISION.

The Series A Bonds are offered when, as and if issued and delivered to the Underwriter, subject to the approval as to their validity by Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed upon for the City by the City Attorney. It is anticipated that the Series A Bonds will be available for delivery in book-entry form through the facilities of DTC in New York, New York, on or about August 7, 2001.

Stone & Youngberg LLC

Dated: July 26, 2001

No dealer, broker, salesperson or other person has been authorized by the City or the Underwriter to give any information or to make any representations with respect to the Series A 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 City 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 Series A Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Series A Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

The information set forth herein has been obtained from official sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness. The information and expressions of opinions herein are subject to change without notice, and neither delivery of this Official Statement nor any sale hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District and the City since the date hereof. All summaries of the Indenture or other documents are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the City for further information in connection therewith. In accordance with its responsibilities under the federal securities laws, the Underwriter has reviewed the information in this Official Statement but does not guarantee its accuracy or completeness.

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

Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security") contained under the caption "MUNICIPAL BOND INSURANCE" and in APPENDIX F - "FORM OF MUNICIPAL BOND INSURANCE POLICY" herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Series A Bonds; or (iii) the tax-exempt status of the interest on the Series A Bonds.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES A 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 SERIES A BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SUCH PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

**CITY OF NEWPORT BEACH
ORANGE COUNTY, CALIFORNIA**

CITY COUNCIL

Garold (Gary) B. Adams, *Mayor*
Tod W. Ridgeway, *Mayor Pro Tem*
Steven Bromberg
Norma J. Glover
John Heffernan
Dennis D. O'Neil
Gary Proctor

CITY STAFF

Homer L. Bludau City Manager
Dennis C. Danner, City Treasurer/Director of Administrative Services
Don Webb, Director of Public Works
Robert H. Burnham, City Attorney
LaVonne M. Harkless, City Clerk

Bond Counsel

Orrick, Herrington & Sutcliffe LLP
Los Angeles, California

Special Tax Consultant

NBS Government Finance Group
Temecula, California

Financial Advisor

Fieldman, Rolapp & Associates
Irvine, California

Trustee

BNY Western Trust Company
Los Angeles, California

Verification Agent

Grant Thornton LLP
Minneapolis, Minnesota

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CITY OF NEWPORT BEACH SPECIAL IMPROVEMENT DISTRICT 95-1

Harbor Cove

Upper Castaways

Bayview Landing

Corporate Plaza West

Corporate Plaza

Newport Village

OFFICIAL STATEMENT

\$15,495,000

CITY OF NEWPORT BEACH SPECIAL IMPROVEMENT DISTRICT NO. 95-1 (CIOSA) SPECIAL TAX REFUNDING BONDS, SERIES A

INTRODUCTION

The purpose of this Official Statement is to provide certain information concerning the issuance of City of Newport Beach Special Improvement District No. 95-1 (CIOSA) Special Tax Refunding Bonds, Series A (the "Series A Bonds") in the aggregate principal amount of \$15,495,000.

The City of Newport Beach Special Improvement District Financing Code (the "Act") was enacted by the City Council (the "City Council") of the City of Newport Beach (the "City"), pursuant to its charter city powers to provide a method of financing certain public capital facilities in the City. Once duly established, a special improvement district is a legally constituted governmental entity within defined boundaries, with the City Council acting as its legislative body. Subject to approval by a two-thirds vote of qualified electors and compliance with the provisions of the Act, the City Council may issue bonds for a special improvement district and may levy and collect a special tax within such district to repay such indebtedness.

The Bonds are payable from the proceeds of an annual Special Tax to be levied according to the Amended and Restated Rate and Method of Apportionment of Special Tax (the "Rate and Method") approved by the City Council of the City and by the qualified landowner elector within the City of Newport Beach Special Improvement District No. 95-1 (CIOSA) (the "District"). Such Special Tax will be collected in the same manner and at the same time as ad valorem property taxes are collected by the Treasurer-Tax Collector of the County of Orange, State of California. In addition, the Series A Bonds are subject to the redemption from certain additional funds which may be received by the City and applied to the mandatory redemption of Series A Bonds pursuant to the Indenture. See "THE SERIES A BONDS – Description of the Series A Bonds – Redemption."

The District was established by the City on June 12, 1995, when it adopted the Resolution Declaring Intention to Establish a Special Improvement District and to Authorize the Levy of Special Taxes, under the provisions of the Act. Thereafter an election was held for the District, at which election authorized representatives of The Irvine Company (the "Company"), as the then sole landowner of all of the taxable property within the District, cast 100% of the ballots in favor of the proposition of approving formation of the District, authorizing the incurring of indebtedness, the levying of a special tax, and establishing an appropriations limit for the District. As a result of such proceedings, taken pursuant to the Act, authority has been conferred upon the City Council to annually levy a special tax (the "Special Tax") against parcels of land within the District and to issue special tax bonds to finance certain costs and expenses relating to the construction and acquisition of public capital improvements.

The Series A Bonds are being issued pursuant to Resolution No. 2001-62 adopted by the City Council on July 10, 2001 (the "Resolution") and an Indenture, dated as of August 1, 2001 (the "Indenture"), by and between the City and BNY Western Trust Company, as trustee (the "Trustee"). Pursuant to the Indenture, additional bonds ("Additional Bonds") may be issued which will be payable from the Special Tax on a parity with the Series A Bonds for the purpose of providing funds to refund any Bonds issued under the Indenture. The Series A Bonds and the Additional Bonds, if any, are collectively referred to herein as the "Bonds." There will be no Additional Bonds outstanding at the time of issuance of the Series A Bonds.

Neither the faith and credit nor the taxing power of the City, (except to the limited extent set forth in the Indenture) or of the State of California, or any political subdivision thereof is pledged to the payment of the Bonds.

The Series A Bonds are being issued to provide funds (1) to refund the City of Newport Beach Special Improvement District No. 95-1 (CIOSA) Special Tax Bonds, Series A (the "Series A Prior Bonds"), presently outstanding in the aggregate principal amount of \$5,930,000 and the City of Newport Beach Special Improvement District No. 95-1 (CIOSA) Special Tax Bonds, Series B (the "Series B Prior Bonds" and, together with the Series A Prior Bonds, the "Prior Bonds"), presently outstanding in the aggregate principal amount of \$8,925,000, (2) to fund a Reserve Fund for the Series A Bonds, and (3) to pay the costs of issuing the Series A Bonds. See "SOURCES AND USES OF FUNDS" and "PLAN OF FINANCE" herein. The Prior Bonds were issued under that Fiscal Agent Agreement, dated as of December 1, 1995, by and between the City and U.S. Trust Company, National Association, as Fiscal Agent, as amended and supplemented by the First Supplemental Fiscal Agent Agreement, dated as of June 1, 1997, by and between the City and U.S. Trust Company, National Association (the "Fiscal Agent Agreement").

Concurrently with the issuance of the Series A Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Series A Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement. See "MUNICIPAL BOND INSURANCE" and APPENDIX F - "FORM OF MUNICIPAL BOND INSURANCE POLICY" herein.

Brief descriptions of the Series A Bonds, the security for the Series A Bonds, the City, the District and the status of development within the District are included in this Official Statement, together with summaries of certain provisions of the Series A Bonds and the Indenture. Such descriptions do not purport to be comprehensive or definitive. Capitalized undefined terms used herein shall have the meanings ascribed thereto in the Indenture. All references herein to the Indenture are qualified in their entirety by reference to such document, copies of which are available for inspection at the office of the City Director of Administrative Services, 3300 Newport Boulevard, Newport Beach, California 92663.

THE SERIES A BONDS

Description of the Series A Bonds

The Series A Bonds will be issued in fully registered book-entry only form, without coupons, in the denomination of \$5,000, or any integral multiple thereof, and will be dated as set forth on the cover hereof.

Interest on the Series A Bonds will be paid semiannually on September 1 and March 1 of each year, commencing March 1, 2002 (each such date, an "Interest Payment Date"). The Series A Bonds will bear interest at the rates shown on the cover hereof. Interest on the Series A Bonds will be payable from the Interest Payment Date next preceding the date of authentication thereof unless (i) a Series A Bond is authenticated on or before an Interest Payment Date and after the close of business on the 15th calendar day of the month preceding each Interest Payment Date, whether or not such day is a Business Day (the "Record Date"), in which event it shall bear interest from such Interest Payment Date, (ii) a Series A Bond is authenticated on or before the first Record Date, in which event interest thereon shall be payable from the Closing Date, or (iii) interest on any Series A Bond is in default as of the date of authentication thereof, in which event interest thereon shall be payable from the date to which interest has previously been paid or duly provided for. Interest shall be paid in lawful money of the United States on each Interest Payment Date. Interest shall be paid by check of the Trustee mailed by first class mail, postage prepaid, on each Interest Payment Date to the Series A Bond Owners at their respective addresses shown on the Registration Books as of the close of business on the preceding Record Date. Notwithstanding the foregoing, interest on any Series A Bond which is not punctually paid or duly provided for on any Interest Payment Date shall, if and to the extent that amounts subsequently become available therefor, be paid on a payment date established by the Trustee to the Person in whose name the ownership of such Series A Bond is registered on the Registration Books at the close of business on a special record date to be established by the Trustee for the payment of such defaulted interest, notice of which shall be given to such Owner not less than ten days prior to such special record date.

The principal of and interest and redemption premium, if any, on the Series A Bonds will be paid by the Trustee to The Depository Trust Company ("DTC") for subsequent disbursement to DTC participants, who are obligated to remit such payments to the beneficial owners of the Series A Bonds. The Series A Bonds will mature as indicated on the cover hereof.

Redemption

Optional Redemption. The Series A Bonds are subject to optional redemption in whole or in part, on any Interest Payment Date on or after September 1, 2011, from any source of available funds, among maturities as designated by the City and by lot within each maturity, at the following respective Redemption Prices (expressed as percentages of the principal amount of the Series A Bonds to be redeemed), plus accrued interest thereon to the date of redemption:

<u>Redemption Dates</u>	<u>Redemption Price</u>
September 1, 2011 and March 1, 2012	101%
September 1, 2012 and thereafter	100

The City will give the Trustee written notice of its intention to optionally redeem Series A Bonds not less than 60 days prior to the applicable redemption date, unless such notice shall be waived by the Trustee.

Mandatory Redemption From Special Tax Prepayments, Fair Share Fees, Improvement Fund Earnings and Excess Special Taxes. The Series A Term Bonds shall be subject to mandatory redemption, in whole or in part, on September 1 in each year, commencing September 1, 2002, from and to the extent of (A) any prepayment of Special Taxes, (B) any Fair Share Fees (as defined herein) required to be applied to the redemption thereof in accordance with the Indenture (see "SECURITY FOR THE SERIES A BONDS – Fair Share Fees and Interest Received from Moneys in the Improvement Fund – *Fair Share Fees*), (C) any interest, profits and other income received from the investment of moneys in the Improvement Fund required to be applied to the redemption thereof in accordance with the Indenture and as set forth under the caption "SECURITY FOR THE SERIES A BONDS – Special Taxes – *Prepaid Special Taxes*," and (D) any Special Taxes required to be transferred from the Special Tax Fund to the Redemption Fund and applied to the redemption thereof in accordance with the Indenture, at a Redemption Price equal to the principal amount of such Series A Bonds to be redeemed, without premium, plus accrued interest thereon to the date of redemption.

If there are no Series A Term Bonds Outstanding, the Series A Bonds maturing on and prior to September 1, 2017 shall be subject to mandatory redemption, in inverse order of maturity, in whole or in part, on each September 1, from and to the extent of (A) any prepayment of Special Taxes, (B) any Fair Share Fees required to be applied to the redemption thereof in accordance with the Indenture (see "SECURITY FOR THE SERIES A BONDS – Fair Share Fees and Interest Received from Moneys in the Improvement Fund – *Fair Share Fees*), (C) any interest, profits and other income received from the investment of moneys in the Improvement Fund required to be applied to the redemption thereof in accordance with the Indenture and as set forth under the caption "SECURITY FOR THE SERIES A BONDS – Special Taxes – *Prepaid Special Taxes*," and (D) any Special Taxes required to be transferred from the Special Tax Fund to the Redemption Fund and applied to the redemption thereof in accordance with the Indenture, at a Redemption Price equal to the principal amount of such Series A Bonds to be redeemed, without premium, plus accrued interest thereon to the date of redemption.

For a discussion of the collection and application of prepaid Special Taxes and all interest, profits and other income received from the investment of moneys in the Improvement Fund, see "SECURITY FOR THE SERIES A BONDS – Special Taxes – *Prepaid Special Taxes*."

Mandatory Sinking Fund Redemption. The Series A Bonds maturing September 1, 2022 (the "Series A Term Bonds"), are subject to mandatory sinking fund redemption, in part, on September 1 in each year, commencing September 1, 2019, at a Redemption Price equal to the principal amount of the Series A Term Bonds to be redeemed, without premium, plus accrued

interest thereon to the date of redemption, in the aggregate respective principal amounts in the respective years as follows:

<u>Sinking Fund Redemption Date (September 1)</u>	<u>Principal Amount to be Redeemed</u>
2019	\$555,000
2020	1,100,000
2021	655,000
2022 (<i>final maturity</i>)	690,000

If some but not all of the Series A Term Bonds are optionally redeemed in accordance with the Indenture, the principal amount of Series A Term Bonds to be subsequently redeemed in accordance with mandatory sinking fund schedules set forth herein and in the Indenture shall be reduced by the aggregate principal amount of the Series A Term Bonds so optionally redeemed in accordance with the Indenture, such reduction to be allocated among redemption dates in amounts of \$5,000 or integral multiples thereof, as designated by the City in a Written Certificate of the City filed with the Trustee. If some but not all of the Series A Term Bonds are redeemed from special tax prepayments and excess special taxes in accordance with the Indenture, the principal amount of Series A Term Bonds to be subsequently redeemed in accordance with mandatory sinking fund schedules set forth herein and in the Indenture shall be reduced by the aggregate principal amount of the Series A Term Bonds so redeemed from special tax prepayments and excess special taxes in accordance with the Indenture, such reduction to be allocated among redemption dates as nearly as practicable on a *pro rata* basis in amounts of \$5,000 or integral multiples thereof, as determined by the Trustee, notice of which determination shall be given by the Trustee to the City.

Selection of Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the Bonds, the Trustee shall select the Bonds to be redeemed from all Series A Bonds not previously called for redemption (a) with respect to any optional redemption of Bonds, among maturities of Bonds as directed in a Written Request of the City, (b) with respect to any redemption from special tax prepayments and excess special taxes in with respect to any redemption pursuant to the second paragraph under the caption "THE SERIES A BONDS – Redemption – *Mandatory Redemption From Special Tax Prepayments, Fair Share Fees, Improvement Fund Earnings and Excess Special Taxes,*" in inverse order of maturity, (c) with respect to any redemption of Additional Bonds, among maturities as provided in the Supplemental Indenture pursuant to which such Additional Bonds are issued, and by lot among Bonds with the same maturity in any manner which the Trustee in its sole discretion shall deem appropriate and fair. For purposes of such selection, all Bonds shall be deemed to be comprised of separate \$5,000 denominations and such separate denominations shall be treated as separate Bonds which may be separately redeemed.

Notice of Redemption. The Trustee on behalf and at the expense of the City shall mail (by first class mail) notice of any redemption to the respective Owners of any Bonds designated for redemption at their respective addresses appearing on the Registration Books, and to the Securities Depositories and to one or more Information Services, at least 30 but not more than sixty 60 days prior to the date fixed for redemption. Such notice shall state the date of the notice,

the redemption date, the redemption place and the Redemption Price and shall designate the CUSIP numbers, the Bond numbers and the maturity or maturities (except in the event of redemption of all of the Bonds of such maturity or maturities in whole) of the Bonds to be redeemed, and shall require that such Bonds be then surrendered at the Office of the Trustee for redemption at the Redemption Price, giving notice also that further interest on such Bonds will not accrue from and after the date fixed for redemption. Neither the failure to receive any notice so mailed, nor any defect in such notice, shall affect the sufficiency of the proceedings for the redemption of the Bonds or the cessation of accrual of interest thereon from and after the date fixed for redemption.

Partial Redemption of Bonds. Upon surrender of any Bonds redeemed in part only, the City will execute and the Trustee will authenticate and deliver to the Owner thereof, at the expense of the City, a new Bond or Bonds of authorized denominations equal in aggregate principal amount to the unredeemed portion of the Bonds surrendered.

Effect of Notice of Redemption. Notice having been mailed as aforesaid, and moneys for the redemption (including the interest to the applicable date fixed for redemption and including any applicable premium), having been set aside in the Redemption Fund, the Bonds will become due and payable on said date, and, upon presentation and surrender thereof at the Office of the Trustee, said Bonds will be paid at the Redemption Price thereof, together with interest accrued and unpaid to said date.

If, on said date fixed for redemption, moneys for the redemption of all the Bonds to be redeemed, together with interest to said date, shall be held by the Trustee so as to be available therefor on such date, and, if notice of redemption thereof shall have been mailed as aforesaid and not canceled, then, from and after said date, interest on said Bonds shall cease to accrue and become payable. All moneys held by or on behalf of the Trustee for the redemption of Bonds shall be held in trust for the account of the Owners of the Bonds so to be redeemed.

All Bonds paid at maturity or redeemed prior to maturity pursuant to the provisions hereof shall be canceled upon surrender thereof and destroyed.

Transfer and Exchange of Series A Bonds. So long as the Series A Bonds remain in book-entry form, transfer and exchange of any of the Series A Bonds will be accomplished in accordance with the provisions of such book-entry system. In the event and only in the event of termination of such book-entry system with respect to the Series A Bonds, then in such event any Series A Bond may, in accordance with its terms, be transferred upon the Registration Books by the Person in whose name it is registered, in person or by his duly authorized attorney, upon surrender thereof to the Trustee for cancellation, accompanied by a written instrument of transfer, duly executed in a form acceptable to the Trustee. Upon surrender for transfer of any Series A Bond at the Office of the Trustee, the Trustee will deliver in the name of the transferee or transferees a new authenticated and registered Series A Bond or Series A Bonds of authorized denomination of the same maturity for the aggregate principal amount which the Owner is entitled to receive.

The Series A Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of Series A Bonds of other authorized denominations.

The Trustee will require payment by the Owner requesting such exchange or transfer of any tax or other governmental charge that may be imposed with respect to such transfer or exchange. Such taxes, fees, and charges must be paid before any such new Series A Bond will be delivered.

Book-Entry Bonds

Except as otherwise provided in the Indenture, the registered Owner of all of the Series A Bonds will be DTC, and the Series A Bonds will be registered in the name of Cede & Co., as nominee for DTC. Notwithstanding anything to the contrary contained in the Indenture, payment of interest with respect to any Series A Bond registered as of each Record Date in the name of Cede & Co. will be made by wire transfer of same-day funds to the account of Cede & Co. on the payment date for the Series A Bonds at the address indicated on the Record Date for Cede & Co. in the Registration Books or as otherwise provided in the representation letter of the City.

The Series A Bonds will be initially issued in the form of separate single fully registered Series A Bonds in the amount of each separate stated maturity of the Series A Bonds. Upon initial issuance, the ownership of such Series A Bonds will be registered in the Registration Books in the name of Cede & Co., as nominee of DTC. APPENDIX D – “BOOK-ENTRY ONLY SYSTEM.”

DEBT SERVICE SCHEDULE

Debt service schedules for the Series A Bonds is set forth below:

<u>Period Ending September 1</u>	<u>Series A Bonds Principal</u>	<u>Series A Bonds Interest</u>	<u>Debt Service</u>
2002	\$395,000	\$736,965.95	\$1,131,965.95
2003	465,000	666,451.26	1,131,451.26
2004	510,000	650,176.26	1,160,176.26
2005	550,000	632,326.26	1,182,326.26
2006	600,000	613,076.26	1,213,076.26
2007	645,000	592,076.26	1,237,076.26
2008	650,000	569,501.26	1,219,501.26
2009	675,000	545,451.26	1,220,451.26
2010	705,000	519,126.26	1,224,126.26
2011	730,000	490,926.26	1,220,926.26
2012	760,000	460,996.26	1,220,996.26
2013	790,000	428,316.26	1,218,316.26
2014	830,000	392,766.26	1,222,766.26
2015	865,000	354,586.26	1,219,586.26
2016	905,000	313,931.26	1,218,931.26
2017	950,000	269,812.50	1,219,812.50
2018	995,000	223,500.00	1,218,500.00
2019	1,030,000	173,750.00	1,203,750.00
2020	1,100,000	122,250.00	1,222,250.00
2021	655,000	67,250.00	722,250.00
2022	690,000	34,500.00	724,500.00
TOTAL	\$15,495,000	\$8,857,736.09	\$24,352,736.09

SOURCES AND USES OF FUNDS

The estimated sources and uses of funds with respect to the Series A Bonds are set forth in the following table:

Sources

Principal Amount of Series A Bonds	\$15,495,000.00
Accrued Interest	11,337.93
Less Net Original Issue Discount	(22,887.85)
Amounts released from Fiscal Agent Agreement	2,889,062.62
Total Sources	\$18,372,512.70

Uses

Escrow Fund	\$16,431,003.52
Debt Service Reserve Fund	1,237,076.26
Bond Fund ⁽¹⁾	56,689.69
Administrative Expense Fund	25,000.00
Costs of Issuance Fund ⁽²⁾	467,793.23
Underwriter's Discount	154,950.00
Total Uses	\$18,372,512.70

⁽¹⁾ Includes accrued interest and an amount sufficient to pay debt service on the Series A Bonds from the date of delivery to September 1, 2001.

⁽²⁾ Includes insurance premium and legal, financial advisory, consulting and rating agency fees, printing and other miscellaneous costs of issuance.

PLAN OF FINANCE

The City will apply a portion of the proceeds of the sale of the Series A Bonds to pay the costs of issuing the Series A Bonds including the municipal bond insurance premium. The balance of the proceeds of the Series A Bonds, together with certain other amounts held under the Fiscal Agent Agreement, including, but not limited to, approximately \$385,000, representing prepayments of the Special Tax, will be transferred to and/or deposited in the Escrow Fund (the "Escrow Fund") established under the Escrow Agreement, dated as of August 1, 2001 (the "Escrow Agreement"), by and between the District and BNY Western Trust Company, as escrow bank (the "Escrow Bank"). Amounts deposited in the Escrow Fund will be used to purchase direct, noncallable obligations of the United States of America (the "Federal Securities"). The Federal Securities, together with earnings thereon, and certain cash held in the Escrow Fund, will be sufficient to pay (a) when due, the principal of and interest on the Series A Prior Bonds to and including September 1, 2005 and to redeem the Series A Prior Bonds on September 1, 2005 (the "Series A Redemption Date") at a redemption price (the "Series A Redemption Price") equal to 102% of the principal amount of the Series A Prior Bonds being so redeemed, and (b) when due, the principal of and interest on the Series B Prior Bonds to and including September 1, 2007 and to redeem the Series B Prior Bonds on September 1, 2007 (the "Series B Redemption Date") at a redemption price (the "Series B Redemption Price") equal to 102% of the principal amount of the Series B Prior Bonds being so redeemed.

Grant Thornton LLP, certified public accountants (the "Verification Agent"), will verify the mathematical accuracy of certain computations regarding the Federal Securities, and the earnings thereon and the cash held in the Escrow Fund, and their sufficiency to pay all of the principal, interest and redemption premium with respect to Prior Bonds coming due on the redemption date described above.

SECURITY FOR THE SERIES A BONDS

Pledge of Net Special Tax Revenues and Certain Other Amounts

Payment of the principal of the Bonds and the premium, if any, and interest thereon is secured by and payable, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, from all of the Net Special Tax Revenues and any other amounts (including proceeds of the sale of the Bonds) held in the Bond Fund, the Reserve Fund and the Redemption Fund, and such funds have been pledged to secure the payment of the principal of, premium, if any, and interest on the Bonds in accordance with the provisions of the Indenture and the Act. Said pledge shall constitute a first lien on such assets. Under the Indenture, "Net Special Tax Revenues" means Special Tax Revenues, less amounts required to pay Administrative Expenses. "Special Tax Revenues" is defined under the Indenture to mean the proceeds of the Special Taxes received by the City, 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, limited to the amount of said lien and interest and penalties thereon. The City has covenanted in the Indenture to levy the Special Taxes in each Fiscal Year that the Bonds are Outstanding. Pursuant to the Rate and Method, the Special Taxes will be levied each year in amounts sufficient to pay debt service on the Bonds and Administrative Expenses.

Special Taxes

Levy of Special Taxes. The levy of the Special Taxes was authorized by vote of the Company, as the then sole landowner and only qualified elector of the District, at a special election held on June 26, 1995. Pursuant to the Act, the City caused a Notice of Special Tax Lien (including a copy of the Rate and Method as an exhibit thereto) to be recorded in the Official Records of Orange County, California.

The City is legally authorized under the Act, and has covenanted in the Indenture, to cause the levy of the Special Taxes in an amount determined according to the Rate and Method. The amount of Special Taxes that the City may levy in the District in any year is strictly limited by the maximum rates established by the Rate and Method. The Rate and Method apportions the total amount of Special Taxes to be collected annually among the taxable parcels in the District. See APPENDIX A – "AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX."

Although the Special Tax, when levied, will constitute a lien on parcels subject to taxation within the District, it does not constitute a personal indebtedness of the owners of property within the District. There is no assurance that the owners of real property in the District

will be financially able to pay the annual Special Tax or that they will pay such Special Tax even if financially able to do so. See "SPECIAL RISK FACTORS."

Rate and Method. Pursuant to the Rate and Method, the annual Special Tax obligation is apportioned, first, to Developed Property in accordance with the Maximum Special Tax for such Developed Property, and, second, if and to the extent that additional amounts are needed in order to provide for a total Special Tax levy equal to the Debt Service Requirement for such Fiscal Year, to Undeveloped Property. As set forth in the Rate and Method, the property that was initially subject to the Special Tax was divided into nine separate Zones (as defined in the Rate and Method). The Zones currently subject to the Rate and Method are the Upper Castaways Zone, the Harbor Cove Zone (previously known as Newporter North), the Bayview Landing Zone, the Corporate Plaza West Zone, the Corporate Plaza Zone and the Newport Village - PCH/MacArthur Zone. Three Zones were subsequently prepaid or otherwise released from the lien of the Special Tax. The whole of the Special Tax applicable to the San Diego Creek Zone and the Block 800 Zone was prepaid in 1996 in accordance with the prepayment provisions of the Rate and Method, and the Freeway Reservation Zone was subsequently designated an open space and therefore no longer subject to the Special Tax. As a result, properties in only six of the Zones remain subject to the Special Tax. For purposes of the Rate and Method, aside from the Bayview Landing Zone, the properties in all Zones currently subject to the Special Tax constitute Developed Property. For Fiscal Year 2000-01, no Special Taxes were levied on Undeveloped Property because the Special Tax requirement for such year could be met by taxes levied on Developed Property.

Table 1 below sets forth the Special Taxes authorized to be levied in Fiscal Year 2000-01 in the District by tax classification.

Table 1
2000-01 Maximum Special Tax Levy by Tax Classification

<u>Tax Class</u>	<u>Units/ Acres</u>	<u>Maximum Special Tax</u>	<u>Fiscal Year 2000-01 Special Tax</u>	<u>% of Maximum Special Tax</u>
Developed				
Single Family Residential	267 units	\$1,034,613	\$ 732,468	70.80%
Commercial – Developed	5 parcels / 22.19 acres	459,017	324,967	70.80
Undeveloped				
Commercial – Developed ⁽¹⁾	1 parcel / 1.92 acres	41,505	29,384	70.80
Commercial – Undeveloped ⁽²⁾	3 parcels / 16.06 acres	7,949	0	0.00
Totals	276 Parcels	\$1,543,084	\$1,086,819	70.43%

(1) APN 442-014-28 is undeveloped, but is in the Newport Village/PCH MacArthur zone, which is Developed according to the Rate and Method.

(2) Represents the parcels in the Bayview Landing Zone, which is Undeveloped and thus was not levied according to the Rate and Method.

Source: NBS Government Finance Group.

Prepaid Special Taxes. The Rate and Method provides that the Special Tax applicable to any Assessor's Parcel may be prepaid, in whole or in part, and the Special Tax with respect

thereto discharged to the extent of such prepayment. Pursuant to the Indenture, as soon as practicable after the receipt by the City of prepaid Special Taxes, but in any event not later than ten Business Days after such receipt, the City shall transfer such prepaid Special Taxes to the Trustee and, upon receipt thereof, the Trustee shall deposit the same in the Redemption Fund. On June 30 of each year through and including June 30, 2016, the City shall transfer to the Trustee Fair Share Fees received by the City during the Fiscal Year ending on such June 30 and required under the Protocol Agreement to be applied to the redemption of Bonds and, upon receipt thereof, the Trustee shall deposit the same in the Redemption Fund. On June 30 of each year through and including June 30, 2016, the City shall transfer to the Trustee all interest, profits and other income received from the investment of moneys in the Improvement Fund during the Fiscal Year ending on such June 30 and required pursuant to the Protocol Agreement to be applied to the redemption of Bonds and, upon receipt thereof, the Trustee shall deposit the same in the Redemption Fund. On September 2 of each year, the Trustee shall transfer to and deposit in the Redemption Fund any amount remaining on deposit in the Special Tax Fund on such date, in accordance with the Indenture. Amounts deposited in the Redemption Fund pursuant to this paragraph shall be disbursed therefrom on each September 1 for the payment of the Redemption Price of Series A Bonds subject to mandatory redemption in accordance with the Indenture and as set forth under the caption. See "THE SERIES A BONDS – Redemption – Mandatory Redemption From Special Tax Prepayments, Fair Share Fees, Improvement Fund Earnings and Excess Special Taxes."

The Special Tax liens on the Block 800 and San Diego Creek Zones have been paid in full and thus parcels in these zones are no longer subject to the Special Tax. The Block 800 Zone Special Tax obligation was prepaid in August, 1996. The San Diego Creek Zone Special Tax obligation was prepaid prior to the sale of the Prior Bonds. The Harbor Cove Zone (previously known as Newporter North) consists of 149 single-family lots. The Special Tax has been partially prepaid on 134 lots, and fully prepaid on one lot. These prepayments were made at various times as homes were built and sold by the developer. This has resulted in reduced Special Tax obligations for these parcels. The Freeway Reservation Zone is a linear strip of approximately 7 net acres, extending south from Ford Road along the east side of MacArthur Boulevard. The site was originally zoned single family residential with a maximum of 36 units but was subsequently designated open space and no longer subject to the Special Tax.

Fair Share Fees and Interest Received from Moneys in the Improvement Fund

Fair Share Fees. Development within the District has been governed by the Circulation Improvement and Open Space Agreement, dated June 30, 1993 (the "CIOSA Agreement"), by and between the City and the Company. The CIOSA Agreement provides, among other things, for the application of certain fees collected from the owners of certain properties in the City (the "Fair Share Fees"). Per Section 15.38 of the Newport Beach Municipal Code, Fair Share Fees are assessed and collected by the City based on construction and reconstruction that occurs within the City boundaries where such construction or reconstruction is expected to result in an increase in traffic circulation with the City. For a period of 20 years from the February 20, 1996 effective date of the Protocol Agreement, by and between the City and the Company (the "Protocol Agreement"), the City has covenanted that 50 percent of all Fair Share Fees collected as a result of construction on property not within the District must be pledged (a) to the construction of additional circulation improvements until such time as the City reaches the

CIOSA Limit prescribed in the CIOSA Agreement, and (b) after reaching its CIOSA Limit, to the mandatory redemption of the bonds. In accordance with the Indenture, a portion of such Fair Share Fees, as and when collected and deposited with the Trustee, will be applied to the mandatory redemption of the Series A Bonds, beginning with those maturing on September 1, 2022 and continuing in inverse order of maturity upon full redemption of the Series A Term Bonds, on each September 1, beginning September 1, 2002. The City has determined that upon the issuance of the Series A Bonds, it will have reached the CIOSA Limit. Therefore, per the Protocol Agreement, the City will direct 50 percent of its annual Fair Share Fee collections through February 20, 2016 to the mandatory redemption of the Series A Bonds. See "THE SERIES A BONDS – Redemption – Mandatory Redemption From Special Tax Prepayments, Fair Share Fees, Improvement Fund Earnings and Excess Special Taxes."

The table below shows actual Fair Share Fee collections since Fiscal Year 1991, as well as the amount retained by the City to be used for additional circulation improvements. The table also shows the City's projections of Fair Share Fee collections based on expected construction activity within the City and the 50 percent pledged amount through February 2016. Should construction activity exceed or fall short of expectations, actual Fair Share Fee collections could differ from projections. See "SECURITY FOR THE SERIES A BONDS – Special Taxes – Prepaid Special Taxes."

Actual Fair Share Fees			Projected Fair Share Fees		
Fiscal Year	Gross Fair Share Fees	Pledged Fair Share Fees	Fiscal Year	Gross Fair Share Fees	Pledged Fair Share Fees
1990-91	\$ 496,223	--	2001-02	\$500,000	\$250,000
1991-92	85,943	--	2002-03	500,000	250,000
1992-93	211,567	--	2003-04	500,000	250,000
1993-94	298,377	--	2004-05	500,000	250,000
1994-95	288,394	--	2005-06	400,000	200,000
1996-96 ⁽¹⁾	1,862,912	\$ 46,188	2006-07	400,000	200,000
1996-97	421,025	210,513	2007-08	400,000	200,000
1997-98	1,267,854	633,927	2008-09	400,000	200,000
1998-99	630,484	315,242	2009-10	400,000	200,000
1999-00	170,967	85,484	2010-11	300,000	150,000
2000-01	483,398	241,699	2011-12	300,000	150,000
			2012-13	300,000	150,000
			2013-14	300,000	150,000
			2014-15	300,000	150,000
			2015-16 ⁽²⁾	150,000	75,000

⁽¹⁾ 50% pledge of Fair Share Fee collections initiated upon the effective date of the Protocol Agreement, February 20, 1996. Gross Fair Share Fees includes collections from within District, which are exempted from the 50% pledge.

⁽²⁾ Represents estimated collections through February 20, 2016.

Source: The City.

Improvement Fund Earnings. The table below sets forth a projection of interest, profits and other income projected to be received from the investment of moneys in the Improvement Fund based on expected construction activity within the City through Fiscal Year 2005-06. Should construction activity exceed or fall short of expectations, actual interest, profits and other income received from the investment of moneys in the Improvement Fund could differ from

projections. The City has covenanted to apply interest earnings from the investment of moneys in the Improvement Fund to the mandatory redemption of the Series A Bonds in whole or in part, on September 1 in each year, commencing September 1, 2002. See "THE SERIES A BONDS – Redemption – Mandatory Redemption From Special Tax Prepayments, Fair Share Fees, Improvement Fund Earnings and Excess Special Taxes."

Fiscal Year	Available Funds at Beginning of Fiscal Year	Projected Annual Construction Expenditures	Interest Earnings	Interest Subject to Bond Call	Available Funds at End of Fiscal Year
2000-01	\$4,678,071 ⁽¹⁾		\$233,904		\$4,911,975
2001-02	4,911,975	(\$2,180,000)	191,099	(\$452,002)	2,498,071
2002-03	2,498,071	(1,000,000)	99,904	(99,904)	1,498,071
2003-04	1,498,071	(300,000)	67,404	(67,404)	1,198,071
2004-05	1,198,071	(400,000)	49,904	(49,904)	798,071
2005-06	798,071	(798,071)	19,952	(19,952)	--
		(\$4,678,071)	\$662,165	(\$622,165)	

(1) Remaining amount eligible to spend on construction under the terms of the CIOSA Agreement, as amended.
Source: The City.

Special Tax Fund

As soon as practicable after receipt by the City of any Special Tax Revenues (other than prepaid Special Taxes), but in any event no later than the date ten Business Days after such receipt, the City shall transfer such Special Tax Revenues to the Trustee for deposit in the Special Tax Fund; provided, however, that any portion of any such Special Tax Revenues that represents prepaid Special Taxes that are to be applied to the payment of the Redemption Price of Bonds shall be identified to the Trustee as such by the City and shall be deposited in the Redemption Fund.

Upon receipt of a Written Request of the City, the Trustee shall withdraw from the Special Tax Fund and transfer to the Administrative Expense Fund the amount specified in such Written Request of the City as the amount necessary to be transferred thereto in order to have sufficient amounts available therein to pay Administrative Expenses.

On the Business Day immediately preceding each Interest Payment Date, after having made any requested transfer to the Administrative Expense Fund, the Trustee shall withdraw from the Special Tax Fund and transfer, first, to the Bond Fund, Net Special Tax Revenues in the amount, if any, necessary to cause the amount on deposit in the Bond Fund to be equal to the principal and interest due on the Bonds on such Interest Payment Date, and, second, to the Reserve Fund, Net Special Tax Revenues in the amount, if any, necessary to cause the amount on deposit in the Reserve Fund to be equal to the Reserve Requirement.

On September 2 of each year, after having made any requested transfer to the Administrative Expense Fund, the Trustee shall withdraw from the Special Tax Fund any amount remaining on deposit therein and shall transfer such amount to the Redemption Fund and apply such amount to the redemption of Bonds pursuant to the Indenture.

Reserve Fund

A reserve fund (the "Reserve Fund") is established by the Indenture and is required to be funded initially from proceeds of the Series A Bonds in an amount equal to the "Reserve Requirement," which is defined in the Indenture to mean, as of the date of any calculation, the least of (a) 10% of the original aggregate principal amount of the Bonds, (b) the largest Annual Debt Service for any Bond Year, including the Bond Year the calculation is made ("Maximum Annual Debt Service"), and (c) 125% of average Annual Debt Service.

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

So long as no Event of Default shall have occurred and be continuing, any amount in the Reserve Fund in excess of the Reserve Requirement on February 15 and August 15 of each year will be withdrawn from the Reserve Fund by the Trustee and will be deposited in the Bond Fund.

Whenever the balance in the Reserve Fund exceeds the amount required to redeem or pay the Outstanding Bonds, including interest accrued to the date of payment or redemption and premium, if any, due upon redemption, the Trustee will transfer the amount in the Reserve Fund to the Bond Fund or Redemption Fund, as applicable, to be applied, on the next succeeding Interest Payment Date to the payment and redemption of all the Outstanding Bonds.

Municipal Bond Insurance

Concurrently with the issuance of the Series A Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Series A Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement. See "MUNICIPAL BOND INSURANCE" and APPENDIX F – "FORM OF MUNICIPAL BOND INSURANCE POLICY" herein.

Issuance of Additional Bonds

The Indenture provides that, the City may at any time issue one or more Series of Additional Bonds (in addition to the Series A Bonds) payable from Net Special Tax Revenues as provided herein on a parity with all other Bonds theretofore issued hereunder, but only for the purpose of refunding of any Bonds issued hereunder, providing for the payment of Costs of Issuance incurred in connection with the issuance of such Additional Bonds or making a deposit to the Reserve Fund so as to increase the amount on deposit therein to the Reserve Requirement, or any combination thereof, and subject to the following conditions: (a) the issuance of such Additional Bonds shall have been authorized under and pursuant to the Act and the Indenture and shall have been provided for by a Supplemental Indenture which shall specify, among other things, that upon the issuance of such Additional Bonds, the City shall be in compliance with all agreements, conditions, covenants and terms contained herein and in all Supplemental Indentures

required to be observed or performed by it; and (b) Annual Debt Service in each Bond Year, calculated for all Bonds to be Outstanding after the issuance of such Additional Bonds, shall be less than or equal to Annual Debt Service in such Bond Year, calculated for all Bonds Outstanding immediately prior to the issuance of such Additional Bonds.

Nothing contained herein shall limit the issuance of any special tax bonds payable from Special Taxes if, after the issuance and delivery of such special tax bonds, none of the Bonds theretofore issued hereunder will be Outstanding.

For a more detailed statement of the provisions relating to issuance of Additional Bonds, see APPENDIX C – “SUMMARY OF THE INDENTURE.”

Permitted Investments

Moneys in any of the funds or accounts established pursuant to the Indenture will be invested by the Trustee solely in Permitted Investments, as directed in writing by the City. Moneys in all funds and accounts held by the Trustee shall be invested in Permitted Investments maturing not later than the date on which it is estimated that such moneys will be required for the purposes specified in the Indenture; provided, however, that Permitted Investments in which moneys in the Reserve Fund are so invested shall mature no later than the earlier of five years from the date of investment or the final maturity date of the Bonds; provided, further, that if such Permitted Investments may be redeemed at par so as to be available on each Interest Payment Date, any amount in the Reserve Fund may be invested in such redeemable Permitted Investments maturing on any date on or prior to the final maturity date of the Bonds. Absent timely written direction from the City, the Trustee shall invest any funds held by it in money market funds which are rated “Am” or better by S&P. See APPENDIX C – “SUMMARY OF THE INDENTURE.”

Covenant for Superior Court Foreclosure

In the event of the delinquency in the payment of any installment of Special Taxes, the City is authorized by the Act to order institution of a judicial foreclosure proceeding in the Orange County Superior Court to foreclose the lien therefor. In such action the real property subject to the Special Taxes may be sold at a judicial foreclosure sale. The ability of the City to foreclose the lien of delinquent unpaid Special Taxes may be limited in certain instances and may require prior consent of the property owner in the event that the property is owned by any receivership of the Federal Deposit Insurance Corporation. See “SPECIAL RISK FACTORS – Bankruptcy” and “– Potential Delay and Limitation in Foreclosure Proceedings.”

Such judicial foreclosure proceedings are not mandatory under the Act. However, in the Indenture, the City has covenanted that it will determine or cause to be determined, no later than September 15 of each year, whether or not any owners of property within the District are delinquent in the payment of Special Taxes and, if such delinquencies exist, the City will order and cause to be commenced no later than November 1, and thereafter diligently prosecute, an action in the superior court to foreclose the lien of any Special Taxes or installment thereof not paid when due; provided, however, that the City shall not be required to order the commencement of foreclosure proceedings if (a) the total Special Tax delinquency in the District

for such Fiscal Year is less than 5% of the total Special Tax levied in such Fiscal Year, and (b) the amount then on deposit in the Reserve Fund is equal to the Reserve Requirement. Notwithstanding the foregoing, if the City determines that any single property owner in the District is delinquent in excess of \$5,000 in the payment of the Special Tax, then it will diligently institute, prosecute and pursue foreclosure proceedings against such property owner.

No assurances 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 judgment creditor (the District) 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 and 20 days from the subsequent notice of sale in which to redeem the property to be sold. If a judgment debtor fails to so redeem and the property is sold, the only remedy of such judgment debtor 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. 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 Bonds Outstanding.

No assurance can be given that the real property subject to sale or foreclosure will be sold or, if sold, that the proceeds of sale will be sufficient to pay any delinquent Special Tax installment. The Act does not require the City or the District to purchase or otherwise acquire any lot or parcel of property offered for sale or subject to foreclosure if there is no other purchaser at such sale. The Act does specify that the Special Tax will have the same lien priority in the case of delinquency as for *ad valorem* property taxes.

If the Reserve Fund is depleted, there could be a default or delay in payments to the Bond Owners pending prosecution of foreclosure proceedings and receipt by the City of foreclosure sale proceeds, if any.

Estimated Debt Service Coverage

Table 2 below illustrates the maximum revenues that could be available to pay debt service on the Series A Bonds, setting forth the coverage analysis on the basis of the maximum annual Special Tax being levied against all Assessor's Parcels in the District through the application of the procedures described in the Rate and Method. See "THE DISTRICT – Special Tax Collections."

Table 2
Summary of Debt Service Coverage

	Maximum Special Taxes				Series A Debt Service ⁽⁵⁾	Coverage		
	Developed Commercial ⁽¹⁾	Developed Residential ⁽²⁾	Undeveloped ⁽³⁾	Total ⁽⁴⁾		Residential Special Taxes ⁽⁵⁾	Developed Special Taxes ⁽⁵⁾	Total Special Taxes ⁽⁵⁾
2002	\$510,532	\$1,055,305	\$8,108	\$1,573,946	\$1,131,966	0.93	1.38	1.39
2003	520,743	1,076,411	8,271	1,605,425	1,131,451	0.95	1.41	1.42
2004	531,158	1,097,940	8,436	1,637,533	1,160,176	0.95	1.40	1.41
2005	541,781	1,119,899	8,605	1,670,284	1,182,326	0.95	1.41	1.41
2006	552,616	1,142,296	8,777	1,703,690	1,213,076	0.94	1.40	1.40
2007	563,669	1,165,142	8,952	1,737,764	1,237,076	0.94	1.40	1.40
2008	574,942	1,188,445	9,131	1,772,519	1,219,501	0.97	1.45	1.45
2009	586,441	1,212,214	9,314	1,807,969	1,220,451	0.99	1.47	1.48
2010	598,170	1,236,458	9,500	1,844,129	1,224,126	1.01	1.50	1.51
2011	610,133	1,261,188	9,690	1,881,011	1,220,926	1.03	1.53	1.54
2012	622,336	1,286,411	9,884	1,918,631	1,220,996	1.05	1.56	1.57
2013	634,783	1,312,140	10,082	1,957,004	1,218,316	1.08	1.60	1.61
2014	647,478	1,338,382	10,283	1,996,144	1,222,766	1.09	1.62	1.63
2015	660,428	1,365,150	10,489	2,036,067	1,219,586	1.12	1.66	1.67
2016	673,636	1,392,453	10,699	2,076,788	1,218,931	1.14	1.70	1.70
2017	687,109	1,420,302	10,913	2,118,324	1,219,813	1.16	1.73	1.74
2018	700,851	1,448,708	11,131	2,160,691	1,218,500	1.19	1.76	1.77
2019	714,868	1,477,682	11,354	2,203,904	1,203,750	1.23	1.82	1.83
2020	729,166	1,507,236	11,581	2,247,982	1,222,250	1.23	1.83	1.84
2021	743,749	1,537,381	11,812	2,292,942	722,250	2.13	3.16	3.17
2022	758,624	1,568,128	12,049	2,338,801	724,500	2.16	3.21	3.23

(1) Consists of the following zones: Corporate Plaza, Corporate Plaza West and Newport Village.

(2) Consists of the following zones: Upper Castaways and Harbor Cove (previously Newport North).

(3) Consists of the following zone: Bayview Landing.

(4) Assumes no additional prepayments and no Special Tax Reduction as defined in the Rate and Method.

(5) Schedule does not reflect probable mandatory redemption of Series A Bonds from application of Special Tax Prepayments, Fair Share Fees, Improvement Fund Earnings and Excess Special Taxes. See "THE SERIES A BONDS – Description of the Series A Bonds – Redemption."

Sources: NBS Government Finance Group and Stone & Youngberg LLC.

Assessed Value-to-Debt Ratio

Based on the \$15,495,000 aggregate principal amount of the Series A Bonds being issued and the \$296,826,153 aggregate Fiscal Year 2000-01 assessed value of the property, the aggregate value-to-debt ratio for the property subject to the Special Tax in the District is 19.2 to 1.0. Assessed Values may not reflect market values of property; no recent property appraisal has been made. Table 3 below sets forth by property category the value to lien ratio on property based on Fiscal Year 2000-01 assessed values of the properties.

Table 3
Tiered Value-to-Debt Ratios – SID 95-1 Series A (2001) Only

Tier	No. of Parcels	Assessed Value	% of Assessed Value	Debt ⁽¹⁾	% of Debt	Average Ratio
Less than 3.00:1	0	\$ 0	0.00%	\$ 0	0.00%	0.0 : 1
3.00:1 – 5.99:1	2	3,166,486	1.07	600,949	3.88	5.3 : 1
6.00:1 – 6.99:1	2	2,974,809	1.00	466,578	3.01	6.4 : 1
7.00:1 – 9.99:1	3	819,382	0.28	96,491	0.62	8.5 : 1
10.00:1 – 14.99:1	15	30,090,075	10.14	2,452,812	15.83	12.3 : 1
15.00:1 – 19.99:1	93	97,896,121	32.98	5,604,425	36.17	17.5 : 1
20.00:1 – 24.99:1	78	57,586,141	19.40	2,628,412	16.96	21.9 : 1
Greater than 25.00:1 ⁽²⁾	83	104,293,139	35.14	3,645,333	23.53	28.6 : 1
Total	276	\$ 296,826,153	100.00%	\$15,495,000	100.00%	19.2 : 1

(1) Represents City of Newport Beach SID 95-1 Series A (2001) bonds only.

(2) Includes value-to-debt ratio of Bayview Landing parcels (440-132-57, -58 & -59) as a combined total.

Source: NBS Government Finance Group.

The value-to-debt ratios set forth above do not reflect outstanding indebtedness or indebtedness that may be issued in the future by other public agencies, the payment of which, through the levy of a tax or an assessment, may be on a parity with the Special Taxes. Further, no assurance can be given that such value-to-debt ratios can or will be maintained during the period of time that the Series A Bonds are Outstanding as neither the City nor the District has control over the amount of additional indebtedness that may be issued in the future by other public agencies, the payment of which, through the levy of a tax or an assessment, may be on a parity with the Special Taxes. See "Direct and Overlapping Debt" below.

Direct and Overlapping Debt

California Municipal Statistics, Inc. has prepared a Direct and Overlapping Debt Report, dated June 1, 2001 (the "Debt Report"). According to the Debt Report, the District's share of the direct and overlapping tax and assessment debt on the District property for Fiscal Year 2000-01 is \$19,752,951, including the currently outstanding principal amount of Prior Bonds. **The City has not independently reviewed the Debt Report and makes no representations as to its completeness or accuracy.**

Table 4
Detailed Direct and Overlapping Debt

CITY OF NEWPORT BEACH SPECIAL IMPROVEMENT DISTRICT NO. 95-1

2000-01 Assessed Valuation: \$296,826,153

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>		
Orange County Teeter Plan Obligations	% Applicable 0.144%	Debt 6/1/01 \$ 183,780
Metropolitan Water District	0.030	158,244
Newport Mesa Unified School District Community Facilities District No. 90-1	23.209	4,555,927
City of Newport Beach Special Improvement District No. 95-1	100.	<u>14,855,000 ⁽¹⁾</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$19,752,951
 <u>OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>		
Orange County General Fund Obligations	0.144%	\$1,505,814
Orange County Pension Obligations	0.144	194,202
Orange County Transit Authority	0.144	14,544
Coast Community College District Certificates of Participation	0.591	94,796
City of Newport Beach Certificates of Participation	1.843	121,822
Orange County Sanitation District No. 5 Certificates of Participation	1.265	129,566
Orange County Sanitation District No. 6 Certificates of Participation	1.856	<u>51,741</u>
TOTAL GROSS OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$2,112,485
Less: Orange County Transit Authority (80% self-supporting)		<u>11,635</u>
TOTAL NET OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$2,100,850
 GROSS COMBINED TOTAL DEBT		 \$21,865,436 ⁽²⁾
NET COMBINED TOTAL DEBT		\$21,853,801

(1) Represents the Prior Bonds outstanding as of June 1, 2001. Excludes the Series A Bonds to be sold.

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

Ratios to 2000-01 Assessed Valuation:

Direct Debt (\$14,855,000)	5.00%
Total Direct and Overlapping Tax and Assessment Debt	6.65%
Gross Combined Total Debt.....	7.37%
Net Combined Total Debt	7.36%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/00: \$0

The Table below summarizes the estimated parcel-by-parcel value-to-lien, including overlapping tax and assessment debt obligations allocable to the property in the District.

Table 5
Tiered Value-to-Debt Ratios – All Direct & Overlapping Debt

Tier	No. of Parcels	Assessed Value	% of Assessed Value	Debt ⁽¹⁾	% of Debt	Average Ratio
Less than 3.00:1	1	\$ 179,521	0.06%	\$ 69,902	0.34%	2.6 : 1
3.00:1 – 5.99:1	4	3,674,150	1.24	701,270	3.44	5.2 : 1
6.00:1 – 6.99:1	3	3,374,947	1.14	528,447	2.59	6.4 : 1
7.00:1 – 9.99:1	3	1,899,118	0.64	206,171	1.01	9.2 : 1
10.00:1 – 14.99:1	164	135,535,581	45.66	10,960,438	53.75	12.4 : 1
15.00:1 – 19.99:1	65	86,723,830	29.22	5,119,852	25.11	16.9 : 1
20.00:1 – 24.99:1	25	36,517,193	12.30	1,697,742	8.33	21.5 : 1
Greater than 25.00:1 ⁽²⁾	11	28,921,813	9.74	1,109,127	5.44	26.1 : 1
Total	276	\$ 296,826,153	100.00%	\$20,392,951	100.00%	14.6 : 1

(1) Overlapping debt includes the Series A Bonds in the principal amount of \$15,495,000, a portion of the Newport Mesa Unified School District Community Facilities District 90-1 ("CFD No. 90-1") Special Tax Bonds in an outstanding principal amount of approximately \$4,555,927 and other direct and overlapping debt totaling \$342,024. The portion of the Series A Bonds allocable to each Zone was determined based on the Prepayment Amount for such Zone provided in the Rate and Method. The special taxes in CFD No. 90-1 are levied in accordance with a rate and method of apportionment that, among other things, sets a minimum and a maximum special tax rate, provides that developed commercial property is not taxed and provides that undeveloped property may not be taxed without the consent of the property owner. Because of the number of variables in such rate and method, and the uncertainty of the timing and size of CFD No. 90-1 bond issuances, the CFD No. 90-1 debt has been allocated to the District in proportion to the Fiscal Year 2000-01 special tax amount per parcel. All other debt has been spread based on assessed value.

(2) Includes value-to-debt ratio of Bayview Landing parcels (440-132-57, -58 & -59) as a combined total.

Source: NBS Government Finance Group.

The City and the District have no control over the amount of additional debt payable from taxes or assessments on all or a portion of the property within the District, that may be issued in the future by other governmental entities, including but not limited to school districts, water districts or other districts having jurisdiction over all or a portion of the land within the District. Nothing prevents the owners of land within the District from consenting to the issuance of additional debt by other public agencies which would be secured by taxes or assessments on the same property subject to the Special Taxes. To the extent such indebtedness is payable from assessments or other special taxes, such assessments or special taxes may be secured by a lien on the property within the District on a parity with the lien of the Special Taxes. Accordingly, the liens on the property within the District could greatly increase, without any corresponding increase in the value of such property, which could severely reduce the ratio that exists at the time the Series A Bonds are issued between the value of such property and the debt secured by the special taxes and assessments thereon. The issuance of such additional debt and the imposition of such additional liens could also reduce the willingness and ability of the property owners within the District to pay the Special Taxes when due. See "SPECIAL RISK FACTORS – Overlapping Indebtedness."

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Series A Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy for the Series A Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Series A Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Financial Security Assurance Inc.

Financial Security is a New York domiciled insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At March 31, 2001, Financial Security's total policyholders' surplus and contingency reserves were approximately \$1,430,595,000 and its total unearned premium reserve was approximately \$730,490,000 in accordance with statutory accounting principles. At March 31, 2001, Financial Security's total shareholders' equity was approximately \$1,547,252,000 and its total net unearned premium reserve was approximately \$600,774,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by

reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the Series A Bonds. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Series A Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Series A Bonds or the advisability of investing in the Series A Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Issuer the information presented under this caption for inclusion in the Official Statement.

THE CITY

The City of Newport Beach is located in Southern California, in Orange County, 50 miles south of downtown Los Angeles. The City has a permanent population of 70,000. During the summer months, the population grows to over 100,000 with 20,000 to 100,000 tourists daily. The City limits encompass 14 square miles of land mass and 22 square miles of Ocean/Bay area. Over the last five years, the City's assessed value has grown from \$11,804,599,524 in Fiscal Year 1996 to \$ 16,002,999,637 in Fiscal Year 2001. Total building permits issued from January 1, 1996 through July 13, 2001 total 2,992 for commercial and 12,919 for residential (excluding permits issued for plumbing, electrical, mechanical, grading, pool/spa and fire inspection).

THE DISTRICT

Introduction

On May 8, 1995, the City Council began the formal proceedings to establish the City of Newport Beach Special Improvement District No. 95-1 (CIOSA) (the "District") when it adopted the Resolution Declaring Intention to Establish a Special Improvement District and to Authorize the Levy of Special Taxes, under the provisions of the Act. Following a duly noticed public hearing on June 12, 1995, the City Council adopted the Resolution of Formation of Special Improvement District No. 95-1 (CIOSA), Authorizing the Levy of a Special Tax Within the District and Preliminarily Establishing an Appropriations Limit for the District (the "Resolution of Formation"), and the Resolution Calling Special Election for Special Improvement District No. 95-1 (CIOSA). Thereafter an election was held for the District, at which election authorized representatives of The Irvine Company (the "Company"), as the then sole landowner of all of the taxable property within the District, cast 100% of the ballots in favor of the proposition of approving formation of the District, authorizing the incurring of indebtedness, the levying of a special tax, and establishing an appropriations limit for the District. Following the election, on June 26, 1995, the City Council adopted the Resolution Declaring Results of Special Election and Directing Recording of Special Tax Lien. Pursuant to such City Council direction, the Notice of Special Tax Lien was recorded in the official records of the County Recorder of the County of Orange. As a result of these proceedings, taken pursuant to the Act, authority has been conferred upon the City Council to annually levy a special tax (the "Special Tax") against

parcels of land within the District and to issue special tax bonds to finance certain costs and expenses relating to the construction and acquisition of public capital improvements.

As set forth in the Rate and Method, the property within the District that was initially subject to the Special Tax was divided into nine separate Zones. Three Zones were subsequently prepaid or otherwise released from the lien of the Special Tax. The whole of the Special Tax applicable to the San Diego Creek Zone and the Block 800 Zone was prepaid in accordance with the prepayment provisions of the Rate and Method, and the Freeway Reservation Zone was subsequently designated an open space and therefore no longer subject to the Special Tax. As a result, properties in only six of the Zones remain subject to the Special Tax. See "SECURITY FOR THE SERIES A BONDS – Special Taxes" above. Table 6 below set forth the Assessed Values by Zone for Fiscal Years 1996-97, 1998-99, 1999-00 and 2000-01. Similar Assessed Values for Fiscal Year 1997-98 are not available.

Table 6
Assessed Value by Year

Zone	1996-97	1997-98	1998-99	1999-00	2000-01
Bayview Landing	\$ 1,771,681	n/a	\$ 1,843,255	\$ 1,877,410	\$ 1,877,410
Corporate Plaza	10,681,865	n/a	6,865,945	11,562,662	19,869,833
Corporate Plaza West	14,469,062	n/a	14,758,443	20,467,491	27,779,409
Newport Village – PCH MacArthur	15,049,901	n/a	13,627,977	22,439,485	23,342,985
Harbor Cove	16,278,324	n/a	87,510,559	100,234,599	98,827,541
Upper Castaways	<u>21,171,161</u>	n/a	<u>63,012,337</u>	<u>101,523,366</u>	<u>124,701,739</u>
Total	\$79,421,994	n/a	\$187,618,516	\$258,105,013	\$296,398,917

Source: NBS Government Finance Group.

Table 7 below set forth the District's Top Taxpayers for Fiscal Year 2000-01.

Table 7
Top Taxpayers

Owner	Number of Parcels	Fiscal Year 2000-01 Special Tax	% of Fiscal Year 2000-01 Special Tax	Fiscal Year 2000-01 Assessed Value	% of Fiscal Year 2000-01 Assessed Value	Estimated Overlapping Debt	Direct and Overlapping Debt ⁽²⁾	Estimated Value-to Lien Ratio
The Irvine Company	9	\$354,351	32.60%	\$73,296,873	24.69%	\$84,457.82	\$5,191,165	14.1:1
Taylor/Woodrow 96-204857 ⁽³⁾	4	14,051	1.29	4,253,186	1.43	74,192.49	273,477	15.6:1
Woodrow, Hms 96-204857 ⁽³⁾	4	14,051	1.29	2,840,581	0.96	72,564.78	271,850	10.4:1
All Others	<u>259</u>	<u>704,366</u>	<u>64.81</u>	<u>216,435,513</u>	<u>72.92</u>	<u>4,666,735.91</u>	<u>14,656,459</u>	<u>14.8:1</u>
Totals	276	\$1,086,819	100.00%	\$296,826,153	100.00%	\$4,897,951.00	\$20,392,951	14.6:1

(1) Source: Orange County Assessor.

(2) Overlapping debt includes the Series A Bonds in the principal amount of \$15,495,000 and a portion of the Newport - Mesa Unified School District Community Facilities District No. 90-1 ("CFD No. 90-1") special tax bonds which totals \$4,555,927. See "SECURITY FOR THE SERIES A BONDS - Direct and Overlapping Debt" for overlapping debt other than that of CFD No. 90-1. The portion of the Series A Bonds allocable to each Zone was determined based on the Prepayment Amount for such Zone provided in the Rate and Method. The special taxes in CFD No. 90-1 are levied in accordance with a rate and method of apportionment that, among other things, sets a minimum and a maximum special tax rate, provides that developed commercial property is not taxed and provides that undeveloped property may not be taxed without the consent of the property owner. Because of the number of variables in such rate and method, and the uncertainty of the timing and size of CFD No. 90-1 bond issues, the CFD No. 90-1 debt has been allocated to the District in proportion to assessed values rather than in accordance with the CFD No. 90-1 rate and method of appointment. Furthermore, the CFD No. 90-1 debt has been allocated among District residential properties in proportion to the maximum rate applicable thereto, and such debt has not been allocated to District commercial properties. Such allocations may differ significantly from the actual allocations which would result from the application of the CFD No. 90-1 rate and method at any time.

(3) As of Fiscal Year 2001-02, these properties have been sold to individual homeowners.

Source: NBS Government Finance Group.

Special Tax Collections

Table 8 below sets forth the Special Tax collections for as of June 30 for Fiscal Years 1996-97 through 2000-01, and as of May 25, 2001.

Table 8
Special Tax Collections⁽¹⁾

Fiscal Year	Total Special Taxed Levied	No. of Parcels Levied	As of June 30 of each Fiscal Year ⁽¹⁾			As of May 25, 2001		
			No. of Special Tax Delinquencies	Amount of Special Tax Delinquencies	% of Special Taxes Delinquent	No. of Special Tax Delinquencies	Amount of Special Tax Delinquencies	% of Special Taxes Delinquent
1996-97	\$ 564,833.72	16	0	\$ 0.00	0.00%	0	\$ 0.00	0.00%
1997-98	1,156,1741.12	280	3	8,819.05	0.77	0	0.00	0.00
1998-99	957,350.76	270	22	37,157.24	3.88	0	0.00	0.00
1999-00	1,187,825.94	273	25	52,355.06	4.41	1	1,919.60	0.16
2000-01	<u>1,086,819.28</u>	<u>273</u>	<u>14</u>	<u>22,214.19</u>	<u>2.04</u>	<u>14</u>	<u>22,214.19</u>	<u>2.04</u>
Totals	\$4,953,570.82			\$120,625.54	2.44%		\$24,133.79	0.49%

(1) As of May 25, 2001 for Fiscal Year 2000-01.

Source: NBS Government Finance Group.

The County has adopted a Teeter Plan but the City has elected NOT to include the special taxes in the Teeter Plan. The Special Taxes pledged to secure the debt service on the Series A Bonds ARE NOT included in the County's Teeter Plan.

Development Status

The current development status of the properties within the six Zones that remain subject to the Special Tax are summarized below.

Bayview Landing is approximately 16 net acres of undeveloped property, located on the west side of Jamboree Road, between Pacific Coast Highway and Back Bay Drive. Immediately to the north, across Back Bay Drive, is the Hyatt Newporter Resort. Permitted uses of the developable portion of the site as established by the CIOSA Agreement are a restaurant, a health club, or a 120-unit senior residential project. The site is Undeveloped (as defined in the Rate and Method of Apportionment); therefore, in Fiscal Year 2000-01, no Special Taxes were levied on property within the Bayview Landing Zone. The Fiscal Year 2000-01 assessed value of the Bayview Landing Zone is \$1,877,410. No appraisal of such land was conducted in connection with the issuance of the Series A Bonds.

Corporate Plaza is approximately 3.6 net acres, consisting of three parcels of land. The Zone is considered Developed (as defined in the Rate and Method of Apportionment) although only two parcels have two low-rise office buildings on them. The third parcel is the site of a parking facility. The Fiscal Year 2000-01 assessed value of the Corporate Plaza Zone is \$19,869,833.

Corporate Plaza West is approximately 9 net acres, located at the northwest corner of Pacific Coast Highway and Newport Center Drive. The site has been developed with two low-rise office buildings, consisting with its zoning for 94,000 square feet of office and related commercial space. Two major tenants of the Corporate Plaza West Zone property are PIMCO and State Street – IMS. The Fiscal Year 2000-01 assessed value of the Corporate Plaza West Zone is \$27,779,409.

Harbor Cove (previously known as Newporter North) is approximately 26 net acres, located on the west side of Jamboree Road, between San Joaquin Hills Road and Hyatt Newporter Resort, and adjacent to Upper Newport Bay. Final tract maps were recorded for 149 single-family lots. Standard Pacific was the primary homebuilder in the Harbor Cove development. The Special Tax was partially prepaid on 134 lots resulting in reduced Special Tax obligations for those parcels. One parcel pre-paid its Special Tax obligation in full. As of Fiscal Year 2000-01, all 149 lots had been sold to homeowners. The Fiscal Year 2000-01 assessed value of the Harbor Cove Zone is \$98,827,541.

Newport Village – PCH/MacArthur consists of three separate, contiguous parcels, totaling approximately 10 net acres, within the Newport Village Planned Community District, on the west side of MacArthur Boulevard extending from the Pacific Coast Highway north to San Joaquin Hills Road. The property is zoned retail and service commercial with a maximum permitted build out of 105,000 square feet. The site has been fully developed as a retail center known as Corona del Mar Plaza. Major tenants include Cowboy steakhouse. Bristol Farms

grocery store and Tommy Bahama's restaurant and apparel. The Fiscal Year 2000-01 assessed value of the Newport Village – PCH/MacArthur Zone is \$23,342,985.

Upper Castaways site is approximately 26 net acres, located on the east side of Dover Drive, between Pacific Coast Highway and Westcliff Drive, and adjacent to Upper Newport Bay. A final tract map was recorded for 119 single-family lots and the Company sold the property to Taylor Woodrow Company, a builder of residential projects. As of Fiscal Year 2000-01, all 119 lots have been sold to individual homeowners. The Fiscal Year 2000-01 assessed value of the Upper Castaways Zone is \$124,701,739.

SPECIAL RISK FACTORS

Investment in the Series A Bonds involves risks which may not be appropriate for certain investors. The following is a discussion of certain risk factors which should be considered, in addition to other matters set forth herein, in evaluating the investment quality of the Series A Bonds. This discussion does not purport to be comprehensive or definitive. The occurrence of one or more of the events discussed herein could adversely affect the ability or willingness of property owners in the District to pay their Special Taxes when due. Such failures to pay Special Taxes could result in the inability of the City to make full and punctual payments of debt service on the Series A Bonds. In addition, the occurrence of one or more of the events discussed herein could adversely affect the value of the property in the District.

Limited Obligation

The Series A Bonds and interest thereon are special obligations of the District, payable solely from Net Special Tax Revenues and any other amounts held in the Bond Fund, the Reserve Fund and the Redemption Fund. Neither the faith and credit nor the taxing power of the District (except to the limited extent set forth herein and in the Indenture), the City or the State of California, or any political subdivision thereof, is pledged to the payment of the Series A Bonds.

Insufficiency of Special Taxes

Under the Rate and Method, the annual amount of Special Tax to be levied on each taxable parcel in the District is based primarily on such parcel's land use classification, on the basis of square footage per lot for residential land use, and on a per-acre basis for commercial property and vacant land. See "SECURITY FOR THE SERIES A BONDS – Special Taxes." The collection of the Special Taxes is dependent on the willingness and ability of the owners of property to pay Special Taxes when due. See "SECURITY FOR THE SERIES A BONDS – Special Taxes."

The Act provides that if any property within the District not otherwise exempt from the Special Tax 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 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 operative effect of these provisions has not been tested in the courts. If for any reason property subject to the Special Tax

becomes exempt from taxation by reason of ownership by a nontaxable entity such as the federal government, or another public agency, subject to the limitation of the Maximum Special Tax Rates, the Special Taxes will be reallocated to the remaining properties within the District. This would result in the owners of such properties paying a greater amount of the Special Tax and could have an adverse effect on the timely payment of the Special Tax. Moreover, if a substantial portion of land within the District becomes exempt from the Special Tax because of public ownership or otherwise, the Maximum Special Tax Rates which could be levied upon the remaining acreage might not be sufficient to pay principal of and interest on the Series A Bonds when due, the Reserve Fund could be depleted, and a default with respect to the payment of such principal and interest on the Series A Bonds could occur.

Special Tax Not a Personal Obligation of the Owners

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

Property Values

The property values expressed herein are the assessed valuations currently utilized for both City and County taxing purposes. The valuation of property in the City is established by the Orange County Assessor. Assessed valuations are reported at 100% of the full value of the property, as defined in Article XIII A of the California Constitution. See "SPECIAL RISK FACTORS – Property Values" and "– Constitutional Limitations on Taxation and Appropriations."

The value of the property within the District is a critical factor in determining the investment quality of the Series A Bonds. If a property owner is delinquent in the payment of Special Taxes, the City's only remedy is to commence foreclosure proceedings in an attempt to obtain funds to pay the Special Taxes. Reductions in property values due to a downturn in the economy, physical events such as earthquakes, landslides, fires or floods, stricter land use regulations, delays in development or other events will adversely impact the security underlying the Special Taxes. See "SECURITY FOR THE SERIES A BONDS – Estimated Debt Service Coverage" herein and "THE DISTRICT – Estimated Value-to-Lien Ratios" herein.

No assurance can be given that, should a parcel with delinquent Special Taxes be foreclosed upon and auctioned for the amount of the delinquency, any bid will be received for such property or, if a bid is received, that such bid will be sufficient to pay all delinquent Special Taxes. See "SECURITY FOR THE SERIES A BONDS – Special Taxes."

Disclosures to Future Purchasers

The willingness or ability of an owner of a parcel to pay the Special Tax even if the value of the parcel is sufficient may be affected by whether or not the owner was given due notice of the Special Tax authorization at the time the owner purchased the parcel, was informed of the amount of the Special Tax on the parcel should the Special Tax be levied at the maximum tax rate and the risk of such a levy and, at the time of such a levy, has the ability to pay it as well as

pay other expenses and obligations. The District has recorded a Notice of Special Tax Lien in the Office of the County Recorder of the County. While title companies normally refer to such notices in title reports, there can be no guarantee that such reference will be made or, if made, that a prospective homebuyer, purchaser of commercial or industrial property or lender will consider such obligation for Special Taxes in the purchase of a home or the lending of money thereon. Failure to disclose the existence of the Special Taxes or the full amount of the *pro rata* share of debt on the land in the District may affect the willingness and ability of future owners of land within the District to pay the Special Taxes when due.

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

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 such 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. These Special Tax installment payments cannot, except in the case of the payment of delinquent Special Taxes, 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 "THE DISTRICT – Special Tax Collections" for a statement of collections and delinquencies regarding the special tax. Significant delinquencies in the payment of annual Special Tax installments, or delays in the prosecution of foreclosure proceedings to collect such Special Taxes, could result in depletion of the Reserve Fund and default in payment of debt service on the Series A Bonds. See "SECURITY FOR THE SERIES A BONDS–Covenant for Superior Court Foreclosure," for a discussion of the provisions which apply, and procedures which the City is obligated to follow under its Indenture, in the event of delinquencies in the payment of Special Taxes. See "– Bankruptcy" and "– Payments by FDIC" below, for a discussion of the policy of the Federal Deposit Insurance Corporation regarding the

payment of special taxes and assessments and limitations on the City's ability to foreclose on the lien of the Special Taxes in certain circumstances.

Endangered and Threatened Species

It is illegal to harm or disturb any animals or plants or the habitat of any animals or plants that have been listed as an endangered species by the United States Fish & Wildlife Service (the "Service") under the Federal Endangered Species Act, or by the California Fish & Game Commission (the "Commission") under the California Endangered Species Act, without a permit from the Service or the Commission. It is possible that plants or animals already listed as endangered may be discovered or that plants or animals which inhabit the District and its surrounding area may be considered for listing as endangered species by the Commission or the Service or otherwise protected by actions of the State of California or the federal government. Such discovery or listing could delay or restrict development of portions of property in the District.

Overlapping Indebtedness

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. The City, however, has no control over the ability of other entities to issue indebtedness secured by special taxes or assessment payable from all or a portion of the property within the District. In addition, the landowners within the District may, without the consent or knowledge of the City, petition other public agencies to issue public indebtedness secured by special taxes or assessments. Any such special taxes or assessments may have a lien on such property on a parity with the Special Taxes. See "SECURITY FOR THE SERIES A BONDS - Direct and Overlapping Debt."

The ability of an owner of property within the District to pay the Special Taxes and the *ad valorem* property tax levy could be adversely affected if additional debt is issued which is payable by the owners of property 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 and increases the possibility that foreclosure proceeds will not be adequate to pay delinquent Special Taxes.

Potential Delay and Limitation in Foreclosure Proceedings

The payment of property owners' Special Taxes, and the ability of the City to foreclose the lien of a delinquent unpaid Special Tax pursuant to its covenant to pursue judicial foreclosure proceedings, may be limited by bankruptcy, insolvency or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure. See "SECURITY FOR THE SERIES A BONDS - Covenant for Superior Court Foreclosure" and "SPECIAL RISK FACTORS - Bankruptcy." In addition, the prosecution of a foreclosure could be delayed due to many reasons, including crowded local court calendars or lengthy procedural delays.

Delays and uncertainties in the Special Tax lien foreclosure process create significant risks for Owners of Series A Bonds. High rates of Special Tax payment delinquencies which continue during the pendency of protracted Special Tax lien foreclosure proceedings could result in the rapid, total depletion of the Reserve Fund prior to replenishment from the resale of property upon foreclosure. In that event, there could be a default in payments of the principal of, and interest on the Series A Bonds.

Bankruptcy

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

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

Payments by FDIC

The ability of the City 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") or other similar federal governmental agencies has or obtains an interest. On June 4, 1991, the FDIC issued a Statement of Policy Regarding the Payment of State and Local Property Taxes (the "1991 Policy Statement"). The 1991 Policy Statement was revised and superseded by new Policy Statement effective January 9, 1997 (the "Policy Statement"). The Policy Statement provides that real 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 come due and payable and will pay claims for delinquent property taxes as promptly as is consistent with sound business practice and the orderly administration of the institution's affairs, unless abandonment of the FDIC's interest in the property is appropriate. The FDIC will pay claims for interest on delinquent property taxes owed at the rate provided under state law, to the extent the interest payment obligation is secured by a valid lien. The FDIC will not pay any amounts in the nature of fines or penalties and will not pay nor recognize liens for such amounts. If any property taxes (including interest) on FDIC owned property are secured by a valid lien (in effect before the property became owned by the FDIC), the FDIC will pay those claims. The Policy Statement further provides that no property of the FDIC is subject to levy, attachment, garnishment, foreclosure or sale without the FDIC's consent. In addition, the FDIC will not permit a lien or security interest held by the FDIC to be eliminated by foreclosure without the FDIC's consent.

The Policy Statement states that the FDIC generally will not pay non *ad valorem* taxes, including special assessments, on property in which it has a fee interest unless the amount of tax is fixed at the time that the FDIC acquires its fee interest in the property, nor will it recognize the validity of any lien to the extent it purports to secure the payment of any such amounts. Special taxes imposed under the Mello-Roos Act (which is substantially similar to 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. With respect to property in California owned by the FDIC on January 9, 1997 and that was owned by the Resolution Trust Company ("RTC") on December 31, 1995, or that became the property of the FDIC through foreclosure of a security interest held by the RTC on that date, the FDIC will continue the RTC's prior practice of paying special taxes imposed pursuant to the Mello-Roos Act, or the like, if the taxes were imposed prior to the RTC's acquisition of an interest in the property. All other special taxes may be challenged by the FDIC.

The City is unable to predict what effect the FDIC's application of the Policy Statement would have in the event of a delinquency on a parcel within the District in which the FDIC has an interest, although prohibiting the lien of the FDIC to be foreclosed at a judicial foreclosure sale would reduce or eliminate the persons willing to purchase a parcel at a foreclosure sale. Owners of the Series A Bonds should assume that the City will be unable to foreclose on any parcel owned by the FDIC. Such an outcome could cause a draw on the Reserve Fund and perhaps, ultimately, a default in payment on the Series A Bonds. Based upon the most recent Orange County Assessors' roll, the FDIC does not presently have an interest in any of the property in the District.

No Acceleration

There is no provision in the Indenture for acceleration of the payment of principal of or interest on the Series A Bonds in the event of default by the City or in the event interest on the Series A Bonds becomes included in gross income for federal income tax purposes.

Limitations on Remedies

Remedies available to the Owners may be limited by a variety of factors and may be inadequate to assure the timely payment of principal of and interest on the Series A Bonds or to preserve the tax-exempt status of the Series A Bonds.

Bond Counsel has limited its opinion as to the enforceability of the Series A Bonds and of the Indenture to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium, or others similar laws affecting generally the enforcement of creditor's rights, by equitable principles and by the exercise of judicial discretion. Additionally, the Series A Bonds are not subject to acceleration in the event of the breach of any covenant or duty under the Indenture. The lack of availability of certain remedies or the limitation of remedies may entail risks of delay, limitation or modification of the rights of the Owners.

Enforceability of the rights and remedies of the owners of the Series A Bonds, and the obligations incurred by the City, may become subject to the federal bankruptcy code and

applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor's rights generally, now or hereafter in effect, equity principles which may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose and the limitations on remedies against joint powers authorities in the State. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the owners of the Series A Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

Proposition 62

Proposition 62 was adopted by the voters at the November 4, 1986, general election. Among other things, it (a) requires that any new or higher taxes for general governmental purposes imposed by local governmental entities be approved by a two-thirds vote of the governmental entity's legislative body and by a majority vote of the voters of the governmental entity voting in an election on the tax, (b) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local government entity be approved by a two-thirds vote of the voters of the governmental entity voting in an election on the tax, (c) restricts the use of revenues from a special tax to the purposes or the service for which the special tax was imposed, (d) prohibits the imposition of *ad valorem* taxes on real property by local governmental entities except as permitted by Article XIII A of the California Constitution, (e) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities, and (f) requires that any tax imposed by a local governmental entity on or after October 1, 1985, be ratified by a majority vote of the voters voting in an election on the tax within two years of the adoption of the initiative or be terminated by November 15, 1988.

On September 28, 1996, the California Supreme Court, in the case of *Santa Clara County Local Transportation Authority v. Guardino*, upheld the constitutionality of Proposition 62. In this case, the Court held that a county-wide sales tax of one-half of one percent was a special tax that, under Section 53722 of the California Government Code, required a two-thirds voter approval. Because the tax received an affirmative vote of only 54.1%, this special tax was found to be invalid.

Proposition 218

An initiative measure commonly referred to as the "Right to Vote on Taxes Act" was approved by the voters of the State of California at the November 5, 1996 general election. Proposition 218 added Article XIII C ("Article XIII C") and Article XIII D to the California Constitution. According to the "Title and Summary" of the Initiative prepared by the California Attorney General, the Initiative limits "the authority of local governments to impose taxes and property-related assessments, fees and charges." The provisions of Proposition 218 have not yet been interpreted by the courts, although a number of lawsuits have been filed requesting the courts to interpret various aspects of Proposition 218.

Among other things, Section 3 of Article XIII C states that "... the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge." Proposition 218 provides for a procedure, which includes notice, hearing, protest and voting requirements to alter the rate and method of apportionment of an existing special tax. However, Proposition 218 prohibits a Legislative Body from adopting any resolution to reduce the rate of any special tax or terminate the levy of any special tax pledged to repay any debt incurred pursuant to Proposition 218 unless such Legislative Body determines that the reduction or termination of the special tax would not interfere with the timely retirement of that debt. Although the matter is not free from doubt, it is likely that the exercise by the voters in the District of the initiative power referred to in Article XIII C to reduce or terminate the Special Tax is subject to the same restrictions as are applicable to the District, pursuant to the Act. Accordingly, although the matter is not free from doubt, it is likely that the Initiative has not conferred on the voters in the District the power to repeal or reduce the Special Taxes if such reduction would interfere with the timely retirement of the Series A Bonds.

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 or the timeliness of any remedy afforded by the courts. See "SPECIAL RISK FACTORS – Limitations on Remedies."

Ballot Initiatives

Articles XIII A, XIII B, XIII C and XIII D and Proposition 62 were each adopted pursuant to measures qualified for the ballot pursuant to California's constitutional initiative process. On March 6, 1995 in the case of *Rossi v. Brown*, the State Supreme Court held that an initiative can repeal a tax ordinance and prohibit the imposition of further such taxes and that the exemption from the referendum requirements does not apply to initiatives. From time to time, other initiative measures could be adopted by California voters or legislation enacted by the Legislature. The adoption of any such initiative or legislation might place limitations on the ability of the State, the City, the District or local districts to increase revenues or to increase appropriations or on the ability of a developer or merchant builder to complete the development of property.

Maximum Rates

Within the limits of the Special Tax, the City 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 which may be levied against particular categories of property within the District is subject to the maximum rates provided in the Rate and Method. In the event of delinquency by the owner or owners of property subject to the Special Tax, there is no assurance that the amount of Special Tax Revenues received by the City will at all times be sufficient to pay the amounts required to be paid by the Indenture.

Recent Developments Concerning Electricity

The State of California has recently experienced power shortages and significant increases in the wholesale cost of power. As a result of a variety of factors, the three major private investor-owned utilities in California, Pacific Gas & Electric ("PG&E"), Southern California Edison ("Edison") and San Diego Gas & Electric (collectively, "IOUs") have accumulated approximately \$14 billion in debt. On April 6, 2001, PG&E filed for voluntary protection under Chapter 11 of the Federal Bankruptcy Code. PG&E or other parties to the PG&E bankruptcy may seek to have the Bankruptcy Court take actions which affect prices charged to end use customers for electricity or affect existing contracts for purchase or sale of electricity. It is unknown at this time what effect PG&E's bankruptcy filing will have on the current California energy situation. On April 9, 2001, the State and Edison entered into a Memorandum of Understanding ("MOU") pursuant to which the State will purchase the power transmission lines of Edison for \$2.76 billion in order to assist the utility in paying its debts and to avoid bankruptcy. The MOU is subject to the enactment of authorizing legislation and approval by the California Public Utilities Commission ("CPUC"). The State is currently negotiating with SDG&E for the purchase of its power transmission lines. It is unknown at this time what effect the State's purchase of IOU transmission lines will have on property taxes or utility taxes due or allocable to counties or local agencies. In addition, pursuant to recent legislation, the State is utilizing General Fund revenues to purchase electricity for resale to customers of IOUs. Total General Fund appropriations since January 2001 have been approximately \$6.7 billion.

Retail rates for electricity have also increased significantly. In January 2001, PG&E implemented 9% increases in electricity rates pursuant to the CPUC and an additional 10% increase will be implemented in March 2002 when the prior deregulation rate reduction statute expired. On March 27, 2001, the CPUC unanimously approved an increase of \$0.03 per kilowatt-hour ("kWh") for PG&E and Edison. The CPUC decision will increase rates by 46% for certain PG&E customers. Additional retail rate increases may be necessary to recover the State's power expenditures, the purchase of the IOUs' transmission lines (resulting in an increase in the current retail transmission line fee) and to fund a State rescue plan for IOU debt. Continued retail rate increases may have an adverse effect on the State's general economy.

The State has taken several actions to mitigate the short-term and long-term effects of the power shortages on the State's economy. Electricity purchases by the Department of Water Resources, legislation passed by the California Legislature and other efforts of the State to stabilize the wholesale power market are intended to ultimately lower the wholesale cost of electricity in California. However, given current market conditions, the costs of power are expected to remain significantly in excess of current-regulated customer rates during 2001.

The District is served primarily by Edison. The District has not experienced any significant power shortages to date nor has sales activity of the unsold parcels in the District decreased as a result of the recent energy crisis. No assurance, however, is made that a general economic slowdown as a result of the energy crisis will not adversely affect the ability or willingness of property owners within the District to pay the Special Taxes when due.

Seismic Conditions

The District is located in California, which has a general history of seismic activity. The occurrence of seismic activity in the District could result in substantial damage to properties in the District which, in turn, could substantially reduce the value of such properties and could affect the ability or willingness of the property owners to pay their Special Taxes when due.

Loss of Tax Exemption

As discussed under the caption "CONCLUDING INFORMATION – Tax Matters," the interest on the Series A Bonds could become includable in gross income for federal income tax purposes retroactive to the date of issuance of the Series A Bonds as a result of a failure of the City to comply with certain provisions of the Code. Should such an event of taxability occur, the Series A Bonds are not subject to early redemption and will remain outstanding to maturity or until redeemed under the optional redemption or mandatory sinking fund redemption provisions of the Indenture.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of the holders and beneficial owners of the Series A Bonds to provide annually certain financial information and operating data relating to the City, the Series A Bonds, the District, ownership and development of the property in the District which is subject to the Special Tax, the occurrence of delinquencies in payment of the Special Tax, and the status of foreclosure proceedings, if any, respecting Special Tax delinquencies (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material. For a complete listing of items of information which will be provided in the Annual Report, see APPENDIX E – "FORM OF CONTINUING DISCLOSURE AGREEMENT." Such information is to be provided by the City not later than eight months after the end of the City's fiscal year (which currently would be March 1), commencing with the report for the 2000-01 Fiscal Year. The Annual Report will be filed by the Trustee, acting as Dissemination Agent, on behalf of the City with each Nationally Recognized Municipal Securities Information Repository and with each State Repository, if any. These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5). The City has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

CONCLUDING INFORMATION

Legal Opinions

The validity of the Series A Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Bond Counsel. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix B hereto and will accompany the Series A Bonds. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Copies of such opinion will be available at the time of delivery of the Series A Bonds. Payment of the fees and expenses of Bond Counsel is contingent upon the sale and delivery of the Series A Bonds. Certain legal matters will be passed upon for the City by the City Attorney.

Tax Matters

In the opinion of Orrick, Herrington & Sutcliffe LLP, 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, interest on the Series A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Series A Bonds is not a specific preference item for purposes of 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. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix B hereto.

To the extent the issue price of any maturity of the Series A Bonds is less than the amount to be paid at maturity of such Series A Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series A 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 Series A Bonds which 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 Series A Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placements agents or wholesalers). The original issue discount with respect to any maturity of the Series A Bonds accrues daily over the term to maturity of such Series A Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series A Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series A Bonds. Owners of the Series A Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series A Bonds with original issue discount, including the treatment of purchasers who do not purchase such Series A Bonds in the original offering to the public at the first price at which a substantial amount of such Series A Bonds is sold to the public.

Series A Bonds purchased, whether at original issuance or otherwise, for an amount higher 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, the amount of tax-exempt interest received, and a purchaser's basis in a Premium Bond, 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 circumstances.

The Code imposes various requirements that must be met in order for interest on the Series A Bonds to be excluded from gross income for federal income tax purposes. The Issuer and the Borrower have made representations related to certain of these requirements and have covenanted to comply with certain of these requirements. Inaccuracy of these representations or

failure to comply with these covenants may result in interest on the Series A Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series A Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Series A Bonds may adversely affect the value of, or the tax status of interest on, the Series A Bonds.

Certain requirements and procedures contained or referred to in the Indenture, the Tax Certificate, and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Series A 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 Series A Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Orrick, Herrington & Sutcliffe LLP.

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 Series A Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent owners of the Series A Bonds from realizing the full current benefit of the tax status of such interest. Prospective purchasers of the Series A Bonds should consult their own tax advisers 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 Series A Bonds for audit examination, or the course or result of any IRS examination of the Series A Bonds, or obligations which present similar tax issues, will not affect the market price for the Series A Bonds.

Although Bond Counsel is of the opinion that interest on the Series A 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 Series A 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 or the Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Financial Advisor

The City has retained Fieldman, Rolapp & Associates (the "Financial Advisor"), Irvine, California, as financial advisor with respect to the Series A Bonds. The Financial Advisor has assisted the City in planning and structuring the financing provided by the Series A Bonds. Payment of the fees and expenses of the Financial Advisor for such services is contingent upon the issuance and sale of the Series A Bonds.

Verification of Mathematical Computations

Grant Thornton LLP, certified public accountants, will verify the mathematical accuracy as of the date of the closing on the Series A Bonds of (1) the computations contained in the provided schedules to determine that the anticipated receipts from the Federal Securities, to be held in escrow, will be sufficient to pay, when due, the principal, interest and call premium payment requirements, if any, of the Prior Bonds, and (2) the computations of yield on both the securities and the Series A Bonds contained in the provided schedules used by Bond Counsel in its determination that interest on the Series A Bonds is excluded from gross income for federal income tax purposes.

The report of Grant Thornton LLP will include the statement that the scope of their engagement was limited to verifying the mathematical accuracy of the computations contained in such schedules provided to them and that they have no obligation to update their report because of events occurring, or data or information coming to their attention, subsequent to the date of their report.

Underwriting

The Series A Bonds are being purchased for reoffering by Stone & Youngberg LLC (the "Underwriter"). Pursuant to a Purchase Contract between the Underwriter and the City (the "Purchase Contract"), the Underwriter has agreed to purchase all of the Series A Bonds for an aggregate purchase price of \$15,317,162.15, plus accrued interest, subject to certain conditions set forth in the Purchase Contract between the City and the Underwriter. The purchase price reflects an underwriter's discount of \$154,950.00. The initial offering prices stated on the cover of this Official Statement may be changed from time to time by the Underwriter. The Underwriter may offer and sell the Series A Bonds to certain dealers (including dealers depositing Series A Bonds into investment trusts), dealer banks, banks acting as agent and others at prices lower than said public offering prices.

No Litigation

At the time of delivery of and payment for the Series A Bonds, the City will certify that there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the knowledge of the City, threatened against the City affecting the existence of the City or the District or the titles of the City's officers to their respective offices or seeking to restrain or to enjoin the sale or delivery of the Series A Bonds, the application of the proceeds thereof in accordance with the Indenture, or the collection or application of the Special Tax or the proceeds thereof pledged or to be pledged to pay the principal of and interest on the Series A Bonds, or in any way contesting or affecting the validity or enforceability of the Series A Bonds, the Indenture, the Purchase Contract, any action of the City contemplated by any of said documents, or in any way contesting the completeness or accuracy of this Official Statement or any amendment or supplement thereto, or contesting the powers of the City or its authority with respect to the Series A Bonds, the Indenture, the Purchase Contract or any action of the City contemplated by any of said documents that would have a material adverse effect on the City's ability to perform its obligations under the Purchase Contract or the Indenture, or which would adversely affect the

exemption of interest paid on the Series A Bonds from federal income taxation or California personal income tax, nor to the knowledge of the City, is there any basis therefor.

Ratings

Moody's Investors Service, Inc. and Standard & Poor's Ratings Services have assigned their municipal bond ratings of "Aaa" and "AAA," respectively, to the Series A Bonds with the understanding that, upon delivery of the Series A Bonds, the municipal bond insurance policy will be issued by Financial Security. These ratings reflect these rating agencies' views of the creditworthiness of the Insurer. In addition, Standard & Poor's Ratings Services has assigned its municipal bond rating of "A-" based on an underlying creditworthiness of the levy of Special Tax within the District. Such ratings reflect only the view of such organizations, and an explanation of the significance of the ratings may be obtained by contacting them at: Moody's Investors Service, 99 Church Street, New York, New York 10007, Standard & Poor's Ratings Services, 55 Water Street, New York, New York 10041. Such ratings are not a recommendation to buy, sell or hold the Series A Bonds. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either rating agency, if, in the judgment of such agency, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series A Bonds.

Miscellaneous

The quotations from, and the summaries and explanations of the Indenture and other municipal code provisions, statutes and documents contained herein do not purport to be complete, and reference is made to such documents, statutes and municipal code provisions for the full and complete statements of their respective provisions.

This Official Statement is submitted only in connection with the sale of the Series A Bonds by the City. All estimates, assumptions, statistical information and other statements contained herein, while taken from sources considered reliable, are not guaranteed by the City or the District. The information contained herein should not be considered as representing all conditions affecting the City, the District or the Series A Bonds. This Official Statement does not constitute a contract with the purchasers of the Series A Bonds.

Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

The execution and delivery of this Official Statement has been duly authorized by the City.

CITY OF NEWPORT BEACH

By: /s/ Homer L. Bludau
City Manager

APPENDIX A

AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX

A Special Tax (the "Special Tax") shall be levied and collected in Newport Beach Special Improvement District No. 95-1 (CIOSA) (the "CIOSA District") each Fiscal Year in an amount determined by the City Council of the City of Newport Beach, or its designee, as described below. Commencing in Fiscal Year 1995-96 all of the property within the CIOSA District shall be subject to the Special Tax for the purposes, to the extent and in the manner herein provided.

A. Definitions

The terms hereinafter set forth have the following meanings:

"Administrative Expenses" means any reasonably necessary or appropriate expenses incurred by the City in the administration of the CIOSA District.

"Advance Amount" means the amount of the Advance as defined in the CIOSA Agreement.

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

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

"Bayview Landing" means that portion of the CIOSA District described in Exhibit A hereto.

"Block 800" means that portion of the CIOSA District described in Exhibit A hereto.

"Bond Year" means, with respect to each issue of Bonds, the period which commences on the date on which such Bonds are issued and, subsequent to such issuance, on each September 2, and ends on the following September 1.

"Bonds" means bonds, notes or other evidences of indebtedness issued by or on behalf of the CIOSA District pursuant to the Code which are payable from Special Taxes.

"CIOSA Agreement" means the Circulation Improvement and Open Space Agreement dated June 30, 1993 by and between the City and The Irvine Company as the same may be amended from time to time.

"CIOSA Agreement Amount" means the sum of (a) the Fair Share Fees Amount, (b) the Frontage Improvements Amount and (c) the Advance Amount.

"CIOSA District" means Newport Beach Special Improvement District No. 95-1 (CIOSA) as formed by the City pursuant to the Code and as it may be amended from time to time.

"CIOSA District Improvement Fund" means the fund established and maintained by or on behalf of the City separate and apart from its other funds and accounts into which money is to be deposited and from which money is to be expended as provided herein and as may be provided in an agreement by and between the City and The Irvine Company.

"CIOSA District Improvement Fund Requirement" means, as of any date of calculation, the CIOSA Agreement Amount as of such date, less the total amount deposited in the CIOSA District Improvement Fund on or before such date from (a) proceeds from the sale of Bonds, (b) Special Taxes, (c) the prepayment of Special Taxes, (d) repayments from the City pursuant to Section 3.7 of the CIOSA Agreement and (e) earnings derived from the investment of amounts on deposit in the CIOSA District Improvement Fund.

"City" means the City of Newport Beach.

"City Council" means the City Council of the City of Newport Beach, acting as the legislative body of the CIOSA District, or its designee.

"City Engineer" means the City Engineer of the City or such other person or firm as may from time to time be authorized and directed by the City Council to undertake the duties of the City Engineer hereunder.

"Code" means the City of Newport Beach Special Improvement District Financing Code.

"Corporate Plaza" means that portion of the CIOSA District described in Exhibit A hereto.

"Corporate Plaza West" means that portion of the CIOSA District described in Exhibit A hereto.

"Debt Service Requirement" means for each Fiscal Year the sum of (a) one hundred percent (100%) of the principal of and interest on Bonds coming due in the Bond Year which ends in the next subsequent Fiscal Year, except to the extent such principal or interest is expected to be paid from proceeds from the sale of Bonds or other amounts then available in the applicable debt service fund for such purpose, (b) the product of the amount described in clause (a) times the larger of (i) the rate of delinquency in the payment of the Special Tax during the Fiscal Year immediately preceding the Fiscal Year for which the Debt Service Requirement is being determined or (ii) ten percent (10%), (c) the sum of all deposits then required to be made into any reserve fund established with respect to any Bonds, and (d) the reasonably estimated Administrative Expenses for the Bond Year referred to in clause (a).

"Developed Property" means for any Fiscal Year all Taxable Property within a Zone in which is located an Assessor's Parcel for which a building permit (other than a building permit for a structure in a model home complex) was issued prior to May 1 of the preceding Fiscal Year.

"Fair Share Fees Amount" means the total amount of the Fair Share Fees as defined in the CIOSA Agreement.

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

"Freeway Reservation" means that portion of the CIOSA District described in Exhibit A hereto.

"Frontage Improvements Amount" means the total cost of the Frontage Improvements as defined in the CIOSA Agreement.

"Initial Final Subdivision Map" means for each Zone the first final subdivision map permitting the sale of lots for single family residential uses within the Zone.

"Maximum Special Tax" means the highest Special Tax, determined in accordance with Sections C and H, that can be levied by the City Council on an Assessor's Parcel in any Fiscal Year.

"Newport Village - PCH/MacArthur" means that portion of the CIOSA District described in Exhibit A hereto.

"Newporter North" means that portion of the CIOSA District described in Exhibit A hereto.

"Parcel Area" means the square footage of an Assessor's Parcel determined by the City Engineer from the subdivision map or parcel map creating such Assessor's Parcel.

"Property Owner Association Property" means any Assessor's Parcel which is owned by a property owner association or which the City Engineer determines from the subdivision map or parcel map creating such Assessor's Parcel is intended to be so owned.

"Proportionately" means, with respect to Developed Property, that the ratio of the actual Special Tax levy to the Maximum Special Tax is equal for all Assessor's Parcels and, with respect to Undeveloped Property, means that the ratio of the actual Special Tax levy to the Maximum Special Tax is equal for all Assessor's Parcels.

"Public Property" means any property within the boundaries of the CIOSA District owned by or dedicated to the federal government, the State of California, the City or any other public agency, provided that any leasehold or other possessory interest in such property (which leasehold or other possessory interest is not owned by a public agency) shall not be considered Public Property.

"San Diego Creek" means that portion of the CIOSA District described in Exhibit A hereto.

“Share of Zone Area” shall mean:

(1) in the case of an Assessor’s Parcel within a Zone which contains no Single Family Residential Property, the quotient obtained by dividing the Parcel Area of the Assessor’s Parcel by the Zone Area of the Zone; and

(2) in the case of an Assessor’s Parcel within a Zone which contains any Single Family Residential Property:

(a) prior to the recordation of the Initial Final Subdivision Map, the quotient obtained by dividing the Parcel Area of the Assessor’s Parcel by the Zone Area of the Zone;

(b) from and after the recordation of the Initial Final Subdivision Map, but (in the case of any Assessor’s Parcel within the Zone not included within the Initial Final Subdivision Map) prior to the recordation of a Subsequent Final Subdivision Map:

(i) for each Assessor’s Parcel included within the Initial Final Subdivision Map which is Taxable Property other than Single Family Residential Property, the quotient obtained by dividing the Parcel Area of the Assessor’s Parcel by the sum of the aggregate Parcel Area of all Assessor’s Parcels included within the Initial Final Subdivision Map which are Taxable Property plus the aggregate area which the City Engineer estimates (pursuant to clause (iii) hereof), at the time Initial Final Subdivision Map is recorded, will be Taxable Property of all Assessor’s Parcels not included within the Initial Final Subdivision Map;

(ii) for each Assessor’s Parcel included within the Initial Final Subdivision Map which is Single Family Residential Property, the product of a fraction the numerator of which is the aggregate Parcel Area of all Assessor’s Parcels included within the Initial Final Subdivision Map which are Single Family Residential Property and the denominator of which is the sum of the aggregate Parcel Area of all Assessor’s Parcels included within the Initial Final Subdivision Map which are Taxable Property plus the aggregate area which the City Engineer estimates (pursuant to clause (iii) hereof), at the time Initial Final Subdivision Map is recorded, will be Taxable Property of all Assessor’s Parcels not included within the Initial Final Subdivision Map, times a fraction the numerator of which is one (1) and the denominator of which is the number of Assessor’s Parcels included within the Initial Final Subdivision Map which are Single Family Residential Property; and

(iii) for each Assessor’s Parcel within the Zone not included within the Initial Final Subdivision Map, the quotient obtained by dividing the area of the portion thereof which the City Engineer estimates, at the time the Initial Final Subdivision Map is recorded, will be Taxable Property upon the subdivision thereof by the sum of the aggregate Parcel Area of all Assessor’s Parcels included within the Initial Final Subdivision Map which are Taxable Property plus the aggregate area which the City Engineer estimates, at the time Initial Final Subdivision Map is recorded, will be Taxable Property of all Assessor’s Parcels within the Zone not included within the Initial Final Subdivision Map; and

(c) subsequent to the recordation of each Subsequent Final Subdivision Map (in each case, for Assessor’s Parcels within the Zone which had not theretofore

been included within either the Initial Final Subdivision Map or a Subsequent Final Subdivision Map):

(i) for each Assessor's Parcel included within such Subsequent Final Subdivision Map which is Taxable Property other than Single Family Residential Property, the product of a fraction the numerator of which is the Parcel Area of the Assessor's Parcel and the denominator of which is the actual total of the area of all the Assessor's Parcels included in such Subsequent Final Subdivision Map which are Taxable Property, times a fraction the numerator of which is the area which the City Engineer estimated would be Taxable Property pursuant to clause (b)(iii) of all the Assessor's Parcels included in such Subsequent Final Subdivision Map (as a whole, and not individually) and the denominator of which is the sum of the aggregate Parcel Area of all Assessor's Parcels described in clauses (b)(i) and (b)(ii) plus the aggregate area which the City Engineer estimated pursuant to clause (b)(iii) would be Taxable Property of all Assessor's Parcels within the Zone which were not included within the Initial Final Subdivision Map;

(ii) for each Assessor's Parcel included within the Subsequent Final Subdivision Map which is Single Family Residential Property, the product of a fraction the numerator of which is the total Parcel Area of all Assessor's Parcels included within the Subsequent Final Subdivision Map which are Single Family Residential Property and the denominator of which is the actual total of the area of all the Assessor's Parcels included in such Subsequent Final Subdivision Map which are Taxable Property, times a fraction the numerator of which is the area which the City Engineer estimated would be Taxable Property pursuant to clause (b)(iii) of all the Assessor's Parcels included in such Subsequent Final Subdivision Map (as a whole, and not individually) and the denominator of which is the sum of the aggregate Parcel Area of all Assessor's Parcels described in clauses (b)(i) and (b)(ii) plus the aggregate area which the City Engineer estimated pursuant to clause (b)(iii) would be Taxable Property of all Assessor's Parcels within the Zone which were not included within the Initial Final Subdivision Map, times a fraction the numerator of which is 1 and the denominator of which is the number of Assessor's Parcels which are included within such Subsequent Final Subdivision Map and which are Single Family Residential Property; and

(iii) for each Assessor's Parcel within the Zone which is not included within such Subsequent Final Subdivision Map, the quotient obtained by dividing the area of such Assessor's Parcel which the City Engineer estimated would be Taxable Property pursuant to clause (b)(iii) by the sum of the aggregate Parcel Area of all Assessor's Parcels described in clauses (b)(i) and (b)(ii) plus the aggregate area which the City Engineer estimated pursuant to clause (b)(iii) would be Taxable Property of all Assessor's Parcels within the Zone which were not included within the Initial Final Subdivision Map.

"Single Family Residential Property" means all Assessor's Parcels which are used, or are permitted under the City's planning and zoning laws to be used, as the site of one single family dwelling unit (either detached or attached) or a condominium unit, provided that Single Family Residential Property shall not include any Assessor's Parcel which is Property Owner Association Property or Public Property.

"Special Tax" means the Special Tax, if any, to be levied in each Fiscal Year on each Assessor's Parcel within the CIOSA District.

"Special Tax Reduction" means the product of 0.69 times a fraction the numerator of which is \$14,300,000 minus the Advance Amount and the denominator of which is \$14,300,000.

"Subsequent Final Subdivision Map" means for each Zone a final subdivision map permitting the sale of lots for single family residential uses within the Zone which is recorded subsequent to the Initial Final Subdivision Map.

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

"Undeveloped Property" means for any Fiscal Year all Taxable Property which is not classified as Developed Property for such Fiscal Year.

"Upper Castaways" means that portion of the CIOSA District described in Exhibit A hereto.

"Zone" means Bayview Landing, Block 800, Corporate Plaza, Corporate Plaza West, Freeway Reservation, Newport Village - PCH/MacArthur, Newporter North, San Diego Creek or Upper Castaways, as the case may be.

"Zone Area" means the sum of the Parcel Area of each Assessor's Parcel of Taxable Property included in such Zone.

"Zone Prepayment Amount" means the respective amount set forth in the following table minus the product of such amount times the Special Tax Reduction, if any:

<u>Zone</u>	<u>Prepayment Amount</u>
Bayview Landing	\$ 95,000
Block 800	1,370,000
Corporate Plaza	1,400,000
Corporate Plaza West	1,925,000
Freeway Reservation	1,585,000
Newport Village - PCH/MacArthur	2,575,000
Harbor Cove	7,950,000
San Diego Creek	2,890,000
Upper Castaways	6,960,000

"Zone Special Tax" means, for Fiscal Year 1995-96, the respective amount set forth in the following table and, for each Fiscal Year subsequent to Fiscal Year 1995-96, one hundred two percent (102%) of the amount for the preceding Fiscal Year, minus in each case the product of such amount (as increased in each Fiscal Year) times the Special Tax Reduction, if any.

<u>Zone</u>	<u>Special Tax</u>
Bayview Landing	\$ 7,200
Block 800	105,350
Corporate Plaza	107,572
Corporate Plaza West	147,911
Freeway Reservation	121,830
Newport Village - PCH/MacArthur	197,855
Harbor Cove	610,900
San Diego Creek	222,300
Upper Castaways	534,786

B. Determination as to Type of Property

For each Fiscal Year, all Taxable Property within the CIOSA District shall be classified as Developed Property or Undeveloped Property and shall be subject to the Special Tax in accordance with the rate and method of apportionment determined pursuant to Sections C, D and H below.

C. Maximum Special Tax Rate

The Maximum Special Tax in each Fiscal Year for an Assessor's Parcel of Taxable Property shall be the product obtained by multiplying the Share of Zone Area for such Assessor's Parcel times the Zone Special Tax then applicable to the Zone in which such Assessor's Parcel is located. Notwithstanding the foregoing, the Maximum Special Tax for an Assessor's Parcel shall be reduced to reflect a prepayment of the Special Tax applicable thereto as provided for in Section H.

D. Method of Apportionment of Special Tax

For each Fiscal Year, commencing with Fiscal Year 1995-96 until the earlier of (i) the date on which the CIOSA District Improvement Fund Requirement has been reduced to zero and there are no Bonds outstanding, or (ii) June 30, 2036, the City Council shall levy the Special Tax as follows:

First: Until the CIOSA District Improvement Fund Requirement has been reduced to zero, the Special Tax shall be levied on each Assessor's Parcel of Developed Property at a rate equal to its Maximum Special Tax;

Second: To the extent additional money is needed in order to equal the Debt Service Requirement prior to the reduction of the CIOSA District Improvement Fund Requirement to zero, the Special Tax shall be levied Proportionately on all Undeveloped Property in an amount not in excess of the Maximum Special Tax;

Third: After the CIOSA District Improvement Fund Requirement has been reduced to zero, the Special Tax shall be levied Proportionately on each Assessor's Parcel of Developed Property such that the total thereof will equal the Debt Service Requirement, provided, however,

that in no event shall the amount of the Special Tax so levied exceed the Maximum Special Tax; and

Fourth: After the CIOSA District Improvement Fund Requirement has been reduced to zero, to the extent additional money is needed in order to equal the Debt Service Requirement, the Special Tax shall be levied Proportionately on all Undeveloped Property, provided, however, that in no event shall the amount of the Special Tax so levied exceed the Maximum Special Tax.

E. Exemptions

The City Council shall not levy a Special Tax on either (a) Property Owner Association Property, except the Property Owner Association Property within a Zone which was included in the estimate of Taxable Property made pursuant to clause (b)(iii) of the definition of "Share of Zone Area" and which first became Property Owner Association Property subsequent to the date of recordation of the Initial Final Subdivision Map or (b) Public Property, except the Public Property within a Zone which was included in the estimate of Taxable Property made pursuant to clause (b)(iii) of the definition of "Share of Zone Area" and which first became Public Property subsequent to the date of recordation of the Initial Final Subdivision Map as a result of acquisition through a negotiated transaction (other than the CIOSA Agreement) or by gift or devise or through eminent domain proceedings, provided that in the case of such property acquired through eminent domain proceedings the obligation to pay the Special Tax shall be treated as if it were a special annual assessment.

F. Appeals

Any landowner or resident who feels that the amount of the Special Tax is in error may file a notice with the CIOSA District appealing the amount of the Special Tax; provided, however, that if Bonds are outstanding any appeal must be accompanied by payment in full of the actual Special Tax levied. A representative of the CIOSA District will then review the appeal and, if necessary, meet with the applicant. If the findings of the CIOSA District representative verify that the amount of the Special Tax should be modified or changed, then, as appropriate, the Special Tax levy shall be corrected, or if the amount has been paid, then it shall be refunded from available Special Taxes levied and collected in the following Fiscal Year.

G. Manner of Collection

The Special Tax will be collected in the same manner and at the same time as ordinary *ad valorem* property taxes, provided, however, the CIOSA District may collect Special Taxes at a different time or in a different manner if necessary to meet its financial obligations and may covenant to foreclose on delinquent parcels as permitted by the Code.

H. Prepayment of Special Tax

1. Prior to Issuance of Bonds – Developed Property and Undeveloped Property: Prior to the initial issuance of Bonds, the Special Tax applicable to any Assessor's Parcel may be prepaid in whole by paying to the City Treasurer seventy-seven percent (77%) of the product obtained by multiplying the Share of Zone Area for such Assessor's Parcel times the Zone Prepayment Amount applicable to the Zone in which such Assessor's Parcel is located. Prior to

the initial issuance of Bonds, the Special Tax applicable to any Assessor's Parcel may be prepaid in part by paying to the City Treasurer a specific dollar amount in lieu of the amount determined pursuant to the preceding sentence; and from and after the City Treasurer's receipt of such partial prepayment, the Maximum Special Tax applicable to such Assessor's Parcel shall be the product of the Maximum Special Tax which would have otherwise been applicable thereto times a fraction the numerator of which is the specific amount paid in lieu of the amount described in the first sentence of this paragraph and the denominator of which is the amount described in said sentence.

2. After Issuance of Bonds – Undeveloped Property If Test Met: Subsequent to the initial issuance of Bonds, if the aggregate amount of the Special Taxes applicable to all Developed Property is sufficient to satisfy the Debt Service Requirement for the Bonds then outstanding in the then current Fiscal Year and each Fiscal Year thereafter (determined without any credit for capitalized interest), the Special Tax applicable to any Assessor's Parcel which is then classified as Undeveloped Property may be prepaid in whole by paying to the City Treasurer seventy-seven percent (77%) of the product obtained by multiplying the Share of Zone Area for such Assessor's Parcel times the Zone Prepayment Amount applicable to the Zone in which such Assessor's Parcel is located. Under the circumstances described in the preceding sentence, the Special Tax applicable to any Assessor's Parcel may be prepaid in part by paying to the City Treasurer a specific dollar amount in lieu of the amount determined pursuant to the preceding sentence; and from and after the City Treasurer's receipt of such partial prepayment, the Maximum Special Tax applicable to such Assessor's Parcel shall be the product of the Maximum Special Tax which would have otherwise been applicable thereto times a fraction the numerator of which is the specific amount paid in lieu of the amount described in the first sentence of this paragraph and the denominator of which is the amount described in said sentence.

3. After Issuance of Bonds – Developed Property and Undeveloped Property If Test Not Met: Except as otherwise provided in the preceding two paragraphs, the Special Tax applicable to any Assessor's Parcel may be prepaid in whole by paying to the City Treasurer the sum of:

(a) The remainder of (i) the product obtained by multiplying the Share of Zone Area for such Assessor's Parcel times the Zone Prepayment Amount applicable to the Zone in which such Assessor's Parcel is located minus (ii) the portion of said product which would have been amortized as principal through the application of the portion of the Special Taxes attributable to the principal of and interest on Bonds theretofore paid with respect to said Assessor's Parcel (as determined by the City Treasurer) assuming that said product had borne interest at an annual rate equal to the highest rate borne by any Bond (or, if no Bond is then outstanding, nine percent (9%)) and that it had been payable in annual installments (each of which is two percent (2%) larger than the prior year's installment) over the same number of years as the Bond with the longest maturity, measured from the date of issuance of such Bond (or, if no Bond is then outstanding, twenty-five (25) years); provided that, in the case of an Assessor's Parcel which is then classified as Developed Property, the remainder referred to in the previous clause of this subparagraph shall be reduced by twenty--three percent (23%) of the product obtained by multiplying (iii) the Share of Zone Area for such Assessor's Parcel times (iv) a fraction the numerator of which is the Zone Prepayment Amount applicable to the Zone in

which such Assessor's Parcel is located and the denominator of which is the aggregate Zone Prepayment Amounts for all Zones which then include Developed Property times (v) the amount, if any, by which the aggregate Zone Prepayment Amounts for all Zones which then include Developed Property exceeds the aggregate principal amount of Bonds then outstanding; and

(b) The amount of any delinquent Special Taxes applicable to said Assessor's Parcel, together with penalties, interest, and Administrative Expenses incurred as a result of said delinquencies accrued to the date of prepayment; and

(c) An amount equal to the product of the amount determined pursuant to paragraph (a) above times the highest redemption premium applicable to any Bond at the next call date (as defined in paragraph (e) below); and

(d) A reasonable fee, fixed by the City Treasurer, for the cost of administering the prepayment and, if applicable, the advance redemption of Bonds; and

(e) Interest to the next call date on the amount determined pursuant to paragraph (a) above, computed at the highest interest rate then applicable to any Bond. For purposes of this paragraph and paragraph (c) above, the next call date is the next Bond interest payment date which is not less than 90 days after the date of prepayment.

A credit against the foregoing shall be given, or a refund paid, for the Special Tax applicable to said Assessor's Parcel posted to the current tax roll and actually paid.

The Special Tax applicable to any Assessor's Parcel may be prepaid in part by paying to the City Treasurer a portion (in increments of five thousand dollars (\$5,000)) of the amount determined pursuant to paragraph (a) above plus the respective amounts relative thereto described in paragraphs (b) through (e) above. From and after the City Treasurer's receipt of any such partial prepayment, the Maximum Special Tax applicable to such Assessor's Parcel shall be the product of the Maximum Special Tax which would have otherwise been applicable thereto times a fraction the numerator of which is the specific amount paid in lieu of the amount described in paragraph (a) above and the denominator of which is the amount described in paragraph (a) above.

Exhibit A

**NEWPORT BEACH
COSA ASSESSOR PARCELS**

Upper Castaways	117-801-12
Bayview Landing	440-132-06 440-132-08
Newporter North	440-132-21 440-132-24
San Diego Creek	442-061-09 442-061-11 442-061-14
Corporate Plaza West	442-011-54
Corporate Plaza	442-271-09 442-271-10 442-271-11 442-271-12 442-271-19 442-271-26
Block 800	442-262-04
Newport Village - PCH/MacArthur	442-014-28 442-272-03 442-272-04
Freeway Reservation	458-142-08

APPENDIX B

PROPOSED FORM OF OPINION OF BOND COUNSEL

Upon delivery of the Bonds, Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Bond Counsel, proposes to render its final approving opinion with respect to the Series A Bonds in substantially the following form:

[Date of Delivery]

City of Newport Beach
3300 Newport Boulevard
Newport Beach, California 92658

City of Newport Beach
Special Improvement District No. 95-1 (CIOSA)
Special Tax Refunding Bonds, Series A
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the City of Newport Beach (the "City") of \$15,495,000 aggregate principal amount of City of Newport Beach Special Improvement District No. 95-1 (CIOSA) Special Tax Refunding Bonds, Series A (the "Series A Bonds") pursuant to the provisions of the City of Newport Beach Special Improvement District Financing Code and the Indenture, dated as of August 1, 2001 (the "Indenture"), by and between the City of Newport Beach (the "City") and BNY Western Trust Company, as trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Indenture.

In such connection, we have reviewed the Indenture, the Tax Certificate of the City, dated the date hereof (the "Tax Certificate"), opinions of counsel to the City and the Trustee, certifications of the City, the Trustee and others and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

Certain agreements, requirements and procedures contained or referred to in the Indenture, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Series A Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein 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 ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur. Our engagement with respect to the Series A Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have

assumed the genuineness of all documents and signatures presented to us (whether as originals or copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the City. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Series A Bonds to be included in gross income for federal income tax purposes. In addition, we call attention to the fact that the rights and obligations under the Series A Bonds, the Indenture and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public entities in the State of California. We express no opinion with respect to the plans, specifications, maps, financial report or other engineering or financial details of the proceedings, or upon the Rate and Method or the validity of the Special Tax levied upon any individual parcel. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Series A Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Series A Bonds constitute valid and binding special obligations of the City, payable solely from the Special Tax Revenues and the other assets pledged therefor under the Indenture.
2. The Indenture has been duly executed and delivered by, and constitutes a valid and binding obligation of, the City.
3. Interest on the Series A 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. Interest on the Series A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series A Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

APPENDIX C

SUMMARY OF THE INDENTURE

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

DEFINITIONS

Unless the context otherwise requires, the terms defined below shall for all purposes of the Indenture, of any Supplemental Indenture and of any certificate, opinion or other document mentioned therein, have the meanings specified under the Indenture.

"Act" means the City of Newport Beach Special Improvement District Financing Code, being Chapter 3.32 of the Newport Beach Municipal Code.

"Additional Bonds" means Bonds other than Series A Bonds issued under the Indenture in accordance with the Indenture.

"Administrative Expense Fund" means the fund by that name established and held by the Trustee in accordance with the Indenture.

"Administrative Expenses" means costs directly related to the administration of the District, consisting of the costs of computing the Special Taxes and preparing the annual Special Tax collection schedules and the costs of collecting the Special Taxes, the costs of remitting the Special Taxes to the Trustee, the costs of the Trustee (including its legal counsel) in the discharge of the duties required of it under the Indenture, the costs of the City or its designee of complying with the disclosure provisions of the Continuing Disclosure Agreement and the Indenture, including those related to public inquiries regarding the Special Tax and disclosures to Owners, the costs of the City or its designee related to an appeal of the Special Tax, any amounts required to be rebated to the federal government in order for the City to comply with the Indenture, an allocable share of the salaries of the City staff directly related to the foregoing and a proportionate amount of City general administrative overhead related thereto, costs related to prepayments of Special Taxes, recordings related to such prepayments and satisfaction of Special Taxes, and the costs of foreclosure of delinquent Special Taxes and Insurer Expenses.

"Annual Debt Service" means, for each Bond Year, the sum of (a) the interest due on the Outstanding Bonds in such Bond Year, assuming that the Outstanding Bonds are retired as scheduled (including by reason of mandatory sinking fund redemptions), and (b) the principal amount of the Outstanding Bonds due in such Bond Year (including any mandatory sinking fund redemptions due in such Bond Year).

"Auditor" means the auditor/controller of the County of Orange.

"Authorized Representative" means, with respect to the City, its City Manager or Director of Administrative Services, or any other Person designated as an Authorized Representative of the City in a Written Certificate of City filed with the Trustee.

"Beneficial Owner" means, whenever used with respect to a Book-Entry Bond, the person whose name is recorded as the beneficial owner of such Book-Entry Bond or a portion of such Book-Entry Bond by a Participant on the records of such Participant or such persons subrogee.

"Bond Counsel" means a firm of nationally recognized bond counsel selected by the City and acceptable to the Trustee.

"Bond Fund" means the fund by that name established and held by the Trustee in accordance with the Indenture.

"Bond Year" means each twelve-month period beginning on September 2 in each year and extending to the next succeeding September 1, both dates inclusive, except that the first Bond Year shall begin on the Closing Date and end on September 1, 2001.

"Bonds" means the City of Newport Beach Special Improvement District No. 95-1 (CIOSA) Special Tax Refunding Bonds issued under the Indenture, and includes the Series A Bonds and any Additional Bonds.

"Book-Entry Bonds" means the Bonds of a Series registered in the name of the nominee of DTC, or any successor securities depository for such Series of Bonds, as the registered owner thereof in accordance with the Indenture.

"Business Day" means a day which is not a Saturday, Sunday or legal holiday on which banking institutions in the State of California, or in any state in which the Office of the Trustee is located, are closed.

"Cede & Co." means Cede & Co., the nominee of DTC, and any successor nominee of DTC with respect to a Series of Book-Entry Bonds.

"CIOSA Agreement" means the Circulation Improvement and Open Space Agreement, dated June 30, 1993, by and between the City and The Irvine Company, as originally executed or as it may from time to time be amended.

"City" means the City of Newport Beach, and any successor thereto.

"Closing Date" means the date upon which the Series A Bonds are delivered to the Original Purchaser, being August 7, 2001.

"Code" means the Internal Revenue Code of 1986.

"Continuing Disclosure Agreement" means the Continuing Disclosure Agreement, dated as of August 1, 2001, by and between the City and the Trustee, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

"Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the City relating to the authorization, issuance, sale and delivery of the Bonds, including but not limited to printing expenses, rating agency fees, filing and recording fees, initial fees, expenses and charges of the Trustee and its counsel, including the Trustee's first annual administrative fee, fees, charges and disbursements of attorneys, financial advisors, accounting firms, consultants and other professionals, fees and charges for preparation, execution and safekeeping of the Bonds, any premium for Bond insurance and any other cost, charge or fee in connection with the original issuance of the Bonds.

"Costs of Issuance Fund" means the fund by that name established and held by the Trustee in accordance with the Indenture.

"District" means the City of Newport Beach Special Improvement District No. 95-1 (CIOSA), established pursuant to the Resolution of Formation.

"DTC" means The Depository Trust Company, a limited-purpose trust company organized under the laws of the State of New York, and its successors as securities depository for any Series of Book-Entry Bonds, including any such successor appointed in accordance with the Indenture.

"Escrow Agreement" means the Escrow Agreement, dated as of August 1, 2001, by and between the City and the Escrow Bank, as originally executed and as it may be amended from time to time in accordance with its terms.

"Escrow Bank" means BNY Western Trust Company, a state banking corporation organized and existing under the laws of the State of California, as escrow bank under the Escrow Agreement, and any successor thereto.

"Fair Share Fees" has the meaning ascribed thereto in CIOSA Agreement.

"Federal Securities" means any of the following which at the time of investment are legal investments under the laws of the State of California for the funds proposed to be invested therein and consistent with S&P's published standards (if any) for defeasance securities: (a) direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), and (b) obligations of any agency, department or instrumentality of the United States of America the timely payment of principal of and interest on which are fully guaranteed by the United States of America.

"Fiscal Year" means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve-month period hereafter selected and designated as the official fiscal year period of the City designated in a Written Certificate of the City delivered to the Trustee.

"Improvement Fund" means the CIOSA District Improvement Fund established, held and maintained by the City in accordance with the provisions of the Protocol Agreement.

"Indenture" means the Indenture, as originally executed or as it may from time to time be amended or supplemented by any Supplemental Indenture.

"Information Services" means Bloomberg Municipal Repositories, P.O. Box 840, Princeton, New Jersey 08542-0840, Phone: (609) 279-3225, Fax: (609) 279-5962, E-mail: Munis@Bloomberg.com; DPC Data Inc., One Executive Drive, Fort Lee, New Jersey 07024, Phone: (201) 346-0701, Fax: (201) 947-0107, E-mail: nrmsir@dpcdata.com; Muller Data, Attn: Municipal Disclosure, 395 Hudson Street, 3d Floor, New York, New York 10014, Phone: (212) 807-5001 or (800) 689-8466, Fax: (212) 989-2078, E-mail: Disclosure@muller.com; Standard & Poor's J.J. Kenny Repository, 55 Water Street, 45th Floor, New York, New York 10041, Telephone: (212) 438-4595, Facsimile: (212) 438-3975; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such services providing information with respect to called bonds as the City may designate in a Written Certificate of the City delivered to the Trustee.

"Insurance Policy" means the insurance policy issued by the Insurer guaranteeing the scheduled payment of the principal of and interest on the Series A Bonds when due.

"Insurer" means Financial Security Assurance Inc., a New York stock insurance company, or any successor thereto or assignee thereof.

"Insurer Expenses" means any and all charges, fees, costs and expenses which the Insurer may reasonably pay or incur in connection with (a) the administration, enforcement, defense or preservation of any rights or security under the Indenture, (b) the pursuit of any remedies under the Indenture or otherwise afforded by law or equity, (c) any amendment, waiver or other action with respect to, or related to, the Indenture, whether or not executed or completed, (d) the violation by the City of any law, rule or regulation, or any judgment, order or decree applicable to it, or (e) any litigation or other dispute in connection with the Indenture or the transactions contemplated under the terms of the Indenture, other than amounts resulting from the failure of the Insurer to honor its obligations under the Insurance Policy.

"Interest Payment Dates" means March 1 and September 1 of each year, commencing March 1, 2002, so long as any Bonds remain Outstanding.

"Maximum Annual Debt Service" means the largest Annual Debt Service for any Bond Year, including the Bond Year the calculation is made.

"Moody's" means Moody's Investors Service, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the City with the consent of the Insurer.

"Net Special Tax Revenues" means Special Tax Revenues, less amounts required to pay Administrative Expenses.

"Office of the Trustee" means the principal corporate trust office of the Trustee in Los Angeles, California, or such other office as may be specified to the City by the Trustee in writing.

"Ordinance" means any ordinance of the City levying the Special Taxes.

"Original Purchaser" means the original purchaser of the Series A Bonds from the City.

"Outstanding," when used as of any particular time with reference to Bonds, means (subject to the provisions of and in accordance with the Indenture) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except:

(a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation;

(b) Bonds with respect to which all liability of the City shall have been discharged in accordance with the Indenture; and

(c) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture.

"Owner" means, with respect to a Bond, the Person in whose name such Bond is registered on the Registration Books.

"Participant" means any entity which is recognized as a participant by DTC in the book-entry system of maintaining records with respect to Book-Entry Bonds.

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

"Permitted Investments" means the following, to the extent that such securities are otherwise eligible legal investments of the City:

(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 (collectively "United States Obligations"). These include, but are not necessarily limited to:

- U.S. Treasury obligations
All direct or fully guaranteed obligations
- Farmers Home Administration
Certificates of beneficial ownership
- General Services Administration
Participation certificates
- U.S. Maritime Administration
Guaranteed Title XI financing
- Small Business Administration
Guaranteed participation certificates
Guaranteed pool certificates
- Government National Mortgage Association (GNMA)
GNMA-guaranteed mortgage-backed securities
GNMA-guaranteed participation certificates
- U.S. Department of Housing & Urban Development
Local authority bonds
- Washington Metropolitan Area Transit Authority
Guaranteed transit bonds

(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 systemwide 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 mortgages 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, and bankers' acceptances (having maturities of not more than 30 days) of any bank (including the Trustee and its affiliates) the short-term obligations of which are rated "A-1" or better by S&P.

(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 (including the Trustee and its affiliates).

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

(7) Money market funds rated "AAA" by S&P, or better, including funds for which the Trustee and its affiliates provide investment advisory or other management services.

(8) Repurchase agreements:

A. With (i) any domestic bank the long term debt of which is rated at least "A" by S&P and "A2" by Moody's (so long as an opinion is rendered that the repurchase agreement is a "repurchase agreement" as defined in the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") and that such bank is subject to FIRREA); (ii) any foreign bank the long term debt of which is rated at least "A" by S&P and "A2" by Moody's; (iii) any broker-dealer with "retail customers" which has, or the parent company (which guarantees the broker-dealer) of which has, long-term debt rated at least "A" by S&P and "A2" by Moody's, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corp. (SIPC); or (iv) any other entity approved by the Insurer, 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 for an "A" rated structured financing (with a market value approach);

b. Failure to maintain the requisite collateral percentage will require the City or the Trustee to liquidate the collateral.

c. The Trustee, the City or a third party acting solely as agent therefor (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 transferor's books);

d. The repurchase agreement states, and an opinion of counsel is rendered to the effect, that the Trustee 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);

e. The transferor represents that the collateral is free and clear of any third-party liens or claims;

f. There is or will be a written agreement governing every repurchase transaction;

g. Each of the City and the Trustee represents that it has no knowledge of any fraud involved in the repurchase transaction; and

h. The City and the Trustee receive an opinion of counsel (which opinion shall be addressed to the City, the Trustee and the Insurer) that such repurchase agreement is legal, valid and binding and enforceable against the provider in accordance with its terms.

i. the repurchase agreement shall provide that if during its term the provider's rating by either S&P or Moody's falls below "A-" or "A3," respectively, the provider must, at the direction of the City or the Trustee (who shall give such direction if so directed by the Insurer), within 10 days of receipt of such direction repurchase all collateral and terminate the agreement, with no penalty or premium to the City or the Trustee.

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" and "A2" by S&P and Moody's, respectively.

B. Any other repurchase agreement as may be approved in writing by the Insurer.

(9) State Obligations, which means:

A. Direct general obligations of any state of the United States 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 described in (a) above and rated "A-1+" by S&P and "Prime-1" 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.

(10) Investment agreements with a domestic or foreign bank the long-term debt of which is rated at least "AA" by S&P and "Aa" by Moody's or, with the consent of the Insurer, a corporation either rated, or guaranteed by another corporation rated, as to claims paying ability or long term debt 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 Trustee at times and in amounts as necessary to pay debt service (or, if the investment agreement is for the Improvement Fund, draws thereon) on the Bonds;

B. the invested funds are available for withdrawal without penalty or premium, for any purpose set forth in the Indenture upon not more than seven days prior notice (which notice may be amended or withdrawn at any time prior to the specified withdrawal date); provided that the Indenture specifically requires the Trustee or the City to give 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. a fixed guaranteed rate of interest is to be paid on invested funds and all future deposits, if any, required to be made to restore the amount of such funds to the level specified under the Indenture;

E. the Trustee and the City receive the opinion of domestic counsel (which opinion shall be addressed to the City and the Insurer) that such investment agreement is legal, valid and binding and enforceable against the provider in accordance with its terms and of foreign counsel (if applicable) in form and substance acceptable, and addressed to, the Insurer;

F. the investment agreement shall provide that if during its term (i) the provider's rating by either Moody's or S&P falls below "Aa" or "AA," respectively, the provider must, at the direction of the City or the Trustee (who shall give such direction if so directed by the Insurer), within 10 days of receipt of such direction, either (a) 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 Trustee, the City or a Holder of the Collateral, United States Treasury Obligations which are 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 in an "A" rated structured financing (with a market value approach); or (b) repay the principal of and accrued but unpaid interest on the investment and (ii) the provider's rating by either Moody's or S&P is withdrawn or suspended or falls below "A2" or "A," respectively, the provider must, at the direction of the City or the Trustee (who shall give such direction if so directed by the Insurer), 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 City or Trustee;

G. the investment agreement shall state, and an opinion of counsel shall be rendered to the effect, that the Trustee 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 Trustee is in possession); and

H. the investment agreement must provide that if during its term (x) the provider shall default in its payment obligations, the provider's obligation under the investment agreement shall, at the direction of the City or the Trustee (who shall give such direction if so directed by the Insurer), be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the City or Trustee, as appropriate, and (y) 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 City or Trustee, as appropriate.

(11) Pre-refunded municipal obligations rated "AAA" by S&P and "Aaa" by Moody's meeting the following requirements:

A. the municipal obligations are (i) not subject to redemption prior to maturity, or (ii) 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 the United States Treasury Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent.

(12) The State of California Local Agency Investment Fund (LAIF).

(13) An other investment as may be approved in writing by the Insurer.

"Person" means an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

"Prior Bonds" means, collectively, the City of Newport Beach Special Improvement District No. 95-1 (CIOSA) Special Tax Bonds, Series A, and the City of Newport Beach Special Improvement District No. 95-1 (CIOSA) Special Tax Bonds, Series B, issued pursuant to the Prior Fiscal Agent Agreement.

"Prior Fiscal Agent" means BNY Western Trust Company, as successor Fiscal Agent under the Prior Fiscal Agent Agreement.

"Prior Fiscal Agent Agreement" means the Fiscal Agent Agreement, dated as of December 1, 1995, by and between the City and U.S. Trust Company of California, N.A., as Fiscal Agent, as amended and supplemented by the First Supplemental Fiscal Agent Agreement, dated as of June 1, 1997, by and between the City and U.S. Trust Company of California, N.A.

"Protocol Agreement" means the Protocol Agreement, dated as of December 1, 1995, by and between the City and The Irvine Company, as originally executed or as it may from time to time be amended.

"Rate and Method" means the rate and method of apportionment of the Special Taxes approved by the qualified electors of the District.

"Rebate Fund" means the fund by that name established and held by the Trustee in accordance with the Indenture.

"Rebate Requirement" has the meaning ascribed thereto in the Tax Certificate.

"Record Date" means the 15th calendar day of the month preceding each Interest Payment Date, whether or not such day is a Business Day.

"Redemption Fund" means the fund by that name established and held by the Trustee in accordance with the Indenture.

"Redemption Price" means the aggregate amount of principal of and premium, if any, on the Bonds upon the redemption thereof pursuant to the Indenture.

"Registration Books" means the records maintained by the Trustee for the registration of ownership and registration of transfer of the Bonds in accordance with the Indenture.

"Representation Letter" means the Letter of Representations from the City to DTC, or any successor securities depository for any Series of Book-Entry Bonds, in which the City makes certain representations with respect to issues of its securities for deposit by DTC or such successor depository.

"Reserve Fund" means the fund by that name established and held by the Trustee in accordance with the Indenture.

"Reserve Requirement" means, as of the date of any calculation, the least of (a) 10% of the original aggregate principal amount of the Bonds, (b) Maximum Annual Debt Service, and (c) 125% of average Annual Debt Service.

"Resolution of Formation" means Resolution No. 95-74, adopted by the City Council of the City on June 12, 1995.

"S&P" means Standard & Poor's Ratings Services, a division of McGraw-Hill, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "S&P" shall be deemed to refer to any other nationally recognized securities rating agency selected by the City with the consent of the Insurer.

"Securities Depositories" means The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax - (516) 227-4039 or 4190, and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the City may designate in a Written Certificate of the City delivered to the Trustee.

"Series" means the initial series of Bonds executed, authenticated and delivered on the date of initial issuance of the Bonds and identified pursuant to the Indenture as the Series A Bonds, and any Additional Bonds issued pursuant to a Supplemental Indenture and identified as a separate Series of Bonds.

"Series A Bonds" means the City of Newport Beach Special Improvement District No. 95-1 (CIOSA) Special Tax Refunding Bonds, Series A, issued under the Indenture.

"Special Tax Fund" means the fund by that name established and held by the Trustee in accordance with the Indenture.

"Special Tax Revenues" means the proceeds of the Special Taxes received by the City, 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, which shall be limited to the amount of said lien and interest and penalties thereon.

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

"Supplemental Indenture" means any supplemental indenture amendatory of or supplemental to the Indenture, but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

"Tax Certificate" means the Tax Certificate executed by the City at the time of issuance of the Series A Bonds relating to the requirements of Section 148 of the Code, as originally executed and as it may from time to time be amended in accordance with the provisions thereof.

"Trustee" means BNY Western Trust Company, a state banking corporation organized and existing under the laws of the State of California, or any successor thereto as Trustee under the Indenture, appointed as provided under the Indenture.

"Written Certificate" and "Written Request" of the City mean, respectively, a written certificate or written request signed in the name of the City by an Authorized Representative. Any such certificate

or request may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

THE BONDS

Authorization of Bonds. The City under the terms of the Indenture authorizes the issuance of the Bonds under and subject to the terms of the Indenture, the Act and other applicable laws of the State of California for the purpose of (a) with respect to the Series A Bonds, providing moneys to refund the Prior Bonds, and (b) with respect to any Series of Additional Bonds, providing moneys to refund any previously issued Bonds. The Bonds may consist of one or more Series of varying denominations, dates maturities, interest rates and other provisions, subject to the provisions and conditions contained under the Indenture. The Bonds shall be designated generally as the "City of Newport Beach Special Improvement District No. 95-1 (CIOSA) Special Tax Refunding Bonds," each Series thereof to bear such additional designation as may be necessary or appropriate to distinguish such Series from every other Series of Bonds.

Terms of Series A Bonds. The Series A Bonds shall be issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple thereof, so long as no Series A Bond shall have more than one maturity date. Interest on the Series A Bonds shall be payable from the Interest Payment Date next preceding the date of authentication thereof unless (i) a Series A Bond is authenticated on or before an Interest Payment Date and after the close of business on the preceding Record Date, in which event it shall bear interest from such Interest Payment Date, (ii) a Series A Bond is authenticated on or before the first Record Date, in which event interest thereon shall be payable from the Closing Date, or (iii) interest on any Series A Bond is in default as of the date of authentication thereof, in which event interest thereon shall be payable from the date to which interest has previously been paid or duly provided for. Interest shall be paid in lawful money of the United States on each Interest Payment Date. Interest shall be paid by check of the Trustee mailed by first class mail, postage prepaid, on each Interest Payment Date to the Series A Bond Owners at their respective addresses shown on the Registration Books as of the close of business on the preceding Record Date. Notwithstanding the foregoing, interest on any Series A Bond which is not punctually paid or duly provided for on any Interest Payment Date shall, if and to the extent that amounts subsequently become available therefor, be paid on a payment date established by the Trustee to the Person in whose name the ownership of such Series A Bond is registered on the Registration Books at the close of business on a special record date to be established by the Trustee for the payment of such defaulted interest, notice of which shall be given to such Owner not less than ten days prior to such special record date.

The principal of the Series A Bonds shall be payable in lawful money of the United States of America upon presentation and surrender thereof upon maturity or earlier redemption at the Office of the Trustee. Payment of principal of any Series A Bond shall be made only upon presentation and surrender of such Bond at the Office of the Trustee.

The Series A Bonds shall be subject to redemption as provided in the Indenture.

Transfer and Exchange of Bonds. Any Bond may, in accordance with its terms, be transferred upon the Registration Books by the Person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form acceptable to the Trustee. Whenever any Bond or Bonds shall be surrendered for transfer, the City shall execute and the Trustee shall authenticate and shall deliver a new Bond or Bonds for a like aggregate principal amount, in any authorized denomination. The Trustee shall require the Bond Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

The Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations. The Trustee shall require the payment by the Bond Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

The Trustee shall not be obligated to make any transfer or exchange of Bonds of a Series during the period established by the Trustee for the selection of Bonds of such Series for redemption, or with respect to any Bonds of such Series selected for redemption.

Registration Books. The Trustee will keep or cause to be kept, at the Office of the Trustee, sufficient records for the registration and transfer of ownership of the Bonds, which shall be open to inspection during regular business hours and upon 24 hours notice by the City; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such records, the ownership of the Bonds as provided under the Indenture.

Temporary Bonds. The Bonds may be issued in temporary form exchangeable for definitive Bonds when ready for delivery. Any temporary Bonds may be printed, lithographed or typewritten, shall be of such authorized denominations as may be determined by the City, shall be in fully registered form without coupons and may contain such reference to any of the provisions of the Indenture as may be appropriate. Every temporary Bond shall be executed by the City and authenticated by the Trustee upon the same conditions and in substantially the same manner as the definitive Bonds. If the City issues temporary Bonds it will execute and deliver definitive Bonds as promptly thereafter as practicable, and thereupon the temporary Bonds may be surrendered, for cancellation, at the Office of the Trustee and the Trustee shall authenticate and deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bonds of authorized denominations. Until so exchanged, the temporary Bonds shall be entitled to the same benefits under the Indenture as definitive Bonds authenticated and delivered under the Indenture.

Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond shall become mutilated, the City, at the expense of the Owner of said Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee shall be canceled by it and delivered to, or upon the order of, the City. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence and indemnity satisfactory to the Trustee shall be given, the City, at the expense of the Owner, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in lieu of and in replacement for the Bond so lost, destroyed or stolen (or if any such Bond shall have matured or shall be about to mature, instead of issuing a replacement Bond, the Trustee may pay the same without surrender thereof). The City may require payment by the Owner of a sum not exceeding the actual cost of preparing each replacement Bond issued in accordance with the Indenture and of the expenses which may be incurred by the City and the Trustee. Any Bond issued in accordance with the Indenture in lieu of any Bond alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the City whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be entitled to the benefits of the Indenture with all other Bonds secured by the Indenture.

Book-Entry Bonds. Prior to the issuance of a Series of Bonds, the City may provide that such Series of Bonds shall initially be issued as Book-Entry Bonds and, in such event, the Bonds of such Series for each maturity shall be in the form of a separate single fully registered Bond (which may be typewritten). The Series A Bonds shall initially be issued as Book-Entry Bonds.

Except as otherwise provided in the Indenture, the registered Owner of all of the Book-Entry Bonds shall be DTC and the Book-Entry Bonds shall be registered in the name of Cede & Co., as nominee of DTC. Notwithstanding anything to the contrary contained in the Indenture, payment of interest with respect to any Book-Entry Bond registered as of each Record Date in the name of Cede & Co. shall be made by wire transfer of same-day funds to the account of Cede & Co. on the payment date for the Book-Entry Bonds at the address indicated on the Record Date for Cede & Co. in the Registration Books or as otherwise provided in the Representation Letter.

The Trustee and the City may treat DTC (or its nominee) as the sole and exclusive Owner of the Book-Entry Bonds registered in its name for the purposes of payment of the principal, premium, if any, or interest with respect to the Book-Entry Bonds, selecting the Book-Entry Bonds or portions thereof to be redeemed, giving any notice permitted or required to be given to Owners of Book-Entry Bonds under the Indenture, registering the transfer of Book-Entry Bonds, obtaining any consent or other action to be taken by Owners of Book-Entry Bonds and for all other purposes whatsoever, and neither the Trustee nor the City shall be affected by any notice to the contrary. Neither the Trustee nor the City shall have any responsibility or obligation to any Participant, any person claiming a beneficial ownership interest in the Book-Entry Bonds under or through DTC or any Participant, or any other person which is not shown on the Registration Books as being an Owner, with respect to the accuracy of any records maintained by DTC or any Participant, the payment by DTC or any Participant of any amount in respect of the principal, premium, if any, or interest with respect to the Book-Entry Bonds, any notice which is permitted or required to be given to Owners of Book-Entry Bonds under the Indenture, the selection by DTC or any Participant of any person to receive payment in the event of a partial redemption of the Book-Entry Bonds, or any consent given or other action taken by DTC as Owner of Book-Entry Bonds. The Trustee shall pay all principal, premium, if any and interest with respect to the Book-Entry Bonds, only to DTC, and all such payments shall be valid and effective to fully satisfy and discharge the City's obligations with respect to the principal, premium, if any, and interest with respect to the Book-Entry Bonds to the extent of the sum or sums so paid.

In the event (i) DTC, including any successor as securities depository for a Series of Bonds, determines not to continue to act as securities depository for such Series of Bonds, or (ii) the City determines that the incumbent securities depository shall no longer so act, and delivers a written certificate to the Trustee to that effect, then the City will discontinue the book-entry system with the incumbent securities depository for such Series of Bonds. If the City determines to replace the incumbent securities depository for such Series of Bonds with another qualified securities depository, the City shall prepare or direct the preparation of a new single, separate fully registered Bond of such Series for the aggregate outstanding principal amount of Bonds of such Series of each maturity, registered in the name of such successor or substitute qualified securities depository, or its nominee, or make such other arrangement acceptable to the City, the Trustee and the successor securities depository for the Bonds of such Series as are not inconsistent with the terms of the Indenture. If the City fails to identify another qualified successor securities depository for such Series of Bonds to replace the incumbent securities depository, then the Bonds of such Series shall no longer be restricted to being registered in the 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 for such Series of Bonds, or its nominee, shall designate. In such event the City shall execute, and deliver to the Trustee, a sufficient quantity of Bonds of such Series to carry out the transfers and exchanges provided in the Indenture. All such Bonds of such Series shall be in fully registered form in denominations authorized by the Indenture.

Notwithstanding any other provision of the Indenture to the contrary, so long as any Book-Entry Bond is registered in the name of DTC, or its nominee, all payments with respect to the principal, premium, if any, and interest with respect to such Book-Entry Bond and all notices with respect to such Book-Entry Bond shall be made and given, respectively, as provided in the Representation Letter.

In connection with any notice or other communication to be provided to Owners of Book-Entry Bonds pursuant to the Indenture by the City or the Trustee with respect to any consent or other action to be taken by Owners, the City or the Trustee, as the case may be, shall establish a record date for such consent or other action and give DTC notice of such record date not less than 15 calendar days in advance of such record date to the extent possible.

ISSUANCE OF BONDS; FUNDS AND ACCOUNTS

Costs of Issuance Fund. The Trustee shall establish and maintain a separate fund designated the "Costs of Issuance Fund." On the Closing Date there shall be deposited in the Costs of Issuance Fund that amount set forth in this Official Statement under the caption "SOURCES AND USES OF FUNDS."

The moneys in the Costs of Issuance Fund shall be used and withdrawn by the Trustee from time to time to pay the Costs of Issuance upon submission of a Written Request of the City stating (a) the Person to whom payment is to be made, (b) the amount to be paid, (c) the purpose for which the obligation was incurred, (d) that such payment is a proper charge against the Costs of Issuance Fund, and (e) that such amounts have not been the subject of a prior disbursement from the Costs of Issuance Fund; in each case together with a statement or invoice for each amount requested in accordance with the Indenture. On December 1, 2001, all amounts, if any, remaining in the Costs of Issuance Fund shall be withdrawn therefrom by the Trustee and transferred to the Bond Fund.

Conditions for the Issuance of Additional Bonds. The City may at any time issue one or more Series of Additional Bonds (in addition to the Series A Bonds) payable from Net Special Tax Revenues as provided under the Indenture on a parity with all other Bonds theretofore issued under the Indenture, but only subject to the following conditions, which are under the terms of the Indenture made conditions precedent to the issuance of such Additional Bonds:

1) The issuance of such Additional Bonds shall have been authorized under and pursuant to the Act and under and pursuant to the Indenture and shall have been provided for by a Supplemental Indenture which shall specify the following:

a) The application of the proceeds of the sale of such Additional Bonds; provided, however, that such proceeds shall be applied only to the refunding of any Bonds issued under the Indenture, to the payment of Costs of Issuance incurred in connection with the issuance of such Additional Bonds or to making a deposit to the Reserve Fund so as to increase the amount on deposit in accordance with the Indenture to the Reserve Requirement, or any combination thereof;

b) The principal amount and designation of such Series of Additional Bonds and the denomination or denominations of the Additional Bonds;

c) The date, the maturity date or dates, the interest payment dates and the dates on which mandatory sinking fund redemptions are to be made, if any, for such Additional Bonds; provided, that (i) the serial Bonds of such Series of Additional Bonds shall be payable as to principal annually on September 1 of each year in which principal falls due, and the term Bonds of such Series of Additional Bonds shall have annual mandatory sinking fund redemptions on September 1, (ii) the Additional Bonds shall be payable as to interest semiannually on March 1 and September 1 of each year, except that the first installment of interest may be payable on either March 1 or September 1 and shall be for a period of not longer than twelve months and the interest shall be payable thereafter semiannually on March 1 and September 1, (iii) all Additional Bonds of a

Series of like maturity shall be identical in all respects, except as to number or denomination, and (iv) serial maturities of serial Bonds or mandatory sinking fund redemptions for term Bonds, or any combination thereof, shall be established to provide for the redemption or payment of such Additional Bonds on or before their respective maturity dates;

- d) The redemption premiums and terms, if any, for such Additional Bonds;
 - e) The form of such Additional Bonds;
 - f) The amount to be deposited from the proceeds of sale of such Additional Bonds in the Reserve Fund; provided, that the Reserve Fund shall be increased at the time that such Additional Bonds become Outstanding to an amount at least equal to the Reserve Requirement, and an amount at least equal to the Reserve Requirement shall thereafter be maintained in the Reserve Fund; and
 - g) Such other provisions that are appropriate or necessary and are not inconsistent with the provisions of the Indenture;
- 2) Upon the issuance of such Additional Bonds, the City shall be in compliance with all agreements, conditions, covenants and terms contained under the Indenture and in all Supplemental Indentures required to be observed or performed by it; and
- 3) Annual Debt Service in each Bond Year, calculated for all Bonds to be Outstanding after the issuance of such Additional Bonds, shall be less than or equal to Annual Debt Service in such Bond Year, calculated for all Bonds Outstanding immediately prior to the issuance of such Additional Bonds;

Nothing contained under the Indenture shall limit the issuance of any special tax bonds payable from Special Taxes if, after the issuance and delivery of such special tax bonds, none of the Bonds theretofore issued under the Indenture will be Outstanding.

Procedure for the Issuance of Additional Bonds. At any time after the sale of any Additional Bonds in accordance with the Act, such Additional Bonds shall be executed by the City for issuance under the Indenture and shall be delivered to the Trustee and thereupon shall be authenticated and delivered by the Trustee, but only upon receipt by the Trustee of the following:

- 1) A certified copy of the Indenture or of the Supplemental Indenture authorizing the issuance of such Additional Bonds;
- 2) A Written Request of the City as to the delivery of such Additional Bonds;
- 3) An opinion of Bond Counsel substantially to the effect that (i) the Indenture and all Supplemental Indentures have been duly authorized, executed and delivered by, and constitute the valid and binding obligations of the City, enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights and by the application of equitable principles and by the exercise of judicial discretion in appropriate cases and subject to the limitations on legal remedies against political subdivisions in the State of California), (ii) such Additional Bonds constitute valid and binding special obligations of the City payable solely from Net Special Tax Revenues as provided under the Indenture and are enforceable in accordance with their terms (except as

enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights and by the application of equitable principles and by the exercise of judicial discretion in appropriate cases and subject to the limitations on legal remedies against political subdivisions in the State of California), and (iii) the issuance of such Additional Bonds, in and of itself, will not adversely affect the exclusion of interest on the Bonds Outstanding prior to the issuance of such Additional Bonds from gross income for federal income tax purposes;

- 4) The proceeds of the sale of such Additional Bonds; and
- 5) Such further documents or money as are required by the provision of the Indenture or by the provisions of the Supplemental Indenture authorizing the issuance of such Additional Bonds.

Additional Bonds. So long as any of the Bonds remain Outstanding, the City will not issue any Additional Bonds or obligations payable from Net Special Tax Revenues, except in accordance with the Indenture.

SECURITY FOR BONDS; FLOW OF FUNDS; INVESTMENTS

Pledge. Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth under the Indenture, all of the Net Special Tax Revenues and any other amounts (including proceeds of the sale of the Bonds) held in the Bond Fund, the Reserve Fund and the Redemption Fund are under the terms of the Indenture pledged to secure the payment of the principal of, premium, if any, and interest on the Bonds in accordance with their terms, the provisions of the Indenture and the Act. Said pledge shall constitute a first lien on such assets.

Special Tax Fund. The Trustee shall establish and maintain a separate fund designated the "Special Tax Fund." As soon as practicable after the receipt by the City of any Special Tax Revenues, but in any event no later than the date ten Business Days after such receipt, the City shall transfer such Special Tax Revenues to the Trustee for deposit in the Special Tax Fund; provided, however, that any portion of any such Special Tax Revenues that represents prepaid Special Taxes that are to be applied to the payment of the Redemption Price of Bonds shall be identified to the Trustee as such in writing by the City and shall be deposited in the Redemption Fund.

Upon receipt of a Written Request of the City, the Trustee shall withdraw from the Special Tax Fund and transfer to the Administrative Expense Fund the amount specified in such Written Request of the City as the amount necessary to be transferred thereto in order to have sufficient amounts available in accordance with the Indenture to pay Administrative Expenses.

On the Business Day immediately preceding each Interest Payment Date, after having made any requested transfer to the Administrative Expense Fund, the Trustee shall withdraw from the Special Tax Fund and transfer, first, to the Bond Fund, Net Special Tax Revenues in the amount, if any, necessary to cause the amount on deposit in the Bond Fund to be equal to the principal and interest due on the Bonds on such Interest Payment Date, and, second, to the Reserve Fund, Net Special Tax Revenues in the amount, if any, necessary to cause the amount on deposit in the Reserve Fund to be equal to the Reserve Requirement.

On September 2 of each year, after having made any requested transfer to the Administrative Expense Fund, the Trustee shall withdraw from the Special Tax Fund any amount remaining on deposit in accordance with the Indenture and shall transfer such amount to the Redemption Fund.

Bond Fund. The Trustee shall establish and maintain a separate fund designated the "Bond Fund." The Trustee shall deposit in the Bond Fund that amount set forth in this Official Statement under the caption "SOURCES AND USES OF FUNDS." There shall additionally be deposited in the Bond Fund the amounts required to be deposited in accordance with the Indenture. There shall additionally be deposited in the Bond Fund the portion, if any, of the proceeds of the sale of Additional Bonds required to be deposited in accordance with the Indenture under the Supplemental Indenture pursuant to which such Additional Bonds are issued.

In the event that, on the last Business Day preceding an Interest Payment Date, amounts in the Bond Fund are insufficient to pay the principal, if any, of and interest on the Bonds due and payable on such Interest Payment Date, including principal due and payable by reason of mandatory sinking fund redemption of such Bonds, the Trustee shall withdraw from the Reserve Fund, to the extent of any funds in accordance with the Indenture, the amount of such insufficiency, and shall transfer any amounts so withdrawn to the Bond Fund.

On each Interest Payment Date, the Trustee shall withdraw from the Bond Fund for payment to the Owners of the Bonds the principal, if any, of and interest then due and payable on the Bonds, including principal due and payable by reason of mandatory sinking fund redemption of such Bonds.

Redemption Fund. The Trustee shall establish and maintain a special fund designated the "Redemption Fund."

As soon as practicable after the receipt by the City of prepaid Special Taxes, but in any event not later than ten Business Days after such receipt, the City shall transfer such prepaid Special Taxes to the Trustee and, upon receipt thereof, the Trustee shall deposit the same in the Redemption Fund. On June 30 of each year through and including June 30, 2016, the City shall transfer to the Trustee Fair Share Fees received by the City during the Fiscal Year ending on such June 30 and required pursuant to the Protocol Agreement to be applied to the redemption of Bonds and, upon receipt thereof, the Trustee shall deposit the same in the Redemption Fund. On June 30 of each year through and including June 30, 2016, the City shall transfer to the Trustee all interest, profits and other income received from the investment of moneys in the Improvement Fund during the Fiscal Year ending on such June 30 and required pursuant to the Protocol Agreement to be applied to the redemption of Bonds and, upon receipt thereof, the Trustee shall deposit the same in the Redemption Fund. On September 2 of each year, the Trustee shall transfer to and deposit in the Redemption Fund any amount remaining on deposit in the Special Tax Fund on such date, in accordance with the Indenture. Amounts deposited in the Redemption Fund pursuant to this paragraph shall be disbursed therefrom on each September 1 for the payment of the Redemption Price of Series A Bonds redeemed in accordance with the Indenture.

The Trustee shall deposit in the Redemption Fund amounts received from the City in connection with the City's exercise of its rights to optionally redeem Series A Bonds in accordance with the Indenture or to optionally redeem Additional Bonds pursuant to the corresponding provisions of the Supplemental Indenture pursuant to which such Additional Bonds are issued. Amounts deposited in the Redemption Fund pursuant to this paragraph shall be disbursed therefrom for the payment of the Redemption Price of Series A Bonds optionally redeemed in accordance with the Indenture and for the payment of the Redemption Price of Additional Bonds optionally redeemed pursuant to the corresponding provisions of the Supplemental Indenture pursuant to which such Additional Bonds are issued.

Reserve Fund. The Trustee shall establish and maintain a special fund designated the "Reserve Fund." The Trustee shall deposit in the Reserve Fund that amount set forth in this Official Statement under the caption "SOURCES AND USES OF FUNDS." There shall additionally be deposited in the Reserve Fund, in connection with the issuance of Additional Bonds, the amount required to be deposited

in accordance with the Indenture under the Supplemental Indenture pursuant to which such Additional Bonds are issued.

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

So long as no Event of Default shall have occurred and be continuing, any amount in the Reserve Fund in excess of the Reserve Requirement on February 15 and August 15 of each year shall be withdrawn from the Reserve Fund by the Trustee and shall be deposited in the Bond Fund. Notwithstanding the foregoing before any such deposit shall be made, such amount shall be available for the payment of any rebate that may be owed under the Code, as specified in a Written Request of the City delivered to the Trustee.

Whenever the balance in the Reserve Fund exceeds the amount required to redeem or pay the Outstanding Bonds, including interest accrued to the date of payment or redemption and premium, if any, due upon redemption, the Trustee shall transfer the amount in the Reserve Fund to the Bond Fund or Redemption Fund, as applicable, to be applied, on the next succeeding Interest Payment Date to the payment and redemption of all of the Outstanding Bonds and the amounts required to be deposited therein in accordance with the Indenture.

Rebate Fund. The Trustee shall establish and maintain a special fund designated the "Rebate Fund." There shall be deposited in the Rebate Fund such amounts as are required to be deposited in accordance with the Indenture pursuant to the Tax Certificate, as specified in a Written Request of the City. All money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement, for payment to the United States of America. Notwithstanding defeasance of the Bonds pursuant to the Indenture or anything to the contrary contained under the Indenture, all amounts required to be deposited into or on deposit in the Rebate Fund shall be governed exclusively by and in accordance with the Indenture and by the Tax Certificate (which is incorporated under the Indenture by reference). The Trustee shall be deemed conclusively to have complied with such provisions if it follows the written directions of the City, and shall have no liability or responsibility to enforce compliance by the City with the terms of the Tax Certificate. The Trustee may conclusively rely upon the City's determinations, calculations and certifications required by the Tax Certificate.

Any funds remaining in the Rebate Fund after payment in full of all of the Bonds and after payment of any amounts in accordance with the Indenture, shall, upon receipt by the Trustee of a Written Request of the City, be withdrawn by the Trustee and remitted to the City.

Administrative Expense Fund. The Trustee shall establish and maintain a special fund designated the "Administrative Expense Fund." The Trustee shall deposit in the Administrative Expense Fund that amount set forth in this Official Statement under the caption "SOURCES AND USES OF FUNDS." There shall additionally be deposited in the Administrative Expense Fund the amounts transferred from the Special Tax Fund and required to be deposited in accordance with the Indenture.

The moneys in the Administrative Expense Fund shall be used and withdrawn by the Trustee from time to time to pay the Administrative Expenses upon submission of a Written Request of the City stating (a) the Person to whom payment is to be made, (b) the amount to be paid, (c) the purpose for

which the obligation was incurred, (d) that such payment is a proper charge against the Administrative Expense Fund, and (e) that such amounts have not been the subject of a prior disbursement from the Administrative Expense Fund; in each case together with a statement or invoice for each amount requested in accordance with the Indenture.

Investment of Moneys. Except as otherwise provided under the Indenture, all moneys in any of the funds or accounts established pursuant to the Indenture and held by the Trustee shall be invested by the Trustee solely in Permitted Investments, as directed in writing by the City two Business Days prior to the making of such investment. Moneys in all funds and accounts held by the Trustee shall be invested in Permitted Investments maturing not later than the date on which it is estimated that such moneys will be required for the purposes specified in the Indenture; provided, however, that Permitted Investments in which moneys in the Reserve Fund are so invested shall mature no later than the earlier of five years from the date of investment or the final maturity date of the Bonds; provided, further, that if such Permitted Investments may be redeemed at par so as to be available on each Interest Payment Date, any amount in the Reserve Fund may be invested in such redeemable Permitted Investments maturing on any date on or prior to the final maturity date of the Bonds. Absent timely written direction from the City, the Trustee shall invest any funds held by it in Permitted Investments described in clause (h) of the definition thereof.

Subject to the provisions of the Indenture, all interest, profits and other income received from the investment of moneys in any fund or account established pursuant to the Indenture and held by the Trustee shall be retained in accordance with the Indenture.

Permitted Investments acquired as an investment of moneys in any fund established under the Indenture shall be credited to such fund. For the purpose of determining the amount in any fund, all Permitted Investments credited to such fund shall be valued by the Trustee at the market value thereof, such valuation to be performed not less frequently than semiannually on or before each February 15 and August 15.

The Trustee may act as principal or agent in the making or disposing of any investment. Upon the Written Request of the City, the Trustee shall sell or present for redemption any Permitted Investments so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Permitted Investments is credited, and the Trustee shall not be liable or responsible for any loss resulting from any investment made or sold in accordance with the Indenture. For purposes of investment, the Trustee may commingle moneys in any of the funds and accounts established under the Indenture.

COVENANTS OF THE CITY

Collection of Special Tax Revenues. The City shall comply with all requirements of the Act so as to assure the timely collection of Special Tax Revenues, including without limitation, the enforcement of delinquent Special Taxes.

Prior to August 1 of each year, the City shall ascertain from the Auditor the relevant parcels on which the Special Taxes are to be levied, taking into account any parcel splits during the preceding and then current year. The City shall effect the levy of the Special Taxes each Fiscal Year in accordance with the Ordinance by each August 1 that the Bonds are Outstanding, or otherwise such that the computation of the levy is complete before the final date on which Auditor will accept the transmission of the Special Tax amounts for the parcels within the District for inclusion on the next real property tax roll. Upon the completion of the computation of the amounts of the levy, the City shall prepare or cause to be prepared, and shall transmit to the Auditor, such data as the Auditor requires to include the levy of the Special Taxes on the next real property tax roll.

The City shall fix and levy the amount of Special Taxes within the District in accordance with the Rate and Method, but in any event, subject to the limitations in the Rate and Method as to the maximum Special Tax that may be levied, in an amount sufficient to yield the amount required for the payment of principal of and interest on any Outstanding Bonds becoming due and payable during the ensuing year, including any necessary replenishment of the Reserve Fund and an amount estimated to be sufficient to pay the Administrative Expenses during such year, taking into account the balances in such funds and in the Special Tax Fund. The Special Taxes so levied shall not exceed the authorized amounts as provided in the proceedings pursuant to the Resolution of Formation.

The Special Taxes shall be payable and be collected in the same manner and at the same time and in the same installment as the general taxes on real property are payable, and have the same priority, become delinquent at the same time and in the same proportionate amounts and bear the same proportionate penalties and interest after delinquency as do the *ad valorem* taxes on real property.

The City shall not amend the Rate and Method so as to reduce the maximum Special Tax that may be levied so long as the Series A Bonds are Outstanding without the written consent of the Insurer.

Foreclosure. Pursuant to Section 713 of the Act, the City under the terms of the Indenture covenants with and for the benefit of the Owners of the Bonds that it will determine or cause to be determined, no later than September 15 of each year, whether or not any owners of property within the District are delinquent in the payment of Special Taxes and, if such delinquencies exist, the City will order and cause to be commenced no later than November 1, and thereafter diligently prosecute, an action in the superior court to foreclose the lien of any Special Taxes or installment thereof not paid when due; provided, however, that the City shall not be required to order the commencement of foreclosure proceedings if (a) the total Special Tax delinquency in the District for such Fiscal Year is less than 5% of the total Special Tax levied in such Fiscal Year, and (b) the amount then on deposit in the Reserve Fund is equal to the Reserve Requirement. Notwithstanding the foregoing, if the City determines that any single property owner in the District is delinquent in excess of \$5,000 in the payment of the Special Tax, then it will diligently institute, prosecute and pursue foreclosure proceedings against such property owner.

Punctual Payment. The City shall punctually pay or cause to be paid the principal, premium, if any, and interest to become due in respect of all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of Net Special Tax Revenues and other assets pledged for such payment as provided in the Indenture and received by the City or the Trustee.

Extension of Payment of Bonds. The City shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing shall be deemed to limit the right of the City to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of the Bonds.

Against Encumbrances. The City shall not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Special Tax Revenues and other assets pledged under the Indenture while any of the Bonds are Outstanding, except as permitted by the Indenture.

Power to Issue Bonds and Make Pledge and Assignment. The City is duly authorized pursuant to the Act to issue the Bonds and to enter into the Indenture and to pledge the Net Special Tax Revenues and other assets pledged under the Indenture in the manner and to the extent provided in the Indenture. The Bonds and the provisions of the Indenture are and will be the legal, valid and binding special obligations of the City in accordance with their terms, and the City and the Trustee (subject to the terms of the Indenture) shall at all times, to the extent permitted by law, defend, preserve and protect said pledge of Net Special Tax Revenues and other assets and all the rights of the Bond Owners under the Indenture against all claims and demands of all Persons whomsoever.

Accounting Records and Financial Statements. The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with trust industry standards, in which complete and accurate entries shall be made of all transactions relating to the proceeds of the Bonds, the Special Tax Revenues and all funds and accounts established pursuant to the Indenture. Such books of record and account shall be available for inspection by the City, during regular business hours and upon 24 hours' notice and under reasonable circumstances as agreed to by the Trustee. The Trustee shall deliver to the City a monthly accounting of the funds and accounts it holds under the Indenture.

Tax Covenants. The City shall not 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 Series A Bonds under Section 103 of the Code. Without limiting the generality of the foregoing, the City shall comply with the requirements of the Tax Certificate, which is incorporated under the Indenture as if fully set forth under the Indenture. This covenant shall survive payment in full or defeasance of the Bonds.

In the event that at any time the City is of the opinion that for purposes of the Indenture it is necessary or helpful to restrict or limit the yield on the investment of any moneys held by the Trustee in any of the funds or accounts established under the Indenture, the City shall so instruct the Trustee in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions.

Notwithstanding any provisions of the Indenture, if the City shall provide to the Trustee an opinion of Bond Counsel to the effect that any specified action required under and in accordance with the Indenture is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest on the Series A Bonds, the Trustee may conclusively rely on such opinion in complying with the requirements of the Indenture and of the Tax Certificate, and the covenants under the Indenture shall be deemed to be modified to that extent.

Continuing Disclosure to Owners. The City and the Trustee under the terms of the Indenture covenant and agree that they will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Indenture, failure of the City or the Trustee to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; provided, however, that the Trustee may (and, at the written direction of any Participating Underwriter or the holders of at least 25% aggregate principal amount of Outstanding Series A Bonds, shall) or any holder or beneficial owner of the Series A Bonds may, take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

Further Assurances. The City will make, execute and deliver any and all such further agreements, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture and for the better assuring and confirming unto the Owners of the Bonds of the rights and benefits provided in the Indenture.

EVENTS OF DEFAULT AND REMEDIES OF BOND OWNERS

Events of Default. The following events shall be Events of Default:

1) Failure to pay any installment of principal of any Bonds when and as the same shall become due and payable, whether at maturity as in accordance with the Indenture expressed, by proceedings for redemption or otherwise.

2) Failure to pay any installment of interest on any Bonds when and as the same shall become due and payable.

3) Failure by the City to observe and perform any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, if such failure shall have continued for a period of 60 days after written notice thereof, specifying such failure and requiring the same to be remedied, shall have been given to the City by the Trustee or the Owners of not less than 5% in aggregate principal amount of the Bonds at the time Outstanding; provided, however, if in the reasonable opinion of the City the failure stated in the notice can be corrected, but not within such 60 day period, such failure shall not constitute an Event of Default if corrective action is instituted by the City within such 60 day period and the City shall thereafter diligently and in good faith cure such failure in a reasonable period of time, provided, further, however, that such period shall not be extended beyond 30 days without the consent of the Insurer.

4) The City shall commence a voluntary case under Title 11 of the United States Code or any substitute or successor statute.

Foreclosure. If any Event of Default shall occur under subparagraphs (1) or (2) immediately above, then, and in each and every such case during the continuance of such Event of Default, the Trustee may, or at the direction of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding shall, commence foreclosure against any parcels of land in the District with delinquent Special Taxes, as provided in Section 713 of the Act.

Other Remedies. If an event of Default shall have occurred under the Indenture, the Trustee shall have the right:

1) by mandamus, suit, action or proceeding, to compel the City and its officers, agents or employees to perform each and every term, provision and covenant contained in the Indenture and in the Bonds, and to require the carrying out of any or all such covenants and agreements of the City and the fulfillment of all duties imposed upon it by the Indenture and the Act;

2) by suit, action or proceeding in equity, to enjoin any acts or things which are unlawful, or the violation of any of the Trustee's or Bond Owners' rights; or

3) by suit, action or proceeding in any court of competent jurisdiction, to require the City and its officers and employees to account as if it and they were the trustees of an express trust.

Application of Net Special Tax Revenues After Default. If an Event of Default shall occur and be continuing, all Net Special Tax Revenues and any other funds thereafter received by the Trustee under

any of the provisions of the Indenture shall be applied by the Trustee as follows and in the following order:

1) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners of the Bonds and payment of reasonable fees, charges and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture;

2) To the payment of the principal of and interest then due with respect to the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Indenture, as follows:

a) First: To the payment to the Persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the Persons entitled thereto, without any discrimination or preference; and

b) Second: To the payment to the Persons entitled thereto of the unpaid principal of any Bonds which shall have become due, whether at maturity or by call for redemption, with interest on the overdue principal at the rate borne by the respective Bonds on the date of maturity or redemption, and, if the amount available shall not be sufficient to pay in full all the Bonds, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the Persons entitled thereto, without any discrimination or preference.

3) Any remaining funds shall be transferred by the Trustee to the Bond Fund.

Power of Trustee to Enforce. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of the Owners of such Bonds, subject to the provisions of the Indenture.

Bond Owners' Direction of Proceedings. Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnification of the Trustee to its reasonable satisfaction, to direct the method of conducting all remedial proceedings taken by the Trustee under the Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bond Owners not parties to such direction.

Limitation on Bond Owners' Right to Sue. No Owner of any Bonds shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Act or any other applicable law with respect to such Bonds, unless (a) such Owner shall have given to the Trustee written notice of the occurrence of an Event of Default, (b) the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, shall have made written request upon the Trustee to exercise the powers granted under the Indenture or to institute such suit, action or proceeding in its own name, (c) such Owner or said Owners shall have tendered to the Trustee proof of the consent of the Insurer and indemnity against the costs, expenses and liabilities to be

incurred in compliance with such request, and (d) the Trustee shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are under the terms of the Indenture declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of Bonds, or to enforce any right under the Bonds, the Indenture, the Act or other applicable law with respect to the Bonds, except in the manner under the Indenture provided, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner under the Indenture provided and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

Absolute Obligation of City. Nothing in the Indenture or in the Bonds contained shall affect or impair the obligation of the City, which is absolute and unconditional, to pay the principal of and interest on the Bonds to the respective Owners of the Bonds at their respective dates of maturity, or upon call for redemption, as under the Indenture provided, but only out of the Special Tax Revenues and other assets under the Indenture pledged therefor and received by the City or the Trustee, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds.

Termination of Proceedings. In case any proceedings taken by the Trustee or any one or more Bond Owners on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Bond Owners, then in every such case the City, the Trustee and the Bond Owners, subject to any determination in such proceedings, shall be restored to their former positions and rights under the Indenture, severally and respectively, and all rights, remedies, powers and duties of the City, the Trustee and the Bond Owners shall continue as though no such proceedings had been taken.

Remedies Not Exclusive. No remedy under the Indenture conferred upon or reserved to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given under the Indenture or now or hereafter existing at law or in equity or otherwise.

No Waiver of Default. No delay or omission of the Trustee or of any Owner of the Bonds to exercise any right or power arising upon the occurrence of any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence in accordance with the Indenture, and every power and remedy given by the Indenture to the Trustee or to the Owners of the Bonds may be exercised from time to time and as often as may be deemed expedient.

THE TRUSTEE

Duties and Liabilities of Trustee. *Duties of Trustee Generally.* The Trustee shall act as trustee under the Indenture in accordance with the express terms of the Indenture. The Trustee shall, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, perform such duties and only such duties as are expressly and specifically set forth in the Indenture. The Trustee shall, during the existence of any Event of Default which has not been cured, exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

Removal of Trustee. The City may upon 30 days prior written notice remove the Trustee at any time unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee if at any time requested to do so by the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy) or by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee shall cease to be eligible in accordance with the qualifications set forth below under the caption "*Qualifications of Trustee*," or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee and thereupon shall appoint a successor Trustee by an instrument in writing.

Resignation of Trustee. The Trustee may at any time resign by giving written notice of such resignation by first class mail, postage prepaid, to the City, and to the Bond Owners notice of such resignation at the respective addresses shown on the Registration Books. Upon receiving such notice of resignation, the City shall promptly appoint a successor Trustee by an instrument in writing. The Trustee shall not be relieved of its duties until such successor Trustee has accepted appointment.

Appointment of Successor Trustee. Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee; *provided*, however, that under any circumstances the successor Trustee shall be qualified as set forth below under the caption "*Qualifications of Trustee*." If no qualified successor Trustee shall have been appointed and have accepted appointment within 45 days following giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any Bond Owner (on behalf of himself and all other Bond Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Indenture shall signify its acceptance of such appointment by executing and delivering to the City and to its predecessor Trustee a written acceptance thereof, and to the predecessor Trustee an instrument indemnifying the predecessor Trustee for any costs or claims arising during the time the successor Trustee serves as Trustee under the Indenture, and after payment by the City of all unpaid fees and expenses of the predecessor Trustee, the such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee under the Indenture; but, nevertheless at the Written Request of the City or the request of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions under the Indenture set forth. Upon request of the successor Trustee, the City shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in the Indenture, the City shall mail or cause the successor Trustee to mail, by first class mail postage prepaid, a notice of the succession of such Trustee to the trusts under the Indenture to each rating agency which then maintains a rating on the Bonds and to the Bond Owners at the

addresses shown on the Registration Books. If the City fails to mail such notice within 15 days after acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notice to be mailed at the expense of the City.

Qualifications of Trustee. The Trustee shall be a trust company or bank having the powers of a trust company, having (or if such bank or trust company is a member of a bank holding company system, its parent bank holding company shall have) a combined capital and surplus of at least \$50,000,000, and subject to supervision or examination by federal or state agency. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining agency above referred to, then for the purpose of the Indenture the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

In case at any time the Trustee shall cease to be eligible in accordance with the provisions set forth above, the Trustee shall resign immediately in the manner and with the effect specified in the Indenture.

Merger or Consolidation. Any bank or trust company into which the Trustee may be merged or converted or with which it may be consolidated or any bank or trust company resulting from any merger, conversion or consolidation to which it shall be a party or any bank or trust company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such bank or trust company shall be eligible as set forth hereinabove under the caption "*Qualifications of Trustee*," shall be the successor to such Trustee, without the execution or filing of any paper or any further act, anything under the Indenture to the contrary notwithstanding.

Liability of Trustee. The recitals of facts under the Indenture and in the Bonds contained shall be taken as statements of the City, and the Trustee shall not assume any responsibility or liability for the correctness of the same, or make any representations as to the validity or sufficiency of the Indenture or of the Bonds or shall incur any responsibility in respect thereof, other than as expressly stated under the Indenture in connection with the respective duties or obligations under the Indenture or in the Bonds assigned to or imposed upon it. The Trustee shall, however, be responsible for its representations contained in its certificate of authentication on the Bonds. The Trustee makes no representations as to the validity or sufficiency of the Indenture or of any Bonds, or in respect of the security afforded by the Indenture and the Trustee shall incur no responsibility or liability in respect thereof. The Trustee shall be under no responsibility or duty with respect to: (i) the issuance of the Bonds for value, (ii) the application of the proceeds thereof except to the extent that such proceeds are received by it in its capacity as Trustee, or (iii) the application of any moneys paid to the City or others in accordance with the Indenture. The Trustee shall not be liable in connection with the performance of its duties under the Indenture, except for its own negligence or willful misconduct. The Trustee shall not be liable for any action taken or omitted by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by the Indenture. The Trustee may become the Owner of Bonds with the same rights it would have if it were not Trustee, and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bond Owners, whether or not such committee shall represent the Owners of a majority in aggregate principal amount of the Bonds then Outstanding.

The Trustee shall not be liable for any error of judgment made in good faith by a responsible officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Indenture.

Right to Rely on Documents. The Trustee shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, bonds or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, who may be counsel of or to the City, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it under the Indenture in good faith and in accordance therewith; provided, however, the Trustee shall in no event delay any payment with respect to the Bonds in anticipation of any such opinion.

Whenever in the administration of the duties imposed upon it by the Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Indenture, such matter (unless other evidence in respect thereof be under the Indenture specifically prescribed) may be deemed to be conclusively proved and established by a Written Certificate of the City, and such Written Certificate shall be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of the Indenture in reliance upon such Written Certificate, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as it may deem reasonable.

Preservation and Inspection of Documents. All documents received by the Trustee under the provisions of the Indenture shall be retained in its possession and shall be subject during business hours and upon 24 hours' notice to the inspection of the City, the Owners and their agents and representatives duly authorized in writing.

Compensation and Indemnification. Subject to the terms of the Indenture, the City shall pay to the Trustee from time to time all reasonable compensation for all services rendered under the Indenture, and shall reimburse the Trustee for all reasonable expenses, charges, legal and consulting fees and other disbursements and those of its attorneys, agents and employees, incurred in and about the performance of its powers and duties under the Indenture. Subject to the terms of the Indenture, the City further agrees, to the extent permitted by law, to indemnify and save the Trustee harmless from and against any liabilities which it may suffer or incur in the exercise and performance of its powers and duties under the Indenture and under any related documents, including the enforcement of any remedies and the defense of any suit, and which are not due to its negligence or its willful misconduct. The duty of the City to indemnify the Trustee shall survive the termination and discharge of the Indenture.

MODIFICATION OR AMENDMENT

Amendments Permitted. The Indenture and the rights and obligations of the City, the Owners of the Bonds and the Trustee may be modified or amended from time to time and at any time by a Supplemental Indenture, which the City and the Trustee may enter into with the written consent of the Insurer and the Owners of a majority in aggregate principal amount of all Bonds then Outstanding, which shall have been filed with the Trustee. No such modification or amendment shall (i) extend the fixed

maturity of any Bonds, or reduce the amount of principal thereof or the rate of interest thereon, or extend the time of payment, without the consent of the Owner of each Bond so affected, (ii) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required to effect any such modification or amendment, without the consent of the Owners of all of the Bonds then Outstanding, or (iii) permit the creation of any lien on the Net Special Tax Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture or deprive the Owners of the Bonds of the lien created by the Indenture on such Special Tax Revenues and other assets (except as expressly provided in the Indenture), without the consent of the Owners of all of the Bonds then Outstanding. It shall not be necessary for the consent of the Bond Owners to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof.

The Indenture and the rights and obligations of the City, the Trustee and the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the City and the Trustee may enter into without the consent of any Bond Owners for any one or more of the following purposes:

1) to add to the covenants and agreements of the City in the Indenture contained other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power under the Indenture reserved to or conferred upon the City;

2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision contained in the Indenture; provided that the Insurer shall have consented to such Supplemental Indenture entered into for the purposes of this paragraph, which consent shall not be unreasonably withheld;

3) to provide for the issuance of one or more Series of Additional Bonds, and to provide the terms and conditions under which such Series of Additional Bonds may be issued, subject to and in accordance with the Indenture;

4) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute;

5) to modify, amend or supplement the Indenture in such manner as to cause interest on the Bonds to be excludable from gross income for purposes of federal income taxation by the United States of America; and

6) in any other respect whatsoever as the City may deem necessary or desirable, provided that such modification or amendment does not materially adversely affect the interests of the Bond Owners under the Indenture, in the opinion of Bond Counsel filed with the City and the Trustee, and provided that the Insurer shall have consented to such Supplemental Indenture entered into for the purposes of this paragraph, which consent shall not be unreasonably withheld.

Promptly after the execution by the City and the Trustee of any Supplemental Indenture, the Trustee shall mail a notice (the form of which shall be furnished to the Trustee by the City), by first class mail postage prepaid, setting forth in general terms the substance of such Supplemental Indenture, to the Insurer and to the Owners of the Bonds at the respective addresses shown on the Registration Books. Any failure to give such notice, or any defect in accordance with the Indenture, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture, the Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the City, the Trustee and all Owners of Bonds Outstanding shall thereafter be determined, exercised and enforced under the Indenture subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Endorsement of Bonds; Preparation of New Bonds. Bonds delivered after the execution of any Supplemental Indenture may, and if the City so determines shall, bear a notation by endorsement or otherwise in form approved by the City and the Trustee as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand of the Owner of any Bonds Outstanding at the time of such execution and presentation of his Bonds for the purpose at the Office of the Trustee a suitable notation shall be made on such Bonds. If the Supplemental Indenture shall so provide, new Bonds so modified as to conform, in the opinion of the City and the Trustee, to any modification or amendment contained in such Supplemental Indenture, shall be prepared and executed by the City and authenticated by the Trustee, and upon demand of the Owners of any Bonds then Outstanding shall be exchanged at the Office of the Trustee, without cost to any Bond Owner, for Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amount of the same interest rate and maturity.

DEFEASANCE

Discharge of Indenture. If the City shall pay or cause to be paid or there shall otherwise be paid to the Owners of all Outstanding Bonds the principal thereof and the interest and premium, if any, thereon at the times and in the manner stipulated under the Indenture and in accordance with the Indenture, then the Owners of such Bonds shall cease to be entitled to the pledge of the Net Special Tax Revenues and the other assets as provided under the Indenture, and all agreements, covenants and other obligations of the City to the Owners of such Bonds under the Indenture shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee shall execute and deliver to the City all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over or deliver to the City all money or securities held by it pursuant to the Indenture which are not required for the payment of the principal of and interest and premium, if any, on such Bonds.

Subject to the provisions of the above paragraph, when any of the Bonds shall have been paid and if, at the time of such payment, the City shall have kept, performed and observed all of the covenants and promises in such Bonds and in the Indenture required or contemplated to be kept, performed and observed by the City or on its part on or prior to that time, then the Indenture shall be considered to have been discharged in respect of such Bonds and such Bonds shall cease to be entitled to the lien of the Indenture and such lien and all covenants, agreements and other obligations of the City under the Indenture shall cease, terminate become void and be completely discharged as to such Bonds.

Notwithstanding the satisfaction and discharge of the Indenture or the discharge of the Indenture in respect of any Bonds, those provisions of the Indenture relating to the maturity of the Bonds, interest payments and dates thereof, exchange and transfer of Bonds, replacement of mutilated, destroyed, lost or stolen Bonds, the safekeeping and cancellation of Bonds, non-presentment of Bonds, and the duties of the Trustee in connection with all of the foregoing, shall remain in effect and shall be binding upon the Trustee and the Owners of the Bonds and the Trustee shall continue to be obligated to hold in trust any moneys or investments then held by the Trustee for the payment of the principal of and interest and premium, if any, on the Bonds, to pay to the Owners of Bonds the funds so held by the Trustee as and when such payment becomes due. Notwithstanding the satisfaction and discharge of the Indenture or the

discharge of the Indenture in respect of any Bonds, those provisions of the Indenture relating to the compensation of the Trustee shall remain in effect and shall be binding upon the Trustee and the City.

Bonds Deemed To Have Been Paid. If moneys shall have been set aside and held by the Trustee for the payment or redemption of any Bonds and the interest thereon at the maturity or redemption date thereof, such Bonds shall be deemed to have been paid under the terms of the Indenture. Any Outstanding Bonds shall prior to the maturity date or redemption date thereof be deemed to have been paid under the terms of the Indenture if (a) in case any of such Bonds are to be redeemed on any date prior to their maturity date, the City shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail, on a date in accordance with the Indenture, notice of redemption of such Bonds on said redemption date, said notice to be given in accordance with the Indenture, (b) there shall have been deposited with the Trustee either (i) money in an amount which shall be sufficient, or (ii) non-callable Federal Securities that are not subject to redemption other than at the option of the holder thereof, the interest on and principal of which when paid will provide money which, together with the money, if any deposited with the Trustee at the same time, shall be sufficient to pay when due the interest to become due on such Bonds on and prior to the maturity date or redemption date thereof, as the case may be, and the principal of and premium, if any, on such Bonds, and (c) in the event such Bonds are not by their terms subject to redemption within the next succeeding 60 days, the City shall have given the Trustee in form satisfactory to it irrevocable instructions to mail as soon as practicable, a notice to the owners of such Bonds that the deposit required by clause (b) above has been made with the Trustee and that such Bonds, are deemed to have been paid in accordance with the Indenture and stating the maturity date or redemption date upon which money is to be available for the payment of the principal of and premium, if any, on such Bonds.

In order for any Outstanding Bonds to be deemed to have been paid under the terms of the Indenture prior to the maturity date or redemption date thereof, the City shall cause to be delivered (a) a report of an independent firm of nationally recognized certified public accountants as shall be acceptable to the Insurer verifying the sufficiency of the escrow established to pay the Bonds in full on the maturity or redemption date ("Verification"), and (b) an opinion of nationally recognized bond counsel to the effect that the Bonds are no longer "Outstanding" under the Indenture; each Verification and defeasance opinion shall be acceptable in form and substance to the City and the Insurer, and shall be addressed to the City, the Trustee and the Insurer.

Payment of Bonds After Discharge of Indenture. Notwithstanding any provisions of the Indenture, to the extent permitted by law, any moneys held by the Trustee in trust for the payment of the principal of, or premium or interest on, any Bonds and remaining unclaimed for two years after the date of deposit of such moneys, shall be repaid to the City free from the trusts created by the Indenture, and all liability of the Trustee with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the City as aforesaid, the Trustee may (at the cost of the City) first mail, by first class mail postage prepaid, to the Owners of Bonds which have not yet been paid, at the respective addresses shown on the Registration Books, a notice, in such form as may be deemed appropriate by the Trustee with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the City of the moneys held for the payment thereof.

INSURANCE POLICY PROVISIONS

Insurer To Be Deemed Owner; Rights of the Insurer; Payments by the Insurer; Notices. Notwithstanding any provision of the Indenture to the contrary, so long as the Insurer is not in default in its payment obligations under the Insurance Policy, the Insurer shall at all times be deemed the sole and exclusive Owner of the Outstanding Bonds for the purposes of all approvals, consents, waivers, institution of any action, and the direction of all remedies, including but not limited to approval of or consent to any

amendment of or supplement to the Indenture which requires the consent or approval of the Owners of a majority in aggregate principal amount of Bonds then Outstanding pursuant to the Indenture; provided, however, that the Insurer shall not be deemed to be the sole and exclusive Owner of the Outstanding Series A Bonds with respect to any amendment or supplement to the Indenture which seeks to amend or supplement the Indenture, and provided further that the Insurer shall not be deemed the sole and exclusive Owner of the Outstanding Series A Bonds with respect to any amendment or supplement to the Indenture, and shall not have the right to direct or consent to City, Trustee or Owner action as provided under the Indenture (except to the extent of amounts previously paid by the Insurer and due and owing to the Insurer), if:

- (i) the Insurer shall be in payment default under the Insurance Policy;
- (ii) any material provision of the Insurance Policy shall be held to be invalid by a final, non-appealable order of a court of competent jurisdiction, or the validity or enforceability thereof shall be contested by the Insurer; or
- (iii) a proceeding shall have been instituted in a court having jurisdiction in the premises seeking an order for relief, rehabilitation, reorganization, conservation, liquidation or dissolution in respect of the Insurer under Article 16 of the Insurance Law of the State of New York or any successor provision thereto and such proceeding is not terminated for a period of 90 consecutive days or such court enters an order granting the relief sought in such proceeding.

To the extent that the Insurer makes payment of any principal of or interest on a Series A Bond, it shall be fully subrogated to all of the Owner's rights in accordance with the Indenture in accordance with the terms of the Insurance Policy to the extent of such payment, including the Owner's rights to payment thereof.

In the event that the principal of or interest on a Series A Bond shall be paid by the Insurer pursuant to the terms of the Insurance Policy (i) such Series A Bond shall continue to be "outstanding" under the Indenture, and (ii) the Insurer shall be fully subrogated to all of the rights of such Owner in accordance with the terms and conditions of the Insurance Policy.

The Indenture shall not be discharged unless and until all amounts due to the Insurer have been paid in full or duly provided for.

The rights granted under the Indenture to the Insurer to request, consent to or direct any action are rights granted to the Insurer in consideration of its issuance of the Insurance Policy. Any exercise by the Insurer of such rights is merely an exercise of the Insurer's contractual rights and shall not be construed or deemed to be taken for the benefit of or on behalf of the Owners, nor does such action evidence any position of the Insurer, positive or negative, as to whether Owner consent is required in addition to consent of the Insurer.

No modification, amendment or supplement to the Indenture shall become effective except upon obtaining the prior written consent of the Insurer. Copies of any modification, amendment or supplement to the Indenture shall be sent to Moody's and S&P at least ten days prior to the effective date thereof.

Deposits to Policy Payments Account; Payments Under the Insurance Policy. So long as the Insurance Policy shall be in full force and effect, the City and the Trustee under the terms of the Indenture agree to comply with the provisions of the Indenture.

If, on the third Business Day prior to the related scheduled interest payment date or principal payment date ("Payment Date") there is not on deposit with the Trustee, after making all transfers and deposits required under the Indenture, moneys sufficient to pay the principal of and interest on the Series A Bonds due on such Payment Date, the Trustee shall give notice to the Insurer and to its designated agent (if any) (the "Insurer's Fiscal Agent") by telephone or telecopy of the amount of such deficiency by 12:00 noon, New York City time, on such Business Day. If, on the second Business Day prior to the related Payment Date, there continues to be a deficiency in the amount available to pay the principal of and interest on the Series A Bonds due on such Payment Date, the Trustee shall make a claim under the Insurance Policy and give notice to the Insurer and the Insurer's Fiscal Agent (if any) by telephone of the amount of such deficiency, and the allocation of such deficiency between the amount required to pay interest on the Series A Bonds and the amount required to pay principal of the Series A Bonds, confirmed in writing to the Insurer and the Insurer's Fiscal Agent by 12:00 noon, New York City time, on such second Business Day by filling in the form of Notice of Claim and Certificate delivered with the Insurance Policy.

In the event the claim to be made is for a mandatory sinking fund redemption installment, upon receipt of the moneys due, the Trustee shall authenticate and deliver to affected Owners who surrender their Series A Bonds a new Series A Bond or Series A Bonds in an aggregate principal amount equal to the unredeemed portion of the Series A Bond surrendered. The Trustee shall designate any portion of payment of principal on Series A Bonds paid by the Insurer, whether by virtue of mandatory sinking fund redemption, maturity or other advancement of maturity, on its books as a reduction in the principal amount of Series A Bonds registered to the then current Owner, whether DTC or its nominee or otherwise, and shall issue a replacement Series A Bond to the Insurer, registered in the name of Financial Security Assurance Inc., in a principal amount equal to the amount of principal so paid (without regard to authorized denominations); provided, however, that the Trustee's failure to so designate any payment or issue any replacement Series A Bond shall have no effect on the amount of principal or interest payable by the City on any Series A Bond or the subrogation rights of the Insurer.

Upon payment of a claim under the Insurance Policy, the Trustee shall establish a separate special purpose trust account for the benefit of Owners of Series A Bonds referred to under the Indenture as the "Policy Payments Account" and over which the Trustee shall have exclusive control and sole right of withdrawal. The Trustee shall receive any amount paid under the Insurance Policy in trust on behalf of Owners of Series A Bonds and shall deposit any such amount in the Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be disbursed by the Trustee to Owners of Series A Bonds in the same manner as principal and interest payments are to be made with respect to the Series A Bonds under the provisions of the Indenture regarding payment of Series A Bonds. It shall not be necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to pay debt service with other funds available to make such payments. Funds held in the Policy Payments Account shall not be invested by the Trustee and may not be applied to satisfy any costs, expenses or liabilities of the Trustee. Any funds remaining in the Policy Payments Account following a Bond Payment Date shall promptly be remitted to the Insurer.

The Trustee shall keep a complete and accurate record of all funds deposited by the Insurer into the Policy Payments Account and the allocation of such funds to payment of interest on and principal paid in respect of any Series A Bond. The Insurer shall have the right to inspect such records at reasonable times upon reasonable notice to the Trustee.

The City shall, to the extent permitted by law and subject to the terms of the Indenture, pay or reimburse the Insurer any and all Insurer Expenses.

The Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of the Indenture.

The Insurer shall be entitled to pay principal of or interest on the Series A Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the City (as such terms are defined in the Insurance Policy), whether or not the Insurer has received a Notice of Nonpayment (as such terms are defined in the Insurance Policy) or a claim upon the Insurance Policy.

MISCELLANEOUS

Limited Obligation. All obligations of the City under the Indenture shall be special obligations of the City, payable solely from Special Tax Revenues and the other assets pledged therefor under the Indenture; provided, however, that all obligations of the City under the Bonds shall be special obligations of the City, payable solely from Net Special Tax Revenues and the other assets pledged therefor under the Indenture. Neither the faith and credit nor the taxing power of the City (except to the limited extent set forth under the Indenture) or the State of California, or any political subdivision thereof, is pledged to the payment of the Bonds.

Successor Is Deemed Included in All References to Predecessor. Whenever in the Indenture either the City or the Trustee is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in the Indenture contained by or on behalf of the City or the Trustee shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Limitation of Rights to Parties and Bond Owners. Nothing in the Indenture or in the Bonds expressed or implied is intended or shall be construed to give to any Person other than the Trustee, the City, the Insurer and the Owners of the Bonds, any legal or equitable right, remedy or claim under or in respect of the Indenture or any covenant, condition or provision in accordance with the Indenture or under the Indenture contained, and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the Trustee, the City, the Insurer and the Owners of the Bonds. The Insurer is a third-party beneficiary of the Indenture.

Waiver of Notice; Requirement of Mailed Notice. Whenever in the Indenture the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the Person entitled to receive such notice and in any such case the giving or receipt of such notice shall not be a condition precedent to the validity of any action taken in reliance upon such waiver. Whenever in the Indenture any notice shall be required to be given by mail, such requirement shall be satisfied by the deposit of such notice in the United States mail, postage prepaid, by first class mail.

Destruction of Bonds. Whenever in the Indenture provision is made for the cancellation by the Trustee and the delivery to the City of any Bonds, the Trustee may, upon the Written Request of the City, in lieu of such cancellation and delivery, destroy such Bonds (in the presence of an officer of the City, if the City shall so require) as may be allowed by law, and deliver a certificate of such destruction to the City.

Severability of Invalid Provisions. If any one or more of the provisions contained in the Indenture or in the Bonds shall for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions shall be deemed severable from the remaining provisions contained in the Indenture and such invalidity, illegality or unenforceability shall not affect any other provision of the Indenture, and the Indenture shall be construed as if such invalid or illegal or unenforceable provision had never been contained under the Indenture. The City under the terms of the

Indenture declares that it would have entered into the Indenture and each and every other paragraph, sentence, clause or phrase of the Indenture and authorized the issuance of the Bonds pursuant thereto irrespective of the fact that any one or more paragraphs, sentences, clauses or phrases of the Indenture may be held illegal, invalid or unenforceable.

Notices. Any written notice, statement, demand, consent, approval, authorization, offer, designation, request or other communication to be given under the Indenture shall be given to the party entitled thereto in accordance with the Indenture.

Each such notice, statement, demand, consent, approval, authorization, offer, designation, request or other communication under the Indenture shall be deemed delivered to the party to whom it is addressed (a) if personally served or delivered, upon delivery, (b) if given by electronic communication, whether by telex, telegram or telecopier, upon the sender's receipt of an appropriate answerback or other written acknowledgment, (c) if given by registered or certified mail, return receipt requested, deposited with the United States mail postage prepaid, 72 hours after such notice is deposited with the United States mail, (d) if given by overnight courier, with courier charges prepaid, 24 hours after delivery to said overnight courier, or (e) if given by any other means, upon delivery at the address specified in the Indenture.

In each case in which notice or other communication refers to an event of default or with respect to which failure on the part of the Insurer to respond shall be deemed to constitute consent or acceptance, then a copy of such notice or other communication shall also be sent to the attention of the General Counsel of the Insurer and shall be marked to indicate "URGENT MATERIAL ENCLOSED."

Evidence of Rights of Bond Owners. Any request, consent or other instrument required or permitted by the Indenture to be signed and executed by Bond Owners may be in any number of concurrent instruments of substantially similar tenor and shall be signed or executed by such Bond Owners in Person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any Person of Bonds transferable by delivery, shall be sufficient for any purpose of the Indenture and shall be conclusive in favor of the Trustee and the City if made in the manner provided in the Indenture.

The fact and date of the execution by any Person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the Person signing such request, consent or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

The ownership of Bonds shall be proved by the Registration Books.

Any request, consent, or other instrument or writing of the Owner of any Bond shall bind every future Owner of the same Bond and the Owner of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the City in accordance therewith or reliance thereon.

Disqualified Bonds. In determining whether the Owners of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under the Indenture, Bonds which are known by the Trustee to be owned or held by or for the account of the City, or by any other obligor on the Bonds, or by any Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the City or any other obligor on the Bonds, shall be disregarded and deemed not to be Outstanding for the purpose of any such determination. Bonds so

owned which have been pledged in good faith may be regarded as Outstanding if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right to vote such Bonds and that the pledgee is not a Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the City or any other obligor on the Bonds. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee.

Money Held for Particular Bonds. The money held by the Trustee for the payment of the interest, principal or premium due on any date with respect to particular Bonds (or portions of Bonds in the case of Bonds redeemed in part only) shall, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Owners of the Bonds entitled thereto, subject, however, to the provisions of the Indenture.

Funds and Accounts. Any fund or account required by the Indenture to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee, either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds and accounts shall at all times be maintained in accordance with industry standards to the extent practicable, and with due regard for the protection of the security of the Bonds and the rights of every Owner thereof.

Payment on Non-Business Days. In the event any payment is required to be made under the Indenture on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day with the same effect as if made on such non-Business Day.

Waiver of Personal Liability. No member, officer, agent or employee of the City shall be individually or personally liable for the payment of the principal of or premium or interest on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing under the Indenture contained shall relieve any such officer, agent or employee from the performance of any official duty provided by law or by the Indenture.

Interpretation. Unless the context otherwise indicates, words expressed in the singular shall include the plural and vice versa and the use of the neuter, masculine, or feminine gender is for convenience only and shall be deemed to include the neuter, masculine or feminine gender, as appropriate.

Conflict with Act. In the event of any conflict between any provision of the Indenture and any provision of the Act, the provision of the Act shall prevail over the provision of the Indenture.

Conclusive Evidence of Regularity. Bonds issued pursuant to the Indenture shall constitute evidence of the regularity of all proceedings under the Act relative to their issuance and the levy of the Special Taxes.

Execution in Several Counterparts. The Indenture may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument.

Governing Laws. The Indenture shall be governed by and construed in accordance with the laws of the State of California.

APPENDIX D

BOOK-ENTRY ONLY SYSTEM

DTC 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 securities that its participants (the "Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of the Series A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series A Bonds on DTC's records. The ownership interest of each actual purchaser of each Series A 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, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participants through which Beneficial Owners entered into the transaction. Transfers of ownership interests in the Series A Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series A Bonds, except in the event that use of the book-entry system for the Series A Bonds is discontinued.

To facilitate subsequent transfers, all Series A Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Series A Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such securities are credited, which may or may not be the Beneficial Owners. The 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 which may be in effect from time to time.

Redemption notices will be sent to Cede & Co. 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. will consent or vote with respect to the Series A Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to an issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, mandatory sinking fund payments and interest payments on the Series A Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payment dates in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the date payable. 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 Trustee or the District subject to any statutory or regulatory requirements which may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the District or the Trustee, 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.

The City and the Underwriter cannot and do not give any assurances that DTC, the Participants or others will distribute payments of principal, interest or premium with respect to the Series A Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. The City and the Underwriter are not responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the Series A Bonds or an error or delay relating thereto.

The foregoing description of the procedures and record-keeping with respect to beneficial ownership interests in the Series A Bonds, payment of principal, interest and other payments on the Series A Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in such Series A Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

DTC may discontinue providing its services with respect to the Series A Bonds at any time by giving notice to the Trustee and discharging its responsibilities with respect thereto under applicable law or the District may terminate participation in the system of book-entry transfers through DTC or any other securities depository at any time. In the event that the book-entry system is discontinued, replacement Series A Bond certificates will be printed and delivered.

APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

THIS CONTINUING DISCLOSURE AGREEMENT (this "Disclosure Agreement") is made and entered into as of August 1, 2001, by and between BNY WESTERN TRUST COMPANY, a state banking corporation organized and existing under the laws of the State of California, as Trustee (the "Trustee"), and the CITY OF NEWPORT BEACH, a charter city and municipal corporation organized and existing under and by virtue of the Constitution and laws of the State of California and its Charter (the "City");

WITNESSETH:

WHEREAS, pursuant to the Indenture, dated as of August 1, 2001 (the "Indenture"), by and between the City and the Trustee, the City has issued its Special Improvement District No. 95-1 (CIOSA) Special Tax Refunding Bonds, Series A (the "Series A Bonds") in the aggregate principal amount of \$15,495,000; and

WHEREAS, this Disclosure Agreement is being executed and delivered by the City and the Trustee for the benefit of the holders and beneficial owners of the Series A Bonds and in order to assist the underwriters of the Series A Bonds in complying with Securities and Exchange Commission Rule 15c2-12(b)(5);

NOW, THEREFORE, for and in consideration of the mutual premises and covenants herein contained, the parties hereto agree as follows:

Section 1. Definitions. Capitalized undefined terms used herein shall have the meanings ascribed thereto in the Indenture. In addition, the following capitalized terms shall have the following meanings:

"Annual Report" means any Annual Report provided by the City pursuant to, and as described in, Sections 2 and 3 hereof.

"Annual Report Date" means the date in each year that is eight months after the end of the City's fiscal year, which date, as of the date of this Disclosure Agreement, is March 1.

"Disclosure Representative" means the Director of Administrative Services of the City or his or her designee, or such other officer or employee as the City shall designate in writing to the Trustee from time to time.

"Dissemination Agent" means the Trustee, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the City and which has filed with the Trustee a written acceptance of such designation.

"District" means the City of Newport Beach Special Improvement District No. 95-1 (CIOSA).

"Listed Events" means any of the events listed in Section 4(a) hereof.

"National Repository" means any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

"Official Statement" means the Official Statement, dated July 26, 2001, relating to the Series A Bonds.

"Participating Underwriter" means any of the original underwriters of the Series A Bonds required to comply with the Rule in connection with offering of the Series A Bonds.

"Repository" means each National Repository and each State Repository.

"Rule" means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State Repository" means any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

Section 2. Provision of Annual Reports. (a) The City shall, or shall cause the Dissemination Agent to, provide to each Repository an Annual Report which is consistent with the requirements of Section 3 hereof, not later than the Annual Report Date, commencing with the report for the 2000-01 fiscal year. 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 3 hereof; provided, however, that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date. If the City's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 4(f) hereof.

(b) Not later than 15 business days prior to the date specified in subsection (a) for providing the Annual Report to Repositories, the City shall provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by such date, the Trustee has not received a copy of the Annual Report, the Trustee shall contact the City and the Dissemination Agent to determine if the City is in compliance with the first sentence of this subsection (b).

(c) If the Trustee is unable to verify that an Annual Report has been provided to Repositories by the date required in subsection (a), the Trustee shall send a notice to the Municipal Securities Rulemaking Board and the appropriate State Repository, if any, in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any;

(ii) provide any Annual Report received by it to each Repository, as provided herein; and

(iii) file a report with the City and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

(e) The City shall, or if received by the Dissemination Agent, the Dissemination Agent shall, provide an Annual Report to each Participating Underwriter described on Exhibit B attached hereto at the time such Annual Report is provided to the Repositories in accordance with this Section.

Section 3. Content of Annual Reports. The City's Annual Report shall contain or incorporate by reference the following:

(a) Audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 2(a), the Annual Report shall contain unaudited financial statements in a format similar to that used for the City's audited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) The following information:

(i) The principal amount of Series A Bonds Outstanding as of the September 30 next preceding the Annual Report Date and the principal amount of any Additional Bonds Outstanding as of the September 30 next preceding the Annual Report Date.

(ii) The balance in the Reserve Fund, and a statement of the Reserve Requirement, as of the September 30 next preceding the Annual Report Date.

(iii) The total assessed value of all parcels within the District on which the Special Taxes are levied, as shown on the assessment roll of the Orange County Assessor last equalized prior to the September 30 next preceding the Annual Report Date, and a statement of assessed value-to-lien ratios therefor by Rate and Method land use categories and land use classes substantially in the form of Tables 3, 5 and 6 of the Official Statement.

(iv) The Special Tax delinquency rate for all parcels within the District on which the Special Taxes are levied, as shown on the assessment roll of the Orange County Assessor last equalized prior to the September 30 next preceding the Annual Report Date, the number of parcels within the District on which the Special Taxes are levied and which are delinquent in payment of Special Taxes, as shown on the assessment roll of the Orange County Assessor last equalized prior to the September 30 next preceding the Annual Report Date, and, if the Special Tax delinquency rate for all parcels within the District on which the Special Taxes are levied, as shown on the assessment roll of the Orange County Assessor last equalized prior to the September 30 next preceding the Annual Report Date, is greater than 3%, the amount of each delinquency, the length of time delinquent and the date on which foreclosure was commenced, or similar information pertaining to delinquencies deemed appropriate by the District; provided, however, that parcels with aggregate delinquencies of \$2,000 or less (excluding penalties and interest) may be grouped together and such information may be provided by category.

(v) The status of foreclosure proceedings for any parcels within the District on which the Special Taxes are levied and a summary of the results of any foreclosure sales as of the September 30 next preceding the Annual Report Date.

(vi) The identity of any property owner representing more than 5% of the annual Special Tax levy who is delinquent in payment of such Special Taxes, as shown on the assessment roll of the Orange County Assessor last equalized prior to the September 30 next preceding the Annual Report Date.

(vii) A land ownership summary listing property owners responsible for more than 1% of the annual Special Tax levy, as shown on the assessment roll of the Orange County Assessor last equalized prior to the September 30 next preceding the Annual Report Date, a summary of the Special Taxes levied on the property within the District owned by such property owners, and the assessed value of such property, as shown on such assessment roll.

(c) In addition to any of the information expressly required to be provided under paragraphs (a) and (b) of this Section, the City shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such other document so included by reference.

Section 4. Reporting of Significant Events. (a) Pursuant to the provisions of this Section, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series A Bonds, if material:

- (i) Principal and interest payment delinquencies.
- (ii) Non-payment related defaults.
- (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 or events affecting the tax-exempt status of the security.
- (vii) Modifications to rights of security holders.
- (viii) Contingent or unscheduled bond calls.
- (ix) Defeasances.
- (x) Release, substitution, or sale of property securing repayment of the securities.
- (xi) Rating changes.

(b) The Trustee shall, within one business day 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 City promptly notify the Trustee in writing whether or not to report the event pursuant to subsection (f).

(c) Whenever the City obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Trustee pursuant to subsection (b) or otherwise, the City shall as soon as possible determine if such event would be material under applicable Federal securities law.

(d) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the City shall promptly notify the Trustee in writing. Such notice shall instruct the Trustee to report the occurrence pursuant to subsection (f).

(e) If in response to a request under subsection (b), the City determines that the Listed Event would not be material under applicable Federal securities law, the City shall so notify the Trustee in writing and instruct the Trustee not to report the occurrence pursuant to subsection (f).

(f) If the Trustee has been instructed by the City to report the occurrence of a Listed Event, the Trustee shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository and shall provide a copy of such notice to each Participating Underwriter described on Exhibit B attached hereto. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Series A Bonds pursuant to the Indenture.

Section 5. Termination of Reporting Obligation. The City's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Series A Bonds. If such termination occurs prior to the final maturity of the Series A Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 4(f) hereof.

Section 6. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent.

Section 7. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the City and the Trustee may amend this Disclosure Agreement (and the Trustee shall agree to any amendment so requested by the City), 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 Sections 2(a), 3 or 4(a) hereof 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 Series A 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 Series A 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 (i) is approved by holders of the Series A Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of the Trustee or nationally recognized bond counsel, materially impair the interests of holders.

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 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 statements or information, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the Repositories in the same manner as for a Listed Event under Section 4(f) hereof.

Section 8. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the City 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 City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the City 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 9. Default. In the event of a failure of the City or the Trustee to comply with any provision of this Disclosure Agreement, the Trustee may (and, at the written direction of any Participating Underwriter or the holders of at least 25% aggregate principal amount of Outstanding Series A Bonds, shall), or any holder or beneficial owner of the Series A Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City or Trustee, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the City or the Trustee to comply with this Disclosure Agreement shall be an action to compel performance.

Section 10. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Article VIII of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture. The Dissemination Agent (if other than the Trustee or the Trustee in its capacity as Dissemination Agent) shall have only such duties as are specifically set forth in this Disclosure Agreement, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and

liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 11. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the City, the Trustee, the Dissemination Agent, the Participating Underwriters and holders and beneficial owners from time to time of the Series A Bonds, and shall create no rights in any other person or entity.

Section 12. 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.

IN WITNESS WHEREOF, the parties hereto have executed this Disclosure Agreement as of the date first above written.

CITY OF NEWPORT BEACH

By: _____
Director of Administrative Services

**BNY WESTERN TRUST COMPANY, AS
TRUSTEE**

By: _____
Authorized Officer

EXHIBIT A

**NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD OF
FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: City of Newport Beach

Name of Bond Issue: City of Newport Beach Special Improvement District No. 95-1 (CIOSA) Special
Tax Refunding Bonds, Series A

Date of Issuance: _____, 2001

NOTICE IS HEREBY GIVEN that the City of Newport Beach (the "City") has not provided an Annual Report with respect to the above-named Bonds as required by Section 6.09 of the Indenture, dated as of August 1, 2001, by and between the Fiscal Agent and the City. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

BNY WESTERN TRUST COMPANY, as
Trustee, on behalf of the City of Newport Beach

cc: City of Newport Beach

EXHIBIT B
PARTICIPATING UNDERWRITERS

Stone & Youngberg LLC
50 California Street, 35th Floor
San Francisco, California 94111
Attention: Research Department

APPENDIX F

FORM OF MUNICIPAL BOND INSURANCE POLICY



**FINANCIAL
SECURITY
ASSURANCE.**

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS:

Policy No.: -N

Effective Date:

Premium:

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment for the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security, and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud, whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____

Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 500NY (5/90)



**FINANCIAL
SECURITY
ASSURANCE®**

**ENDORSEMENT NO. 1 TO
MUNICIPAL BOND
INSURANCE POLICY
(California Insurance
Guaranty Association)**

ISSUER:

BONDS:

Policy No.:

Effective Date:

Notwithstanding the terms and provisions contained in this Policy, it is further understood that the insurance provided by this Policy is not covered by the California Insurance Guaranty Association established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

Nothing herein shall be construed to waive, alter, reduce or amend coverage in any other section of the Policy. If found contrary to the Policy language, the terms of this Endorsement supersede the Policy language.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Endorsement to be executed on its behalf by its Authorized Officer.

FINANCIAL SECURITY ASSURANCE INC.

By: _____

Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 560NY (CA 1/91)