



## **Rancho Santa Margarita Public Finance Authority**

**Established Date:** October 12, 2012

**Amended Date:** N/A

**Members:** City of Rancho Santa Margarita

**Purpose:**

The purpose of the Rancho Santa Margarita Public Financing Authority is to facilitate the refunding of the Rancho Santa Margarita Nonprofit Corporations ("RSMNP") 2003 COPs and financing the construction of various public road improvements within the City, and other projects identified in the City's Capital improvement plan.

**\$11,230,000**  
**RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY**  
**LEASE REVENUE REFUNDING BONDS, SERIES 2012A**

**CLOSING MEMORANDUM**

**Time and Place**

The pre-closing will take place at the offices of Stradling Yocca Carlson & Rauth, 660 Newport Center Drive, Suite 1600, Newport Beach, California 92660 at 1:00 p.m., on Tuesday, December 18, 2012. Closing will take place at 8:00 a.m., on Wednesday, December 19, 2012 via telephone.

**Parties**

Issuer	Jennifer M. Cervantez, Executive Director Paul Boyer, Director of Administrative Services
Issuer's Counsel	Gregory E. Simonian, Esq. Woodruff, Spradlin & Smart, P.C.
Bond Counsel and Disclosure Counsel	Brian P. Forbath, Esq. Carol L. Lew, Esq. Reed Glycer, Esq. Stradling Yocca Carlson & Rauth
Financial Advisor	Dan Wiles, Principal Joshua Lentz, Assistant Vice Principal Danny Jasper, Associate Fieldman, Rolapp & Associates
Underwriter	Jake Campos, Vice President Melanie de Jonk, Associate Stifel, Nicolaus & Company, Incorporated dba Stone & Youngberg, a Division of Stifel, Nicolaus
Underwriter's Counsel	Jeff Stava, Esq. Nossaman LLP
Trustee/Escrow Bank and Counsel	Aimee Tabor, Vice President Dania D. Samai, Vice President Heather A. Koehler, Esq. Wells Fargo Bank, National Association

Rating Agency	Daniel Zuccarello Sussan Corson Standard & Poor's Ratings Services
Verification Agent	Douglas Carlile Causey Demgen & Moore, P.C.
Title Insurer	Kristen Hueter First American Title Company

**\$11,230,000**  
**RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY**  
**LEASE REVENUE REFUNDING BONDS, SERIES 2012A**

**CLOSING INDEX**

**BASIC DOCUMENTS**

1. Indenture
2. Memorandum of Lease Agreement; Lease Agreement
3. Assignment Agreement
4. Ground Lease
5. Continuing Disclosure Certificate
6. Escrow Deposit and Trust Agreement (2003 COPs)

**DOCUMENTS TO BE DELIVERED BY THE AUTHORITY**

7. Certified copy of Resolution No. PFA-12-11-14-01 entitled “Resolution of the Board of Directors of the Rancho Santa Margarita Public Financing Authority, Rancho Santa Margarita, California, Ratifying its Appointment as the Board of Directors; Approving and Ratifying the By-Laws of the Rancho Santa Margarita Public Financing Authority; and Appointing Officers,” adopted November 14, 2012; Minutes.
8. Certified copy of Resolution No. PFA-12-11-14-02 entitled “Resolution of the Board of Directors of the Rancho Santa Margarita Public Financing Authority, Rancho Santa Margarita, California, Authorizing the Execution and Delivery by the Authority of a Ground Lease, Lease Agreement, an Indenture, an Assignment Agreement and a Bond Purchase Agreement in Connection With the Issuance of Rancho Santa Margarita Public Financing Authority Lease Revenue Refunding Bonds, Series 2012A, Authorizing the Issuance of Such Bonds in an Aggregate Principal Amount of Not to Exceed \$12,500,000, Authorizing the Distribution of an Official Statement in Connection With the Offering and Sale of Such Bonds and Authorizing the Execution of Necessary Documents and Certificates and Related Actions,” adopted November 14, 2012; Minutes (See Tab No. 7).
9. CDIAC Report of Proposed Debt Issuance, Acknowledgment from CDIAC and Report of Final Sale
10. Certificate as to Finality of the Preliminary Official Statement
11. Authority Incumbency and Signature Certificate

12. Certificate Regarding Effectiveness of Joint Powers Agreement, together with copy of Joint Exercise of Powers Agreement; Initial Notice of Joint Powers Agreement; Statement of Facts Roster of Public Agencies Filing
13. Certificate of City Clerk Bringing Forward Authority Formation Resolution
14. Closing Certificate of the Authority
15. Instructions to the Trustee and Prior Trustee
16. Tax Certificate, together with Certificate of the Underwriter; IRS Form 8038-G; Post-Issuance Compliance Certificate
17. DTC Blanket Issuer Letter of Representations
18. Facsimile Signature Filings of the Executive Director and Secretary
19. Specimen Bond

**DOCUMENTS TO BE DELIVERED BY THE CITY**

20. Certified copy of Resolution No. 12-11-14-03 entitled “Resolution of the City Council of the City of Rancho Santa Margarita, California, Authorizing the Execution and Delivery by the City of a Ground Lease, Lease Agreement, Indenture, Escrow Agreement, Continuing Disclosure Certificate and a Bond Purchase Agreement in Connection With the Issuance of Rancho Santa Margarita Public Financing Authority Lease Revenue Refunding Bonds, Series 2012A, Approving the Issuance of Such Bonds in an Aggregate Principal Amount of Not to Exceed \$12,500,000, Authorizing the Distribution of an Official Statement in Connection With the Offering and Sale of Such Bonds and Authorizing the Execution of Necessary Documents and Certificates and Related Actions,” adopted November 14, 2012; Minutes (See Tab No. 7).
21. City Incumbency and Signature Certificate
22. Closing Certificate of the City
23. Requisition No. 1 of the City as Agent for the Authority for Disbursements from Costs of Issuance Fund; Requisition No. 2
24. Certificate Regarding Insurance, together with Evidence of Insurance

**DOCUMENTS TO BE DELIVERED BY THE UNDERWRITER**

25. Bond Purchase Agreement
26. Preliminary Official Statement
27. Official Statement
28. Underwriter’s Receipt for the Bonds

## **DOCUMENTS TO BE DELIVERED BY THE TRUSTEE AND ESCROW BANK**

29. Assistant Secretary's Certificate
30. Closing Certificate of the Trustee
31. Trustee's Receipt for Proceeds and Other Monies
32. Closing Certificate of the Escrow Bank
33. Escrow Bank's Receipt
34. Evidence of EMMA Filing of Notice of Defeasance

## **OPINIONS**

35. Bond Counsel Opinion
36. Reliance Letter to Trustee
37. Supplemental/Disclosure Opinion
38. Opinion of Counsel to the Authority
39. Opinion of City Attorney
40. Opinion of Counsel to the Underwriter
41. Opinion of Counsel to the Trustee and Escrow Bank

## **MISCELLANEOUS**

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43. Verification Report
44. Termination of Ground Lease
45. Termination of Lease Agreement
46. Letter of Instructions to Title Company
47. Policy of Title Insurance
48. Distribution List

## **AUTHORITY FORMATION DOCUMENTS**

49. Certified copy of Resolution No. 12-10-24-01 entitled “A Resolution of the City Council of the City of Rancho Santa Margarita, California, Authorizing the Execution and Delivery of Joint Exercise of Powers Agreements by and between the City of Rancho Santa Margarita and California Municipal Finance Authority Approving Membership in the Authority and Forming the Rancho Santa Margarita Public Financing Authority,” adopted October 24, 2012; Minutes.
  
50. Resolution No. 12-96 entitled “Resolution of the Board of Directors of California Municipal Finance Authority Authorizing the Execution and Delivery of a Joint Exercise of Powers Agreement by and between California Municipal Finance Authority and the City of Rancho Santa Margarita Creating the Rancho Santa Margarita Public Financing Authority,” adopted October 24, 2012.

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**INDENTURE**

**by and among**

**RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY**

**and**

**CITY OF RANCHO SANTA MARGARITA**

**and**

**WELLS FARGO BANK, NATIONAL ASSOCIATION,  
as Trustee**

**Dated as of December 1, 2012**

**Relating to**

**\$11,230,000**

**RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY  
LEASE REVENUE REFUNDING BONDS, SERIES 2012A**

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## **INDENTURE**

**THIS INDENTURE** (this “Indenture”), executed and entered into as of December 1, 2012, is by and among the RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY, a joint exercise of powers entity duly organized and existing under the laws of the State of California (the “Authority”), the CITY OF RANCHO SANTA MARGARITA, a municipal corporation and general law city duly organized and existing under and by virtue of the Constitution and laws of the State of California (the “City”) and Wells Fargo Bank, National Association, a national banking association duly organized and existing under and by virtue of the laws of the United States, as Trustee (the “Trustee”);

### ***WITNESSETH:***

**WHEREAS**, the City desires to finance the construction of various public road improvements within the City, and such other projects identified in the City’s capital improvement plan or on such other projects as approved by an Opinion of Counsel to the effect that such other projects or improvements will not adversely affect the exclusion of interest on any tax-exempt Bonds from gross income for federal income tax purposes (the “2012 Project”);

**WHEREAS**, the City and the Authority desire to prepay the City of Rancho Santa Margarita Certificates of Participation (City Hall and Regional Community Center) (the “2003 COPs”) and the City’s lease obligations in connection therewith, the proceeds of which were used to finance the costs of the acquisition, construction and installation of certain capital improvements constituting the City Hall and Regional Community Center and related improvements, facilities and equipment (the “2003 Project,” and with the 2012 Project, the “Project”);

**WHEREAS**, in order to finance the 2012 Project and refinance the 2003 Project, the City will lease certain real property and the improvements located thereon (the “Property”) to the Authority pursuant to a Ground Lease, dated as of the date hereof, and the City will sublease the Property back from the Authority pursuant to a Lease Agreement, dated as of the date hereof (the “Lease Agreement”);

**WHEREAS**, the City and the Authority have determined that it would be in the best interests of the City and the Authority to provide the funds necessary to finance the 2012 Project and refinance the 2003 Project through the issuance by the Authority of bonds payable from the base rental payments (the “Base Rental Payments”) to be made by the City under the Lease Agreement;

**WHEREAS**, all rights to receive the Base Rental Payments have been assigned without recourse by the Authority to the Trustee pursuant to an Assignment Agreement, dated as of the date hereof;

**WHEREAS**, the Authority and the City desire to provide for the issuance by the Authority of Rancho Santa Margarita Public Financing Authority Lease Revenue Refunding Bonds, Series 2012A (the “Series 2012 Bonds”), in the aggregate principal amount of \$11,230,000, in order to finance the 2012 Project and refinance the 2003 Project;

**WHEREAS**, the Series 2012 Bonds will be payable equally and ratably from the Base Rental Payments;

**WHEREAS**, the Authority and the City desire to provide for the issuance of additional bonds (the “Additional Bonds”) payable from the Base Rental Payments on a parity with the Series 2012 Bonds (the Series 2012 Bonds and any such Additional Bonds being collectively referred to as the “Bonds”);

**WHEREAS**, in order to provide for the authentication and delivery of the Bonds, to establish and declare the terms and conditions upon which the Bonds are to be issued and secured and to secure the payment of the principal thereof, premium, if any, and interest thereon, the Authority and the City have authorized the execution and delivery of this Indenture; and

**WHEREAS**, the Authority and the City have determined that all acts and proceedings required by law necessary to make the Bonds, when executed by the Authority, authenticated and delivered by the Trustee and duly issued, the valid, binding and legal special obligations of the Authority, and to constitute this Indenture a valid and binding agreement for the uses and purposes herein set forth in accordance with its terms, have been done and taken, and the execution and delivery of the Indenture has been in all respects duly authorized;

**NOW THEREFORE**, in consideration of the premises and of the mutual agreements and covenants contained herein and for other valuable consideration, the parties do hereby agree as follows:

## **ARTICLE I**

### **DEFINITIONS; EQUAL SECURITY**

**Section 1.01 Definitions.** Unless the context otherwise requires, the terms defined in this Section shall for all purposes hereof and of any amendment hereof or supplement hereto and of the Bonds and of any certificate, opinion, request or other document mentioned herein or therein have the meanings defined herein, the following definitions to be equally applicable to both the singular and plural forms of any of the terms defined herein. Capitalized terms not otherwise defined herein shall have the meanings assigned to such terms in the Lease Agreement.

“**Additional Bonds**” means Bonds other than the Series 2012 Bonds issued hereunder in accordance with the provisions of Sections 3.06 and 3.07 hereof.

“**Act**” means the Marks-Roos Local Bond Pooling Act of 1985, commencing with Section 6584 of the California Government Code.

“**Additional Rental Payments**” means all amounts payable by the City as Additional Rental Payments pursuant to Section 3.02 of the Lease Agreement.

“**Assignment Agreement**” means the Assignment Agreement, dated as of the date hereof, by and between the Authority and the Trustee.

“**Authority**” means the Rancho Santa Margarita Public Financing Authority, a joint exercise of powers entity organized and existing under and by virtue of the laws of the State of California.

“**Authorized Authority Representative**” means the Chairman, the Executive Director, the Treasurer or the Director of Administrative Services of the Authority, or any other person authorized

by the Board of Directors of the Authority to act on behalf of the Authority under or with respect to this Indenture.

**“Authorized City Representative”** means the Mayor of the City, the City Manager of the City or the Director of Administrative Services of the City, or any other person authorized by the City Council of the City to act on behalf of the City under or with respect to this Indenture.

**“Authorized Denominations”** means \$5,000 or any integral multiple thereof.

**“Base Rental Payment Fund”** means the fund by that name established in accordance with Section 5.02 hereof.

**“Base Rental Payments”** means all amounts payable to the Authority by the City as Base Rental Payments pursuant to Section 3.01 of the Lease Agreement.

**“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 person’s subrogee.

**“Bonds”** means the Series 2012 Bonds and any Additional Bonds issued hereunder.

**“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 pursuant to the terms and provisions of Section 2.10 hereof.

**“Business Day”** means a day which is not (a) a Saturday, Sunday or legal holiday, (b) a day on which banking institutions in the State of California, or in any state in which the Office of the Trustee is located, are required or authorized by law (including executive order) to close, or (c) a day on which the New York Stock Exchange is 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.

**“City”** means the City of Rancho Santa Margarita, a municipal corporation and general law city duly organized and existing under and by virtue of the Constitution and laws of the State of California.

**“Closing Date”** means December 19, 2012.

**“Code”** means the Internal Revenue Code of 1986.

**“Construction Fund”** means the fund by that name established in accordance with Section 3.05 hereof.

**“Continuing Disclosure Certificate”** means the Continuing Disclosure Certificate, dated as of the date hereof, executed by the City, as originally executed and as it may from time to time be amended in accordance with the provisions thereof.

**“Costs of Issuance”** means all the costs of issuing and delivering the Bonds, including, but not limited to, all printing and document preparation expenses in connection with this Indenture, the

Lease Agreement, the Ground Lease, the Assignment Agreement, the Bonds and any preliminary official statement and final official statement pertaining to the Bonds, rating agency fees, CUSIP Service Bureau charges, market study fees, legal fees and expenses of counsel with the issuance and delivery of the Bonds, the initial fees and expenses of the Trustee and Escrow Agent and its counsel and other fees and expenses incurred in connection with the issuance and delivery of the Bonds, to the extent such fees and expenses are approved by the City.

**“Costs of Issuance Fund”** means the fund by that name established in accordance with Section 3.04 hereof.

**“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 pursuant to Section 2.10 hereof.

**“Escrow Agent”** means Wells Fargo Bank, National Association, as escrow agent pursuant to the Escrow Agreement.

**“Escrow Fund”** means the fund established and held by the Escrow Agent pursuant to the Escrow Agreement.

**“Escrow Agreement”** means the escrow agreement dated as of December 1, 2012 by and between the Authority and the Escrow Agent relating to the defeasance of the 2003 COPs.

**“Federal Securities”** means (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.

**“Forward Purchase and Sale Agreement”** means an agreement entered into by the Trustee and/or the Authority and/or the City and a bank or financial institution (the “Provider”) rated “A2” or higher by Moody’s and “A” or higher by S&P providing for the Provider to tender, and for the Trustee to purchase, certain eligible securities on one or more dates occurring at least thirty (30) business days after the date of such agreement; provided that (1) securities tendered by the Provider are purchased on a delivery versus payment basis, (2) securities purchased constitute Permitted Investments at the time they are tendered, and (3) the Authority and the City receive an opinion of counsel acceptable to the Authority, to the City and to the Trustee which states that the agreement constitutes a legally valid, binding, and enforceable obligation of the Provider and that in the event of a bankruptcy of the Provider, securities sold by the Provider to the Trustee pursuant to the agreement do not constitute property of the estate of the Provider within the applicable bankruptcy or insolvency laws.

**“Ground Lease”** means the Ground Lease, dated as of the date hereof, by and between the City and the Authority, as originally executed and as it may from time to time be amended in accordance with the provisions thereof and of the Lease Agreement.

**“Indenture”** means this Indenture, as originally executed and as it may be amended or supplemented from time to time by any Supplemental Indenture.

**“Information Services”** means Municipal Securities Rulemaking Board through the Electronic Municipal Marketplace Access (EMMA) website; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other services providing information with respect to called bonds as the Authority may designate in a Written Certificate of the Authority delivered to the Trustee.

**“Interest Fund”** means the fund by that name established in accordance with Section 5.02 hereof.

**“Interest Payment Date”** means May 1 and November 1 of each year, commencing on May 1, 2013.

**“Lease Agreement”** means the Lease Agreement, dated as of the date hereof, by and between the City and the Authority, as originally executed and as it may be from time to time amended in accordance with the provisions thereof.

**“Moody’s”** means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, except that if such corporation shall no longer perform the function of a securities rating agency for any reason, the term “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency selected by the Authority.

**“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 Authority and the City by the Trustee in writing, except that with respect to presentation of Bonds for payment or for registration of transfer and exchange such term shall mean the office or the agency of the Trustee at which, at any particular time, its corporate trust agency shall be conducted as specified to the Authority and the City by the Trustee in writing.

**“Opinion of Counsel”** means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, appointed and paid by the Authority or the City and which written opinion is satisfactory to the Trustee.

**“Outstanding,”** when used as of any particular time with reference to Bonds, means (subject to the provisions of Section 11.09 hereof) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under this 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 Authority shall have been discharged in accordance with Section 10.01 hereof; 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 this 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 Certificate.

“**Permitted Investments**” means any of the following to the extent then permitted by the general laws of the State of California:

(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 180 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 and "P-1" or better by Moody's.

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

(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 "AAm" or "AAm-G" or better by S&P and "Aa2" or better by Moody's, including funds for which the Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Trustee provide investment advisory or other management services.

(8) Repurchase agreements:

(a) With any domestic bank the long term debt of which is rated "AA" or better by S&P and "Aa" 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), or any foreign bank rated at least "AA" by S&P and "Aaa" by Moody's or "AA" by S & P and at least "Aa2" by Moody's; provided the term of such repurchase agreement is for one year or less.

(b) With (i) any broker-dealer with "retail customers" which has, or the parent company of which has, long-term debt rated at least "AA" by S&P and "Aa2" by Moody's, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corp. (SIPC); provided that:

A. The market value of the collateral is maintained for United States Treasury Obligations, at the levels shown below under “Collateral Levels for United States Treasury Obligations”;

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. An opinion is rendered that the repurchase agreement is a “repurchase agreement” as defined in the United States Bankruptcy Code;

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

H. The City represents that it has no knowledge of any fraud involved in the repurchase transaction; and

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

(9) State Obligations

(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 “A2” 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 “Aa2” or better by Moody’s.

(10) Local Agency Investment Fund.

(11) Investment agreements with a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt of the guarantor, or in the case of a monoline financial guaranty insurance company the claims paying ability of the guarantor, is rated at least “AA” by S&P and “Aa2” by Moody’s; provided, that prior written notice of an investment in the investment agreement is provided to S&P and, provided, further, 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 construction fund, construction draws) on the Bonds;

(b) the invested funds are available for withdrawal without penalty or premium, at any time for purposes identified in this Indenture other than acquisition of alternative investment property 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 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) 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);

(f) the investment agreement shall provide that if during its term (A) the provider’s or the guarantor’s rating by either Moody’s or S&P is withdrawn or suspended or falls below “AA” or “Aa2”, respectively, or, with respect to a foreign bank, below the ratings of such provider at the delivery date of the investment agreement, the provider must, at the direction of the City or the Trustee (acting at the direction of the City) within 10 days of receipt of such direction, either (1) 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 at the Collateral Levels set forth below; or (2) repay the principal of and accrued but unpaid

interest on the investment (the choice of (1) or (2) above shall be that of the City or Trustee (acting at the direction of the City), as appropriate), and (B) the provider's or the guarantor's rating by either Moody's or S&P is withdrawn or suspended or falls below "A" or "A2," or, with respect to a foreign bank, below "AA" or "Aa2" by S&P or Moody's, as appropriate, the provider must, at the direction of the City or the Trustee (acting at the direction of the City), 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 (A) 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, be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the City or Trustee, as appropriate, and (B) 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.

(12) 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; and

(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.

**Collateral Levels For United States Treasury Obligations**

<i>Frequency of Valuation</i>	<i>Remaining Maturity</i>				
	<i>1 year or less</i>	<i>5 years or less</i>	<i>10 years or less</i>	<i>15 years or less</i>	<i>30 years or less</i>
Daily	102	105	106	108	114
Weekly	103	111	112	114	120
Monthly	105	117	120	125	133
Quarterly	107	120	130	133	140

Further Requirements: (a) On each valuation date, the City, or the custodian who shall confirm to the City and the Trustee, shall value the market value (exclusive of accrued interest) of the collateral, which market value will be an amount equal to the requisite collateral percentage times the principal amount of the investment (including unpaid accrued interest thereon) that is being secured, (b) in the event the collateral level is below its collateral percentage on a valuation date, such percentage shall be restored within the following restoration periods: one Business Day for daily valuations, two Business Days for weekly and monthly valuations, and one month for quarterly valuations (the use of different restoration periods affect the requisite collateral percentage), (c) the City or the Trustee (acting at the direction of the City) shall terminate the repurchase agreement or the investment agreement, as the case may be, upon a failure to maintain the requisite collateral percentage after the restoration period and, if not paid by the counterparty in federal funds against transfer of the collateral, liquidate the collateral.

The Trustee shall have no responsibility to monitor the ratings of Permitted Investments after the initial purchase of such Permitted Investments.

“**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.

“**Principal Fund**” means the fund by that name established in accordance with Section 5.02 hereof.

“**Project Costs**” means all costs of acquiring, constructing and installing the 2012 Project, including, but not limited to:

(a) all costs which the Authority or the City shall be required to pay to a seller or any other person under the terms of any contract or contracts for the purchase of the 2012 Project;

(b) all costs which the Authority or the City shall be required to pay a contractor or any other person for the acquisition, construction and installation of the 2012 Project;

(c) obligations of the Authority or the City incurred for services (including obligations payable to the Authority or the City for actual out-of-pocket expenses of the Authority or the City) in connection with the acquisition, construction and installation of the 2012 Project, including reimbursement to the Authority or the City for all advances and payments made in connection with the 2012 Project prior to or after delivery of the Bonds;

(d) the actual out-of-pocket costs of the Authority or the City for test borings, surveys, estimates and preliminary investigations therefor, as well as for the performance of all other duties required by or consequent to the proper acquisition, construction and installation of the 2012 Project, including administrative expenses under the Lease Agreement and hereunder relating to the acquisition, construction and installation of the 2012 Project; and

(e) any sums required to reimburse the Authority or the City for advances made by the Authority or the City for any of the above items or for any other costs incurred and for work done by the Authority or the City which are properly chargeable to the 2012 Project.

**“Rebate Fund”** means the fund by that name established in accordance with Section 5.05 hereof.

**“Rebate Requirement”** has the meaning ascribed thereto in the Tax Certificate.

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

**“Redemption Fund”** means the fund by that name established in accordance with Section 5.02 hereof.

**“Redemption Price”** means the aggregate amount of principal of and premium, if any, on the Bonds upon the redemption thereof pursuant hereto.

**“Registration Books”** means the records maintained by the Trustee for the registration of ownership and registration of transfer of the Bonds pursuant to Section 2.05 hereof.

**“Rental Payments”** means, collectively, the Base Rental Payments and the Additional Rental Payments.

**“Rental Period”** means the period from the Closing Date through October 31, 2013 and, thereafter, the twelve-month period commencing on November 1 of each year during the term of the Lease Agreement.

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

**“S&P”** means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns, except that if such entity shall no longer perform the functions of a securities rating agency for any reason, the term “S&P” shall be deemed to refer to any other nationally recognized securities rating agency selected by the Authority.

**“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 Authority may designate in a Written Certificate of the Authority delivered to the Trustee.

**“Series”** means the Series 2012 Bonds executed, authenticated and delivered on the Closing Date and identified pursuant to this Indenture and any Additional Bonds issued pursuant to a Supplemental Indenture and identified as a separate Series of Bonds.

**“Series 2012 Bonds”** means the Rancho Santa Margarita Public Financing Authority Lease Revenue Refunding Bonds, Series 2012A issued hereunder.

**“Supplemental Indenture”** means any supplemental indenture amendatory of or supplemental to this Indenture, but only if and to the extent that such Supplemental Indenture is specifically authorized hereunder.

**“Tax Certificate”** means the Tax Certificate executed by the Authority and the City at the time of issuance of the Series 2012 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 Wells Fargo Bank, National Association, a national banking association duly organized and existing under and by virtue of the laws of the United States, or any successor thereto as Trustee hereunder, appointed as provided herein.

**“Written Certificate of the Authority”** and **“Written Request of the Authority”** mean, respectively, a written certificate or written request signed in the name of the Authority by an Authorized Authority 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

**“Written Certificate of the City”** and **“Written Request of the City”** mean, respectively, a written certificate or written request signed in the name of the City by an Authorized City 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.

**Section 1.02 Equal Security.** In consideration of the acceptance of the Bonds by the Owners thereof, this Indenture shall be deemed to be and shall constitute a contract among the Authority, the City, the Trustee and the Owners from time to time of all Bonds authorized, executed, issued and delivered hereunder and then Outstanding to secure the full and final payment of the principal of, premium, if any, and interest on all Bonds which may from time to time be authorized, executed, issued and delivered hereunder, subject to the agreements, conditions, covenants and provisions contained herein; and all agreements and covenants set forth herein to be performed by or on behalf of the Authority or the City shall be for the equal and proportionate benefit, protection and security of all Owners of the Bonds without distinction, preference or priority as to security or otherwise of any Bonds over any other Bonds by reason of the number or date thereof or the time of



authorization, sale, execution, issuance or delivery thereof or for any cause whatsoever, except as expressly provided herein or therein.

## **ARTICLE II**

### **THE BONDS**

**Section 2.01 Authorization of Bonds.** The Authority hereby authorizes the issuance of the Bonds under and subject to the terms of this Indenture and applicable laws of the State of California for the purpose of financing the 2012 Project and refinancing the 2003 Project. The Bonds may consist of one or more Series of Bonds of varying denominations, dates, maturities, interest rates and other provisions, subject to the provisions and conditions contained herein.

#### **Section 2.02 Terms of Series 2012 Bonds.**

(a) The Series 2012 Bonds shall be designated the “Rancho Santa Margarita Public Financing Authority Lease Revenue Refunding Bonds, Series 2012.” Each Series of Additional Bonds shall bear such additional designation as may be necessary or appropriate to distinguish such Series from every other Series, of Bonds.

(b) The Series 2012 Bonds shall be issued in fully registered form without coupons in Authorized Denominations, so long as no Series 2012 Bond shall have more than one maturity date. The Series 2012 Bonds shall be dated as of the Closing Date, shall be issued in the aggregate principal amount of \$11,230,000, shall mature on November 1 of each year and shall bear interest (calculated on the basis of a 360-day year comprised of twelve 30-day months) at the rates per annum as follows:

<i>Maturity Date (November 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>
2013	\$430,000	2.000%
2014	370,000	3.000
2015	385,000	4.000
2016	405,000	4.000
2017	420,000	4.000
2018	430,000	4.000
2019	455,000	4.000
2020	470,000	4.000
2021	490,000	4.000
2022	505,000	4.000
2023	525,000	4.000
2024	545,000	4.000
2025	570,000	4.000
2026	590,000	2.500
2027	610,000	2.625
2028	625,000	2.750
2029	645,000	2.750
2030	660,000	2.750
2031	680,000	3.000
2032	700,000	3.000
2033	720,000	3.000

(c) Interest on the Series 2012 Bonds shall be payable from the Interest Payment Date next preceding the date of authentication thereof unless (i) a Series 2012 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 2012 Bond is authenticated on or before the first Record Date, in which event interest thereon shall be payable from the dated date thereof, or (iii) interest on any Series 2012 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 been paid in full, payable on each Interest Payment Date. Interest shall be paid in lawful money of the United States on each Interest Payment Date to the Persons in whose names the ownership of the Series 2012 Bonds is registered on the Registration Books at the close of business on the immediately preceding Record Date, except as provided below. Interest shall be paid by check of the Trustee mailed by first class mail, postage prepaid, on each Interest Payment Date to the Series 2012 Bond Owners at their respective addresses shown on the Registration Books as of the close of business on the preceding Record Date.

(d) The principal and premium, if any, of the Series 2012 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.

(e) The Series 2012 Bonds shall be subject to redemption as provided in Article IV.

**Section 2.03 Form of Series 2012 Bonds.** The Series 2012 Bonds shall be in substantially the form set forth in Exhibit A hereto, with appropriate or necessary insertions, omissions and variations as permitted or required hereby.

**Section 2.04 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 Authority shall execute and the Trustee shall authenticate and shall deliver a new Bond or Bonds of the same Series in 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 the same Series 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 pursuant to this Section 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.

**Section 2.05 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 reasonable 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 hereinbefore provided.

**Section 2.06 Execution of Bonds.** The Bonds shall be executed in the name and on behalf of the Authority with the facsimile signature of an Authorized Officer of the Authority attested by the manual or facsimile signature of the Secretary of the Authority. The Bonds shall then be delivered to the Trustee for authentication by it. In case any of such officers of the Authority who shall have signed or attested any of the Bonds shall cease to be such officers of the Authority before the Bonds so signed or attested shall have been authenticated or delivered by the Trustee, or issued by the Authority, such Bonds may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issue, shall be as binding upon the Authority as though those who signed and attested the same had continued to be such officers of the Authority, and also any Bonds may be signed and attested on behalf of the Authority by such Persons as at the actual date of execution of such Bonds shall be the proper officers of the Authority although at the nominal date of such Bonds any such Person shall not have been such officer of the Authority.

**Section 2.07 Authentication of Bonds.** Only such of the Bonds as shall bear thereon a certificate of authentication substantially in the form as that set forth in Exhibit A hereto, manually executed by the Trustee, shall be valid or obligatory for any purpose or entitled to the benefits of this Indenture, and such certificate of or on behalf of the Trustee shall be conclusive evidence that the Bonds so authenticated have been duly executed, authenticated and delivered hereunder and are entitled to the benefits of this Indenture.

**Section 2.08 Temporary Bonds.** The Bonds of a Series may be issued in temporary form exchangeable for definitive Bonds of such Series 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 Authority, shall be in fully registered form without coupons and may contain such reference to any of the provisions of this Indenture as may be appropriate. Every temporary Bond shall be executed by the Authority and authenticated by the Trustee upon the same conditions and in substantially the same manner as the definitive Bonds. If the Authority issues temporary Bonds of a Series it will execute and deliver definitive Bonds of such Series as promptly thereafter as practicable, and thereupon the temporary Bonds of such Series, 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 such Series in Authorized Denominations. Until so exchanged, the temporary Bonds of such Series shall be entitled to the same benefits under this Indenture as definitive Bonds of such Series authenticated and delivered hereunder.

**Section 2.09 Bonds Mutilated, Lost, Destroyed or Stolen.** If any Bond shall become mutilated, the Authority, 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 and Series 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 in accordance with the order of, the Authority. 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 Authority, at the expense of the Owner, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor and Series in lieu of and in replacement for the Bond so lost, destroyed or stolen (or if any such Bond shall have matured or shall have been selected for redemption, instead of issuing a replacement Bond, the Trustee may pay the same without surrender thereof). The Authority may require payment by the Owner of a sum not exceeding the actual cost of preparing each replacement Bond issued under this Section and of the expenses which may be incurred by the Authority and the Trustee. Any Bond of a Series issued under the provisions of this Section in lieu of any Bond of such Series alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the Authority 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 this Indenture with all other Bonds of such Series secured by this Indenture.

**Section 2.10 Book-Entry Bonds.**

(a) Prior to the issuance of a Series of Bonds, the Authority 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 2011 Bonds shall initially be issued as Book-Entry Bonds.

Except as provided in subsection (c) of this Section, the registered Owner of all of the Book-Entry Bonds shall be Cede & Co., as nominee of DTC. Notwithstanding anything to the contrary contained in this 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 Interest Payment Date at the address indicated on the Record Date for Cede & Co. in the Registration Books or as otherwise provided in the Representation Letter.

(b) The Trustee and the Authority may treat DTC (or its nominee) as the sole and exclusive Owner of Book-Entry Bonds registered in its name for the purposes of payment of the principal, premium, if any, or interest with respect to Book-Entry Bonds, selecting 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 this 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 Authority shall be affected by any notice to the contrary. Neither the Trustee nor the Authority shall have any responsibility or obligation to any Participant, any person claiming a beneficial ownership interest in 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 Book-Entry Bonds, any notice which is permitted or required to be given to Owners of Book-Entry Bonds under this Indenture, the selection by DTC or any Participant of any person to receive payment in the event of a partial redemption of 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 Book-Entry Bonds, only to DTC, and all such payments shall be valid and effective to fully satisfy and discharge the Authority'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. Except under the conditions of subsection (c) of this Section, no person other than DTC shall receive an executed Book-Entry Bond for each separate stated maturity. Upon delivery by DTC to the Trustee of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., and subject to the provisions herein with respect to record dates, the term "Cede & Co." in this Indenture shall refer to such new nominee of DTC.

(c) 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 Authority determines that the incumbent securities depository shall no longer so act, and delivers a written certificate to the Trustee to that effect, then the Authority will discontinue the book-entry system with the incumbent securities depository for such Series of Bonds. If the Authority determines to replace the incumbent securities depository for such Series of Bonds with another qualified securities depository, the Authority 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 Authority, the Trustee and the successor securities depository for the Bonds of such Series as are not inconsistent with the terms of this Indenture. If the Authority 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 Authority shall execute, and deliver to the Trustee, a sufficient quantity of Bonds of such Series to carry out the transfers and exchanges provided in Sections 2.04, 2.08 and 2.09 hereof. All such Bonds of such Series shall be in fully registered form in Authorized Denominations.

(d) Notwithstanding any other provision of this 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.

(e) In connection with any notice or other communication to be provided to Owners of Book-Entry Bonds pursuant to this Indenture by the Authority, the City or the Trustee with respect to any consent or other action to be taken by Owners, the Authority, 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.

### ARTICLE III

#### ISSUANCE OF BONDS; APPLICATION OF PROCEEDS

**Section 3.01 Issuance of Series 2012 Bonds.** The Authority may, at any time, execute the Series 2012 Bonds for issuance hereunder and deliver the same to the Trustee. The Trustee shall authenticate the Series 2012 Bonds and deliver the Series 2012 Bonds to the original purchaser thereof upon receipt of a Written Request of the Authority and upon receipt of the purchase price therefor.

**Section 3.02 Application of Proceeds of the Series 2012 Bonds.** On the Closing Date, the proceeds of the sale of the Series 2012 Bonds received by the Trustee, \$11,740,883.20, shall be deposited by the Trustee as follows:

- (a) The Trustee shall deposit the amount of \$194,260.64 in the Costs of Issuance Fund.
- (b) The Trustee shall deposit the amount of \$850,000.00 in the Construction Fund;
- (c) The Trustee shall transfer \$10,696,622.56 to the Escrow Agent for deposit into the Escrow Fund.

**Section 3.03 Application of City Funds.** On the Closing Date, moneys received by the Trustee from the City in the amount of \$1,500,000 shall be deposited by the Trustee into the Prepaid Base Rental Account of the Base Rental Payment Fund.

**Section 3.04 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 the amount specified in Section 3.02 hereof. There shall be additionally be deposited in the Cost of Issuance Fund the portion, if any, of the proceeds of the sale of any Additional Bonds required to be deposited therein under the Supplemental Indenture pursuant to which such Additional Bonds are issued.

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 Authority 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 thereunder. On March 1, 2013, all amounts, if any, remaining in the Costs of Issuance Fund shall be withdrawn therefrom by the Trustee and transferred to the Interest Fund.

**Section 3.05 Construction Fund.**

(a) The Trustee shall establish and maintain a separate fund designated the "Construction Fund." On the Closing Date there shall be deposited in the Construction Fund the amount specified in Section 3.02(b) hereof.

(b) The moneys in the Construction Fund shall be used and withdrawn by the Trustee from time to time to pay the Project Costs upon submission of a Written Request of the City stating (i) the Person to whom payment is to be made, (ii) the amount to be paid, (iii) the purpose for which the obligation was incurred, (iv) that such payment constitutes a Project Cost and is a proper charge against the Construction Fund, and (v) that such amounts have not been the subject of a prior disbursement from the Construction Fund, in each case together with a statement or invoice for each amount requested thereunder.

(c) Upon the filing of a Written Certificate of the City stating that the 2012 Project has been completed and that all Project Costs have been paid, the Trustee shall transfer and apply the amount, if any, remaining in the Construction Fund (x) if such amount is equal to or greater than \$50,000, to the Redemption Fund to be used to optionally redeem Bonds, provided that the amount so transferred shall not exceed the amount required to provide for the redemption of all Outstanding Bonds and (y) if such amount is less than \$50,000, to the Base Rental Payment Fund to be used for the purposes thereof.

**Section 3.06 Conditions for the Issuance of Additional Bonds.** The Authority may at any time issue one or more Series of Additional Bonds (in addition to the Series 2012 Bonds) payable from Base Rental Payments as provided herein on a parity with all other Bonds theretofore issued hereunder, but only subject to the following conditions, which are hereby made conditions precedent to the issuance of such Additional Bonds:

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

(1) The application of the proceeds of the sale of such Additional Bonds;

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

(3) The date, the maturity date or dates, the interest payment dates and the dates on which mandatory sinking fund redemptions, if any, are to be made for such Additional Bonds; provided, however, that (i) the serial Bonds of such Series of Additional Bonds shall be payable as to principal annually on November 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 November 1, (ii) the Additional Bonds shall be payable as to interest semiannually on May 1 and November 1 of each year, except that the first installment of interest may be payable

on either May 1 or November 1 and shall be for a period of not longer than twelve months and the interest shall be payable thereafter semiannually on May 1 and November 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;

(4) The redemption premiums and terms, if any, for such Additional Bonds;

(5) The form of such Additional Bonds; and

(6) Such other provisions that are appropriate or necessary and are not inconsistent with the provisions hereof;

(b) The Authority shall be in compliance with all agreements, conditions, covenants and terms contained herein, in the Lease Agreement and in the Ground Lease required to be observed or performed by it;

(c) The Authority shall be in compliance with all agreements, conditions, covenants and terms contained herein, in the Lease Agreement and in the Ground Lease required to be observed or performed by it; and

(d) The Ground Lease shall have been amended, to the extent necessary, and the Lease Agreement shall have been amended so as to increase the Base Rental Payments payable by the City thereunder by an aggregate amount equal to the principal of and interest on such Additional Bonds, payable at such times and in such manner as may be necessary to provide for the payment of the principal of and interest on such Additional Bonds; provided, however, that no such amendment shall be made such that the sum of Base Rental Payments, including any increase in the Base Rental Payments as a result of such amendment, plus Additional Rental Payments, in any Rental Period shall be in excess of the annual fair rental value of the Property after taking into account the use of the proceeds of any Additional Bonds issued in connection therewith (evidence of the satisfaction of such condition shall be made by a Written Certificate of the City).

Nothing contained herein shall limit the issuance of any bonds or other obligations payable from Base Rental Payments if, after the issuance and delivery of such bonds or other obligations, none of the Bonds theretofore issued hereunder will be Outstanding.

**Section 3.07 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 Authority for issuance hereunder 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:

(a) Certified copies of the Supplemental Indenture authorizing the issuance of such Additional Bonds, the amendment to the Lease Agreement required by Section 3.06 hereof and the amendment to the Ground Lease, if any, required by Section 3.06 hereof, together with satisfactory evidence that such amendment to the Lease Agreement and such amendment to the Ground Lease, if any, have been duly recorded;



(b) A Written Request of the Authority as to the delivery of such Additional Bonds;

(c) An opinion of Bond Counsel substantially to the effect that (i) the Indenture (including all Supplemental Indentures), the Lease Agreement (including the amendment thereto required by Section 3.06 hereof) and the Ground Lease (including any amendment thereto required by Section 3.06 hereof) have been duly authorized, executed and delivered by, and constitute the valid and binding obligations of, the Authority and 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 Authority payable solely from Base Rental Payments as provided herein 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;

(d) a Written Certificate of the Authority that the requirements of Section 3.06 hereof have been met;

(e) a Written Certificate of the City that the requirements of Section 3.06 hereof and Sections 5.01 and 5.02 of the Lease Agreement have been met, and a Written Certificate of the City as to the fair rental value of the Property, after giving effect to the execution and delivery of the Additional Bonds, and to the use of proceeds received therefrom; and

(f) Such further documents as are required by the provisions hereof or by the provisions of the Supplemental Indenture authorizing the issuance of such Additional Bonds.

**Section 3.08 Additional Bonds.** So long as any of the Bonds remain Outstanding, the Authority shall not issue any Additional Bonds or obligations payable from the Base Rental Payments, except pursuant to Sections 3.06 and 3.07 hereof.

## ARTICLE IV

### REDEMPTION OF BONDS

#### **Section 4.01 Redemption of Series 2012 Bonds.**

(a) Extraordinary Redemption. The Series 2012 Bonds shall be subject to redemption, in whole or in part, on any date, in Authorized Denominations, from and to the extent of any Net Insurance Proceeds received with respect to all or a portion of the Property, deposited by the Trustee in the Redemption Fund pursuant to Sections 5.03 and 5.04 hereof, at a Redemption Price equal to the principal amount of the Series 2012 Bonds to be redeemed, plus accrued interest thereon to the date of redemption, without premium.

(b) Optional Redemption. The Series 2012 Bonds maturing on or after November 1, 2023, shall be subject to optional redemption, in whole or in part, on any date on or after November 1, 2022, in Authorized Denominations, from and to the extent of prepaid Base Rental Payments paid pursuant to subsection (a) of Section 7.02 of the Lease Agreement, at a Redemption Price equal to the principal amount of the Series 2012 Bonds to be redeemed, plus accrued interest thereon to the date of redemption.

**Section 4.02 Notice of Redemption.** The Trustee on behalf and at the expense of the Authority 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, to the Securities Depositories and to one or more Information Services, at least 20 but not more than 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. Such notice may state that such redemption is conditioned upon sufficient funds being on deposit on the redemption date to redeem the Bonds so called for redemption. Such notice of redemption may also state that no representation is made as to the accuracy or correctness of the CUSIP numbers printed therein or on the Bonds. Neither the failure to receive any notice so mailed, nor any defect in such notice, shall affect the validity 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.

**Section 4.03 Selection of Bonds for Redemption.** Whenever provision is made in this Indenture for the redemption of less than all of the Bonds, the Trustee shall select the Bonds to be redeemed from all Bonds not previously called for redemption (a) with respect to any optional redemption of Bonds of a Series, among maturities of Bonds of such Series as directed in a Written Request of the Authority, (b) with respect to any redemption pursuant to Section 4.01(a) hereof and the corresponding provision of any Supplemental Indenture pursuant to which Additional Bonds are issued, among maturities of all Series of Bonds on a pro rata basis as nearly as practicable, and (c) with respect to any other 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 of the same Series 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.

**Section 4.04 Partial Redemption of Bonds.** Upon surrender of any Bonds redeemed in part only, the Authority shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the Authority, a new Bond or Bonds of the same Series in authorized denominations equal in aggregate principal amount representing the unredeemed portion of the Bonds surrendered.

**Section 4.05 Effect of Notice of Redemption.** Notice having been mailed as aforesaid, and moneys for the Redemption Price, and the interest to the applicable date fixed for redemption, having been set aside in the Redemption Fund, the Bonds shall become due and payable on said date,

and, upon presentation and surrender thereof at the Office of the Trustee, said Bonds shall 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 Price 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 without liability to such Owners for interest thereon.

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

## ARTICLE V

### SECURITY FOR BONDS; FLOW OF FUNDS; INVESTMENTS

**Section 5.01 Pledge; Special Obligations.** Subject only to the provisions of this Indenture permitting the application thereof for the purposes and on the terms and conditions set forth herein, all of the Base Rental Payments and any other amounts (including proceeds of the sale of the Bonds) held in the Base Rental Payment Fund, the Interest Fund, the Principal Fund and the Redemption Fund are hereby 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 this Indenture and the Act. Said pledge shall constitute a first lien on such assets.

All obligations of the Authority under this Indenture shall be special obligations of the Authority, payable solely from Rental Payments and the other assets pledged therefor hereunder; provided, however, that all obligations of the Authority under the Bonds shall be special obligations of the Authority, payable solely from Base Rental Payments and the other assets pledged therefor hereunder. Neither the faith and credit nor the taxing power of the Authority, the City or the State of California, or any political subdivision thereof, is pledged to the payment of the Bonds.

#### **Section 5.02 Flow of Funds.**

(a) The Trustee shall establish and maintain separate funds designated the "Base Rental Payment Fund," the "Interest Fund," the "Principal Fund" and the "Redemption Fund." Within the Base Rental Fund, the Trustee shall establish the "Prepaid Base Rental Account."

All Base Rental Payments shall be paid directly by the City to the Trustee, and if received by the Authority at any time shall be transferred by the Authority with the Trustee within one Business Day after the receipt thereof. All Base Rental Payments received by the Trustee shall be deposited by the Trustee in the Base Rental Payment Fund.

(b) The Trustee shall transfer the amounts on deposit in the Base Rental Payment Fund, at the times and in the manner hereinafter provided, to the following respective funds:

(i) Interest Fund. On the Business Day immediately preceding each Interest Payment Date, the Trustee shall transfer from the Base Rental Fund to the Interest Fund the

amount, if any, necessary to cause the amount on deposit in the Interest Fund to be equal to the interest due on the Bonds on such Interest Payment Date.

(ii) Principal Fund. On the Business Day immediately preceding each May 1 and November 1, commencing May 1, 2013, the Trustee shall transfer from the Base Rental Fund to the Principal Fund the amount, if any, necessary to cause the amount on deposit in the Principal Fund to be equal to the principal amount of the Bonds due on such May 1 or November 1, either as a result of the maturity thereof or mandatory sinking fund redemption payments required to be made with respect thereto. Moneys in the Principal Fund shall be used by the Trustee for the purpose of paying the principal of the Bonds when due and payable at their maturity dates or upon earlier mandatory sinking fund redemption.

(iii) Redemption Fund. The Trustee, on the redemption date specified in the Written Request of the City filed with the Trustee at the time that any prepaid Base Rental Payment is paid to the Trustee pursuant to the Lease Agreement, shall deposit in the Redemption Fund that amount of moneys representing the portion of the Base Rental Payments designated as prepaid Base Rental Payments. Additionally, the Trustee shall deposit in the Redemption Fund any amounts required to be deposited therein pursuant to Section 5.03 or Section 5.04 hereof. Moneys in the Redemption Fund shall be used by the Trustee for the purpose of paying the principal of and interest and premium, if any, on Series 2012 Bonds redeemed pursuant to the provisions of subsections (a) and (b) of Section 4.01 hereof and Additional Bonds redeemed pursuant to the corresponding provisions of the Supplemental Indenture pursuant to which such Additional Bonds are issued.

(c) Upon receipt of a Written Certificate of the City pursuant to Section 3.06 of the Lease Agreement that the City has commenced repairs of the Property, the Trustee will transfer moneys from the Prepaid Base Rental Account at the times and in the manner required by subsection (b) above if and to the extent there are insufficient funds in the Base Rental Payment Fund to make such transfers. Upon receipt of a Written Certificate of the City pursuant to Section 3.06 of the Lease Agreement that the City has completed repairs of the Property and will recommence to make Base Rental Payments, or that the City has determined not to make such repairs or such repairs do not require the City to vacate the Property, and made the certifications required pursuant to the Lease Agreement, the Trustee will transfer any funds remaining on deposit in the Prepaid Base Rental Account to the City for any lawful use.

**Section 5.03 Application of Net Insurance Proceeds.** If the Property or any portion thereof shall be damaged or destroyed, subject to the further requirements of this Section, the City shall, as expeditiously as possible, continuously and diligently prosecute or cause to be prosecuted the repair or replacement thereof, unless the City elects not to repair or replace the Property or the affected portion thereof in accordance with the provisions hereof.

The Net Insurance Proceeds (other than Net Insurance Proceeds of rental interruption insurance), including the proceeds of any self-insurance, received on account of any damage or destruction of the Property or a portion thereof shall as soon as possible be deposited with the Trustee and be held by the Trustee in a special account and made available for and, to the extent necessary, shall be applied to the cost of repair or replacement of the Property or the affected portion thereof upon receipt of a Written Request of the City, together with invoices therefor. Pending such application, such proceeds may be invested by the Trustee as directed by the City in Permitted

Investments that mature not later than such times moneys are expected to be needed to pay such costs of repair or replacement.

Notwithstanding the foregoing, the City shall, within 60 days of the occurrence of the event of damage or destruction, notify the Trustee in writing as to whether the City intends to replace or repair the Property or the portions of the Property which were damaged or destroyed. If the City does intend to replace or repair the Property or portions thereof, the City shall deposit with the Trustee the full amount of any insurance deductible to be credited to the special account.

If the damage, destruction or loss was such that there resulted a substantial interference with the City's right to the use or occupancy of the Property and an abatement, of Rental Payments results from such damage or destruction pursuant to Section 3.06 of the Lease Agreement, then the City shall be required either to (a) apply sufficient funds from the insurance proceeds and other legally available funds to the replacement or repair of the Property or the portions thereof which have been damaged to the condition which existed prior to such damage or destruction, or (b) apply sufficient funds from the insurance proceeds and other legally available funds to the redemption, as set forth in subsection (a) of Section 4.01 hereof and the corresponding provisions of any Supplemental Indenture pursuant to which Additional Bonds are issued, in full of all the Outstanding Bonds or all of those Outstanding Bonds which would have been payable from that portion of the Base Rental Payments which are abated as a result of the damage or destruction. Funds to be applied to the redemption of Bonds in accordance with clause (b) above shall be deposited in the Redemption Fund. If the City is not required to replace or repair the Property, or the affected portion thereof, as set forth in clause (a) above or to use such amounts to redeem Bonds as set forth in clause (b) above, then such proceeds shall, if there is first delivered to the Trustee a Written Certificate of the City to the effect that the annual fair rental value of the Property after such damage or destruction, and after any repairs or replacements made as a result of such damage or destruction, is at least equal to 100% of the maximum amount of Base Rental Payments becoming due under the Lease Agreement in the then current Rental Period or any subsequent Rental Period and the fair replacement value of the Property after such damage or destruction is at least equal to the principal amount of the Outstanding Bonds, be paid to the City to be used for any lawful purpose.

The proceeds of any award in eminent domain received in respect to the Property shall be deposited by the Trustee in the Redemption Fund and applied to the redemption of Bonds pursuant to subsection (a) of Section 4.01 hereof and the corresponding provisions of any Supplemental Indenture pursuant to which Additional Bonds are issued.

**Section 5.04 Title Insurance.** Proceeds of any policy of title insurance received by the Trustee in respect of the Property shall be applied and disbursed by the Trustee as follows:

(a) if the City determines that the title defect giving rise to such proceeds has not substantially interfered with its use and occupancy of the Property and will not result in an abatement of Rental Payments payable by the City under the Lease Agreement, such proceeds shall be remitted to the City and used for any lawful purpose thereof; or

(b) if the City determines that the title defect giving rise to such proceeds has substantially interfered with its use and occupancy of the Property and will result in an abatement of Rental Payments payable by the City under the Lease Agreement, then the Trustee shall immediately deposit such proceeds in the Redemption Fund and such proceeds shall be applied to the redemption

of Bonds in the manner provided in subsection (a) of Section 4.01 hereof and the corresponding provisions of any Supplemental Indenture pursuant to which Additional Bonds are issued.

**Section 5.05 Rebate Fund.**

(a) 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 therein pursuant to the Tax Certificate, as specified in a Written Request of the Authority. 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 Article X hereof or anything to the contrary contained herein, all amounts required to be deposited into or on deposit in the Rebate Fund shall be governed exclusively by this Section and by the Tax Certificate (which is incorporated herein by reference). The Trustee shall be deemed conclusively to have complied with such provisions if it follows the written directions of the Authority, and shall have no liability or responsibility to enforce compliance by the Authority with the terms of the Tax Certificate. The Trustee may conclusively rely upon the Authority's determinations, calculations and certifications required by the Tax Certificate. The Trustee shall have no responsibility to independently make any calculation or determination or to review the Authority's calculations.

(b) Any funds remaining in the Rebate Fund after payment in full of all of the Bonds and after payment of any amounts described in this Section, shall be withdrawn by the Trustee and remitted to the Authority.

**Section 5.06 Investment of Moneys.** Except as otherwise provided herein, all moneys in any of the funds or accounts established pursuant to this Indenture and held by the Trustee shall be invested by the Trustee solely in Permitted Investments, as directed in writing by the Authority. 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 this Indenture; provided, however, that such Permitted Investments may be redeemed at par so as to be available on each Interest Payment Date. Absent timely written direction from the Authority, the Trustee shall hold any funds held by it uninvested.

Subject to the provisions of Section 5.06 hereof, all interest, profits and other income received from the investment of moneys in any fund or account established pursuant to this Indenture shall be retained therein.

Permitted Investments acquired as an investment of moneys in any fund established under this 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 fair market value thereof, such valuation to be performed not less frequently than semiannually on or before each March 15 and September 15. In determining fair market value, the Trustee may use and rely conclusively on any generally recognized securities pricing service available to it (including brokers and dealers in securities).

The Trustee may act as principal or agent in the making or disposing of any investment. Upon the Written Request of the Authority, 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 pursuant to this Section. For purposes of investment, the Trustee may commingle moneys in any of the funds and accounts established hereunder.

The Trustee may make any investments hereunder through the bond or investment department or trust investment department of the entity acting as Trustee hereunder, or those of such entity's parent or any affiliate, and such entity, or its parent or affiliate, as applicable, shall be entitled to its normal, customary and reasonable compensation for such services.

The entity acting as Trustee hereunder, or any of its affiliates, may act as sponsor, advisor or manager in connection with any investments made by the Trustee hereunder and such entity, or its affiliate, as applicable, shall be entitled to its normal, customary and reasonable compensation for such services.

The Authority and the City acknowledge that, to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Authority and the City the right to receive brokerage confirmations of security transactions as they occur, at no additional cost, the Authority and the City specifically waive receipt of such confirmations to the extent permitted by law.

## ARTICLE VI

### COVENANTS

**Section 6.01 Compliance with Agreements.** The Trustee will not authenticate or deliver any Bonds in any manner other than in accordance with the provisions hereof, and the Authority and the City will not suffer or permit any default by them to occur hereunder, but will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms hereof required to be complied with, kept, observed and performed by them.

**Section 6.02 Compliance with Ground Lease and Lease Agreement.** The Authority and the City will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms contained in the Ground Lease and the Lease Agreement required to be complied with, kept, observed and performed by them and, together with the Trustee, will enforce the Ground Lease and the Lease Agreement against the other party thereto in accordance with their respective terms.

**Section 6.03 Observance of Laws and Regulations.** The Authority, the City and the Trustee will faithfully comply with, keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on them by contract, or prescribed by any law of the United States of America or of the State of California, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of each and every franchise, right or privilege now owned or hereafter acquired by them, including their right to exist and carry on their respective businesses, to the end that such franchises, rights and privileges shall be maintained and preserved and shall not become abandoned, forfeited or in any manner impaired.

**Section 6.04 Other Liens.** The City will keep the Property and all parts thereof free from judgments and materialmen's and mechanics' liens and free from all claims, demands, encumbrances and other liens of whatever nature or character, and free from any claim or liability which materially impairs the City in conducting its business or utilizing the Property, and the Trustee at its option

(after first giving the City ten days' written notice to comply therewith and failure of the City to so comply within such ten-day period) may, but is in no event obligated to, defend against any and all actions or proceedings, or may pay or compromise any claim or demand asserted in any such actions or proceedings; provided, however, that, in defending against any such actions or proceedings or in paying or compromising any such claims or demands, the Trustee shall not in any event be deemed to have waived or released the City from liability for or on account of any of its agreements and covenants contained herein, or from its liability hereunder and to perform such agreements and covenants.

So long as any Bonds are Outstanding, none of the Trustee, the Authority or the City shall create or suffer to be created any pledge of or lien the amounts on deposit in any of the funds or accounts created hereunder, other than the pledge and lien hereof.

The Authority, the City and the Trustee shall not encumber the Property other than in accordance with the Ground Lease, the Lease Agreement, the Indenture and the Assignment Agreement.

**Section 6.05 Prosecution and Defense of Suits.** The City will promptly, upon request of the Trustee (which request the Trustee is not required to make), take such action from time to time as may be necessary or proper to remedy or cure any cloud upon or defect in the title to the Property or any part thereof, whether now existing or hereafter developing, will prosecute all actions, suits or other proceedings as may be appropriate for such purpose and will indemnify and save the Trustee harmless from all cost, damage, expense or loss, including attorneys' fees and expenses, which it or the Owners may incur by reason of any such cloud, defect, action, suit or other proceeding.

**Section 6.06 Accounting Records and Statements.** The Trustee will keep proper accounting records in which complete and correct entries shall be made of all transactions relating to the receipt, deposit and disbursement of the Base Rental Payments, and such accounting records shall be available for inspection by the Authority and the City at reasonable hours and under reasonable conditions.

**Section 6.07 Recordation and Filing.** The City will record, or cause to be recorded, with the appropriate county recorder, the Lease Agreement, the Ground Lease and the Assignment Agreement, or memoranda thereof.

**Section 6.08 Tax Covenants.**

(a) Neither the Authority nor the City will 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 any tax-exempt Bonds under Section 103 of the Code. Without limiting the generality of the foregoing, the Authority and the City will comply with the requirements of the Tax Certificate, which is incorporated herein as if fully set forth herein, This covenant shall survive payment in full or defeasance of the Bonds.

(b) In the event that at any time the Authority is of the opinion that for purposes of this Section 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 hereunder, the Authority shall so instruct the Trustee in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions.



(c) Notwithstanding any provisions of this Section, if the Authority shall provide to the Trustee an Opinion of Counsel to the effect that any specified action required under this Section 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 Bonds, the Trustee may conclusively rely on such opinion in complying with the requirements of this Section and of the Tax Certificate, and the covenants hereunder shall be deemed to be modified to that extent.

**Section 6.09 Continuing Disclosure.** The City will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of this Indenture, failure of the City to comply with the Continuing Disclosure Certificate shall not constitute an event of default hereunder; provided, however, that the Trustee may (and, at the written direction of any Participating Underwriter or the holders of at least 25% of the aggregate principal amount of Outstanding Bonds, and upon being indemnified to its reasonable satisfaction therefor, shall) or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

**Section 6.10 Further Assurances.** Whenever and so often as requested to do so by the Trustee, the Authority and the City will promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments and promptly do or cause to be done all such other and further things as may be necessary or reasonably required in order to further and more fully vest in the Trustee all advantages, benefits, interests, powers, privileges and rights conferred or intended to be conferred upon it hereby or by the Assignment Agreement, the Ground Lease or the Lease Agreement.

## ARTICLE VII

### DEFAULT AND LIMITATIONS OF LIABILITY

**Section 7.01 Action on Default.** If an event of default (within the meaning of Article VI of the Lease Agreement) shall happen, then such event of default shall constitute an event of default hereunder. The Trustee shall give notice, as assignee of the Authority, of an event of default under the Lease Agreement to the City. In each and every case during the continuance of an event of default, the Trustee may and, at the direction of the Owners of not less than a majority of the aggregate principal amount of Bonds then Outstanding, and upon being indemnified to its reasonable satisfaction therefor, shall, upon notice in writing to the City and the Authority, exercise any of the remedies granted to the Authority under the Lease Agreement and, in addition, take whatever action at law or in equity may appear necessary or desirable to enforce its rights as assignee pursuant to the Assignment Agreement or to protect and enforce any of the rights vested in the Trustee or the Owners by this Indenture or by the Bonds, either at law or in equity or in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement or for the enforcement of any other legal or equitable right, including any one or more of the remedies set forth in Section 7.02 hereof.

**Section 7.02 Other Remedies of the Trustee.** Subject to the provisions of Section 7.01 hereof, the Trustee shall have the right:

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the Authority or the City or any member, director, officer or employee

thereof, and to compel the Authority or the City or any such member, director, officer or employee to perform or carry out its or his or her duties under law and the agreements and covenants required to be performed by it or him or her contained herein;

(b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Trustee; or

(c) by suit in equity upon the happening of any event of default hereunder to require the Authority and the City to account as the trustee of an express trust.

Nothing herein shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Owner any plan of reorganization, arrangement, adjustment or composition affecting the Bonds or the rights of any Owner thereof, or to authorize the Trustee to vote in respect of the claim of any Owner in any such proceeding without the approval of the Owners so affected.

**Section 7.03 Non-Waiver.** A waiver of any default or breach of duty or contract by the Trustee shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Trustee to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Trustee by law or by this Article may be enforced and exercised from time to time and as often the Trustee shall deem expedient.

If any action, proceeding or suit to enforce any right or to exercise any remedy is abandoned or determined adversely to the Trustee or any Owner, then subject to any adverse determination, the Trustee, such Owner, the Authority and the City shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

**Section 7.04 Remedies Not Exclusive.** Subject to the provisions of Section 7.01 hereof, no remedy herein conferred upon or reserved to the Trustee is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any law. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

**Section 7.05 No Liability by the Authority to the Owners.** Except as expressly provided herein, the Authority shall not have any obligation or liability to the Owners with respect to the payment when due of the Base Rental Payments by the City, or with respect to the performance by the City of the other agreements and covenants required to be performed by it contained in the Lease Agreement or herein, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained herein.

**Section 7.06 No Liability by the City to the Owners.** Except for the payment when due of the Base Rental Payments and the performance of the other agreements and covenants required to be performed by it contained in the Lease Agreement, the Ground Lease or herein, the City shall not have any obligation or liability to the Owners with respect to the Trust Indenture or the preparation, execution, delivery or transfer of the Bonds or the disbursement of the Base Rental Payments by the

Trustee to the Owners, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained herein.

**Section 7.07 No Liability of the Trustee to the Owners.** Except as expressly provided herein, the Trustee shall not have any obligation or liability to the Owners with respect to the payment when due of the Base Rental Payments by the City, or with respect to the performance by the Authority or the City of the other agreements and covenants required to be performed by them contained in the Lease Agreement, the Ground Lease or herein.

**Section 7.08 Application of Amounts After Default.** All payments received by the Trustee with respect to the rental of the Property after a default by the City pursuant to Article VI of the Lease Agreement (including, without limitation, any proceeds received in connection with the sale, assignment or sublease of the Authority's right, title and interest in the Ground Lease), and all damages or other payments received by the Trustee for the enforcement of any rights and powers of the Trustee under Article VI of the Lease Agreement, shall be deposited into the Base Rental Payment Fund and as soon as practicable thereafter applied, together with all other funds held hereunder (except funds in the Rebate Fund):

(a) to the payment of all amounts due the Trustee under Article VIII hereof;

(b) to the payment of all amounts then due for interest on the Bonds, in respect of which, or for the benefit of which, money has been collected (other than Bonds which have become payable-prior to such event of default and money for the payment of which is held by the Trustee), ratably without preference or priority of any kind, according to the amounts of interest on such Bonds due and payable; and

(c) to the payment of all amounts then due for principal of the Bonds, in respect of which, or for the benefit of which, money has been collected (other than Bonds which have become payable prior to such event of default and money for the payment of which is held by the Trustee), ratably without preference or priority of any kind, according to the amounts of principal of such Bonds due and payable.

**Section 7.09 Trustee May Enforce Claims Without Possession of Bonds.** All rights of action and claims under this Indenture or the Bonds 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 proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Owners in respect of which such judgment has been recovered.

**Section 7.10 Limitation on Suits.** No Owner of any Bond shall have any right to institute any proceeding, judicial or otherwise, with respect to this Indenture, or for the appointment of a receiver or Trustee, or for any other remedy hereunder, unless (a) such Owner shall have previously given written notice to the Trustee of a continuing event of default, (b) the Owners of not less than 25% of the aggregate principal amount of Bonds then Outstanding shall have made written request to the Trustee to institute proceedings in respect of such event of default in its own name as Trustee hereunder, (c) such Owner or Owners shall have afforded to the Trustee indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with

such request, (d) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity shall have failed to institute any such proceedings, and (e) no direction inconsistent with such written request shall have been given to the Trustee during such 60 day period by the Owners of a majority of the aggregate principal amount of Bonds then Outstanding; it being understood and intended that no one or more Owners shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other Owner, or to obtain or seek to obtain priority or preference over any other Owner or to enforce any right under this Indenture, except in the manner herein provided and for the equal and ratable benefit of all the Owners.

## ARTICLE VIII

### THE TRUSTEE

**Section 8.01 Employment of the Trustee.** The Authority hereby appoints and employs the Trustee to receive, deposit and disburse the Base Rental Payments, to authenticate, deliver and transfer the Bonds and to perform the other functions contained herein, all in the manner provided herein and subject to the conditions and terms hereof. By executing and delivering this Indenture, the Trustee accepts the appointment and employment hereinabove referred to and accepts the rights and obligations of the Trustee provided herein, subject to the conditions and terms hereof. Other than when an event of default has occurred and is continuing, the Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustee. In case an event of default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs. The Trustee hereby covenants and agrees that it will not encumber the Property.

**Section 8.02 Duties, Removal and Resignation of the Trustee.** The Authority may, by an instrument in writing, remove the Trustee initially a party hereto and any successor thereto unless an event of default shall have occurred and then be continuing, and shall remove the Trustee initially a party hereto and any successor thereto if at any time (a) requested to do so by an instrument or concurrent instruments in writing signed by the Owners of a majority of the aggregate principal amount of Bonds at the time Outstanding (or their attorneys duly authorized in writing), or (b) the Trustee shall cease to be eligible in accordance with the following sentence, and shall appoint a successor Trustee. The Trustee and any successor Trustee shall be a banking corporation or association or trust company having (or if such banking corporation or association or trust company is a member of a bank holding company, its bank holding company has) a combined capital (exclusive of borrowed capital) and surplus of at least \$50,000,000 and subject to supervision or examination by federal or state authorities. If such banking corporation or association or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of this Section the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Trustee may at any time resign by giving written notice of such resignation to the Authority and the City and by giving notice, by first class mail, postage prepaid, of such resignation to the Owners at their addresses appearing on the Registration Books. Upon receiving such notice of resignation, the Authority shall promptly appoint a successor Trustee by an instrument in writing;

provided, however, that in the event the Authority does not appoint a successor Trustee within 30 days following receipt of such notice of resignation, the resigning Trustee may, at the expense of the Authority, petition the appropriate court having jurisdiction to appoint a successor Trustee. Any resignation or removal of a Trustee and appointment of a successor Trustee shall become effective only upon acceptance of appointment by the successor Trustee.

Any corporation, association or agency into which the Trustee may be converted or merged, or with which it may be consolidated, or to which it may sell or transfer its corporate trust business and assets as a whole or substantially as a whole, or any corporation or association resulting from any such conversion, sale, merger, consolidation or transfer to which it is a party, provided that such entity meets the combined capital and surplus requirements of this Section, ipso facto, shall be and become successor trustee under this Indenture and vested with all the trusts, powers, discretions, immunities, privileges and all other matters as was its predecessor, without the execution or filing of any instrument or any further act, deed or conveyance on the part of any of the parties hereto, anything herein to the contrary notwithstanding.

**Section 8.03 Compensation of the Trustee.** The City shall from time to time, subject to any written agreement then in effect with the Trustee, pay the Trustee reasonable compensation for all its services rendered hereunder and reimburse the Trustee for all its reasonable advances and expenditures (which shall not include “overhead expenses” except as such expenses are included as a component of the Trustee’s stated annual fees) hereunder, including but not limited to advances to and reasonable fees and reasonable expenses of accountants, agents, appraisers, consultants or other experts, and counsel not directly employed by the Trustee but an attorney or firm of attorneys retained by the Trustee, employed by it in the exercise and performance of its rights and obligations hereunder. The Trustee may take whatever legal actions are lawfully available to it directly against the Authority or the City.

The City shall, to the extent permitted by law, indemnify and save the Trustee harmless against any liabilities, costs, claims or expenses, including those of its attorneys, which it may incur in the exercise and performance of its powers and duties hereunder, under the Lease Agreement, or in connection with any document or transaction contemplated hereunder or thereunder, including the enforcement of any remedies and the defense of any suit, and which are not due to its negligence or its misconduct. The duty of the City to indemnify the Trustee shall survive the termination and discharge of this Indenture and the earlier removal or resignation of the Trustee.

No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder or in the exercise of any of its rights or powers hereunder.

Upon an Event of Default, and only upon an Event of Default, the Trustee shall have a first lien with right of payment prior to payment on account of principal of and premium, if any, and interest on any Bond, upon the trust estate for the foregoing fees, charges and expenses incurred by it. When the Trustee incurs expenses or renders services after the occurrence of an Event of Default, such expenses and the compensation for such services are intended to constitute expenses of administration under any federal or state bankruptcy, insolvency, arrangement, moratorium, reorganization or other debtor relief law.

**Section 8.04 Protection of the Trustee.** The Trustee shall be protected and shall incur no liability in acting or proceeding in good faith upon any affidavit, bond, certificate, consent, notice,

request, requisition, resolution, statement, telegram, voucher, waiver or other paper or document which it shall in good faith believe to be genuine and to have been adopted, executed or delivered by the proper party or pursuant to any of the provisions hereof, and the Trustee shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Owners of the Bonds pursuant to this Indenture, unless such Owners shall have offered to the Trustee security or indemnity, reasonably satisfactory to the Trustee, against the reasonable costs, expenses and liabilities which might be incurred by it in compliance with such request or direction. The Trustee may consult with counsel, who may be counsel to the Authority or the City, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect to any action taken or suffered by it hereunder in good faith in accordance therewith.

The Trustee shall not be responsible for the sufficiency of the Bonds or the Lease Agreement, or of the assignment made to it by the Assignment Agreement, or for statements made in any preliminary or final official statement relating to the Bonds, or of the title to the Property.

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

The Trustee may buy, sell, own, hold and deal in any of the Bonds and may join in any action which any Owner may be entitled to take with like effect as if the Trustee were not a party hereto, The Trustee, either as principal or agent, may also engage in or be interested in any financial or other transaction with the Authority or the City, and may act as agent, depository or trustee for any committee or body of Owners or of owners of obligations of the Authority or the City as freely as if it were not the Trustee hereunder.

The Trustee may, to the extent reasonably necessary, execute any of the trusts or powers hereof and perform any rights and obligations required of it hereunder by or through agents, attorneys or receivers, and shall be entitled to advice of counsel concerning all matters of trust and its rights and obligations hereunder, and the Trustee shall not be answerable for the negligence or misconduct of any such agent, attorney or receiver selected by it with reasonable care; provided, however, that in the event of any negligence or misconduct of any such attorney, agent or receiver, the Trustee shall in a commercially reasonable manner pursue all remedies of the Trustee against such agent, attorney or receiver. The Trustee shall not be liable for any error of judgment made by it in good faith unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

The Trustee shall not be answerable for the exercise of any trusts or powers hereunder or for anything whatsoever in connection with the funds established hereunder, except only for its own willful misconduct, negligence or breach of an obligation hereunder.

The Trustee shall not be deemed to have knowledge of an event of default unless it has actual knowledge thereof.

The Trustee may, on behalf of the Owners, intervene in any judicial proceeding to which the Authority or the City is a party and which, in the opinion of the Trustee and its counsel, affects the Bonds or the security therefor, and shall do so if requested in writing by the Owners of at least 5% of the aggregate principal amount of Bonds then Outstanding, provided the Trustee shall have no duty to take such action unless it has been indemnified to its reasonable satisfaction against all risk or liability arising from such action.

The Trustee's rights to immunities and protection from liability hereunder and its rights to payment of its fees and expenses shall survive its resignation or removal and final payment or defeasance of the Bonds.

All indemnifications and releases from liability granted herein to the Trustee shall extend to the directors, officers, employees and agents of the Trustee.

The permissive right of the Trustee to do things enumerated in this Indenture shall not be construed as a duty, and the Trustee shall not be answerable for other than its negligence or willful default. The Trustee shall have no responsibility or liability with respect to any information, statements or recitals in any offering memorandum or other disclosure material prepared or distributed with respect to the issuance of these Bonds. The Trustee shall not be accountable for the use or application by the Borrower of any of the Bonds or the proceeds thereof or for the use or application of any money paid over by the Trustee in accordance with the provisions of this Indenture or for the use and application of money received by any paying agent.

The Trustee agrees to accept and act upon instructions or directions pursuant to this Indenture sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods; provided, however, that the Trustee shall have received an incumbency certificate listing persons designated to give such instructions or directions and containing specimen signatures of such designated persons, which such incumbency certificate shall be amended and replaced whenever a person is to be added or deleted from the listing. If the Authority or the City elects to give the Trustee e-mail or facsimile instructions (or instructions by a similar electronic method) and the Trustee in its discretion elects to act upon such instructions, the Trustee's understanding of such instructions shall be deemed controlling. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such instructions notwithstanding such instructions conflict or are inconsistent with a subsequent written instruction. The Authority and the City agree to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Trustee, including, without limitation, the risk of the Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

In acting or omitting to act pursuant to the Lease Agreement or Ground Lease, the Trustee shall be entitled to all of the rights, immunities and indemnities accorded to it under this Indenture and the Lease Agreement, including, but not limited to, this Article VIII.

## ARTICLE IX

### MODIFICATION OR AMENDMENTS

#### Section 9.01 Modifications and Amendments Permitted.

(a) This Indenture and the rights and obligations of the Authority, 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 Authority, the City and the Trustee may enter into with the written consent of 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, or (ii) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required to effect any such modification or amendment, or (iii) permit the creation of any lien on the Base Rental Payments and other assets pledged under this Indenture prior to or on a parity with the lien created by this Indenture or deprive the Owners of the Bonds of the lien created by this Indenture on such Base Rental Payments and other assets (except as expressly provided in this 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.

(b) This Indenture and the rights and obligations of the Authority, 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 Authority, the City and the Trustee may enter into without the consent of any Bond Owners for any one or more of the following purposes:

(i) to add to the covenants and agreements of the Authority or the City in this 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 herein reserved to or conferred upon the Authority or the City;

(ii) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision contained in this Indenture;

(iii) 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 provisions of Article III hereof;

(iv) to modify, amend or supplement this Indenture in such manner as to permit the qualification hereof 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;

(v) to modify, amend or supplement this 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



(vi) in any other respect whatsoever as the Authority and the City may deem necessary or desirable, provided that such modification or amendment does not materially adversely affect the interests of the Bond Owners hereunder, in the opinion of Bond Counsel filed with the Authority, the City and the Trustee.

(c) Promptly after the execution by the Authority, 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 Authority), by first class mail postage prepaid, setting forth in general terms the substance of such Supplemental Indenture, to the Owners of the Bonds at the respective addresses shown on the Registration Books. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

(d) No Supplemental Indenture shall modify any of the rights or obligations of the Trustee without its prior written consent.

**Section 9.02 Effect of Supplemental Indenture.** Upon the execution of any Supplemental Indenture pursuant to this Article, this Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under this Indenture of the Authority, the City, the Trustee and all Owners of Bonds Outstanding shall thereafter be determined, exercised and enforced hereunder 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 this Indenture for any and all purposes.

**Section 9.03 Endorsement of Bonds; Preparation of New Bonds.** Bonds delivered after the execution of any Supplemental Indenture pursuant to this Article may, and if the Authority so determines shall, bear a notation by endorsement or otherwise in form approved by the Authority 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 Authority and the Trustee, to any modification or amendment contained in such Supplemental Indenture, shall be prepared and executed by the Authority 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.

**Section 9.04 Amendment of Particular Bonds.** The provisions of this Article shall not prevent any Bond Owner from accepting any amendment as to the particular Bonds held by such Owner.

## ARTICLE X

### DEFEASANCE

**Section 10.01 Discharge of Indenture.** If the Authority 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 herein and therein, then the Owners of such Bonds shall cease to be entitled to the pledge of the Base Rental and the

other assets as provided herein, and all agreements, covenants and other obligations of the Authority and the City to the Owners of such Bonds hereunder shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee shall execute and deliver to the Authority and 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 hereto 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 Authority and the City shall have kept, performed and observed all of the covenants and promises in such Bonds and in this Indenture required or contemplated to be kept, performed and observed by them on or prior to that time, then this 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 this Indenture and such lien and all covenants, agreements and other obligations of the Authority and the City hereunder shall cease, terminate become void and be completely discharged as to such Bonds.

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

**Section 10.02 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 within the meaning and with the effect provided in Section 10.01 hereof. Any Outstanding Bonds shall prior to the maturity date or redemption date thereof be deemed to have been paid within the meaning of and with the effect expressed in Section 10.01 hereof if (a) in case any of such Bonds are to be redeemed on any date prior to their maturity date, the Authority shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail, on a date in accordance with the provisions of Section 4.02 hereof, notice of redemption of such Bonds on said redemption date, said notice to be given in accordance with Section 4.02 hereof, (b) there shall have been deposited with the Trustee either (i) money in an amount which shall be sufficient, or (ii) 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, as verified by an independent certified public accountant, 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 Authority 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 this Section 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.

**Section 10.03 Payment of Bonds After Discharge of Indenture.** Notwithstanding any provisions of this 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 Authority (without liability for interest) free from the trusts created by this 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 Authority as aforesaid, the Trustee may (at the cost of the Authority) 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 Authority of the moneys held for the payment thereof.

## ARTICLE XI

### MISCELLANEOUS

**Section 11.01 Benefits of Indenture Limited to Parties.** Nothing contained herein, expressed or implied, is intended to give to any person other than the Authority, the City, the Trustee and the Owners any claim, remedy or right under or pursuant hereto, and any agreement, condition, covenant or term required herein to be observed or performed by or on behalf of the Authority or the City shall be for the sole and exclusive benefit of the Trustee and the Owners.

**Section 11.02 Successor Deemed Included in all References to Predecessor.** Whenever the Authority, the City or the Trustee, or any officer thereof, is named or referred to herein, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the Authority, the City or the Trustee, or such officer, and all agreements, conditions, covenants and terms required hereby to be observed or performed by or on behalf of the Authority, the City or the Trustee, or any officer thereof, shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

**Section 11.03 Execution of Documents by Owners.** Any declaration, request or other instrument which is permitted or required herein to be executed by Owners may be in one or more instruments of similar tenor and may be executed by Owners in person or by their attorneys appointed in writing. The fact and date of the execution by any Owner or his attorney of any declaration, request or other instrument or of any writing appointing such attorney may be proved by the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state or territory in which he purports to act that the person signing such declaration, request or other instrument or writing 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, or by such other proof as the Trustee may accept which it may deem sufficient.

The ownership of any Bonds and the amount, payment date, number and date of owning the same may be proved by the Registration Books.

Any declaration, request or other instrument in writing of the Owner of any Bond shall bind all future Owners of such Bond with respect to anything done or suffered to be done by the Authority, the City or the Trustee in good faith and in accordance therewith.

**Section 11.04 Waiver of Personal Liability.** Notwithstanding anything contained herein to the contrary, no member, officer or employee of the Authority or the City shall be individually or personally liable for the payment of any moneys, including without limitation, the principal of or interest on the Bonds, but nothing contained herein shall relieve any member, officer or employee of the City or the Authority from the performance of any official duty provided by any applicable provisions of law, by the Lease Agreement or hereby.

**Section 11.05 Destruction of Bonds.** Whenever in this Indenture provision is made for the cancellation by the Trustee and the delivery to the Authority of any Bonds, the Trustee may, in lieu of such cancellation and delivery, destroy such Bonds.

**Section 11.06 Funds and Accounts.** Any fund or account required to be established and maintained herein by the Trustee may be established and maintained in the accounting records of the Trustee either as an account or a fund, and may, for the purposes of such accounting records, any audits thereof and any reports or statements with respect thereto, be treated either as an account or a fund, but all such records with respect to all such funds and accounts shall at an times be maintained in accordance with sound accounting practice and with due regard for the protection of the security of the Bonds and the rights of the Owners.

The Trustee may commingle any of the moneys held by it hereunder for investment purposes only; provided, however, that the Trustee shall account separately for the moneys in each fund or account established pursuant to this Indenture. The Trustee may establish such funds and accounts as it deems necessary or appropriate to perform its obligations hereunder.

**Section 11.07 Article and Section Headings Gender and References.** The singular form of any word used herein, including the terms defined in Section 1.01 hereof, shall include the plural, and vice versa, unless the context otherwise requires. The use herein of a pronoun of any gender shall include correlative words of the other genders. The headings or titles of the several Articles and Sections hereof and the table of contents appended hereto shall be solely for convenience of reference and shall not affect the meaning, construction or effect hereof. All references herein to "Articles," "Sections," subsections or clauses are to the corresponding Articles, Sections, subsections or clauses hereof, and the words "hereby," "herein," "hereof," "hereto," "herewith," "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section, subsection or clause thereof.

**Section 11.08 Partial Invalidity.** If any one or more of the agreements, conditions, covenants or terms required herein to be observed or performed by or on the part of the Authority, the City or the Trustee shall be contrary to law, then such agreement or agreements, such condition or conditions, such covenant or covenants or such term or terms shall be null and void to the extent contrary to law and shall be deemed separable from the remaining agreements, conditions, covenants and terms hereof and shall in no way affect the validity hereof or of the Bonds, and the Owners shall retain all the benefit, protection and security afforded to them under any applicable provisions of law. The Authority, the City and the Trustee hereby declare that they would have executed this Indenture, and each and every Article, Section, paragraph, subsection, sentence, clause and phrase hereof and would have authorized the execution and delivery of the Bonds pursuant hereto irrespective of the

fact that any one or more Articles, Sections, paragraphs, subsections, sentences, clauses or phrases hereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

**Section 11.09 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 this Indenture, Bonds which are actually known by the Trustee to be owned or held by or for the account of the Authority or the City, or by any Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority or the City, shall be disregarded and deemed not to be Outstanding for the purpose of any such determination; except that, in determining whether the Trustee shall be protected in relying upon any such demand, request, direction, consent or waiver of an Owner, only Bonds which the Trustee actually knows to be owned or held by or for the account of the Authority or the City, or by any Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority or the City, shall be disregarded unless all Bonds are so owned or held, in which case such Bonds shall be considered Outstanding for the purpose of such determination. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of this Section 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 Authority or the City. 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.

**Section 11.10 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 Section 10.03 hereof but without any liability for interest thereon.

**Section 11.11 Payment on Non-Business Days.** In the event any payment is required to be made hereunder 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.

**Section 11.12 California Law.** This Indenture shall be construed and governed in accordance with the laws of the State of California.

**Section 11.13 Notices.** All written notices to be given hereunder shall be given by mail to the party entitled thereto at its address set forth below, or at such other address as such party may provide to the other parties in writing from time to time, namely:

If to the City:	City of Rancho Santa Margarita 22112 El Paseo Rancho Santa Margarita, California 92688 Attention: City Manager
-----------------	---

If to the Authority:                   Rancho Santa Margarita Public Financing Authority  
c/o City of Rancho Santa Margarita  
22112 El Paseo  
Rancho Santa Margarita, California 92688  
Attention: Executive Director

If to the Trustee:                   Wells Fargo Bank, National Association  
707 Wilshire Blvd., 17th Floor  
Los Angeles, California 90017  
Attention: Corporate Services Department

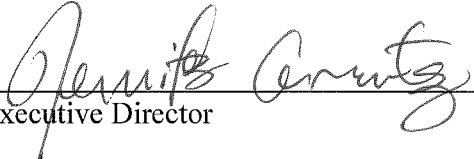
Each such notice, statement, demand, consent, approval, authorization, offer, designation, request or other communication hereunder shall be deemed delivered to the party to whom it is addressed (a) if personally served or delivered, upon delivery, (b) if given by electronic communication, whether by telex, telegram or telecopier, upon the sender's receipt of an appropriate answer back 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 (d) if given by any other means, upon delivery at the address specified in this Section.

**Section 11.14 Notice to Rating Agencies.** The Trustee shall provide S&P, if the Bonds are then rated by S&P, and Moody's, if the Bonds are then rated by Moody's, with prompt notice of any substitution or release of property pursuant to Section 9.03 of the Lease Agreement.

**Section 11.15 Execution in Counterparts.** This Indenture may be executed in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the Authority and the City have caused this Indenture to be signed in their respective names by their representative thereunto duly authorized, and the Trustee, in token of its acceptance of the trusts created hereunder, has caused this Indenture to be signed in its corporate name by its officer thereunto duly authorized, all as of the day and year first above written,

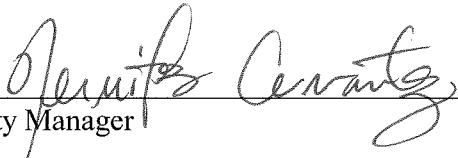
RANCHO SANTA MARGARITA PUBLIC  
FINANCING AUTHORITY

By:   
Executive Director

ATTEST:

  
Secretary

CITY OF RANCHO SANTA MARGARITA

By:   
City Manager

ATTEST:

  
City Clerk

APPROVED AS TO FORM:

  
Stradling Yocca Carlson & Rauth,  
Special Counsel

WELLS FARGO BANK, NATIONAL  
ASSOCIATION,  
as Trustee

By:           *Aunt U*            
          Authorized Officer



**EXHIBIT A**

**FORM OF SERIES 2012 BOND**

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

\$ \_\_\_\_\_

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

**RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY  
LEASE REVENUE REFUNDING BOND  
SERIES 2012A**

<b>INTEREST RATE</b> _____ %	<b>MATURITY DATE</b> November 1, 20__	<b>DATED DATE</b> December 19, 2012	<b>CUSIP</b> 75214T__
---------------------------------	--	--	--------------------------

**REGISTERED OWNER:** CEDE & CO.

**PRINCIPAL AMOUNT:** \_\_\_\_\_ THOUSAND DOLLARS

The Rancho Santa Margarita Public Financing Authority (the "Authority"), for value received, hereby promises to pay, solely from the Base Rental Payments (as hereinafter defined) or amounts in certain funds and accounts held under the Indenture (as hereinafter defined), to the Registered Owner identified above or registered assigns (the "Registered Owner"); on the Maturity Date identified above or on any earlier redemption date, the Principal Amount identified above in lawful money of the United States of America; and to pay interest thereon at the Rate of Interest identified above in like lawful money from the date hereof payable semiannually on May 1 and November 1 in each year, commencing May 1, 2013 (the "Interest Payment Dates"), until payment of such Principal Amount in full. This Bond shall bear interest from the Interest Payment Date next preceding the date of authentication of this Bond (unless this Bond is authenticated on or before an Interest Payment Date and after the close of business on the fifteenth calendar day of the month next preceding such Interest Payment Date, whether or not such day is a Business Day, in which event it shall bear interest from such Interest Payment Date, or unless this Bond is authenticated on or prior to March 15, 2013, in which event it shall bear interest from the Dated Date identified above; provided, however, that if, at the time of authentication of this Bond, interest is in default on this Bond, interest on this Bond shall be payable from the date to which interest hereon has been paid in full, payable on each Interest Payment Date). The Principal Amount hereof is payable upon surrender hereof upon maturity or earlier redemption at the Office of the Trustee (as hereinafter defined). Interest hereon is payable by wire or check of Wells Fargo Bank, National Association, as Trustee (the "Trustee"), mailed by first class mail, postage prepaid, on each Interest Payment Date to

the Registered Owner hereof at the address of the Registered Owner shown on the Registration Books at the close of business on the fifteenth calendar day of the month next preceding such Interest Payment Date. "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 Authority and the City of Rancho Santa Margarita (the "City") by the Trustee in writing, except that with respect to presentation of Bonds for payment or for registration of transfer and exchange such term shall mean the office or the agency of the Trustee at which, at any particular time, its corporate trust agency shall be conducted as specified to the Authority and the City by the Trustee in writing.

This Bond is one of a series of a duly authorized issue of bonds issued for the purpose of financing the construction of various public road improvements and refinancing the acquisition, construction and installation of certain capital improvements constituting the City's City Hall and Regional Community Center and related improvements, facilities and equipment (the "Project"), and is one of the series of bonds designated "Rancho Santa Margarita Public Financing Authority Lease Revenue Refunding Bonds, Series 2012A" (the "Series 2012 Bonds") in the aggregate principal amount of \$11,230,000. The Series 2012 Bonds are issued pursuant to the Indenture, dated as of December 1, 2012 (the "Indenture"), by and among the Authority, the City and the Trustee, and this reference incorporates the Indenture herein, and by acceptance hereof the owner of this Bond assents to said terms and conditions. Pursuant to and as more particularly provided in the Indenture, additional bonds ("Additional Bonds"), may be issued by the Authority secured by a lien on a parity with the lien securing the Series 2012 Bonds. The Series 2012 Bonds and any Additional Bonds are collectively referred to as the "Bonds." The Indenture is entered into, and this Bond is issued under, the Marks-Roos Local Bond Pooling Act of 1985 (the "Act") and the laws of the State of California.

Pursuant to the Indenture, the principal of and interest on the Bonds are payable solely from certain base rental payments (the "Base Rental Payments") under and pursuant to that certain Lease Agreement, dated as of December 1, 2012 (the "Lease Agreement"), by and between the City, as lessee, and the Authority, as lessor, all of which rights to receive such Base Rental Payments have been assigned without recourse by the Authority to the Trustee. Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, all of the Base Rental Payments and any other amounts (including proceeds of the sale of the Bonds) held in the Base Rental Payment Fund, the Interest Fund, the Principal Fund and the Redemption Fund established under the Indenture are 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 constitutes a first lien on such assets.

The Series 2012 Bonds are authorized to be issued in the form of fully registered bonds without coupons in denominations of \$5,000 or any integral multiple thereof ("Authorized Denominations").

The Series 2012 Bonds shall be subject to redemption, in whole or in part, on any date, in Authorized Denominations, from and to the extent of any net insurance proceeds received with respect to all or a portion of the property leased under the Lease Agreement, remaining after payment therefrom of all reasonable expenses incurred in the collection thereof, deposited by the Trustee in the Redemption Fund established under the Indenture, at a Redemption Price equal to the principal amount of the Series 2012 Bonds to be redeemed, plus accrued interest thereon to the date of redemption, without premium.

The Series 2012 Bonds maturing on or after November 1, 2023, shall be subject to optional redemption, in whole or in part, on any date on or after November 1, 2022, in Authorized Denominations, from and to the extent of prepaid Base Rental Payments paid pursuant the Lease Agreement, at a Redemption Price equal to the principal amount of the Series 2012 Bonds to be redeemed, plus accrued interest thereon to the date of redemption.

The Trustee on behalf and at the expense of the Authority shall mail (by first class mail) notice of any redemption to the respective owners of any Series 2012 Bonds designated for redemption, at their respective addresses appearing on the Registration Books, at least 20 but not more than 60 days prior to the date fixed for redemption; provided, however, that neither failure to receive any such notice so mailed, nor any defect therein, shall affect the validity of the proceedings for the redemption of such Series 2012 Bonds or the cessation of accrual of interest thereon from and after the date fixed for redemption. The Redemption Price of the Series 2012 Bonds to be redeemed shall be paid only upon presentation and surrender thereof at the Office of the Trustee. From and after the date fixed for redemption of any Series 2012 Bonds, interest on such Series 2012 Bonds will cease to accrue and become payable.

Subject to the limitations and upon payment of the charges, if any, provided in the Indenture, fully registered Series 2012 Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount and maturity of fully registered Series 2012 Bonds of other authorized denominations.

This Bond is transferable by the Registered Owner hereof, in person or by his duly authorized attorney, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Bond. Upon such transfer a new fully registered Series 2012 Bond or Series 2012 Bonds, in Authorized Denominations, for the same aggregate principal amount will be issued to the transferee in exchange herefor. The Authority, the City and the Trustee may treat the Registered Owner hereof as the absolute owner hereof for all purposes, and the Authority, the City and the Trustee shall not be affected by any notice to the contrary.

The Indenture and the rights and obligations of the Authority, the City, the owners of the Bonds and the Trustee may be modified or amended from time to time and at any time in the manner, to the extent, and upon the terms provided in the Indenture; provided that no such modification or amendment shall (a) extend the fixed maturity of any Bonds, or reduce the 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, or, (b) reduce the percentage of Bonds the consent of the owners of which is required to effect any such amendment or modification, or (c) permit the creation of any lien on the Base Rental Payments 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 the Base Rental Payments and such other assets (except as expressly provided in the Indenture), without the consent of the owners of all Bonds then outstanding.

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

All obligations of the Authority under the Indenture shall be special obligations of the Authority, payable solely from Rental Payments and the other assets pledged therefor under the

Indenture; provided, however, that all obligations of the Authority under the Bonds shall be special obligations of the Authority, payable solely from Base Rental Payments and the other assets pledged therefor under the Indenture. Neither the faith and credit nor the taxing power of the Authority, the City or the State of California, or any political subdivision thereof, is pledged to the payment of the Bonds.

**IN WITNESS WHEREOF**, the Authority has caused this Bond to be signed in its name and on its behalf by the facsimile signatures of its Chairperson and Secretary, all as of the Dated Date identified above.

RANCHO SANTA MARGARITA PUBLIC  
FINANCING AUTHORITY

By: \_\_\_\_\_  
Chairperson

Attest:

\_\_\_\_\_  
Secretary

[FORM OF TRUSTEE’S CERTIFICATE OF AUTHENTICATION]

This is one of the Series 2012A Bonds described in the within-mentioned Indenture and registered on the Registration Books.

Date: \_\_\_\_\_

WELLS FARGO BANK, NATIONAL  
ASSOCIATION, as Trustee

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

[FORM OF ASSIGNMENT]

For value, received the undersigned hereby sells, assigns and transfers unto \_\_\_\_\_ whose address and social security or other tax identifying number is \_\_\_\_\_, the within-mentioned Bond and hereby irrevocably constitute(s) and appoint(s) \_\_\_\_\_ attorney, to transfer the same on the registration books of the Trustee with full power of substitution in the premises.

Dated: \_\_\_\_\_

Signature Guaranteed:

\_\_\_\_\_  
Note: Signature(s) must be guaranteed by an eligible guarantor.

\_\_\_\_\_  
Note: The signature(s) on this Assignment must correspond with the name(s) as written on the face of the within bond in every particular without alteration or enlargement or any change whatsoever.

RECORDING REQUESTED BY  
FIRST AMERICAN TITLE COMPANY  
NATIONAL/COMMERCIAL SERVICES  
COMMERCIAL/INDUSTRIAL DIVISION

NCJ-572749

**RECORDING REQUESTED BY:**  
Rancho Santa Margarita Public Financing  
Authority

**AND WHEN RECORDED MAIL TO:**  
Stradling Yocca Carlson & Rauth  
660 Newport Center Drive, Suite 1600  
Newport Beach, California 92660  
Attn: Brian P. Forbath, Esq.

Recorded in Official Records, Orange County  
Renee Ramirez, Assistant Clerk-Recorder



NO FEE

2012000787610 12:57 pm 12/19/12

117 404 M11 7

0.00 0.00 0.00 20.00 18.00 0.00 0.00 0.00

[Space above for Recorder's use.]

This document is recorded for the benefit of the  
Rancho Santa Margarita Public Financing Authority  
and recording is fee-exempt under § 27383 of the  
Government Code.

**MEMORANDUM OF LEASE AGREEMENT**

**by and between**

**CITY OF RANCHO SANTA MARGARITA**

**and**

**RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY**

**Dated as of December 1, 2012**

**Relating to**

**\$11,230,000**

**RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY  
LEASE REVENUE REFUNDING BONDS, SERIES 2012A**

## MEMORANDUM OF LEASE AGREEMENT

THIS MEMORANDUM OF LEASE AGREEMENT (the "Memorandum") is made and entered into as of the 1st day of December, 2012, by and between the CITY OF RANCHO SANTA MARGARITA, a municipal corporation and general law city duly organized and existing under and by virtue of the Constitution and the laws of the State of California (the "City") and the RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY, a joint exercise of powers entity organized and existing under and by virtue of the laws of the State of California (the "Authority").

The City has pursuant to a Ground Lease, dated as of December 1, 2012 (the "Ground Lease"), by and between the City and the Authority, which Ground Lease is being recorded currently herewith, leased all of the real property legally described in Exhibit A attached hereto to the Authority.

FOR VALUABLE CONSIDERATION, the Authority hereby leases to the City, and the City hereby leases back from the Authority, all of the real property legally described in Exhibit A attached hereto and made a part hereof, subject to the terms and conditions of that certain unrecorded Lease Agreement, dated as of December 1, 2012 (the "Lease"), by and between the City and the Authority, which by this reference is incorporated herein. All capitalized terms in this Memorandum not otherwise defined herein shall have the same meaning as set forth in the Lease.

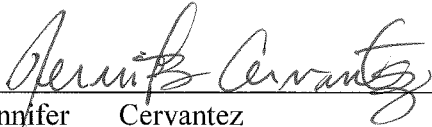
The Authority's rights under the Lease, including the right to receive and enforce payment of the Rental Payments to be made by the City under the Lease, have been assigned and transferred to Wells Fargo Bank, National Association, a national banking association organized and existing under the laws of the United States, as trustee pursuant to the Indenture (the "Trustee"), without recourse for the benefit of the Owners of the Bonds pursuant to the Assignment Agreement, dated as of December 1, 2012, by and between the Authority and the Trustee, to which assignment, transfer and sale the City hereby consents.

The term of the Lease shall commence on the Delivery Date and shall end on November 1, 2033, unless such term is extended as provided in the Lease. If on November 1, 2033 the Bonds shall not be fully paid, or provision therefor made in accordance with the Indenture, or the Indenture shall not be discharged by its terms, or if the Rental Payments shall remain due and payable or shall have been abated at any time and for any reason, then the term of the Lease shall be extended until the date upon which (i) all Bonds shall be fully paid, or provision therefor made in accordance with the Indenture, or (ii) the Indenture shall be discharged by its terms and all Rental Payments shall have been paid in full. Notwithstanding the foregoing, the term of the Lease shall in no event be extended more than ten years beyond November 1, 2033. Such extended date being the "Maximum Lease Term." If prior to November 1, 2033, all Bonds shall be fully paid, or provision therefor made in accordance with the Indenture, the Indenture shall be discharged by its terms and all Rental Payments shall have been paid in full, the term of the Lease shall end simultaneously therewith.

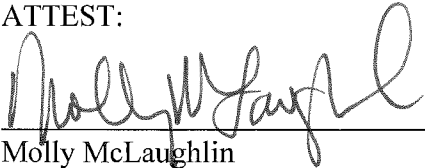
Furthermore, pursuant to the terms and conditions set forth in the Lease, the City may substitute additional real property for the property described in Exhibit A or delete portions of the real property described therein from the Lease.

IN WITNESS WHEREOF, each of the parties hereto has executed this Memorandum of Lease as of the day and year first hereinabove written.

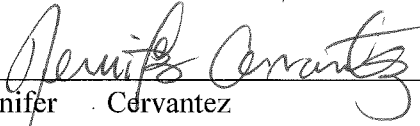
CITY OF RANCHO SANTA MARGARITA

By:   
Jennifer Cervantez  
City Manager

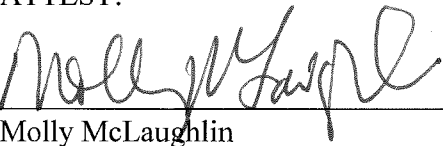
ATTEST:

  
Molly McLaughlin  
City Clerk

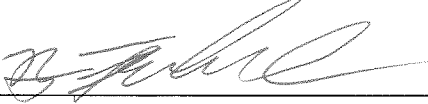
RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY

By:   
Jennifer Cervantez  
Executive Director

ATTEST:

  
Molly McLaughlin  
Secretary

APPROVED AS TO FORM:

  
Stradling Yocca Carlson & Rauth,  
Special Counsel

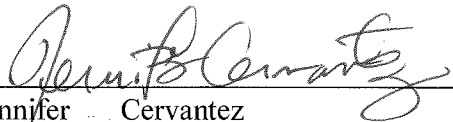


**CERTIFICATE OF ACCEPTANCE**


This is to certify that the interest in the Property conveyed under the foregoing to the City of Rancho Santa Margarita, a municipal corporation and general law city duly organized and existing under and by virtue of the Constitution and the laws of the State of California, is hereby accepted by the undersigned officer or agent on behalf of the City Council of the City of Rancho Santa Margarita, pursuant to authority conferred by resolution of the said City Council adopted on November 14, 2012, and the grantee consents to recordation thereof by its duly authorized officer.

Dated: December 19, 2012

CITY OF RANCHO SANTA MARGARITA

By:   
Jennifer Cervantez  
City Manager

ATTEST:

  
Molly McLaughlin  
City Clerk

STATE OF CALIFORNIA

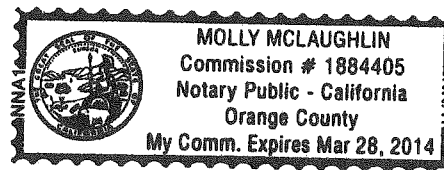
COUNTY OF ORANGE

On December 11, 2012, before me, Molly McLaughlin, Notary Public, personally appeared Jennifer Cervantes, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) ~~is/are~~ subscribed to the within instrument and acknowledged to me that he/~~she~~/they executed the same in his/~~her~~/their authorized capacity(ies), and that by his/~~her~~/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal

Molly McLaughlin  
SIGNATURE OF NOTARY PUBLIC



GOVERNMENT CODE 27361.7

I CERTIFY UNDER PENALTY OF PERJURY THAT THE NOTARY SEAL ON THE DOCUMENT TO WHICH THIS STATEMENT IS ATTACHED READS AS FOLLOWS:

NAME OF NOTARY: MOLLY MCLAUGHLIN

COUNTY WHERE BOND IS FILED: ORANGE

DATE COMMISSION EXPIRES: MAR 28, 2014

COMMISSION NO.: 1884405

MANUFACTURERS/VENDOR NO. NNA1

PLACE OF EXECUTION: SANTA ANA, CALIFORNIA

DATE: December 18, 2012

BY:   
\_\_\_\_\_  
FIRST AMERICAN TITLE INSURANCE COMPANY

**EXHIBIT A**

**LEGAL DESCRIPTION**

All that real property situated in the County of Orange, State of California, described as follows:

LOTS 6 THROUGH 9 OF TRACT NO. 13423, AS SHOWN ON A MAP FILED IN BOOK 729, PAGES 11 TO 15 INCLUSIVE OF MISCELLANEOUS MAPS, RECORDS OF ORANGE COUNTY, CALIFORNIA.

APN: 814-154-08, 814-154-09, 814-154-10 and 814-154-11

---

**LEASE AGREEMENT**

**by and between**

**CITY OF RANCHO SANTA MARGARITA**

**and**

**RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY**

**Dated as of December 1, 2012**

**Relating to**

**\$11,230,000**

**Rancho Santa Margarita Public Financing Authority  
Lease Revenue Refunding Bonds, Series 2012A**

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## LEASE AGREEMENT

**THIS LEASE AGREEMENT** (this “Lease Agreement”) executed and entered into as of December 1, 2012, is by and between the CITY OF RANCHO SANTA MARGARITA (the “City”), a municipal corporation and general law city duly organized and existing under and by virtue of the Constitution and laws of the State of California, as lessee, and the RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY (the “Authority”), a joint exercise of powers entity duly organized and existing under and by virtue of the laws of the State of California, as lessor.

### RECITALS

**WHEREAS**, the City and the Authority desire to finance a portion of the costs of the acquisition, construction and installation of various public improvements (the “2012 Project”);

**WHEREAS**, the City and the Authority desire to refinance the City’s Certificates of Participation (City Hall and Regional Community Center) and the City’s lease obligations in connection therewith, the proceeds of which were used to finance a portion of the costs of the acquisition, construction and installation of certain capital improvements constituting a city hall and regional community center and related improvement, facilities and equipment (the “2003 Project” and with the 2012 Project, the “Project”);

**WHEREAS**, in order to finance the 2012 Project and refinance the 2003 Project, the City will lease certain real property and the improvements located thereon (the “Property”) to the Authority pursuant to a Ground Lease, dated as of the date hereof, and the City will sublease the Property back from the Authority pursuant to this Lease Agreement;

**WHEREAS**, the City and the Authority have determined that it would be in the best interests of the City and the Authority to provide the funds necessary to finance the 2012 Project and refinance the 2003 Project through the issuance by the Authority of bonds payable from the base rental payments (the “Base Rental Payments”) to be made by the City under this Lease Agreement;

**WHEREAS**, the City and the Authority have determined that it would be in the best interests of the City and the Authority to provide for the issuance of such bonds payable from the Base Rental Payments pursuant to an Indenture, dated as of the date hereof, by and among the Authority, the City and Wells Fargo Bank, National Association, as trustee (the “Trustee”);

**WHEREAS**, all rights to receive the Base Rental Payments have been assigned without recourse by the Authority to the Trustee pursuant to an Assignment Agreement, dated as of the date hereof; and

**WHEREAS**, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and entering into of this Lease Agreement do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this Lease Agreement;

**NOW, THEREFORE**, in consideration of the mutual covenants hereinafter contained, the parties hereto agree as follows:



## ARTICLE I

### DEFINITIONS

**Section 1.01 Definitions.** Unless the context otherwise requires, the terms defined in this Section shall, for all purposes of this Lease Agreement, have the meanings herein specified, which meanings shall be equally applicable to both the singular and plural forms of any of the terms herein defined. Capitalized terms not otherwise defined herein shall have the meanings assigned to such terms in the Indenture.

**“Additional Bonds”** means bonds other than the Series 2012A Bonds issued under the Indenture in accordance with the provisions thereof

**“Additional Rental Payments”** means all amounts payable by the City as Additional Rental Payments pursuant to Section 3.02 hereof.

**“Authority”** means the Rancho Santa Margarita Public Financing Authority, a joint exercise of powers authority organized and existing under the laws of the State of California.

**“Base Rental Deposit Date”** means the 15th day of the month next preceding each Interest Payment Date.

**“Base Rental Payments”** means all amounts payable to the Authority from the City as Base Rental Payments pursuant to Section 3.01 hereof.

**“Base Rental Payment Schedule”** means the schedule of Base Rental Payments payable to the Authority from the City pursuant to Section 3.01 hereof and attached hereto as Exhibit B.

**“Bonds”** means the Rancho Santa Margarita Public Financing Authority Lease Revenue Refunding Bonds Series 2012A issued under the Indenture, and any Additional Bonds.

**“City”** means the City of Rancho Santa Margarita, a municipal corporation and general law city duly organized and existing under and by virtue of the Constitution and laws of the State of California.

**“Delivery Date”** means December 19, 2012.

**“Ground Lease”** means the Ground Lease, dated as of the date hereof, by and between the City and the Authority, as originally executed and as it may from time to time be amended in accordance with to the provisions thereof and hereof.

**“Indenture”** means the Indenture, dated as of the date hereof, by and among the Authority, the City and the Trustee, as originally executed and as it may from time to time be amended or supplemented in accordance with the provisions thereof.

**“Joint Powers Agreement”** means the Joint Exercise of Powers Agreement, dated as of October 15, 2012, by and between the City and the California Municipal Finance Authority as originally executed and as it may from time to time be amended in accordance with the provisions thereof.

**“Lease Agreement”** means this Lease Agreement, as originally executed and as it may from time to time be amended in accordance with the provisions hereof.

**“Net Insurance Proceeds”** means any insurance proceeds or condemnation award in excess of \$50,000, paid with respect to any of the Property, remaining after payment therefrom of all reasonable expenses incurred in the collection thereof.

**“Permitted Encumbrances”** means, with respect to the Property, as of any particular time, (a) liens for general *ad valorem* taxes and assessments, if any, not then delinquent, or which the City may, pursuant to provisions of Article V hereof, permit to remain unpaid, (b) the Assignment Agreement, (c) this Lease Agreement, (d) the Ground Lease, (e) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law as normally exist with respect to properties similar to the Property for the purposes for which it was , acquired or is held by the City, (f) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the Delivery Date which the City certifies in writing will not affect the intended use of the Property or impair the security granted to the Trustee for the benefit of the Owners of the Bonds by the Indenture and the Assignment Agreement and to which the Authority and the City consent in writing, and (g) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions established following the Delivery Date which the City certifies in writing do not affect the intended use of the Property or impair the security granted to the Trustee for the benefit of the Owners of the Bonds by the Indenture and the Assignment Agreement and to which the Authority and the City consent in writing.

**“Property”** means the real property described in Exhibit A hereto and the improvements located thereon.

**“Rental Payments”** means, collectively, the Base Rental Payments and the Additional Rental Payments.

**“Rental Period”** means the twelve-month period commencing on November 1 of each year during the term of the Lease Agreement.

**“Series 2012A Bonds”** means the Rancho Santa Margarita Public Financing Authority Lease Revenue Refunding Bonds issued under the Indenture.

**“Termination Date”** means November 1, 2033, unless extended or sooner terminated as provided in Section 2.02 hereof.

**“Trustee”** means the trustee appointed under the Indenture and referred to therein as the Trustee.

## ARTICLE II

### LEASE OF PROPERTY; TERM

#### Section 2.01 Lease of Property.

(a) The Authority hereby leases to the City and the City hereby leases from the Authority the Property, on the terms and conditions hereinafter set forth, subject to all Permitted Encumbrances.

(b) The leasing of the Property by the City to the Authority pursuant to the Ground Lease shall not effect or result in a merger of the City's leasehold estate pursuant to this Lease Agreement and its fee estate as lessor under the Ground Lease, and the Authority shall continue to have a leasehold estate in the Property pursuant to the Ground Lease throughout the term thereof and hereof. The leasehold interest granted by the City to the Authority pursuant to the Ground Lease is and shall be independent of this Lease Agreement; this Lease Agreement shall not be an assignment or surrender of the leasehold interest granted to the Authority under the Ground Lease.

**Section 2.02 Term; Occupancy.** The term of this Lease Agreement shall commence on the Delivery Date and shall end on the Termination Date, unless such term is extended or sooner terminated as hereinafter provided. If on the Termination Date the Bonds shall not be fully paid, or provision therefor made in accordance with Article X of the Indenture, or the Indenture shall not be discharged by its terms, or if the Rental Payments shall remain due and payable or shall have been abated at any time and for any reason, then the term of this Lease Agreement shall be extended until the date upon which (i) all Bonds shall be fully paid, or provision therefor made in accordance with Article X of the Indenture, or (ii) the Indenture shall be discharged by its terms and all Rental Payments shall have been paid in full. Notwithstanding the foregoing, the term of this Lease Agreement shall in no event be extended more than ten years beyond such Termination Date. Such extended date being the "Maximum Lease Term." If prior to the Termination Date, all Bonds shall be fully paid, or provision therefor made in accordance with Article X of the Indenture, the Indenture shall be discharged by its terms and all Rental Payments shall have been paid in full, the term of this Lease Agreement shall end simultaneously therewith.

## ARTICLE III

### RENTAL PAYMENTS

#### Section 3.01 Base Rental Payments.

(a) Subject to the provisions hereof relating to a revision of the Base Rental Payment Schedule pursuant to subsection (b) of this Section, the City shall pay to the Authority, as Base Rental Payments (subject to the provisions of Section 3.06 and Article VII hereof) the amount at the times specified in the Base Rental Payment Schedule, a portion of which Base Rental Payments shall constitute principal, and a portion of which shall constitute interest. Rental Payments, including Base Rental Payments, shall be paid by the City to the Authority for and in consideration of the right to use and occupy the Property and in consideration of the continued right to the quiet use and enjoyment thereof during each Rental Period for which such Rental Payments are to be paid.

The obligation of the City to make the Base Rental Payments does not constitute a debt of the City or of the State of California, or of any political subdivision thereof, within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the City or the State of California is obligated to levy or pledge any form of taxation or for which the City or the State of California has levied or pledged any form of taxation.

(b) If the term of this Lease Agreement shall have been extended pursuant to Section 2.02 hereof, the obligation of the City to pay Rental Payments shall continue to and including the Base Rental Deposit Date preceding the date of termination of this Lease Agreement (as so extended pursuant to Section 2.02 hereof). Upon such extension, the Base Rental Payments shall be established so that they will be sufficient to pay all extended and unpaid Base Rental Payments; provided, however, that the Rental Payments payable in any Rental Period shall not exceed the annual fair rental value of the Property.

**Section 3.02 Additional Rental Payments.** The City shall also pay, as Additional Rental Payments, such amounts as shall be required for the payment of the following:

(a) all taxes and assessments of any type or nature charged to the Authority or the City or affecting the Property or the respective interests or estates of the Authority or the City therein;

(b) all reasonable administrative costs of the Authority relating to the Property including, but without limiting the generality of the foregoing, salaries, wages, fees and expenses, compensation and indemnification of the Trustee payable by the Authority under the Indenture, fees of auditors, accountants, attorneys or engineers, and all other necessary and reasonable administrative costs of the Authority or charges required to be paid by it in order to maintain its existence or to comply with the terms of the Indenture or the Lease Agreement or to defend the Authority and its members, officers, agents and employees;

(c) insurance premiums for all insurance required pursuant to Article V hereof;

(d) any amounts with respect to the Lease Agreement or the Bonds required to be rebated to the federal government in accordance with Section 148(f) of the Code; and

(e) all other payments required to be paid by the City under the provisions of this Lease Agreement or the Indenture.

Amounts constituting Additional Rental Payments payable hereunder shall be paid by the City directly to the person or persons to whom such amounts shall be payable. The City shall pay all such amounts when due or at such later time as such amounts may be paid without penalty or, in any other case, within 60 days after notice in writing from the Trustee to the City stating the amount of Additional Rental Payments then due and payable and the purpose thereof.

**Section 3.03 Fair Rental Value.** The parties hereto have agreed and determined that the annual fair rental value of the Property is not less than the maximum annual Rental Payments due in any year. In making such determination of fair rental value, consideration has been given to the uses and purposes that may be served by the Property and the benefits therefrom which will accrue to the City and the general public. Payments of the Rental Payments for the Property during each Rental Period shall constitute the total rental for said Rental Period.

**Section 3.04 Payment Provisions.** Each installment of Base Rental Payments payable hereunder shall be paid in lawful money of the United States of America to or upon the order of the Authority at the principal office of the Trustee in Los Angeles, California, or such other place or entity as the Authority shall designate. Each Base Rental Payment shall be deposited with the Trustee no later than the Base Rental Deposit Date preceding the Interest Payment Date on which such Base Rental Payment is due. Any Base Rental Payment which shall not be paid by the City when due and payable under the terms of this Lease Agreement shall bear interest from the date when the same is due hereunder until the same shall be paid at the rate equal to the highest rate of interest on any of the Outstanding Bonds. Notwithstanding any dispute between the Authority and the City, the City shall make all Rental Payments when due without deduction or offset of any kind and shall not withhold any Rental Payments pending the final resolution of such dispute. In the event of a determination that the City was not liable for said Rental Payments or any portion thereof, said payments or excess of payments, as the case may be, shall be credited against subsequent Rental Payments due hereunder or refunded at the time of such determination. Amounts required to be deposited by the City with the Trustee pursuant to this Section on any date shall be reduced to the extent of available amounts on deposit in the Base Rental Payment Fund, the Interest Fund or the Principal Fund.

**Section 3.05 Appropriations Covenant.** The City covenants to take such action as may be necessary to include all Rental Payments due hereunder as a separate line item in its annual budgets and to make necessary annual appropriations for all such Rental Payments. The City will deliver to the Authority and the Trustee a Certificate of the City stating that its final annual budget includes all Base Rental Payments due in such fiscal year within ten days after the filing or adoption thereof. The covenants on the part of the City herein contained shall be deemed to be and shall be construed to be duties imposed by law and it shall be the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements in this Lease Agreement agreed to be carried out and performed by the City.

**Section 3.06 Rental Abatement.** Except as otherwise specifically provided in this Section, during any period in which, by reason of material damage to, or destruction or condemnation of, the Property, or any defect in title to the Property, there is substantial interference with the City's right to use and occupy any portion of the Property, Rental Payments shall be abated proportionately, and the City waives the benefits of Civil Code Sections 1932(1), 1932(2) and 1933(4) and any and all other rights to terminate the Lease Agreement by virtue of any such interference, and the Lease Agreement shall continue in full force and effect. The amount of such abatement shall be agreed upon by the City and the Authority; provided, however, that the Rental Payments due for any Rental Period shall not exceed the annual fair rental value of that portion of the Property available for use and occupancy by the City during such Rental Period. The City and the Authority shall calculate such abatement and shall provide the Trustee with a certificate setting forth such calculation and the basis therefor. Such abatement shall continue for the period commencing with the date of interference resulting from such damage, destruction, condemnation or title defect and, with respect to damage to or destruction of the Property, ending with the substantial completion of the work of repair or replacement of the Property, or the portion thereof so damaged or destroyed; and the term of this Lease Agreement shall be extended as provided in Section 2.02 hereof, except that the term shall in no event be extended beyond the Maximum Lease Term.

Notwithstanding the foregoing, to the extent that moneys are available for the payment of Rental Payments in any of the funds and accounts established under the Indenture, Rental Payments

shall not be abated as provided above but, rather, shall be payable by the City as a special obligation payable solely from said funds and accounts.

The City and the Authority acknowledge and agree that, during the term of the Lease Agreement, it is likely that the City will have to undertake extensive repairs of the Property. Accordingly, on the Delivery Date, the City has prepaid Base Rental Payments in the amount of \$1,500,000. Such funds have been deposited with the Trustee and will be held by the Trustee in the Prepaid Base Rental Account of the Base Rental Payment Fund. Five Business Days prior to the commencement of such repairs, the City will provide a Written Certificate of the City to the Trustee and the Authority notifying such parties of the commencement of such repairs and that Base Rental Payments shall be payable from amounts on deposit in the Prepaid Base Rental Account. Upon completion of such repairs, the City shall provide the Trustee and the Authority with a Written Certificate of the City notifying such parties of the completion of the repairs and the amount of prorated Base Rental Payments to be paid from the Prepaid Base Rental Account on the next Interest Payment Date and requesting the return of all other funds on deposit in the Prepaid Base Rental Account. In the event the City elects to not make such repairs or in the event the repairs do not require the City to vacate the Property, the City shall certify to the Trustee that the Property is habitable and that no abatement of Base Rental Payments shall occur if the repairs are not completed, and may request the return of all funds on deposit in the Prepaid Base Rental Account or direct the Trustee to apply all or a portion of such funds on deposit in the Prepaid base Rental Account to pay Base Rental as specified in such request.

#### ARTICLE IV

#### MAINTENANCE, ALTERATIONS AND ADDITIONS

##### **Section 4.01 [Reserved]**

**Section 4.02 Maintenance and Utilities.** Throughout the term of this Lease Agreement, as part of the consideration for rental of the Property, all improvement, repair and maintenance of the Property shall be the responsibility of the City, and the City shall pay for or otherwise arrange for the payment of all utility services supplied to the Property, which may include, without limitation, janitor service, security, power gas, telephone, light, heating, ventilation, air conditioning, water and all other utility services, and shall pay for or otherwise arrange for payment of the cost of the repair and replacement of the Property resulting from ordinary wear and tear or want of care on the part of the City or any assignee or sublessee thereof In exchange for the Rental Payments, the Authority agrees to provide only the Property.

**Section 4.03 Additions to Property.** Subject to Section 8.02 hereof, the City and any sublessee shall, at its own expense, have the right to make additions, modifications and improvements to the Property. To the extent that the removal of such additions, modifications or improvements would not cause material damage to the Property, such additions, modifications and improvements shall remain the sole property of the City or such sublessee, and neither the Authority nor the Trustee shall have any interest therein. Such additions, modifications and improvements shall not in any way damage the Property or cause it to be used for purposes other than those authorized under the provisions of state and federal law; and the Property, upon completion of any additions, modifications and improvements made pursuant to this Section, shall be of a value which

is at least equal to the value of the Property immediately prior to the making of such additions, modifications and improvements.

**Section 4.04 Installation of City's Equipment.** The City and any sublessee may at any time and from time to time, in its sole discretion and at its own expense, install or permit to be installed items of equipment or other personal property in or upon the Property. All such items shall remain the sole property of the City or such sublessee, and neither the Authority nor the Trustee shall have any interest therein. The City or such sublessee may remove or modify such equipment or other personal property at any time, provided that such party shall repair and restore any and all damage to the Property resulting from the installation, modification or removal of any such items. Nothing in this Lease Agreement shall prevent the City or any sublessee from purchasing items to be installed pursuant to this Section under a conditional sale or lease purchase contract, or subject to a vendor's lien or security agreement as security for the unpaid portion of the purchase price thereof, provided that no such lien or security interest shall attach to any part of the Property.

## ARTICLE V

### INSURANCE

#### **Section 5.01 Commercial General Liability and Property Damage Insurance; Workers' Compensation Insurance.**

(a) The City shall maintain or cause to be maintained, throughout the term of this Lease Agreement, a standard commercial general liability insurance policy or policies in protection of the City, the Authority and their respective members, officers, agents and employees. Said policy or policies shall provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the use or ownership of the Property. Said policy or policies shall provide coverage in the minimum liability limits of \$1,000,000 for personal injury or death of each person and \$3,000,000 for personal injury or deaths of two or more persons in a single accident or event, and in a minimum amount of \$500,000 for damage to property (subject to a deductible clause of not to exceed \$100,000) resulting from a single accident or event. Such commercial general liability and property damage insurance may, however, be in the form of a single limit policy in the amount of \$3,000,000 covering all such risks. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried or required to be carried by the City, and may be maintained in whole or in part in the form of self-insurance by the City provided such self-insurance complies with the provisions of Section 5.04 hereof. The Net Insurance Proceeds of such liability insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which the Net Insurance Proceeds of such insurance shall have been paid.

(b) The City shall maintain or cause to be maintained, throughout the term of this Lease Agreement, workers' compensation insurance issued by a responsible carrier authorized under the laws of the State of California to insure employers against liability for compensation under the California Labor Code, or any act enacted as an amendment or supplement thereto or in lieu thereof, such workers' compensation insurance to cover all persons employed by the City in connection with the Property and to cover full liability for compensation under any such act; provided, however, that the City's obligations under this subsection may be satisfied by self-insurance, provided such self-insurance complies with the provisions of Section 5.04 hereof.

(c) The City shall maintain or cause to be maintained, fire, lightning and special extended coverage insurance (which shall include coverage for vandalism and malicious mischief, but need not include coverage for earthquake damage) on all improvements constituting any part of the Property in an amount equal to the greater of 100% of the replacement cost of such improvements or 100% of the outstanding principal amount of the Bonds. The City has an insurance policy which provides replacement cost coverage. All insurance required to be maintained pursuant to this subsection may be subject to a deductible in an amount not to exceed \$500,000. The City's obligations under this subsection may be satisfied by self-insurance, provided such self-insurance complies with the provisions of Section 5.04 hereof.

(d) The City shall maintain rental interruption insurance to cover the Authority's loss, total or partial, of Base Rental Payments resulting from the loss, total or partial, of the use of any part of the Property as a result of any of the hazards required to be covered pursuant to subsection (c) of this Section in an amount sufficient at all times to pay an amount not less than the product of two times the maximum amount of Base Rental Payments scheduled to be paid during any Rental Period. The City shall not be permitted to self-insure its obligation under this subsection.

(e) The insurance required by this Section shall be provided by reputable insurance companies with claims paying abilities determined, in the reasonable opinion of a professionally certified risk manager or an independent insurance consultant, to be adequate for the purposes hereof.

**Section 5.02 Title Insurance.** The City shall provide, at its own expense, one or more CLTA or ALTA title insurance policies for the Property, in the aggregate amount of not less than the initial aggregate principal amount of the Series 2012A Bonds, said policy or policies shall insure (a) the fee interest of the City in the Property, (b) the Authority's ground leasehold estate in the Property under the Ground Lease, and (c) the City's leasehold estate hereunder in the Property, subject only to Permitted Encumbrances. All Net Insurance Proceeds received under said policy or policies shall be deposited with the Trustee and applied as provided in Section 5.04 of the Indenture. So long as any of the Bonds remain Outstanding, each policy of title insurance obtained pursuant to the Indenture or this Lease Agreement or required thereby or hereby shall provide that all proceeds thereunder shall be payable to the Trustee for the benefit of the Bond Owners.

**Section 5.03 Additional Insurance Provision; Form of Policies.** The City shall pay or cause to be paid when due the premiums for all insurance policies required by Section 5.01 hereof, and shall promptly furnish or cause to be furnished evidence of such payments to the Trustee. All such policies shall provide that the Trustee shall be given 30 days notice of the expiration thereof or any intended cancellation thereof. The Trustee shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the Trustee.

The City shall cause to be delivered to the Trustee on or before August 15 each year, commencing August 15, 2013, a schedule of the insurance policies being maintained in accordance herewith and a Certificate of the City stating that such policies are in full force and effect and that the City is in full compliance with the requirements of this Article. The Trustee shall be entitled to rely upon said Certificate of the City as to the City's compliance with this Article. The Trustee shall not be responsible for the sufficiency of coverage or amounts of such policies.



**Section 5.04 Self-Insurance.** Insurance provided through a California joint powers authority of which the City is a member or with which the City contracts for insurance shall be deemed to be self-insurance for purposes hereof. Any self-insurance maintained by the City pursuant to this Article shall comply with the following terms:

(a) the self-insurance program shall be approved in writing by a professionally certified risk manager or by an independent insurance consultant;

(b) the self-insurance program shall include an actuarially sound claims reserve fund out of which each self-insured claim shall be paid, the adequacy of each such fund shall be evaluated on an annual basis by a professionally certified risk manager or by an independent insurance consultant and any deficiencies in any self-insured claims reserve fund shall be remedied in accordance with the recommendation of a professionally certified risk manager or such independent insurance consultant, as applicable; and

(c) in the event the self-insurance program shall be discontinued, the actuarial soundness of its claims reserve fund, as determined by a professionally certified risk manager or by an independent insurance consultant, shall be maintained.

## ARTICLE VI

### DEFAULTS AND REMEDIES

#### Section 6.01 Defaults and Remedies.

(a) (i) If the City shall fail (A) to pay any Rental Payment payable hereunder when the same becomes due and payable, time being expressly declared to be of the essence in this Lease Agreement, or (B) to keep, observe or perform any other term, covenant or condition contained herein or in the Indenture to be kept or performed by the City, or (ii) upon the happening of any of the events specified in this subsection or in subsection (b) of this Section, the City shall be deemed to be in default hereunder and it shall be lawful for the Authority to exercise any and all remedies available pursuant to law or granted pursuant to this Lease Agreement. The City shall in no event be in default in the observance or performance of any covenant, condition or agreement in this Lease Agreement on its part to be observed or performed, other than as referred to in clause (i)(A) or (ii) of the preceding sentence, unless the City shall have failed, for a period of 30 days or such additional time as is reasonably required to correct any such default after notice by the Authority to the City properly specifying wherein the City has failed to perform any such covenant, condition or agreement. Upon any such default, the Authority, in addition to all other rights and remedies it may have at law, shall have the option to do any of the following:

(1) To terminate this Lease Agreement in the manner hereinafter provided on account of default by the City, notwithstanding any re-entry or re-letting of the Property as hereinafter provided for in subparagraph (2) hereof, and to re-enter the Property and remove all persons in possession thereof and all personal property whatsoever situated upon the Property and place such personal property in storage in any warehouse or other suitable place, for the account of and at the expense of the City. In the event of such termination, the City agrees to surrender immediately possession of the Property, without let or hindrance, and to pay the Authority all damages recoverable at law that the Authority may incur by reason of default by the City, including, without limitation, any costs, loss or damage whatsoever arising out of, in connection with, or

incident to any such re-entry upon the Property and removal and storage of such property by the Authority or its duly authorized agents in accordance with the provisions herein contained. Neither notice to pay Rental Payments or to deliver up possession of the Property given pursuant to law nor any entry or re-entry by the Authority nor any proceeding in unlawful detainer, or otherwise, brought by the Authority for the purpose of effecting such re-entry or obtaining possession of the Property nor the appointment of a receiver upon initiative of the Authority to protect the Authority's interest under this Lease Agreement shall of itself operate to terminate this Lease Agreement, and no termination of this Lease Agreement on account of default by the City shall be or become effective by operation of law or acts of the parties hereto, or otherwise, unless and until the Authority shall have given written notice to the City of the election on the part of the Authority to terminate this Lease Agreement. The City covenants and agrees that no surrender of the Property or of the remainder of the term hereof or any termination of this Lease Agreement shall be valid in any manner or for any purpose whatsoever unless stated by the Authority by such written notice.

(2) Without terminating this Lease Agreement, (x) to collect each installment of Rental Payments as the same become due and enforce any other terms or provisions hereof to be kept or performed by the City, regardless of whether or not the City has abandoned the Property, or (y) to exercise any and all rights of entry and re-entry upon the Property. In the event the Authority does not elect to terminate this Lease Agreement in the manner provided for in subparagraph (1) hereof, the City shall remain liable and agrees to keep or perform all covenants and conditions herein contained to be kept or performed by the City and, if the Property is not re-let, to pay the full amount of the Rental Payments to the end of the term of this Lease Agreement or, in the event that the Property is re-let, to pay any deficiency in Rental Payments that results therefrom; and further agrees to pay said Rental Payments and/or Rental Payment deficiency punctually at the same time and in the same manner as hereinabove provided for the payment of Rental Payments hereunder, notwithstanding the fact that the Authority may have received in previous years or may receive thereafter in subsequent years Rental Payments in excess of the Rental Payments herein specified, and notwithstanding any entry or re-entry by the Authority or suit in unlawful detainer, or otherwise, brought by the Authority for the purpose of effecting such re-entry or obtaining possession of the Property. Should the Authority elect to re-enter as herein provided, the City hereby irrevocably appoints the Authority as the agent and attorney-in-fact of the City to re-let the Property, or any part thereof, from time to time, either in the Authority's name or otherwise, upon such terms and conditions and for such use and period as the Authority may deem advisable and to remove all persons in possession thereof and all personal property whatsoever situated upon the Property and to place such personal property in storage in any warehouse or other suitable place, for the account of and at the expense of the City, and the City hereby indemnifies and agrees to save harmless the Authority from any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon and re-letting of the Property and removal and storage of such property by the Authority or its duly authorized agents in accordance with the provisions herein contained. The City agrees that the terms of this Lease Agreement constitute full and sufficient notice of the right of the Authority to re-let the Property in the event of such re-entry without effecting a surrender of this Lease Agreement, and further agrees that no acts of the Authority in effecting such re-letting shall constitute a surrender or termination of this Lease Agreement irrespective of the use or the term for which such re-letting is made or the terms and conditions of such re-letting, or otherwise, but that, on the contrary, in the event of such default by the City the right to terminate this Lease Agreement shall vest in the Authority to be effected in the sole and exclusive manner provided for in subparagraph (1) hereof. The City further agrees to pay the Authority the cost of any alterations or additions to the Property necessary to place the Property in condition for re-letting immediately upon notice to the City of the completion and installation of such additions or alterations.

The City hereby waives any and all claims for damages caused or which may be caused by the Authority in re-entering and taking possession of the Property as herein provided and all claims for damages that may result from the destruction of or injury to the Property and all claims for damages to or loss of any property belonging to the City, or any other person, that may be in or upon the Property.

(b) If (i) the City's interest in this Lease Agreement or any part thereof be assigned or transferred, either voluntarily or by operation of law or otherwise, without the written consent of the Authority and, as hereinafter provided for, or (ii) the City or any assignee shall file any petition or institute any proceeding under any act or acts, state or federal, dealing with or relating to the subject or subjects of bankruptcy or insolvency, or under any amendment of such act or acts, either as a bankrupt or as an insolvent, or as a debtor, or in any similar capacity, wherein or whereby the City asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of the City's debts or obligations, or offers to the City's creditors to elect a composition or extension of time to pay the City's debts or asks, seeks or prays for reorganization or to effect a plan of reorganization, or for a readjustment of the City's debts, or for any other similar relief, or if any such petition or any such proceedings of the same or similar kind or character be filed or be instituted or taken against the City, or if a receiver of the business or of the property or assets of the City shall be appointed by any court, except a receiver appointed at the instance or request of the Authority, or if the City shall make a general assignment for the benefit of the City's creditors, or (iii) the City shall abandon or vacate the Property, then the City shall be deemed to be in default hereunder.

(c) In addition to the other remedies set forth in this Section, upon the occurrence of an event of default, the Authority and its assignee shall be entitled to proceed to protect and enforce the rights vested in the Authority and its assignee by the Lease Agreement or by law. The provisions of the Lease Agreement and the duties of the City and of its city council, officers or employees shall be enforceable by the Authority or its assignee by mandamus or other appropriate suit, action or proceeding in any court of competent jurisdiction. Without limiting the generality of the foregoing, the Authority and its assignee shall have the right to bring the following actions:

(i) Accounting. By action or suit in equity to require the City and its city council, officers and employees and its assigns to account as the trustee of an express trust.

(ii) Injunction. By action or suit in equity to enjoin any acts or things which may be unlawful or in violation of the rights of the Authority or its assignee.

(iii) Mandamus. By mandamus or other suit, action or proceeding at law or in equity to enforce the Authority's or its assignee's rights against the City (and its city council, officers and employees) and to compel the City to perform and carry out its duties and obligations under the law and its covenants and agreements with the City as provided herein.

Each and all of the remedies given to the Authority hereunder or by any law now or hereafter enacted are cumulative and the single or partial exercise of any right, power or privilege hereunder shall not impair the right of the Authority to the further exercise thereof or the exercise of any or all other rights, powers or privileges. The term "re-let" or "re-letting" as used in this Section shall include, but not be limited to, re-letting by means of the operation by the Authority of the Property. If any statute or rule of law validly shall limit the remedies given to the Authority hereunder, the Authority nevertheless shall be entitled to whatever remedies are allowable under any statute or rule of law.

In the event the Authority shall prevail in any action brought to enforce any of the terms and provisions of this Lease Agreement, the City agrees to pay a reasonable amount as and for attorney's fees incurred by the Authority in attempting to enforce any of the remedies available to the Authority hereunder.

Notwithstanding anything to the contrary contained in this Lease Agreement, the Authority shall have no right upon a default hereunder by the City to accelerate Rental Payments.

(d) Notwithstanding anything to the contrary contained in this Lease Agreement, the termination of this Lease Agreement by the Authority and its assignees on account of a default by the City under this Section shall not effect or result in a termination of the Ground Lease.

**Section 6.02 Waiver.** Failure of the Authority to take advantage of any default on the part of the City shall not be, or be construed as, a waiver thereof, nor shall any custom or practice which may grow up between the parties in the course of administering this instrument be construed to waive or to lessen the right of the Authority to insist upon performance by the City of any term, covenant or condition hereof, or to exercise any rights given the Authority on account of such default. A waiver of a particular default shall not be deemed to be a waiver of any other default or of the same default subsequently occurring. The acceptance of Rental Payments hereunder shall not be, or be construed to be, a waiver of any term, covenant or condition of this Lease Agreement.

## ARTICLE VII

### EMINENT DOMAIN; PREPAYMENT

**Section 7.01 Eminent Domain.** If all of the Property (or portions thereof such that the remainder is not usable for public purposes by the City) shall be taken under the power of eminent domain, the term hereof shall cease as of the day that possession shall be so taken. If less than all of the Property shall be taken under the power of eminent domain and the remainder is usable for public purposes by the City at the time of such taking, then the Lease Agreement shall continue in full force and effect as to such remainder, and the parties waive the benefits of any law to the contrary, and in such event there shall be a partial abatement of the Rental Payments in accordance with the provisions of Section 3.06 hereof. So long as any Bonds shall be Outstanding, any award made in eminent domain proceedings for the taking of the Property, or any portion thereof, shall be paid to the Trustee and applied to the redemption of Bonds as provided in subsection (a) of Section 4.01 of the Indenture, in the corresponding provisions of any Supplemental Indenture pursuant to which Additional Bonds are issued and in Section 5.03 of the Indenture. Any such award made after all of the Bonds, and all other amounts due under the Indenture and hereunder, have been fully paid, shall be paid to the Authority and to the City as their respective interests may appear.

### **Section 7.02 Prepayment.**

(a) The City may prepay all or a portion of the Base Rental Payments attributable to the Series 2012A Bonds which are payable on or after November 1, 2023, from any source of available funds, on any date on or after November 1, 2022, by paying (i) all or a portion, as selected by the City, of the principal components of such Base Rental Payments, and (ii) the accrued but unpaid interest component of such Base Rental Payments to be prepaid to the date of such prepayment.

(b) The City may prepay, from any source of available funds, all or any portion of the Base Rental Payments attributable to the Series 2012A Bonds by depositing with the Trustee moneys or securities as provided, and subject to the terms and conditions set forth, in Article X of the Indenture sufficient to make such Base Rental Payments when due or to make such Base Rental Payments through a specified date on which the City has a right to prepay such Base Rental Payments pursuant to subsection (a) of this Section, and to prepay such Base Rental Payments on such prepayment date, at a prepayment price determined in accordance with subsection (a) of this Section.

(c) If less than all of the Base Rental Payments attributable to the Series 2012A Bonds are prepaid pursuant to this Section then, as of the date of such prepayment pursuant to subsection (a) of this Section, or the date of a deposit pursuant to subsection (b) of this Section, the principal and interest components of such Base Rental Payments shall be recalculated in order to take such prepayment into account. The City agrees that if, following a partial prepayment of such Base Rental Payments, the Property is damaged or destroyed or taken by eminent domain, or a defect in title to the Property is discovered, the City shall not be entitled to, and by such prepayment waives the right of, abatement of such prepaid Base Rental Payments and the City shall not be entitled to any reimbursement of such Base Rental Payments.

(d) If all of the Base Rental Payments are prepaid in accordance with the provisions of this Lease Agreement then, as of the date of such prepayment pursuant to subsection (a) of this Section and, if applicable, the corresponding provisions hereof relating to the prepayment of Base Rental Payments attributable to Additional Bonds, or deposit pursuant to subsection (b) of this Section and, if applicable, such corresponding provisions, and payment of all other amounts owed under this Lease Agreement, the term of this Lease Agreement shall be terminated.

(e) Prepayments of Base Rental Payments attributable to the Series 2012A Bonds made pursuant to this Section shall be applied to the redemption of the Series 2012A Bonds as directed by the City and as provided in Section 4.01 of the Indenture.

(f) Before making any prepayment pursuant to this Article, the City shall give written notice to the Authority and the Trustee specifying the date on which the prepayment will be made, which date shall be not less than 45 nor more than 60 days from the date such notice is given to the Authority.

## ARTICLE VIII

### COVENANTS

**Section 8.01 Right of Entry.** The Authority and its assignees shall have the right to enter upon and to examine and inspect the Property during reasonable business hours (and in emergencies at all times) for any purpose connected with the Authority's rights or obligations under this Lease Agreement, and for all other lawful purposes.

**Section 8.02 Liens.** In the event the City shall at any time during the term of this Lease Agreement cause any changes, alterations, additions, improvements, or other work to be done or performed or materials to be supplied, in or upon the Property, the City shall pay, when due, all sums of money that may become due for, or purporting to be for, any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to or for the City in, upon or about the

Property and which may be secured by a mechanics', materialmen's or other lien against the Property or the Authority's interest therein, and will cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due, except that, if the City desires to contest any such lien, it may do so as long as such contestment is in good faith. If any such lien shall be reduced to final judgment and such judgment or such process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and said stay thereafter expires, the City shall forthwith pay and discharge said judgment.

**Section 8.03 Quiet Enjoyment.** The parties hereto mutually covenant that the City, by keeping and performing the covenants and agreements herein contained, shall at all times during the term of this Lease Agreement peaceably and quietly have, hold and enjoy the Property without suit, trouble or hindrance from the Authority.

**Section 8.04 Authority Not Liable.** The Authority and its directors, officers, agents and employees, shall not be liable to the City or to any other party whomsoever for any death, injury or damage that may result to any person or property by or from any cause whatsoever in, on or about the Property. To the extent permitted by law, the City shall, at its expense, indemnify and hold the Authority and the Trustee and all directors, members, officers and employees thereof harmless against and from any and all claims by or on behalf of any person, firm, corporation or governmental authority arising from the acquisition, construction, occupation, use, operation, maintenance, possession, conduct or management of or from any work done in or about the Property or from the subletting of any part thereof, including any liability for violation of conditions, agreements, restrictions, laws, ordinances, or regulations affecting the Property or the occupancy or use thereof, but excepting the negligence or willful misconduct of the persons or entity seeking indemnity. The City also covenants and agrees, at its expense, to pay and indemnify and save the Authority and the Trustee and all directors, officers and employees thereof harmless - against and from any and -all claims arising from (a) any condition of the Property and the adjoining sidewalks and passageways, (b) any breach or default on the part of the City in the performance of any covenant or agreement to be performed by the City pursuant to this Lease Agreement, (c) any act or negligence of licensees in connection with their use, occupancy or Operation of the Property, or (d) any accident, injury or damage whatsoever caused to any person, firm or corporation in or about the Property or upon or under the sidewalks and from and against all costs, reasonable counsel fees, expenses and liabilities incurred in any action or proceeding brought by reason of any claim referred to in this Section, but excepting the negligence or willful misconduct of the person or entity seeking indemnity. In the event that any action or proceeding is brought against the Authority or the Trustee or any director, member, officer or employee thereof, by reason of any such claim, the City, upon notice from the Authority or the Trustee or such director, member, officer employee thereof, covenants to resist or defend such action or proceeding by counsel reasonably satisfactory to the Authority or the Trustee or such director, member, officer or employee thereof.

**Section 8.05 Assignment and Subleasing.** Neither this Lease Agreement nor any interest of the City hereunder shall be sold, mortgaged, pledged, assigned, or transferred by the City by voluntary act or by operation by law or otherwise. The Property may not be subleased in whole or in part by the City without the prior written consent of the Authority. Any such sublease shall be subject to all of the following conditions:

(a) this Lease Agreement and the obligation of the City to make all Rental Payments hereunder shall remain the primary obligation of the City;

(b) the City shall, within 30 days after the delivery thereof, furnish or cause to be furnished to the Authority and the Trustee a true and complete copy of such sublease;

(c) no such sublease by the City shall cause the Property to be used for a purpose other than a governmental or proprietary function authorized under the provisions of the Constitution and laws of the State of California;

(d) any sublease of the Property by the City shall explicitly provide that such sublease is subject to all rights of the Authority under the Lease Agreement, including, the right to re-enter and re-let the Property or terminate the Lease Agreement upon a default by the City; and

(e) the City shall furnish the Authority and the Trustee with an Opinion of Counsel to the effect that such sublease will not, in and of itself, cause the interest on the Bonds to be included in gross income for federal income tax purposes.

**Section 8.06 Title to Property.** Upon the termination or expiration of this Lease Agreement (other than as provided in Section 6.01 and Section 7.01 hereof), and the first date upon which the Bonds are no longer Outstanding, all right, title and interest in and to the Property shall vest in the City. Upon any such termination or expiration, the Authority shall execute such conveyances, deeds and other documents as may be necessary to effect such vesting of record.

**Section 8.07 Authority's Purpose.** The Authority covenants that, prior to the discharge of this Lease Agreement and the Bonds, it will not engage in any activities inconsistent with the purposes for which the Authority is organized, as set forth in the Joint Powers Agreement.

**Section 8.08 Representations of the City.** The City represents and warrants to the Authority that (a) the City has the full power and authority to enter into, to execute and to deliver this Lease Agreement and the Indenture, and to perform all of its duties and obligations hereunder and thereunder, and has duly authorized the execution and delivery of this Lease Agreement and the Indenture, and (b) the Property will be used in the performance of essential governmental functions.

**Section 8.09 Representation of the Authority.** The Authority represents and warrants to the City that the Authority has the full power and authority to enter into, to execute and to deliver this Lease Agreement, the Assignment Agreement and the Indenture, and to perform all of its duties and obligations hereunder and thereunder, and has duly authorized the execution and delivery of this Lease Agreement, the Assignment Agreement and the Indenture.

## ARTICLE IX

### NO CONSEQUENTIAL DAMAGES; USE OF THE PROPERTY; SUBSTITUTION OR RELEASE

**Section 9.01 No Consequential Damages.** In no event shall the Authority or the Trustee be liable for any incidental, indirect, special or consequential damage in connection with or arising out of this Lease Agreement or the City's use of the Property.

**Section 9.02 Use of the Property.** The City will not use, operate or maintain the Property improperly, carelessly, in violation of any applicable law or in a manner contrary to that contemplated by this Lease Agreement. In addition, the City agrees to comply in all respects

(including, without limitation, with respect to the use, maintenance and operation of the Property) with all laws of the jurisdictions in which its operations may extend and any legislative, executive, administrative or judicial body exercising any power or jurisdiction over the Property; provided, however, that the City may contest in good faith the validity or application of any such law or rule in any reasonable manner which does not, in the opinion of the Authority, adversely affect the estate of the Authority in and to any of the Property or its interest or rights under this Lease Agreement.

**Section 9.03 Substitution or Release of the Property.** The City shall have the right to substitute alternate real property for any portion of the Property or to release a portion of the Property from this Lease Agreement. All costs and expenses incurred in connection with such substitution or release shall be borne by the City. Notwithstanding any substitution or release of Property pursuant to this subsection, there shall be no reduction in or abatement of the Base Rental Payments due from the City hereunder as a result of such substitution or release. Any such substitution or release of any portion of the Property shall be subject to the following specific conditions, which are hereby made conditions precedent to such substitution or release:

(a) an independent certified real estate appraiser selected by the City shall have found (and shall have delivered a certificate to the City and the Trustee setting forth its findings) that the Property, as constituted after such substitution or release, (i) has an annual fair rental value at least equal to the maximum Base Rental Payments payable by the City in any Rental Period, and (ii) has a useful life in excess of the final maturity of any Outstanding Bonds;

(b) the City shall have obtained or caused to be obtained a CLTA or ALTA title insurance policy or policies with respect to any substituted property in the amount at least equal to the aggregate principal amount of any Outstanding Bonds of the type and with the endorsements described in Section 5.02 hereof;

(c) the City shall have provided the Trustee with an Opinion of Counsel to the effect that such substitution or release will not, in and of itself, cause the interest on the Bonds to be included in gross income for federal income tax purposes;

(d) the City, the Authority and the Trustee shall have executed, and the City shall have caused to be recorded with the Orange County Recorder, any document necessary to reconvey to the City the portion of the Property being released and to include any substituted real property in the description of the Property contained herein and in the Ground Lease; and

(e) the City shall have provided notice of such substitution to each rating agency then rating the Bonds.

## ARTICLE X

### MISCELLANEOUS

**Section 10.01 Law Governing.** THIS LEASE AGREEMENT SHALL BE GOVERNED EXCLUSIVELY BY THE PROVISIONS HEREOF AND BY THE LAWS OF THE STATE OF CALIFORNIA AS THE SAME FROM TIME TO TIME EXIST.

**Section 10.02 Notices.** All written notices, statements, demands, consents, approvals, authorizations, offers, designations, requests or other communications hereunder shall be given to the



party entitled thereto at its address set forth below, or at such other address as such party may provide to the other parties in writing from time to time, namely:

If to the City: City of Rancho Santa Margarita  
22112 El Paseo  
Rancho Santa Margarita, California 92688  
Attention: City Manager

If to the Authority: Rancho Santa Margarita Public Financing Authority  
c/o City of Rancho Santa Margarita  
22112 El Paseo  
Rancho Santa Margarita, California 92688  
Attention: Executive Director

Each such notice, statement, demand, consent, approval, authorization, offer, designation, request or other communication hereunder 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 this Section.

**Section 10.03 Validity and Severability.** If for any reason this Lease Agreement shall be held by a court of competent jurisdiction to be void, voidable or unenforceable by the Authority or by the City, or if for any reason it is held by such a court that any of the covenants and conditions of the City hereunder, including the covenant to pay Rental Payments, is unenforceable for the full term hereof; then and in such event this Lease Agreement is and shall be deemed to be a Lease Agreement under which the Rental Payments are to be paid by the City annually in consideration of the right of the City to possess, occupy and use the Property, and all of the terms, provisions and conditions of this Lease Agreement, except to the extent that such terms, provisions and conditions are contrary to or inconsistent with such holding, shall remain in full force and effect.

**Section 10.04 Net-Net-Net Lease.** This Lease Agreement shall be deemed and construed to be a "net-net-net lease" and the City hereby agrees that the Rental Payments shall be an absolute net return to the Authority, free and clear of any expenses, charges or set-offs whatsoever and notwithstanding any dispute between the City and the Authority.

**Section 10.05 Taxes.** The City shall pay or cause to be paid all taxes and assessments of any type or nature charged to the Authority or affecting the Property or the respective interests or estates therein; provided, however, that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the City shall be obligated to pay only such installments as are required to be paid during the term of this Lease Agreement as and when the same become due.

The City or any sublessee may, at the City's or such sublessee's expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the

period of such contest and any appeal therefrom unless the Authority or the Trustee shall notify the City or such sublessee that, in the opinion of independent counsel, by nonpayment of any such items, the interest of the Authority in the Property will be materially endangered or the Property, or any part thereof, will be subject to loss or forfeiture, in which event the City or such sublessee shall promptly pay such taxes, assessments or charges or provide the Authority with full security against any loss which may result from nonpayment, in form satisfactory to the Authority and the Trustee.

**Section 10.06 Section Headings.** All section headings contained herein are for convenience of reference only and are not intended to define or limit the scope of any provision of this Lease Agreement.

**Section 10.07 Amendments.**

(a) This Lease Agreement and the Ground Lease may be amended and the rights and obligations of the Authority and the City hereunder and thereunder may be amended at any time by an amendment hereto or thereto which shall become binding upon execution and delivery by the Authority and the City, but only with the prior written consent of the Owners of a majority of the principal amount of the Bonds then Outstanding pursuant to the Indenture, provided that no such amendment shall (i) extend the payment date of any Base Rental Payments, reduce the interest component or principal component of any Base Rental Payments or change the prepayment terms and provisions, without the prior written consent of the Owner of each Bond so affected, or (ii) reduce the percentage of the principal amount of the Bonds the consent of the Owners of which is required-for the execution of any amendment of this Lease Agreement or the Ground Lease.

(b) This Lease Agreement and the Ground Lease and the rights and obligations of the Authority and the City hereunder and thereunder may also be amended at any time by an amendment hereto or thereto which shall become binding upon execution by the Authority and the City, without the written consents of any Owners, but only to the extent permitted by law and only for any one or more of the following purposes:

(i) to add to the agreements, conditions, covenants and terms required by the Authority or the City to be observed or performed herein or therein other agreements, conditions, covenants and temps thereafter to be observed or performed by the Authority or the City, or to surrender any right or power reserved herein or therein to or conferred herein or therein on the Authority or the City, and which in either case shall not materially adversely affect the interests of the Owners, as evidenced by an Opinion of Bond Counsel;

(ii) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained herein or therein or in regard to questions arising hereunder or thereunder which the Authority or the City may deem desirable or necessary and not inconsistent herewith or therewith, and which shall not materially adversely affect the interests of the Owners, as evidenced by an Opinion of Bond Counsel;

(iii) to make such additions, deletions or modifications as may be necessary or appropriate to assure the exclusion from gross income for federal income tax purposes of the interest on the Bonds;

(iv) to provide for the substitution or release of a portion of the Property in accordance with the provisions of Section 9.03 hereof;

(v) to provide for the issuance of Additional Bonds in accordance with Article III of the Indenture; or

(vi) to make such other changes herein or therein or modifications hereto or thereto as the Authority or the City may deem desirable or necessary, and which shall not materially adversely affect the interests of the Owners, as evidenced by an Opinion of Bond Counsel.

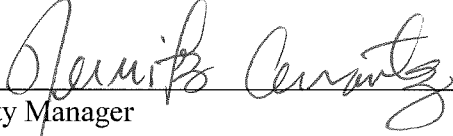
**Section 10.08 Assignment.** The City and the Authority hereby acknowledge the assignment of this Lease Agreement (except for the Authority's obligations and its rights to give consents or approvals hereunder), and the Base Rental Payments payable hereunder, to the Trustee pursuant to the Assignment Agreement.

**Section 10.09 Execution.** This Lease Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all together shall constitute but one and the same Lease Agreement.

*[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]*

IN WITNESS WHEREOF, the Authority and the City have caused this Lease Agreement to be executed by their respective officers thereunto duly authorized, all as of the day and year first above written.

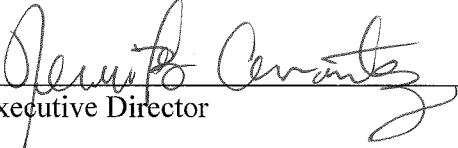
CITY OF RANCHO SANTA MARGARITA

By:   
City Manager

ATTEST:

  
City Clerk


RANCHO SANTA MARGARITA PUBLIC  
FINANCING AUTHORITY

By:   
Executive Director

ATTEST:

  
Secretary

APPROVED AS TO FORM:

  
Stradling Yocca Carlson & Rauth,  
Special Counsel

**EXHIBIT A**

**DESCRIPTION OF THE PROPERTY**

All that real property situated in the County of Orange, State of California, described as follows:

LOTS 6 THROUGH 9 OF TRACT NO. 13423, AS SHOWN ON A MAP FILED IN BOOK 729, PAGES 11 TO 15 INCLUSIVE OF MISCELLANEOUS MAPS, RECORDS OF ORANGE COUNTY, CALIFORNIA.

APN: 814-154-08, 814-154-09,814-154-10 and 814-154-11

EXHIBIT B

BASE RENTAL PAYMENT SCHEDULE

<i>Date</i>	<i>Principal Component</i>	<i>Interest Component</i>	<i>Total Base Rental</i>
5/1/2013	\$ --	\$137,330.42	\$137,330.42
11/1/2013	430,000	187,268.75	617,268.75
5/1/2014	--	182,968.75	182,968.75
11/1/2014	370,000	182,968.75	552,968.75
5/1/2015	--	177,418.75	177,418.75
11/1/2015	385,000	177,418.75	562,418.75
5/1/2016	--	169,718.75	169,718.75
11/1/2016	405,000	169,718.75	574,718.75
5/1/2017	--	161,618.75	161,618.75
11/1/2017	420,000	161,618.75	581,618.75
5/1/2018	--	153,218.75	153,218.75
11/1/2018	430,000	153,218.75	583,218.75
5/1/2019	--	144,618.75	144,618.75
11/1/2019	455,000	144,618.75	599,618.75
5/1/2020	--	135,518.75	135,518.75
11/1/2020	470,000	135,518.75	605,518.75
5/1/2021	--	126,118.75	126,118.75
11/1/2021	490,000	126,118.75	616,118.75
5/1/2022	--	116,318.75	116,318.75
11/1/2022	505,000	116,318.75	621,318.75
5/1/2023	--	106,218.75	106,218.75
11/1/2023	525,000	106,218.75	631,218.75
5/1/2024	--	95,718.75	95,718.75
11/1/2024	545,000	95,718.75	640,718.75
5/1/2025	--	84,818.75	84,818.75
11/1/2025	570,000	84,818.75	654,818.75
5/1/2026	--	73,418.75	73,418.75
11/1/2026	590,000	73,418.75	663,418.75
5/1/2027	--	66,043.75	66,043.75
11/1/2027	610,000	66,043.75	676,043.75
5/1/2028	--	58,037.50	58,037.50
11/1/2028	625,000	58,037.50	683,037.50
5/1/2029	--	49,443.75	49,443.75
11/1/2029	645,000	49,443.75	694,443.75
5/1/2030	--	40,575.00	40,575.00
11/1/2030	660,000	40,575.00	700,575.00
5/1/2031	--	31,500.00	31,500.00
11/1/2031	680,000	31,500.00	711,500.00
5/1/2032	--	21,300.00	21,300.00
11/1/2032	700,000	21,300.00	721,300.00
5/1/2033	--	10,800.00	10,800.00
11/1/2033	720,000	10,800.00	730,800.00

RECORDING REQUESTED BY  
FIRST AMERICAN TITLE COMPANY  
NATIONAL/COMMERCIAL SERVICES  
COMMERCIAL/INDUSTRIAL DIVISION

NCJ-572749

RECORDING REQUESTED BY:  
Rancho Santa Margarita Public Financing  
Authority

AND WHEN RECORDED RETURN TO:  
Stradling Yocca Carlson & Rauth  
660 Newport Center Drive, Suite 1600  
Newport Beach, California 92660  
Attention: Brian Forbath, Esq.

Recorded in Official Records, Orange County  
Renee Ramirez, Assistant Clerk-Recorder



NO FEE

2012000787611 12:57 pm 12/19/12

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[Space above for Recorder's use.]

This Transaction is Exempt from California  
Documentary Transfer Tax Pursuant to Section 11921  
of the California Revenue and Taxation Code. This  
Document is Exempt From Recording Fees Pursuant to  
Section 27383 of the California Government Code.

## ASSIGNMENT AGREEMENT

by and between

**RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY**

and

**WELLS FARGO BANK, NATIONAL ASSOCIATION,  
as Trustee**

**Dated as of December 1, 2012**

Relating to

**\$11,230,000**

**RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY  
LEASE REVENUE REFUNDING BONDS, SERIES 2012A**

## ASSIGNMENT AGREEMENT

**THIS ASSIGNMENT AGREEMENT** (this "Assignment Agreement"), executed and entered into as of December 1, 2012, is by and between the RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY, a joint exercise of powers entity organized and existing under and by virtue of the laws of the State of California (the "Authority"), and WELLS FARGO BANK, NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States, as Trustee (the "Trustee").

### WITNESSETH:

**WHEREAS**, the City of Rancho Santa Margarita (the "City") and the Authority desire to finance a portion of the costs of the acquisition, construction and installation of various public improvements (the "2012 Project");

**WHEREAS**, the City and the Authority desire to refinance the City's Certificates of Participation (City Hall and Regional Community Center) and the City's lease obligations in connection therewith, the proceeds of which were used to finance a portion of the costs of the acquisition, construction and installation of certain capital improvements constituting a city hall and regional community center and related improvement, facilities and equipment (the "2003 Project" and with the 2012 Project, the "Project");

**WHEREAS**, in order to finance the 2012 Project and refinance the 2003 Project, the City will lease certain real property and the improvements located thereon (the "Property") to the Authority pursuant to a Ground Lease, dated as of the date hereof, and the City will sublease the Property back from the Authority pursuant to a Lease Agreement;

**WHEREAS**, the Property is more particularly described in Exhibit A hereto;

**WHEREAS**, under the Lease Agreement, the City is obligated to make Base Rental Payments (as defined in the Lease Agreement) to the Authority;

**WHEREAS**, the Authority desires to assign without recourse certain of its rights in the Ground Lease and the Lease Agreement, including its right to receive the Base Rental Payments, to the Trustee for the benefit of the owners of bonds (the "Bonds") to be issued pursuant to the Indenture, dated as of the date hereof (the "Indenture"), by and among the Authority, the City and the Trustee;

**WHEREAS**, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and entering into of this Assignment Agreement do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this Assignment Agreement;

**NOW, THEREFORE**, in consideration of the premises and of the mutual agreements and covenants contained herein and for other valuable consideration, the parties hereto do hereby agree as follows:



**Section 1. Assignment.** The Authority, for good and valuable consideration, the receipt of which is hereby acknowledged, does hereby sell, assign and transfer to the Trustee, irrevocably and absolutely, without recourse, for the benefit of the owners of the Bonds, all of its right, title and interest in and to the Ground Lease and the Lease Agreement including, without limitation, its right to receive the Base Rental Payments to be paid by the City under and pursuant to the Lease Agreement; provided, however, that the Authority shall retain its obligations under the Lease Agreement and Ground Lease, the rights to indemnification, to give approvals and consents under the Lease Agreement and the Ground Lease and to payment or reimbursement of its reasonable costs and expenses under the Lease Agreement.

**Section 2. Acceptance.** The Trustee hereby accepts the foregoing assignment, subject to the terms and provisions of the Indenture, and all such Base Rental Payments shall be applied and the rights so assigned shall be exercised by the Trustee as provided in the Lease Agreement and the Indenture.

**Section 3. Conditions.** This Assignment Agreement shall impose no obligations upon the Trustee beyond those expressly provided in the Indenture.

**Section 4. Further Assurances.** The Authority shall make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Assignment Agreement, and for the better assuring and confirming to the Trustee, for the benefit of the owners of the Bonds, the rights intended to be conveyed pursuant hereto.

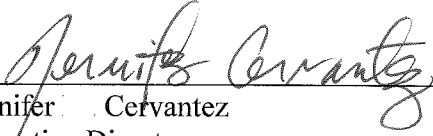
**Section 5. Governing Law.** THIS ASSIGNMENT AGREEMENT SHALL BE GOVERNED EXCLUSIVELY BY THE PROVISIONS HEREOF AND BY THE LAWS OF THE STATE OF CALIFORNIA AS THE SAME FROM TIME TO TIME EXIST.

**Section 6. Execution.** This Assignment Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all together shall constitute but one and the same Assignment Agreement.

*[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]*

**IN WITNESS WHEREOF**, the Authority and the Trustee have caused this Assignment Agreement to be executed by their respective officers thereunto duly authorized, all as of the day and year first above-written.

RANCHO SANTA MARGARITA PUBLIC  
FINANCING AUTHORITY

By:   
Jennifer Cervantez  
Executive Director

ATTEST:

  
Molly McLaughlin  
Secretary

APPROVED AS TO FORM:

  
Stradling Yocca Carlson & Rauth,  
Special Counsel

WELLS FARGO BANK, NATIONAL  
ASSOCIATION, as Trustee

**SIGNED IN COUNTERPART**

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

ACKNOWLEDGMENT

STATE OF CALIFORNIA

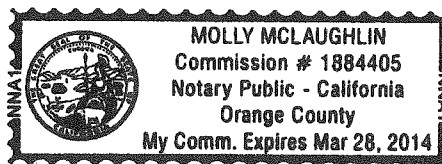
COUNTY OF ORANGE

On December 11, 2012 before me, Molly McLaughlin, Notary Public, personally appeared Jennifer Cervantez, who proved to me on the basis of satisfactory evidence to be the person(s) whose names(s) ~~is/are~~ subscribed to the within instrument and acknowledged to me that ~~he/she/they~~ executed the same in ~~his/her/their~~ authorized capacity~~(ies)~~, and that by ~~his/her/their~~ signature~~(s)~~ on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal

Molly McLaughlin  
SIGNATURE OF NOTARY PUBLIC



GOVERNMENT CODE 27361.7

I CERTIFY UNDER PENALTY OF PERJURY THAT THE NOTARY SEAL ON THE DOCUMENT TO WHICH THIS STATEMENT IS ATTACHED READS AS FOLLOWS:

NAME OF NOTARY: MOLLY MCLAUGHLIN

COUNTY WHERE BOND IS FILED: ORANGE

DATE COMMISSION EXPIRES: MAR 28, 2014

COMMISSION NO.: 1884405

MANUFACTURERS/VENDOR NO. NNA1

PLACE OF EXECUTION: SANTA ANA, CALIFORNIA

DATE: December 18, 2012

BY:



\_\_\_\_\_  
FIRST AMERICAN TITLE INSURANCE COMPANY

IN WITNESS WHEREOF, the Authority and the Trustee have caused this Assignment Agreement to be executed by their respective officers thereunto duly authorized, all as of the day and year first above-written.

RANCHO SANTA MARGARITA PUBLIC  
FINANCING AUTHORITY

**SIGNED IN COUNTERPART**

By: \_\_\_\_\_  
Jennifer M. Cervantez  
Executive Director

ATTEST:

**SIGNED IN COUNTERPART**


\_\_\_\_\_  
Molly McLaughlin  
Secretary

APPROVED AS TO FORM:

**SIGNED IN COUNTERPART**

\_\_\_\_\_  
Stradling Yocca Carlson & Rauth,  
Special Counsel

WELLS FARGO BANK, NATIONAL  
ASSOCIATION, as Trustee

By:  \_\_\_\_\_  
Authorized Officer Dania Samai

ACKNOWLEDGMENT


STATE OF CALIFORNIA

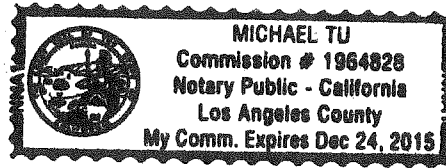
COUNTY OF LOS ANGELES

On December 13, 2012 before me, Michael Tu, Notary Public, personally appeared Dania Sama, who proved to me on the basis of satisfactory evidence to be the person(s) whose names(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal

  
\_\_\_\_\_  
SIGNATURE OF NOTARY PUBLIC



GOVERNMENT CODE 27361.7

I CERTIFY UNDER PENALTY OF PERJURY THAT THE NOTARY SEAL ON THE DOCUMENT TO WHICH THIS STATEMENT IS ATTACHED READS AS FOLLOWS:

NAME OF NOTARY: MICHAEL TU  
COUNTY WHERE BOND IS FILED: LOS ANGELES  
DATE COMMISSION EXPIRES: DEC 24, 2015  
COMMISSION NO.: 1964828  
MANUFACTURERS/VENDOR NO. NNA1

PLACE OF EXECUTION: SANTA ANA, CALIFORNIA  
DATE: December 18, 2012

BY:   
\_\_\_\_\_  
FIRST AMERICAN TITLE INSURANCE COMPANY

**EXHIBIT A**

**DESCRIPTION OF THE PROPERTY**

All that real property situated in the County of Orange, State of California, described as follows:

LOTS 6 THROUGH 9 OF TRACT NO. 13423, AS SHOWN ON A MAP FILED IN BOOK 729, PAGES 11 TO 15 INCLUSIVE OF MISCELLANEOUS MAPS, RECORDS OF ORANGE COUNTY, CALIFORNIA.

APN: 814-154-08, 814-154-09,814-154-10 and 814-154-11



RECORDING REQUESTED BY  
FIRST AMERICAN TITLE COMPANY  
NATIONAL/COMMERCIAL SERVICES  
COMMERCIAL/INDUSTRIAL DIVISION

NCS-572749

**RECORDING REQUESTED BY:**

Rancho Santa Margarita Public Financing Authority

**AND WHEN RECORDED RETURN TO:**

Stradling Yocca Carlson & Rauth  
660 Newport Center Drive, Suite 1600  
Newport Beach, California 92660  
Attention: Brian Forbath, Esq.

Recorded in Official Records, Orange County  
Renee Ramirez, Assistant Clerk-Recorder



NO FEE

\* \$ R 0 0 0 5 4 3 8 5 9 2 \$ \*

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[Space above for Recorder's use.]

This Transaction is Exempt from California Documentary Transfer Tax Pursuant to Section 11921 of the California Revenue and Taxation Code. This Document is Exempt from Recording Fees Pursuant to Section 27383 of the California Government Code.

**GROUND LEASE**

by and between

**CITY OF RANCHO SANTA MARGARITA**

and

**RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY**

**Dated as of December 1, 2012**

**Relating to**

**\$11,230,000**

**RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY  
LEASE REVENUE BONDS, SERIES 2012A**

## **GROUND LEASE**

**THIS GROUND LEASE** (this “Ground Lease”), executed and entered into as of December 1, 2012, is by and between the CITY OF RANCHO SANTA MARGARITA (the “City”), a municipal corporation and general law city duly organized and existing under and by virtue of the Constitution and laws of the State of California, as lessor, and the RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY (the “Authority”), a joint exercise of powers entity duly organized and existing under the laws of the State of California, as lessee.

### **WITNESSETH:**

**WHEREAS**, the City and the Authority desire to finance a portion of the costs of the acquisition, construction and installation of various public improvements (the “2012 Project”);

**WHEREAS**, the City and the Authority desire to refinance the City’s Certificates of Participation (City Hall and Regional Community Center) and the City’s lease obligations in connection therewith, the proceeds of which were used to finance a portion of the costs of the acquisition, construction and installation of certain capital improvements constituting a city hall and regional community center and related improvement, facilities and equipment (the “2003 Project” and with the 2012 Project, the “Project”);

**WHEREAS**, in order to finance the 2012 Project and refinance the 2003 Project, the City will lease certain real property and the improvements located thereon (the “Property”) to the Authority pursuant to this Ground Lease, and the City will sublease the Property back from the Authority pursuant to a Lease Agreement, dated the date hereof;

**WHEREAS**, the Property is more particularly described in Exhibit A hereto;

**WHEREAS**, the City and the Authority have determined that it would be in the best interests of the City and the Authority to provide the funds necessary to finance the 2012 Project and refinance the 2003 Project through the issuance by the Authority of bonds payable from the base rental payments (the “Base Rental Payments”) to be made by the City under the Lease Agreement;

**WHEREAS**, the City and the Authority have determined that it would be in the best interests of the City and the Authority to provide for the issuance of such bonds payable from the Base Rental Payments pursuant to an Indenture, dated as of the date hereof, by and among the Authority, the City and Wells Fargo Bank, National Association, as trustee (the “Trustee”);

**WHEREAS**, all rights to receive the Base Rental Payments have been assigned without recourse by the Authority to the Trustee pursuant to an Assignment Agreement, dated as of the date hereof (the “Assignment Agreement”);

**WHEREAS**, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and entering into of this Ground Lease do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this Ground Lease;

**NOW, THEREFORE**, in consideration of the mutual covenants hereinafter contained, the parties hereto agree as follows:

## **ARTICLE I**

### **DEFINITIONS**

Except as otherwise defined herein, or unless the context clearly otherwise requires, words and phrases defined in Article I of the Lease Agreement shall have the same meaning in this Ground Lease.

## **ARTICLE II**

### **LEASE OF THE PROPERTY; RENTAL**

**Section 2.01 Lease of Property.** The City hereby leases to the Authority, and the Authority hereby leases from the City, for the benefit of the Owners of the Bonds, the Property, subject only to Permitted Encumbrances, to have and to hold for the term of this Ground Lease.

**Section 2.02 Rental.** The Authority shall pay to the City as and for rental of the Property hereunder, the sum of \$1.00, the receipt of which is hereby acknowledged.

## **ARTICLE III**

### **QUIET ENJOYMENT**

The parties intend that the Property will be leased back to the City pursuant to the Lease Agreement for the term thereof. It is further intended that, to the extent provided herein and in the Lease Agreement, if an event of default occurs under the Lease Agreement, the Authority, or its assignee, will have the right, for the then remaining term of this Ground Lease to (a) take possession of the Property, (b) if it deems it appropriate, cause an appraisal of the Property and a study of the then reasonable use thereof to be undertaken, and (c) relet the Property. Subject to any rights the City may have under the Lease Agreement (in the absence of an event of default) to possession and enjoyment of the Property, the City hereby covenants and agrees that it will not take any action to prevent the Authority from having quiet and peaceable possession and enjoyment of the Property during the term hereof and will, at the request of the Authority and at the City's cost, to the extent that it may lawfully do so, join in any legal action in which the Authority asserts its right to such possession and enjoyment.

## **ARTICLE IV**

### **SPECIAL COVENANTS AND PROVISIONS**

**Section 4.01 Waste.** The Authority agrees that at all times that it is in possession of the Property, it will not commit, suffer or permit any waste on the Property, and that it will not willfully or knowingly use or permit the use of the Property for any illegal purpose or act.

**Section 4.02 Further Assurances and Corrective Instruments.** The City and the Authority agree that they will, from time to time, execute, acknowledge and deliver, or cause to be

executed, acknowledged and delivered, such supplements hereto and such further instruments as may reasonably be required for correcting any inadequate or incorrect description of the Property hereby leased or intended so to be or for carrying out the expressed intention of this Ground Lease, the Indenture and the Lease Agreement.

**Section 4.03 Waiver of Personal Liability.** All liabilities under this Ground Lease on the part of the Authority shall be solely liabilities of the Authority as a joint exercise of powers entity, and the City hereby releases each and every director, officer and employee of the Authority of and from any personal or individual liability under this Ground Lease. No director, officer or employee of the Authority shall at any time or under any circumstances be individually or personally liable under this Ground Lease to the City or to any other party whomsoever for anything done or omitted to be done by the Authority hereunder.

All liabilities under this Ground Lease on the part of the City shall be solely liabilities of the City as a public corporation, and the Authority hereby releases each and every member, officer and employee of the City of and from any personal or individual liability under this Ground Lease. No member, officer or employee of the City shall at any time or under any circumstances be individually or personally liable under this Ground Lease to the Authority or to any other party whomsoever for anything done or omitted to be done by the City hereunder.

**Section 4.04 Taxes.** The City covenants and agrees to pay any and all assessments of any kind or character and also all taxes, including possessory interest taxes, levied or assessed upon the Property.

**Section 4.05 Right of Entry.** The City reserves the right for any of its duly authorized representatives to enter upon the Property at any reasonable time to inspect the same.

**Section 4.06 Representations of the City.** The City represents and warrants to the Authority and the Trustee as follows:

(a) the City has the full power and authority to enter into, to execute and to deliver this Ground Lease, and to perform all of its duties and obligations hereunder, and has duly authorized the execution of this Ground Lease;

(b) except for Permitted Encumbrances, the Property is not subject to any dedication, easement, right of way, reservation in patent, covenant, condition, restriction, lien or encumbrance which would prohibit or materially interfere with the use of the Property for governmental purposes as contemplated by the City;

(c) all taxes, assessments or impositions of any kind with respect to the Property, except current taxes, have been paid in full; and

(d) the Property is necessary to the City in order for the City to perform its governmental functions.

**Section 4.07 Representations of the Authority.** The Authority represents and warrants to the City and the Trustee that the Authority has the full power and authority to enter into, to execute and to deliver this Ground Lease, and to perform all of its duties and obligations hereunder, and has duly authorized the execution and delivery of this Ground Lease.

## ARTICLE V

### ASSIGNMENT, SUBLEASING, MORTGAGING AND SELLING

**Section 5.01 Assignment and Subleasing.** This Ground Lease may be sold or assigned and the Property subleased, as a whole or in part, by the Authority without the necessity of obtaining the consent of the City, if an event of default occurs under the Lease Agreement. The Authority shall, within 30 days after such an assignment, sale or sublease, furnish or cause to be furnished to the City a true and correct copy of such assignment, sale or sublease, as the case may be.

**Section 5.02 Restrictions on City.** The City agrees that, except with respect to Permitted Encumbrances, it will not mortgage, sell, encumber, assign, transfer or convey the Property or any portion thereof during the term of this Ground Lease.

## ARTICLE VI

### TERM; TERMINATION

**Section 6.01 Term.** The term of this Ground Lease shall commence as of the date of commencement of the term of the Lease Agreement and shall remain in full force and effect from such date to and including November 1, 2033, unless such term is extended or sooner terminated as hereinafter provided.

**Section 6.02 Extension; Early Termination.** If, on November 1, 2033, the Bonds shall not be fully paid, or provision therefor made in accordance with Article X of the Indenture, or the Indenture shall not be discharged by its terms, or if the Rental Payments payable under the Lease Agreement shall have been abated at any time, then the term of this Ground Lease shall be automatically extended until the date upon which all Bonds shall be fully paid, or provision therefor made in accordance with Article X of the Indenture, and the Indenture shall be discharged by its terms, except that the term of this Ground Lease shall in no event be extended more than ten years. If, prior to November 1, 2033, all Bonds shall be fully paid, or provisions therefor made in accordance with Article X of the Indenture, and the Indenture shall be discharged by its terms, the term of this Ground Lease shall end simultaneously therewith.

## ARTICLE VII

### MISCELLANEOUS

**Section 7.01 Binding Effect.** This Ground Lease shall inure to the benefit of and shall be binding upon the City, the Authority and their respective successors and assigns.

**Section 7.02 Severability.** In the event any provision of this Ground Lease shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

**Section 7.03 Amendments, Changes and Modifications.** This Ground Lease may be amended, changed, modified, altered or terminated only in accordance with the provisions of the Lease Agreement.

**Section 7.04 Assignment to Trustee.** The Authority and City acknowledge that the Authority has assigned its right, title and interest in and to this Ground Lease (but none of its obligations and none of its rights to provide consents or approvals hereunder) to the Trustee pursuant to certain provisions of the Assignment Agreement. The City consents to such assignment.

**Section 7.05 Execution In Counterparts.** This Ground Lease may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

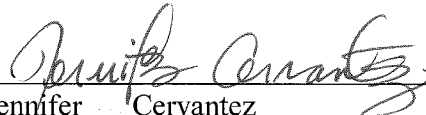
**Section 7.06 Applicable Law.** This Ground Lease shall be governed by and construed in accordance with the laws of the State of California.

**Section 7.07 Captions.** The captions or headings in this Ground Lease are for convenience only and in no way define, limit or describe the scope or intent of any provisions or sections of this Ground Lease.


*[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]*

IN WITNESS WHEREOF, the Authority and the City have caused this Ground Lease to be executed by their respective officers hereunto duly authorized, all as of the day and year first above written.

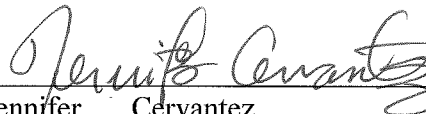
CITY OF RANCHO SANTA MARGARITA

By:   
Jennifer Cervantez  
City Manager

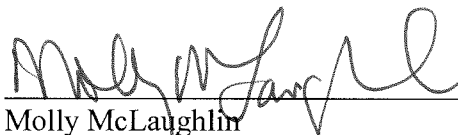
ATTEST:

  
Molly McLaughlin  
City Clerk

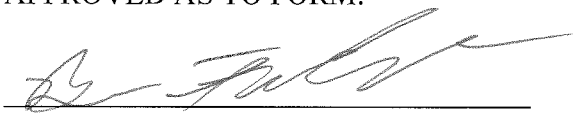
RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY

By:   
Jennifer Cervantez  
Executive Director

ATTEST:

  
Molly McLaughlin  
Secretary

APPROVED AS TO FORM:

  
Stradling Yocca Carlson & Rauth,  
Special Counsel

**ACKNOWLEDGMENT**

STATE OF CALIFORNIA

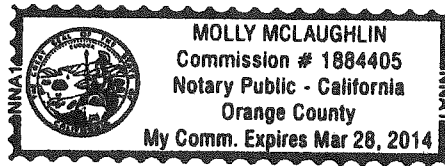
COUNTY OF ORANGE

On December 11, 2012 before me, Molly McLaughlin, Notary Public, personally appeared Jennifer Cavanaugh, who proved to me on the basis of satisfactory evidence to be the person(s) whose names(s) is subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal

Molly McLaughlin  
SIGNATURE OF NOTARY PUBLIC





GOVERNMENT CODE 27361.7

I CERTIFY UNDER PENALTY OF PERJURY THAT THE NOTARY SEAL ON THE DOCUMENT TO WHICH THIS STATEMENT IS ATTACHED READS AS FOLLOWS:

NAME OF NOTARY: MOLLY MCLAUGHLIN

COUNTY WHERE BOND IS FILED: ORANGE

DATE COMMISSION EXPIRES: MAR 28, 2014

COMMISSION NO.: 1884405

MANUFACTURERS/VENDOR NO. NNA1

PLACE OF EXECUTION: SANTA ANA, CALIFORNIA

DATE: December 18, 2012

BY:



\_\_\_\_\_  
FIRST AMERICAN TITLE INSURANCE COMPANY

**EXHIBIT A**

**DESCRIPTION OF THE PROPERTY**

All that real property situated in the County of Orange, State of California, described as follows:

LOTS 6 THROUGH 9 OF TRACT NO. 13423, AS SHOWN ON A MAP FILED IN BOOK 729, PAGES 11 TO 15 INCLUSIVE OF MISCELLANEOUS MAPS, RECORDS OF ORANGE COUNTY, CALIFORNIA.

APN: 814-154-08, 814-154-09, 814-154-10 and 814-154-11

## CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate, dated December 19, 2012 (the "Disclosure Certificate") is executed and delivered by the City of Rancho Santa Margarita (the "City") in connection with the execution and delivery of the Rancho Santa Margarita Public Financing Authority's (the "Authority") \$11,230,000 Lease Revenue Refunding Bonds, Series 2012A (the "Bonds").

WHEREAS, the Bonds are being issued pursuant to an Indenture, dated as of December 1, 2012 (the "Indenture"), by and among the Authority, the City and Wells Fargo Bank, National Association, as trustee (the "Trustee").

WHEREAS, the Bonds are payable from the base rental payments to be made by the City under the Lease Agreement, dated as of December 1, 2012 (the "Lease Agreement"), between the City, as lessee, and the Authority, as lessor; and

WHEREAS, this Disclosure Certificate is being executed and delivered by the City for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Underwriter in complying with the Rule (defined below).

**NOW, THEREFORE,** the City covenants as follows:

SECTION 1. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Comprehensive Annual Financial Report provided by the City pursuant to, and as described in, Sections 2 and 3 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Disclosure Representative" shall mean the City Manager of the City, the Administrative Services Director of the City or their designee, or such other officer or employee as the City shall designate in writing from time to time.

"Dissemination Agent" shall mean the City, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

"Listed Events" shall mean any of the events listed in Section 4(a) and (b) of this Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

“Official Statement” shall mean the Official Statement relating to the Bonds, dated December 5, 2012.

“Repository” shall mean the Municipal Securities Rulemaking Board, which can be found at <http://emma.msrb.org>.

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

“State” shall mean the State of California.

“Underwriter” shall mean the original Underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

SECTION 2. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing April 1, 2013, with the report for the 2011-12 fiscal year, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 3 of this Disclosure Certificate, with a copy to the Trustee provided that the report for April 1, 2013 shall consist solely of the Official Statement. Not later than five (5) Business Days prior to the Annual Report Date, the City shall provide the Annual Report to the Dissemination Agent, if other than the City. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 3 of this Disclosure Certificate. If the City’s fiscal year changes, the City, upon becoming aware of such change, shall give notice of such change in the same manner as for a Listed Event under Section 4(c). The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the City and shall have no duty or obligation to review such Annual Report.

(b) If by five (5) Business Days prior to the Annual Report Date, the Dissemination Agent (if other than the City) has not received a copy of the Annual Report, the Dissemination Agent shall notify the City of such non-receipt.

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the MSRB by the Annual Report Date, the Dissemination Agent shall provide to the MSRB (with a copy to the Trustee and the Participating Underwriters) a notice, in substantially the form attached as Exhibit A.

(d) Unless the City has done so pursuant to Section 3(a) above, the Dissemination Agent (if other than the City) shall:

(i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) if the Dissemination Agent is other than the City, file a certificate with the City to the effect that the Annual Report has been provided pursuant to this Disclosure Certificate, stating, to the extent it can confirm such filing of the Annual Report, the date it was provided.

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

(a) The City's audited financial statements, prepared in accordance with generally accepted auditing standards for municipalities in the State of California. 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 the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) To the extent not contained in the audited financial statements filed pursuant to the preceding subsection (a) by the date required by Section 2 hereof, updates of Tables 1, 2, 3, 6 and 8 in substantially the form set forth in the Official Statement.

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 the MSRB or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The 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 4, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not more than ten (10) days after the event, if material:

1. Principal and interest payment delinquencies;
2. Unscheduled draws on debt service reserves reflecting financial difficulties;
3. Unscheduled draws on credit enhancements reflecting financial difficulties;
4. Substitution of credit or liquidity providers, or their failure to perform;
5. Issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposal Issue (IRS Form 5701-TEB);
6. Tender Offers;
7. Defeasances;
8. Rating changes; and
9. Bankruptcy, insolvency, receivership or similar proceedings.

Note: For the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority

having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) Pursuant to the provisions of this Section 4, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material in a timely manner not more than ten (10) days after occurrence:

1. unless described in Section 4(a)(5), adverse tax opinions or other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

2. modifications to the rights of Bondholders;

3. optional, unscheduled or contingent Bond calls;

4. release, substitution or sale of property securing repayment of the Bonds;

5. non-payment related defaults;

6. the consummation of a merger, consolidation, or acquisition involving the City or the Authority or the sale of all or substantially all of the assets of the City or the Authority, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; and

7. appointment of a successor or additional trustee or the change of the name of a trustee.

(c) If the City determines that knowledge of the occurrence of a Listed Event under subsection (b) would be material under applicable federal securities laws, and if the Dissemination Agent is other than the City, the City shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to file a notice of such occurrence with the MSRB in an electronic format as prescribed by the MSRB in a timely manner not more than ten (10) Business Days after the event.

(d) If the City determines that the Listed Event under subsection (b) would not be material under applicable federal securities laws and if the Dissemination Agent is other than the City, the City shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence.

(e) The City hereby agrees that the undertaking set forth in this Disclosure Agreement is the responsibility of the City and, if the Dissemination Agent is other than the City, the Dissemination Agent shall not be responsible for determining whether the City's instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

SECTION 5. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under this Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 6. Termination of Reporting Obligation. The obligations of the City, the Trustee and the Dissemination Agent under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 4(c).

SECTION 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing thirty days written notice to the City and the Trustee. The Dissemination Agent shall not be responsible for the content of any report or notice prepared by the City and shall have no duty to review any information provided to it by the City. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the City in a timely manner and in a form suitable for filing.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the City may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule; provided, the Dissemination Agent shall have first consented to any amendment that modifies or increases its duties or obligations hereunder. In the event of any amendment or waiver of a provision of this Disclosure Agreement, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 4(c), and (ii) the Annual Report for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. 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 10. Default. In the event of a failure of the City to comply with any provision of this Disclosure Agreement, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure 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 to comply with this Disclosure Agreement shall be an action to compel performance.

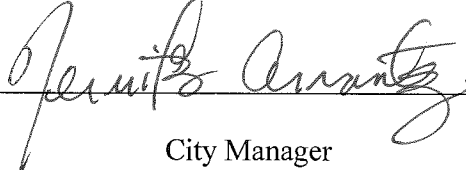
No Bond holder or Beneficial Owner may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the City satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the City shall have refused to comply therewith within a reasonable time.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees, to the extent permitted by law, 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 attorney's fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. In performing its duties hereunder, the Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the City, the Bond holders, or any other party. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.



SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, if any, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

CITY OF RANCHO SANTA MARGARITA

By:   
City Manager

ATTEST:

  
City Clerk

**EXHIBIT A**

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

Name of Issuer:        Rancho Santa Margarita Public Financing Authority  
Name of Issue:        Rancho Santa Margarita Public Financing Authority Lease Revenue  
                             Refunding Bonds, Series 2012A  
Date of Issuance:     December 19, 2012

**NOTICE IS HEREBY GIVEN** that the City of Rancho Santa Margarita (the “City”) has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate, dated December 19, 2012, executed by the City. [The City anticipates that the Annual Report will be filed by \_\_\_\_\_.]

Dated: \_\_\_\_\_

**CITY OF RANCHO SANTA MARGARITA**

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

**ESCROW DEPOSIT AND TRUST AGREEMENT**

**by and between the**

**CITY OF RANCHO SANTA MARGARITA**

**and**

**WELLS FARGO BANK, NATIONAL ASSOCIATION,  
as Escrow Bank**

**Dated as of December 1, 2012**

**Relating to**

**CITY OF RANCHO SANTA MARGARITA  
CERTIFICATES OF PARTICIPATION  
(CITY HALL AND REGIONAL COMMUNITY CENTER)**

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## ESCROW DEPOSIT AND TRUST AGREEMENT

This ESCROW DEPOSIT AND TRUST AGREEMENT, dated as of the 1st day of December, 2012 (this "Agreement"), by and between the CITY OF RANCHO SANTA MARGARITA, a municipal corporation and general law city duly organized and existing under and by virtue of the Constitution and laws of the State of California (the "City"), and WELLS FARGO BANK, NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States of America, as escrow holder hereunder (the "Escrow Bank") and as trustee with respect to the City of Rancho Santa Margarita, Certificates of Participation (City Hall and Regional Community Center) (the "2003 Certificates") (the Escrow Bank being hereinafter referred to in such respect as the "Trustee");

### WITNESSETH:

**WHEREAS**, the City has previously issued the 2003 Certificates pursuant to a Trust Agreement, dated as of November 1, 2003, by and among the City of Rancho Santa Margarita Nonprofit Corporation, a nonprofit public benefit corporation duly organized and existing under and by virtue of the laws of the State of California, the City and the Trustee (the "Trust Agreement");

**WHEREAS**, the Escrow Bank is the trustee under the Trust Agreement;

**WHEREAS**, the Rancho Santa Margarita Public Financing Authority (the "Authority") has issued its Rancho Santa Margarita Public Financing Authority Lease Revenue Refunding Bonds Series 2012A (the "Bonds") pursuant to a Bond Indenture dated as of December 1, 2012, by and among the City, the Authority and the Trustee, for the purpose of providing funds, together with other available moneys, to prepay and discharge the 2003 Certificates;

**WHEREAS**, the Trust Agreement contains provisions relating to the defeasance of the 2003 Certificates upon the deposit with the Escrow Bank, as Trustee for the 2003 Certificates, of cash and Government Obligations sufficient to pay the principal and interest due and to become due on the 2003 Certificates, and any prepayment premium thereon, if any, on and prior to the maturity date or earlier prepayment thereof, and the City wishes to make such a deposit with the Escrow Bank and to enter into this Agreement for the purpose of providing the terms and conditions for the deposit and application of amounts so deposited;

**WHEREAS**, the Escrow Bank has full powers to act with respect to the irrevocable escrow and trust created herein and to perform the duties and obligations to be undertaken pursuant to this Agreement;

**NOW, THEREFORE**, in consideration of the above premises and of the mutual promises and covenants herein contained and for other valuable consideration, the parties hereto do hereby agree as follows:

**Section 1.** Appointment of Escrow Bank. The City hereby appoints the Escrow Bank, as escrow holder for all purposes of this Agreement and in accordance with the terms and provisions of this Agreement, and the Escrow Bank hereby accepts such appointment.

**Section 2.** Establishment of 2003 Certificates Escrow Fund. The Escrow Bank agrees to establish and maintain a special trust account designated the "2003 Certificates Escrow Fund," which

shall be held by the Escrow Bank, as a segregated fund separate and distinct from all other funds and accounts held by the Escrow Bank, in trust as security for the payment of the principal of and interest on the 2003 Certificates.

**Section 3.** Deposit of Funds; Application of Reserve Fund. Concurrently with the issuance and delivery of the Bonds, the City shall cause the Trustee to transfer from the proceeds of the Bonds to the Escrow Bank for deposit into the 2003 Certificates Escrow Fund in immediately available funds the amount of \$10,696,622.56. In addition, on or prior to the issuance and delivery of the Bonds, the Trustee shall transfer to the Escrow Bank for deposit into the 2003 Certificates Escrow Fund in immediately available funds the amount of \$847,605.09.

**Section 4.** Application of Deposit. From the maturing principal of the Government Obligations, as set forth in Exhibit A, and the investment income and other earnings thereon and other moneys on deposit in the 2003 Certificates Escrow Fund, the Escrow Agent shall on each April 1 and October 1, commencing April 1, 2013 through and including October 1, 2013, apply the amounts on deposit in the Escrow Fund to pay when due all regularly scheduled payments of interest and principal with respect to the 2003 Certificates on and prior to October 1, 2013, and to pay on October 1, 2013 (the "Prepayment Date") the Prepayment Price of the 2003 Certificates (identified in Exhibit A) maturing after October 1, 2013, as set forth in Exhibit D.

The Escrow Bank shall be entitled to rely upon the conclusion of Causey Demgen & Moore, P.C. (the "Verification Agent"), that the Government Obligations in the 2003 Certificates Escrow Fund mature and bear interest payable in such amounts and at such times as, together with cash on deposit in the 2003 Certificates Escrow Fund, will be sufficient to pay when due all regularly scheduled payments of principal and interest with respect to the 2003 Certificates on and prior to October 1, 2013, and to pay on October 1, 2013 all payments of principal and premium, if any, with respect to 2003 Certificates maturing after October 1, 2013.

After the Escrow Bank shall have paid or have made provision for payment of all principal of and interest on the 2003 Certificates, as well as any prepayment premium thereon, if any, as provided in Section 6 hereof, the Escrow Bank shall promptly transfer to the Trustee any surplus amounts remaining in the 2003 Certificates Escrow Fund to be used by the Trustee solely to pay debt service on the Bonds.

**Section 5.** Instructions as to Call and Prepayment of 2003 Certificates. The total amount of cash held in the 2003 Certificates Escrow Fund pursuant to Section 4 hereof shall be deemed to be and shall constitute the deposit permitted to be made by the City to pay in full the 2003 Certificates pursuant to Section 10.01 of the Trust Agreement at the times set forth herein. For the purpose of call and prepayment prior to maturity, the City hereby instructs the Escrow Bank, as the Trustee, and the Escrow Bank, as the Trustee, hereby agrees to give notice of prepayment of the 2003 Certificates (the form of which is attached hereto as Exhibit B), such notice of prepayment to be given timely for prepayment of the 2003 Certificates on or before October 1, 2013 in accordance with the provisions of the Trust Agreement. The City hereby further instructs the Escrow Bank, as the Trustee, and the Escrow Bank, as the Trustee, hereby agrees to mail a notice of defeasance (the form of which is attached hereto as Exhibit C) on December 19, 2012.

**Section 6.** Application of Certain Terms of Trust Agreement. All of the terms of the Trust Agreement relating to the call and prepayment of the 2003 Certificates prior to maturity and to the making of payments of principal and interest on the 2003 Certificates, as applicable, are

incorporated in this Agreement as if set forth in full herein. The provisions of the Trust Agreement relating to the resignation and removal of the Trustee are also incorporated in this Agreement as if set forth in full herein and shall be the procedure to be followed with respect to any resignation or removal of the Escrow Bank hereunder.

**Section 7.** Compensation to Escrow Bank. The City shall pay or cause to be paid to the Escrow Bank full compensation for its duties under this Agreement, including out-of-pocket costs such as publication costs, Prepayment costs and expenses, legal fees and expenses, which fees and expenses shall include the allocated costs and disbursements of in-house counsel (to the extent such counsel's services are not redundant of services provided by external counsel to Escrow Bank) and other costs and expenses relating hereto, pursuant to separate agreement between the City and the Escrow Bank. Such compensation shall not affect the right of Escrow Bank, as Trustee for the 2003 Certificates, to compensation for its duties (including but not limited to, exchanges and transfers of 2003 Certificates), under the Trust Agreement. Under no circumstances shall amounts deposited in the 2003 Certificates Escrow Fund be deemed to be available for said purposes prior to the payment in full of all of the principal, interest and prepayment premium due on the 2003 Certificates in accordance with Section 5 hereof.

**Section 8.** Liabilities and Obligations of Escrow Bank. The Escrow Bank shall have no obligation to make any payment or disbursement of any type or incur any financial liability in the performance of its duties under this Agreement unless the City shall have deposited sufficient funds with the Escrow Bank. The Escrow Bank may rely and shall be protected in acting upon the written instructions of the City or its agents relating to any matter or action as Escrow Bank under this Agreement. The Escrow Bank shall not be required to act upon any oral instructions, but may request that such instruction be given in writing.

The City covenants to indemnify and hold harmless the Escrow Bank and its officers, directors, agents and employees against any loss, liability, claim, cost, suite, judgment or expense, including legal fees and expenses, which fees and expenses shall include the allocated costs and disbursements of in-house counsel (to the extent such counsel's services are not redundant of services provided by external counsel to Escrow Bank) in connection with the performance of any of its duties hereunder, except the Escrow Bank shall not be indemnified against any loss, liability or expense resulting from its negligence or willful misconduct. Such indemnification shall survive the termination and discharge of this Agreement or the removal or resignation of the Escrow Bank.

The Escrow Bank undertakes only such duties as are expressly and specifically set forth in this Agreement and no implied duties or obligations shall be read into this Agreement against the Escrow Bank. The Escrow Bank shall not be responsible for any of the recitals or representations made herein other than that the Escrow Bank is qualified to accept and administer the trusts created hereunder. The Escrow Bank shall not be liable for the accuracy of any calculations provided as to the sufficiency of the moneys deposited with it to pay the principal of and interest on the 2003 Certificates. The Escrow Bank shall not have any liability hereunder except to the extent of its own negligence or willful misconduct. The Escrow Bank may consult with counsel of its own choice and the opinion of such counsel shall be full and complete authorization to take or suffer any action in accordance with such opinion of counsel.

Except as otherwise provided in this Agreement, whenever in the administration of this Agreement the Escrow Bank shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in

respect thereof be herein specifically prescribed) may, in the absence of negligence or willful misconduct on the part of the Escrow Bank, be deemed to be conclusively proved and established by a certificate of any authorized representative of the City, and such certificate shall, in the absence of negligence or willful misconduct on the part of the Escrow Bank, be full warrant to the Escrow Bank for any action taken or suffered by it under the provisions of this Agreement upon the faith thereof. The Escrow Bank may conclusively rely, as to the truth and accuracy of the statements and correctness of the opinions and the calculations provided, and shall be protected and indemnified, in acting or refraining from acting, upon any written notice, instruction, request, certificate, document or opinion furnished to the Escrow Bank signed or presented by the proper party, and it need not investigate any fact or matter stated in such notice, instruction, request, certificate or opinion. The Escrow Bank may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents, attorneys, custodians or nominees appointed with due care, and shall not be responsible for any willful misconduct or negligence on the part of any agent, attorney, custodian or nominee so appointed.

The Escrow Bank agrees to accept and act upon instructions or directions pursuant to this Indenture sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods; provided, however, that the Escrow Bank shall have received an incumbency certificate listing persons designated to give such instructions or directions and containing specimen signatures of such designated persons, which such incumbency certificate shall be amended and replaced whenever a person is to be added or deleted from the listing. If the City elects to give the Escrow Bank e-mail or facsimile instructions (or instructions by a similar electronic method) and the Escrow Bank in its discretion elects to act upon such instructions, the Escrow Bank's understanding of such instructions shall be deemed controlling. The Escrow Bank shall not be liable for any losses, costs or expenses arising directly or indirectly from the Escrow Bank's reliance upon and compliance with such instructions notwithstanding such instructions conflict or are inconsistent with a subsequent written instruction. The City agrees to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Escrow Bank, including, without limitation, the risk of the Escrow Bank acting on unauthorized instructions, and the risk of interception and misuse by third parties.

**Section 9.** Amendment. This Agreement may be amended by the parties hereto if such amendment shall be for the purpose of curing or correcting any ambiguous or defective provision hereof, but only, in either case, if there first shall have been filed with the Escrow Bank a written opinion of bond counsel stating that such amendment will not cause interest on the 2003 Certificates or the Bonds to become includable in gross income for federal tax purposes.

**Section 10.** Partial Invalidity. If any Section, paragraph, sentence, clause or phrase of this Agreement shall for any reason be held illegal, invalid or unenforceable, such holding shall not affect the validity of the remaining portions of this Agreement. The City and the Escrow Bank hereby declare that they would have entered into this Agreement and each and every other Section, paragraph, sentence, clause or phrase hereof would have been authorized irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses, or phrases of this Agreement may be held illegal, invalid or unenforceable.

**Section 11.** Execution in Counterparts. This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.



**Section 12. Governing Law.** This Escrow Agreement shall be governed by and construed in accordance with the laws of the State of California.

**Section 13. Notices.** All notices, instructions, accounting and other communications under this Agreement shall be in writing and shall be deemed duly given to the parties hereto if sent by facsimile transmission (telecopy) or sent by U.S. Postal Service mail, 48 hours after deposit thereto, postage prepaid and addressed as follows:

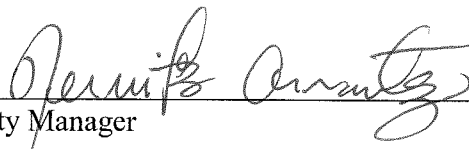
City: City of Rancho Santa Margarita  
22112 El Paseo  
Rancho Santa Margarita, California 92688  
Attention: City Manager

Escrow Bank: Wells Fargo Bank, National Association  
707 Wilshire Blvd., 17th Floor  
Los Angeles, California 90017  
Attention: Corporate Services Department

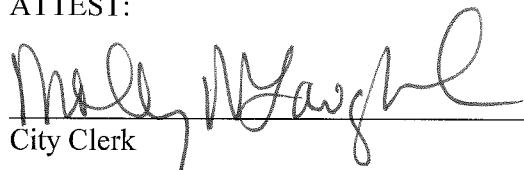
*[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]*

IN WITNESS WHEREOF, the City and the Escrow Bank have each caused this Agreement to be executed by their duly authorized officers all as of the date first above written.

CITY OF RANCHO SANTA MARGARITA

By:   
City Manager

ATTEST:

  
City Clerk

APPROVED AS TO FORM:

  
Stradling Yocca Carlson & Rauth,  
Special Counsel

WELLS FARGO BANK, NATIONAL  
ASSOCIATION, as Escrow Bank

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

IN WITNESS WHEREOF, the City and the Escrow Bank have each caused this Agreement to be executed by their duly authorized officers all as of the date first above written.

CITY OF RANCHO SANTA MARGARITA

By: \_\_\_\_\_  
City Manager

ATTEST:

\_\_\_\_\_  
City Clerk

APPROVED AS TO FORM:

\_\_\_\_\_  
Stradling Yocca Carlson & Rauth,  
Special Counsel

WELLS FARGO BANK, NATIONAL  
ASSOCIATION, as Escrow Bank

By:           *A. W. T. W.*            
Authorized Officer

**EXHIBIT A**

**GOVERNMENT OBLIGATIONS AND CASH FLOW**

<b>Type of Security</b>	<b>Type of SLGS</b>	<b>Maturity Date</b>	<b>Par Amount</b>	<b>Rate</b>	<b>Total Cost</b>
SLGS	Certificate	4/1/13	\$ 256,215	0.09%	\$ 256,215
SLGS	Certificate	10/1/13	<u>11,288,012</u>	0.15	<u>11,288,012</u>
			<u>\$11,544,227</u>		<u>\$11,544,227</u>

**EXHIBIT B**

**FORM OF NOTICE OF PREPAYMENT**

**CITY OF RANCHO SANTA MARGARITA  
CERTIFICATES OF PARTICIPATION  
(CITY HALL AND REGIONAL COMMUNITY CENTER)**

**BASE CUSIP NO. 752145**

NOTICE IS HEREBY GIVEN to the owners of the above-captioned bonds (the "Obligations") issued pursuant to a Trust Agreement, dated as of November 1, 2003 (the "Trust Agreement") by and among the City of Rancho Santa Margarita, the City of Rancho Santa Margarita Nonprofit Corporation and Wells Fargo Bank, National Association, as trustee (the "Trustee"), the following Obligations in the amount of \$10,615,000 have been called for Prepayment on October 1, 2013:

<b>CUSIP</b>	<b>MATURITY (November 1)</b>	<b>RATE</b>	<b>AMOUNT</b>	<b>PREPAYMENT PRICE</b>
AH5	2014	4.00%	\$ 340,000	100%
AJ1	2015	4.00	355,000	100
AK8	2016	4.10	375,000	100
AL6	2017	4.20	390,000	100
AM4	2018	4.30	400,000	100
AN2	2019	4.40	425,000	100
AP7	2020	4.50	440,000	100
AQ5	2021	4.60	460,000	100
AR3	2022	4.65	480,000	100
AS1	2023	4.75	500,000	100
AT9	2024	4.75	525,000	100
AU6	2027	4.75	1,730,000	100
AV4	2030	4.75	1,995,000	100
AW2	2033	5.00	2,300,000	100

To receive payment on the prepayment date, owners of the Obligations should present and surrender said Obligations on the prepayment date at the address of the Trustee set forth below:

**By Mail (Registered):**

Wells Fargo Bank, N.A.  
Corporate Trust Operations  
P.O. Box 1517  
Minneapolis, MN 55480

**By Courier (Air Mail):**

Wells Fargo Bank, N.A.  
Corporate Trust Operations  
P.O. Box 1517  
Minneapolis, MN 55480

**In Person:**

Wells Fargo Bank, N.A.  
Northstar East Building  
608 2<sup>nd</sup> Avenue South  
12<sup>th</sup> Floor  
Minneapolis, MN

A form W-9 must be submitted with the Obligations. Failure to provide a completed form W-9 will result in 31% backup withholding pursuant to the Interest and Dividend Tax Compliance Act of 1983. Under the Jobs and Growth Tax Relief Reconciliation Act of 2003, 28% will be withheld if the tax identification number is not properly certified. Holders of the Obligations who wish to avoid the application of these provisions should submit a complete Form W-9 when presenting their Obligations.

The Obligations shall be redeemed in the principal amounts on the dates listed above. From and after the respective prepayment dates, interest on the Obligations to be redeemed will cease to accrue.

DATED this 1st day of September, 2013.

**EXHIBIT C**

**NOTICE OF DEFEASANCE**

**CITY OF RANCHO SANTA MARGARITA  
CERTIFICATES OF PARTICIPATION  
(CITY HALL AND REGIONAL COMMUNITY CENTER)**

BASE CUSIP NO. 752145

NOTICE IS HEREBY GIVEN to the owners of the above-captioned certificates of participation (as further defined below, the "2003 Certificates"), of the City of Rancho Santa Margarita (the "City"), that the City has deposited with Wells Fargo Bank, National Association, as trustee (the "2003 Trustee") under the Trust Agreement, dated as of November 1, 2003 (the "Trust Agreement"), by and among the City, the City of Rancho Santa Margarita Nonprofit Corporation (the "Corporation") and the 2003 Trustee, cash and federal securities, the principal of and interest on which when paid will provide moneys sufficient to pay on and prior to October 1, 2013 the regularly scheduled payments of principal and interest with respect to the 2003 Certificates, and to pay on October 1, 2013, the principal, interest and premium, if any, with respect to the 2003 Certificates maturing after October 1, 2013.

The 2003 Certificates to be defeased are as follows:

<i>CUSIP</i>	<i>Maturity (October 1)</i>	<i>Rate</i>	<i>Amount</i>
AG7	2013	4.00%	\$ 330,000
AH5	2014	4.00	340,000
AJ1	2015	4.00	355,000
AK8	2016	4.10	375,000
AL6	2017	4.20	390,000
AM4	2018	4.30	400,000
AN2	2019	4.40	425,000
AP7	2020	4.50	440,000
AQ5	2021	4.60	460,000
AR3	2022	4.65	480,000
AS1	2023	4.75	500,000
AT9	2024	4.75	525,000
AU6	2027	4.75	1,730,000
AV4	2030	4.75	1,995,000
AW2	2033	5.00	2,300,000

In accordance with the Trust Agreement, the 2003 Certificates are deemed to have been paid in accordance with Section 10.01 thereof and the obligations of the City and the Corporation under the Trust Agreement with respect to the 2003 Certificates shall thereupon cease, terminate and become void and be discharged and satisfied.

WELLS FARGO BANK, NATIONAL  
ASSOCIATION, as Trustee

Dated this 19th day of December, 2012.



**EXHIBIT D**

**ESCROW SUFFICIENCY**

<b>Date</b>	<b>Escrow Requirement</b>	<b>Net Escrow Receipts</b>	<b>Excess Receipts</b>	<b>Excess Balance</b>
12/19/12	\$ 0.00	\$ 0.65	\$0.65	\$0.65
4/1/13	256,280.00	256,280.07	0.07	0.72
10/1/13	<u>11,301,280.00</u>	<u>11,301,279.28</u>	<u>-0.72</u>	0.00
	<u>\$11,557,560.00</u>	<u>\$11,557,560.00</u>	<u>\$0.00</u>	



CITY OF RANCHO SANTA MARGARITA

*Mayor*

L. Anthony Beall

*Mayor Pro Tempore*

Steven Baric

*Council Members*

Carol A. Gamble

Jerry Holloway

Jesse Petrilla

*City Manager*

Jennifer M. Cervantez

CITY OF RANCHO SANTA MARGARITA  
CERTIFICATION

STATE OF CALIFORNIA )  
COUNTY OF ORANGE ) ss.  
CITY OF RANCHO SANTA MARGARITA )

I, MARIA A. FERRIS, Deputy City Clerk of the City of Rancho Santa Margarita, California, DO HEREBY CERTIFY that the attached is a copy of fully executed Resolution No. PFA-12-11-14-01 that was adopted by the Board of Directors of the Rancho Santa Margarita Public Financing Authority on November 14, 2012.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of the City of Rancho Santa Margarita, California, this 13<sup>th</sup> day of December, 2012.

MARIA A. FERRIS, DEPUTY CITY CLERK  
Rancho Santa Margarita, California

RESOLUTION NO. PFA-12-11-14-01

RESOLUTION OF THE BOARD OF DIRECTORS OF THE RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY, RANCHO SANTA MARGARITA, CALIFORNIA, RATIFYING ITS APPOINTMENT AS THE BOARD OF DIRECTORS; APPROVING AND RATIFYING THE BY-LAWS OF THE RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY; AND APPOINTING OFFICERS

WHEREAS, the Board of Directors (the "Board") of the Rancho Santa Margarita Public Financing Authority (the "Authority") does hereby find, order and resolve as follows:

WHEREAS, the Authority has been created pursuant to Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California by that certain Joint Exercise of Powers Agreement, dated as of October 15, 2012 (the "JPA Agreement"), by and between the City of Rancho Santa Margarita and the California Municipal Finance Authority; and

WHEREAS, the Board is desirous of ratifying its appointment as the Board of Directors of the Authority, adopting By-Laws for the Authority and appointing officers of the Authority;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY, as follows:

SECTION 1. Each of the foregoing recitals is true and correct.

SECTION 2. The Board hereby ratifies its appointment under the JPA Agreement as the Board of Directors of the Authority.

SECTION 3. The Board hereby approves and ratifies the By-Laws of the Authority, copies of which are on file with the Secretary and shall be kept as a part of the permanent records of the Authority.

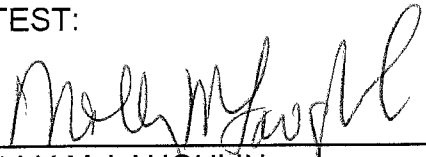
SECTION 4. The following persons are hereby appointed to the offices of the Authority indicated opposite their names, and each such person is to serve in accordance with the By-Laws of the Authority:

<b>Name</b>	<b>Office</b>
L. Anthony Beall	President
Steven Baric	Vice President
Molly McLaughlin	Secretary
Jennifer M. Cervantez	Treasurer
Jennifer M. Cervantez	Executive Director
Paul Boyer	Administrative Services Director

PASSED, APPROVED AND ADOPTED THIS 14<sup>TH</sup> DAY OF NOVEMBER 2012.

  
\_\_\_\_\_  
L. ANTHONY BEALL, PRESIDENT

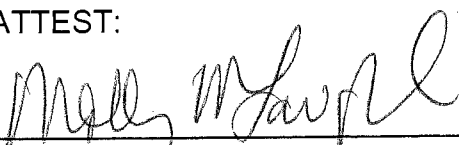
ATTEST:

  
\_\_\_\_\_  
MOLLY McLAUGHLIN  
AUTHORITY SECRETARY

I hereby certify that the foregoing Resolution No.PFA-12-11-14-01 was duly adopted at a joint meeting of the Public Financing Authority and the City Council held on the 14<sup>TH</sup> day of November 2012, by the following vote:

AYES:	5	AUTHORITY MEMBERS:	Holloway, Gamble, Petrilla, Vice President Baric and President Beall
NOES:	0	AUTHORITY MEMBERS:	None
ABSTAIN:	0	AUTHORITY MEMBERS:	None
ABSENT:	0	AUTHORITY MEMBERS:	None

ATTEST:

  
\_\_\_\_\_  
MOLLY McLAUGHLIN  
AUTHORITY SECRETARY



CITY OF RANCHO SANTA MARGARITA

CITY OF RANCHO SANTA MARGARITA  
CERTIFICATION

*Mayor*

L. Anthony Beall

*Mayor Pro Tempore*

Steven Baric

*Council Members*

Carol A. Gamble

Jerry Holloway

Jesse Petrilla


*City Manager*

Jennifer M. Cervantez

STATE OF CALIFORNIA )  
COUNTY OF ORANGE ) ss.  
CITY OF RANCHO SANTA MARGARITA )

I, MARIA A. FERRIS, Deputy City Clerk of the City of Rancho Santa Margarita, California, DO HEREBY CERTIFY that the attached is a copy of the November 14, 2012, City of Rancho Santa Margarita City Council Regular Meeting and Joint Meeting of the City Council and the Rancho Santa Margarita Public Financing Authority Meeting Minutes approved by the City Council of the City of the Rancho Santa Margarita on December 12, 2012.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of the City of Rancho Santa Margarita, California, this 13<sup>th</sup> day of December, 2012.

  
\_\_\_\_\_  
MARIA A. FERRIS, DEPUTY CITY CLERK  
Rancho Santa Margarita, California

Approved the plans and specifications for the Robinson Ranch Road Improvement Project, awarded a construction contract to Green Giant Landscape, Inc. of La Habra California, in the amount of \$203,415, rejected all other bids and authorized the Mayor to execute the contract.

#### **ITEMS REMOVED FROM THE CONSENT CALENDAR**

#### **RECESS**

Mayor Beall recessed the City Council regular meeting at 8:08 p.m., to a Joint Meeting of the City Council of the Rancho Santa Margarita Public Financing Authority to be held at 22112 El Paseo, Civic Center, Rancho Santa Margarita. CA 92688.

### **JOINT MEETING OF THE CITY COUNCIL AND THE RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY**

#### **CALL TO ORDER**

Mayor Beall called the Joint Meeting of the City Council and Public Financing Authority to order at 8:08 p.m. and requested a roll call to which the City Clerk responded that all City Council and Public Financing Authority Members were present.

#### **ROLL CALL OF CITY COUNCIL MEMBERS:**

Present: Carol A. Gamble, Council Member  
Jerry Holloway, Council Member  
Jesse Petrilla, Council Member  
Steven Baric, Mayor Pro Tempore  
L. Anthony Beall, Mayor

#### **ROLL CALL OF BOARD MEMBERS:**

Present: Carol A. Gamble, Authority Member  
Jerry Holloway, Authority Member  
Jesse Petrilla, Authority Member  
Steven Baric, Authority Member  
L. Anthony Beall, Authority Member

#### **5. PUBLIC HEARING ITEMS**

- 5.1 JOINT MEETING OF THE CITY COUNCIL OF THE CITY OF RANCHO SANTA MARGARITA AND THE BOARD OF DIRECTORS OF THE RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY REGARDING THE ISSUANCE OF LEASE REVENUE REFUNDING BONDS, 2012 SERIES A

Jennifer Cervantez, City Manager, presented the item and introduced Paul Boyer, Administrative Services Director, who provided an overview of the staff report and presented a Powerpoint presentation (Exhibit 2 on file in the City Clerk's office).

Dan Wyles, financial advisor and representing Fieldman, Rolapp & Associates reviewed the project lease revenue bond financing as well as the project timeline.

Brian Forbath, Bond/Disclosure Counsel, representing Stradling Yocca Carlson & Rauth, explained the legal processes required for this transaction.

City Council/Authority Member discussion included a review of the bond pricing range to which the reply from bond counsel included the conservative approach to pricing estimates for the bonds.

Mayor Beall opened the public hearing at 8:25 p.m.

Hearing no requests from the public to speak, Mayor Beall closed the public hearing at 8:26 p.m.

**ACTION:** It was moved by Mayor Beall, seconded by Council Member Petrilla, and unanimously carried, to adopt Resolution No. 12-11-14-03 entitled:

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF RANCHO SANTA MARGARITA, CALIFORNIA AUTHORIZING THE EXECUTION AND DELIVERY BY THE CITY OF A GROUND LEASE, LEASE AGREEMENT, INDENTURE, ESCROW AGREEMENT, CONTINUING DISCLOSURE CERTIFICATE AND A BOND PURCHASE AGREEMENT IN CONNECTION WITH THE ISSUANCE OF RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY LEASE REVENUE REFUNDING BONDS, SERIES 2012A, APPROVING THE ISSUANCE OF SUCH BONDS IN AN AGGREGATE PRINCIPAL AMOUNT OF NOT TO EXCEED \$12,500,000, AUTHORIZING THE DISTRIBUTION OF AN OFFICIAL STATEMENT IN CONNECTION WITH THE OFFERING AND SALE OF SUCH BONDS AND AUTHORIZING THE EXECUTION OF NECESSARY DOCUMENTS AND CERTIFICATES AND RELATED ACTIONS

**ACTION:** It was moved by Mayor Beall, seconded by Council Member Holloway, and unanimously carried, to adopt Resolution No. 12-11-14-04 entitled:

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF RANCHO SANTA MARGARITA, CALIFORNIA, AMENDING RESOLUTION NO. 12-06-27-04 FOR THE PURPOSE OF ADJUSTING ESTABLISHED ALLOCATIONS OF AVAILABLE GENERAL FUND BALANCE RESERVES FOR PREFUNDED BASE RENTAL PAYMENT CONTINGENCY IN ESCROW

**ACTION:** It was moved by Authority Member Beall, seconded by Authority Member Gamble, and unanimously carried, to adopt Resolution No. PFA 12-11-14-01 entitled:

RESOLUTION OF THE BOARD OF DIRECTORS OF THE RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY, RANCHO SANTA MARGARITA, CALIFORNIA, RATIFYING ITS APPOINTMENT AS THE BOARD OF DIRECTORS; APPROVING AND RATIFYING THE

**BY-LAWS OF THE RANCHO SANTA MARGARITA PUBLIC FINANCING  
AUTHORITY; AND APPOINTING OFFICERS**

**ACTION:** It was moved by Authority Member Beall, seconded by Authority Member Baric, and unanimously carried to adopt Resolution No. PFA 12-11-14-02 entitled:

RESOLUTION OF THE BOARD OF DIRECTORS OF THE RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY, RANCHO SANTA MARGARITA, CALIFORNIA, AUTHORIZING THE EXECUTION AND DELIVERY BY THE AUTHORITY OF A GROUND LEASE, LEASE AGREEMENT, AN INDENTURE, AN ASSIGNMENT AGREEMENT AND A BOND PURCHASE AGREEMENT IN CONNECTION WITH THE ISSUANCE OF RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY LEASE REVENUE REFUNDING BONDS, SERIES 2012A, AUTHORIZING THE ISSUANCE OF SUCH BONDS IN AN AGGREGATE PRINCIPAL AMOUNT OF NOT TO EXCEED \$12,500,000, AUTHORIZING THE DISTRIBUTION OF AN OFFICIAL STATEMENT IN CONNECTION WITH THE OFFERING AND SALE OF SUCH BONDS AND AUTHORIZING THE EXECUTION OF NECESSARY DOCUMENTS AND CERTIFICATES AND RELATED ACTIONS

**ACTION:** It was moved by Mayor and Authority Member Beall, seconded by Mayor Pro Tem and Authority Member Baric, and unanimously carried, by all City Council Members and Authority Members, to:

Approve in substantial final form the draft financing documents and authorize the Mayor/Chairperson, City Manager/Executive Director, and Administrative Services Director to take all necessary actions with respect to the issuance of the proposed lease revenue refunding bonds by the Authority, including but not limited to final approval and execution of the draft instruments

**6. PUBLIC COMMENTS**

There were none.

**ADJOURNMENT OF JOINT MEETING**

Mayor/Chair Beall adjourned the Joint Meeting of the City Council and Public Financing Authority to the Regular Meeting of the City Council at 8:32 p.m.

**RECONVENE TO THE CITY COUNCIL REGULAR MEETING**

Mayor Beall reconvened the City Council regular meeting at 8:33 p.m.

**7. CONTINUED ITEMS**

There were none.





## CITY OF RANCHO SANTA MARGARITA

*Mayor*

L. Anthony Beall

*Mayor Pro Tempore*

Steven Baric

*Council Members*

Carol A. Gamble

Jerry Holloway

Jesse Petrilla

*City Manager*


Jennifer M. Cervantez

## CITY OF RANCHO SANTA MARGARITA CERTIFICATION

STATE OF CALIFORNIA )  
COUNTY OF ORANGE ) ss.  
CITY OF RANCHO SANTA MARGARITA )

I, MARIA A. FERRIS, Deputy City Clerk of the City of Rancho Santa Margarita, California, DO HEREBY CERTIFY that the attached is a copy of fully executed Resolution No. PFA-12-11-14-02 that was adopted by the Board of Directors of the Rancho Santa Margarita Public Financing Authority on November 14, 2012.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of the City of Rancho Santa Margarita, California, this 13<sup>th</sup> day of December, 2012.

  
\_\_\_\_\_  
MARIA A. FERRIS, DEPUTY CITY CLERK  
Rancho Santa Margarita, California

RESOLUTION NO. PFA-12-11-14-02

RESOLUTION OF THE BOARD OF DIRECTORS OF THE RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY, RANCHO SANTA MARGARITA, CALIFORNIA, AUTHORIZING THE EXECUTION AND DELIVERY BY THE AUTHORITY OF A GROUND LEASE, LEASE AGREEMENT, AN INDENTURE, AN ASSIGNMENT AGREEMENT AND A BOND PURCHASE AGREEMENT IN CONNECTION WITH THE ISSUANCE OF RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY LEASE REVENUE REFUNDING BONDS, SERIES 2012A, AUTHORIZING THE ISSUANCE OF SUCH BONDS IN AN AGGREGATE PRINCIPAL AMOUNT OF NOT TO EXCEED \$12,500,000, AUTHORIZING THE DISTRIBUTION OF AN OFFICIAL STATEMENT IN CONNECTION WITH THE OFFERING AND SALE OF SUCH BONDS AND AUTHORIZING THE EXECUTION OF NECESSARY DOCUMENTS AND CERTIFICATES AND RELATED ACTIONS

WHEREAS, the City of Rancho Santa Margarita (the "City") previously financed a portion of the costs of the acquisition, construction and installation of certain capital improvements constituting the City Hall and Regional Community Center and related improvements, facilities and equipment (the "2003 Project");

WHEREAS, in order to accomplish such financing, the City determined to provide the funds necessary to finance the acquisition, construction and installation of the Project through the execution and delivery by the City of the City of Rancho Santa Margarita Certificates of Participation (the "2003 Certificates"), payable from certain base rental payments to be made by the City under a lease agreement;

WHEREAS, the City desires to refinance all or a portion of the Project originally financed with the proceeds of the 2003 Certificates;

WHEREAS, in addition, the City desires to finance the acquisition and/or construction of various "public capital improvements" within the meaning of the Act (defined below) all of which are or shall be located within the boundaries of the City and collectively constitute the "2012 Project;"

WHEREAS, the Authority and the City have determined that it would be in the best interests of the Authority, the City and residents of the City to authorize the preparation, sale and delivery of the "Rancho Santa Margarita Public Financing Authority Lease Revenue Refunding Bonds, Series 2012A" (the "Bonds") for the purpose of financing the 2012 Project and refinancing the 2003 Certificates; and

WHEREAS, in order to facilitate the issuance of the Bonds, the City and the Authority desire to enter into a Ground Lease between the City and the Authority (the "Ground Lease") pursuant to which the City will lease certain real property (which real property shall consist of assets generally described as the City Hall and Regional Community Center) ("Leased Assets") to the Authority, and a Lease Agreement between the City and the Authority (the "Lease Agreement"), pursuant to which the City will lease the Leased Assets back from the Authority, and pay certain Base Rental Payments (as defined in the Lease Agreement), which are pledged to the owners of the Bonds by the Authority pursuant to an Indenture of Trust by and between Wells Fargo Bank, National Association (the "Trustee") and the Authority (the "Indenture"); and

WHEREAS, the Authority and the Trustee desire to enter into an Assignment Agreement in order to provide, among other things, that all rights to receive the Base Rental Payments have been assigned without recourse by the Authority to the Trustee;

WHEREAS, the City and the Authority have determined that debt service savings can be achieved by the prepayment and defeasance of the 2003 Certificates;

WHEREAS, the City and the Authority have determined that it would be in the best interests of the City and the Authority to provide the funds necessary to refinance all or a portion of the 2003 Project originally financed with the proceeds of the 2003 Certificates through the offering and sale of the Bonds;

WHEREAS, the defeasance of the 2003 Certificates to be prepaid will be accomplished by means of an Escrow Agreement (the "Escrow Agreement") by and between Wells Fargo Bank, National Association, as escrow agent ("Escrow Agent") and the City, the form of which has been presented to this Board of Directors at the meeting at which this Resolution is being adopted;

WHEREAS, the Bonds will be issued pursuant to the Marks-Roos Local Bond Pooling Act of 1985, commencing with Section 6584 of the California Government Code (the "Act");

WHEREAS, the City and the Authority desire to provide for the negotiated sale of the Bonds;

WHEREAS, the City and the Authority have selected Stifel Nicolaus & Co. Inc., dba Stone & Youngberg, a Division of Stifel Nicolaus, to act as underwriter (the "Underwriter") to purchase the Bonds from the Authority pursuant to a Bond Purchase Agreement (the "Bond Purchase Agreement");

WHEREAS, a form of the Preliminary Official Statement (the "Preliminary Official Statement") has been prepared;

WHEREAS, the City is a member of the Authority, and the 2003 Project and the 2012 Project are located within the boundaries of the City;

WHEREAS, the City has, prior to the consideration of this resolution, held a public hearing on the refinancing of the 2003 Certificates and the financing of the 2012 Project with the proceeds of the issuance of the Bonds in accordance with Section 6586.5 of the Act, which hearing was held at 22112 El Paseo, Rancho Santa Margarita, California on November 14, 2012;

WHEREAS, in accordance with Section 6586.5 of the Act, notice of such hearing was published once at least five days prior to the hearing in the Orange County Register, a newspaper of general circulation in the City;

WHEREAS, the Board of Directors of the Authority (the "Board of Directors") has been presented with the form of each document referred to herein, and the Board of Directors has examined and approved each document and desires to authorize and direct the execution of such documents and the consummation of such refinancing; and

WHEREAS, all acts, conditions and things required by the laws of the State of California to exist, to have happened and to have been performed precedent to and in connection with the consummation of such refinancing authorized hereby do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the Authority is now duly authorized and empowered, pursuant to each and every requirement of law, to consummate such refinancing for the purpose, in the manner and upon the terms herein provided;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY, as follows:

Section 1. All of the recitals herein contained are true and correct and the Board of Directors so finds. The Board of Directors has determined and hereby finds that the Authority's assistance in financing the 2012 Project and refinancing the 2003 Project by the execution and delivery of the Bonds will result in significant public benefits of the type described in Section 6586 (a) through (d), inclusive, of the Act and that all 2012 Project elements to be financed with the proceeds of the Bonds have been or will be approved pursuant to all applicable requirements of the California Environmental Quality Act (Public Resources Code Section 2100 et seq.) and applicable guidelines, or are exempt therefrom.

Section 2. The forms of the Lease Agreement and the Ground Lease, on file with the Secretary of the Authority, are hereby approved, and the Chairperson of the Authority, or such other member of the Board of Directors as the Chairperson may designate, the Executive Director of the Authority and the Director of Administrative Services of the Authority (the "Authorized Officers"), are each hereby authorized and directed, for and in the name and on behalf of the Authority, to execute and deliver the Lease Agreement and the Ground Lease, respectively, in substantially said forms, with such changes, insertions and omissions therein as the Authorized Officer executing the same may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof; provided, however, that the term of the Lease Agreement and the Ground Lease shall terminate no later than November 1, 2033 (provided that such term may be extended as provided therein), and the true interest cost applicable to the interest components of the Base Rental Payments shall not exceed 4.0% per annum.

Section 3. The form of Indenture, on file with the Secretary of the Authority, is hereby approved, and the Authorized Officers are each hereby authorized and directed, for and in the name and on behalf of the Authority, to execute and deliver the Indenture in substantially said form, with such changes, insertions and omissions therein as the Authorized Officer executing the same may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof; provided, however, that the aggregate amount of the Bonds shall not exceed \$12,500,000, the final maturity date of the Bonds shall be no later than November 1, 2033, and the true interest cost applicable to the Bonds shall not exceed 4.0% per annum and, provided, further, that such changes,

insertions and omissions shall be consistent with the terms of the Bonds established at negotiated sale pursuant to the Bond Purchase Agreement.

Section 4. The issuance of not to exceed \$12,500,000 aggregate principal amount of the Bonds, in the principal amounts, bearing interest at the rates and maturing on the dates as specified in the Indenture as finally executed, is hereby authorized and approved.

Section 5. The form of Assignment Agreement, on file with the Secretary of the Authority, is hereby approved, and the Authorized Officers are each hereby authorized and directed, for and in the name and on behalf of the Authority, to execute and deliver the Assignment Agreement in substantially said form, with such changes, insertions and omissions therein as the Authorized Officer executing the same may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 6. The Bond Purchase Agreement on file with the Secretary of the Authority is hereby approved. The Authorized Officers are, and each of them is, hereby authorized and directed, for and in the name of the Authority to execute and deliver the Bond Purchase Agreement in substantially said form, with such changes, insertions and omissions as the Authorized Officer executing the same may require or approve, such approval to be conclusively evidenced by the execution of the Bond Purchase Agreement by such Authorized Officer; provided, however, that such changes, insertions and omissions shall not result in an aggregate underwriter's discount (not including any original issue discount paid by the Underwriter) from the principal amount of the Bonds in excess of six-tenths of one percent (0.6%) of the aggregate principal amount of the Bonds.

Section 7. The form of Preliminary Official Statement, on file with the Secretary of the Authority, with such changes, insertions and omissions therein as may be approved by an Authorized Officer, is hereby approved, and the use of the Preliminary Official Statement in connection with the offering and sale of the Bonds is hereby authorized and approved. The Authorized Officers are each hereby authorized to certify on behalf of the Authority that the Preliminary Official Statement is deemed final as of its date, within the meaning of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 (except for the omission of certain final pricing, rating and related information as permitted by such Rule).

The Authorized Officers are each hereby authorized and directed to furnish, or cause to be furnished, to prospective bidders for the Bonds a reasonable number of copies of the Preliminary Official Statement.

Section 8. The preparation and delivery of an Official Statement, and its use in connection with the offering and sale of the Bonds, is hereby authorized and approved. The Official Statement shall be in substantially the form of the Preliminary Official Statement with such changes, insertions and omissions as may be approved by an Authorized Officer, such approval to be conclusively evidenced by the execution and delivery thereof. The Authorized Officers are each hereby authorized and directed, for and in the name of and on behalf of the Authority, to execute the final Official Statement and any amendment or supplement thereto for and in the name and on behalf of the Authority.

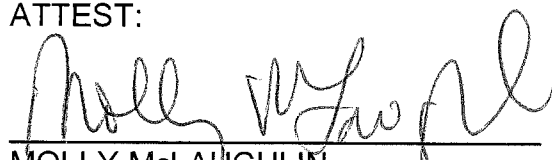
Section 9. The officers and agents of the Authority are hereby authorized and directed, jointly and severally, to do any and all things which they may deem necessary or advisable in order to consummate the transactions herein authorized and otherwise to carry out, give effect to and comply with the terms and intent of this Resolution. All actions heretofore taken by the officers and agents of the Authority with respect to the transactions set forth above are hereby approved, confirmed and ratified.

Section 10. This Resolution shall take effect from and after its date of adoption.

PASSED, APPROVED AND ADOPTED THIS 14<sup>TH</sup> DAY OF NOVEMBER 2012.

  
\_\_\_\_\_  
L. ANTHONY BEALL, PRESIDENT

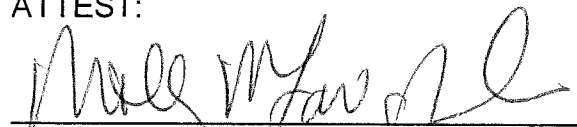
ATTEST:

  
\_\_\_\_\_  
MOLLY McLAUGHLIN  
AUTHORITY SECRETARY

I hereby certify that the foregoing Resolution No.PFA-12-11-14-021 was duly adopted at a joint meeting of the Public Financing Authority and the City Council held on the 14<sup>TH</sup> day of November 2012, by the following vote:

AYES:	5	AUTHORITY MEMBERS:	Holloway, Gamble, Petrilla, Vice President Baric and President Beall
NOES:	0	AUTHORITY MEMBERS:	None
ABSTAIN:	0	AUTHORITY MEMBERS:	None
ABSENT:	0	AUTHORITY MEMBERS:	None

ATTEST:

  
\_\_\_\_\_  
MOLLY McLAUGHLIN  
AUTHORITY SECRETARY

**REPORT OF PROPOSED DEBT ISSUANCE**

California Debt and Investment Advisory Commission  
915 Capitol Mall, Room 400, Sacramento, CA 95814  
P.O. Box 942809, Sacramento, CA 94209-0001  
Tel.: (916) 653-3269 Fax: (916) 654-7440

Received by CDIAC  
11/14/12

Completion and timely submittal of this form to the California Debt and Investment Advisory Commission (CDIAC) at the above address will assure your compliance with existing California State law and will assist in the maintenance of a complete database of public debt in California. Thank you for your cooperation.<sup>1</sup>

ISSUER NAME Rancho Santa Margarita Public Financing Authority  
(If pool bond, list participants)

ISSUE NAME Lease Revenue Refunding Bonds Series 2012A

Please specify type/name of project: \_\_\_\_\_

PROPOSED SALE DATE 12/12/2012 PRINCIPAL TO BE SOLD \$ 12500000

**IS ANY PORTION OF THE DEBT FOR REFUNDING?<sup>2</sup>**

No  Yes, proposed amount for refunding \$ 11650000

Private Placement?

Issuer Contact Will a validation action be pursued?  No

First Name Jennifer Middle Name \_\_\_\_\_ Last Name Cervantes

Title City Manager E-mail jcervantes@cityofrsm.org

Address 22112 El Paseo Addr. cont. \_\_\_\_\_

Addr. cont. \_\_\_\_\_ Addr. cont. \_\_\_\_\_

City Rancho Santa Margarita State CA Zip Code 92688

Phone 949 6351811 Extension \_\_\_\_\_ ISSUER LOCATED IN Orange COUNTY

Filing Contact : Name of Individual ( representing  Bond Counsel  Financial Advisor  Lead Underwriter )

who completed this form and may be contacted for information.

Name Brian Middle Name \_\_\_\_\_ Last Name Forbath

Firm/Agency Stradling Yocca Carlson & Rauth

Address 660 Newport Ctr Dr Ste 1600 Addr. cont. \_\_\_\_\_

Addr. cont. \_\_\_\_\_ Addr. cont. \_\_\_\_\_

City Newport Beach State CA Zip Code 92660

Phone 949 7254000 Extension \_\_\_\_\_ E-mail \_\_\_\_\_

Send acknowledgement to: Judie Krawiec E-mail jkrawiec@sycr.com

**FINANCING PARTICIPANTS:**

BOND COUNSEL Stradling Yocca Carlson & Rauth

FINANCIAL ADVISOR Fieldman Rolapp & Associates

UNDERWRITER/PURCHASER Stone & Youngberg/Stifel Nicolaus & Co

**IS THE INTEREST ON THE DEBT TAXABLE?**

Under State law:  No (tax-exempt)  Yes (taxable)

Under Federal law:  No (tax-exempt)  Yes (taxable)

If the issue is federally tax-exempt, is interest a specific preference item for the purpose of alternative minimum tax?

Yes, preference item  No, not a preference item

TYPE OF SALE:  Competitive  Negotiated

<sup>1</sup> Section 8855(k) of the California Government Code requires the issuer of any proposed new public debt issue to give written notice of the proposed sale to the CDIAC no later than 30 days prior to the sale. Under California Government Code Section 8855(l), "The issuer of any new public debt issue shall, not later than 45 days after the signing of the bond purchase contract in a negotiated or private financing, or after the acceptance of a bid in a competitive offering, submit a report of final sale and official statement to the Commission. The Commission may require information to be submitted in the report of final sale that is considered appropriate.

<sup>2</sup> Section 53583(c)(2)(B) of the California Government Code requires that any local agency selling refunding bonds at private sale or on a negotiated basis shall send a written statement, within two weeks after the bonds are sold, to the CDIAC explaining the reasons why the local agency determined to sell the bonds at private sale or on a negotiated basis instead of at public sale.

**TYPE OF DEBT INSTRUMENT**

**NOTE**

- Bond anticipation (BAN)
- Other note (Please specify below.) (OTHN)
- Grant anticipation (GAN)
- Revenue anticipation (RAN)
- Tax allocation (TALN)
- Tax and revenue anticipation (TRAN)
- Tax anticipation (TAN)
  
- Commercial paper (CP)
- Certificates of participation/leases (COP/L)
- Other (Please specify below.) (OTH)

Please specify if "Other note/Other bond/Other" was checked

**BOND**

- Conduit revenue (Private obligor) (CRB)
- General obligation (GOB)
- Limited tax obligation(LTOB)
- Other bond (Please specify below.) (OTHB)
- Public lease revenue (PLRB)
- Revenue (Pool) (RB)
- Revenue (Public enterprise) (PERB)
- Sales tax revenue (STRB)
- Special assessment (SAB)
- Tax allocation (TAB)

N/A

**SOURCE(S) OF REPAYMENT**

- Bond proceeds (BDPR)
- General fund of issuing jurisdiction(GNFD)
- Grants (GRNT)
- Intergovernmental transfers other than grants (ITGV)
- Local obligations (LOB)
- Other (Please specify.) (OTHS)
- Private obligor payments (POP)

Please specify if "Other" was checked

- Property tax revenues (PRTX)
- Public enterprise revenues (PER)
- Sales tax revenues (SATR)
- Special sssessments (SA)
- Special tax revenues (SPTR)
- Tax-increment (TI)

**PURPOSE(S) OF FINANCING**

- Cash flow, interim financing (CFIF)
- Project, interim financing (PIF)
  
- College/university housing (CUH)
- Multifamily housing (MFH)
- Single-family housing (SFH)
  
- Health care facilities (HCF)
- Hospital (HOSP)
- Other/multiple health care purposes (equipment; etc.)(OMHC)
  
- College/university facility (CUF)
- K-12 school facility (KSCH)
- Other/multiple educational uses (equipment, etc.) (OMED)
- Student Loans (SLC)
  
- Redevelopment, multiple uses (RD)
  
- Commercial development (CMDV)
- Industrial development (INDV)
- Pollution control (PC)

- Airport (APRT)
- Bridges and highways (BRHI)
- Convention center (CCTR)
- Equipment (EQUF)
- Flood control/storm drainage (FLDS)
- Multiple capital improvements and public works (MCAP)
- Other capital improvements and public works (OCAP)
- Parking (PRKG)
- Parks/Open space (PRKO)
- Ports and marinas (PRTS)
- Power generations/transmission (PWR)
- Prisons/jails/correctional facilities (PRSN)
- Public building (PB)
- Public transit (PTR)
- Recreation and sports facilities (RCSP)
- Seismic safety improvements/repair (SSI)
- Solid waste recovery facilities (SWST)
- Street construction and improvements (SCI)
- Wastewater collection and treatment (WSTW)
- Water supply/storage/distribution (WTR)
  
- Insurance/pension funds (IPF)
- Other than listed above(OTH)

Please specify type/name of project if different from above





---

**CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION**

915 CAPITOL MALL ROOM 400  
PO BOX 942809  
SACRAMENTO, CA 94209-0001  
TELEPHONE: (916) 653-3269  
FAX: (916) 654-7440

November 16, 2012

**TO:** Judie Krawiec  
Stradling Yocca Carlson & Rauth  
660 Newport Ctr Dr Ste 1600  
Newport Beach, CA 92660

**FROM:** Mark Campbell, Executive Director

**RE: ACKNOWLEDGEMENT OF REPORT OF PROPOSED DEBT ISSUANCE**

California Government Code Section 8855 requires written notice to be given to the California Debt and Investment Advisory Commission (CDIAC) no later than 30 days prior to the proposed sale of any public agency debt issue.

CDIAC acknowledges receipt of your notice of the following proposed debt issuance:

**CDIAC Number:** 2012-1865  
**Issuer:** Rancho Santa Margarita Public Financing Authority  
**Project:** Series A  
**Proposed Amount:** \$12,500,000  
**Proposed Sale Date:** December 12, 2012  
**Date Notice Received:** November 14, 2012

Issuers may electronically file the Report of Final Sale through CDIAC's website, using the following information:

**CDIAC Number:** 2012-1865  
**Password:** 25011308

A CDIAC Number and Password will be provided for each electronic filing of the Report of Proposed Debt Issuance. This information is unique to this filing and must be used for any subsequent reporting under this CDIAC Number.

Please submit the Report of Final Sale and the Official Statement/Offering Memorandum or other Bond Documents in accordance with Government Code Section 8855 on this issue within 45 days of the signing of the bond purchase contract or the acceptance of a bid to purchase the debt, to [www.treasurer.ca.gov/cdiac/reporting.asp](http://www.treasurer.ca.gov/cdiac/reporting.asp) under the heading "Reporting Forms". Official Statements/Offering Memorandums or other Bond Documents can be sent by e-mail to [CDIAC\\_issuance@treasurer.ca.gov](mailto:CDIAC_issuance@treasurer.ca.gov).

Any questions regarding reporting requirements may be directed to CDIAC's Data Unit at (916) 653-3269.

Cc: Jennifer Cervantes  
City Manager

**REPORT OF FINAL SALE**

California Debt and Investment Advisory Commission  
915 Capitol Mall, Room 400, Sacramento, CA 95814  
P.O. Box 942809, Sacramento, CA 94209-0001  
Tel: (916) 653-3269 Fax: (916) 654-7440

Submitted: Tuesday, January 22, 2013  
9:54:48AM  
CDIAC # 2012-1865

Under California Government Code Section 8855(i), "The issuer of any new public debt issue shall, not later than 45 days after the signing of the bond purchase contract in a negotiated or private financing, or after the acceptance of a bid in a competitive offering, submit a report of final sale and official statement (or alternate bond documents) to the Commission. The Commission may require information to be submitted in the report of final sale that is considered appropriate."

**ISSUER NAME** Rancho Santa Margarita Public Financing Authority  
(if pool bond, list participants)

**ISSUE NAME** 2012A Lease Ref RBs

**IF THIS IS A POOLED FINANCING, WHICH ISSUANCE STATUTE IS IT AUTHORIZED UNDER?**

1) Mark-Roos Local Bond Pooling Act

**ACTUAL SALE DATE:** 12/5/2012                      **PRINCIPAL SOLD:** \$11,230,000.00                      **DATED DATE:** 12/19/2012

**IS ANY PORTION OF THE DEBT FOR REFUNDING? (see 1)**  
 No             Yes, refunding amount (including costs) \$11,230,000.00

**Issuer Contact :**

Name : Jennifer Cervantez  
Title : City Manager  
Address : 22112 El Paseo  
City/ State/ Zip Rancho Santa Margarita, CA 92688  
Phone: 949 6351811  
E-Mail : jcervantez@cityofrsm.org

**ISSUER LOCATED IN** Orange COUNTY

**Filing Contact:** Name of Individual representing Bond Counsel who completed this form and may be contacted for information.

Name : Brian Forbath  
Firm/ Agency : Stradling Yocca Carlson Rauth  
Address : 660 Newport Center Drive Suite 1600  
City/ State/ Zip Newport Beach, CA 92660  
Phone: 949 7254000  
E-Mail : bforbath@sycr.com

Send acknowledgement/ copies to : Judie Krawiec

E-Mail : jkrawiec@sycr.com

**Name of individual to who an invoice for the CDIAC issue fee should be sent : (see 2)**

Name : Jake Campos  
Firm/ Agency Stifel Nicolaus Co. dba Stone Youngberg  
Address : 515 South Figueroa Street Suite 1800  
City/ State/ Zip Los Angeles, CA 90071  
Phone: 213 4435017  
E-Mail : jcampos@syllic.cm

1 Section 53583(c)(2)(B) of the California Government Code requires that any local agency selling refunding bonds at private sale or on a negotiated basis shall send a written statement, within two weeks after the bonds are sold, to CDIAC explaining the reasons why the local agency determined to sell the bonds at a private sale or on a negotiated basis instead of at a public sale.

2 This fee is authorized by Section 8856 of the California Government Code and is charged to the lead underwriter or purchaser of the issue. The fee is

**FINANCING PARTICIPANTS** (Firm Name)

Financial Advisor : Fieldman Rolapp Associates  
 Lead Underwriter/ Purchaser Stone YoungbergStifel Nicolaus Co  
 Bond Counsel : Stradling Yocca Carlson Rauth  
 Co-Bond Counsel : NA  
 Trustee/ Paying Agent : Wells Fargo Bank National Association  
 Placement Agent : NA

**Office Location** (City/ State) :

Irvine, CA  
 Los Angeles, CA  
 Newport Beach, CA  
 Los Angeles, CA

**MATURITY SCHEDULE**

Attached  Included in Official Statement

**MATURITY STRUCTURE**

Serial (S)  Term (T)  
 Serial and term bonds or two or more term (B)

**FINAL MATURITY DATE:** 11/1/2033

**FIRST OPTIONAL CALL DATE:** 11/1/2022

**SENIOR STRUCTURE:**  Yes  No

**SUBORDINATE STRUCTURE:**  Yes  No

**OFFICIAL STATEMENT/ OFFERING MEMORANDUM :**

Enclosed  None prepared

**WAS THE ISSUE INSURED OR GUARANTEED?**

No  
 Bond Insurance (I)  
 Letter of Credit (L)  
 State Intercept Program (T)  
 Other

**GUARANTOR :**

**ENHANCEMENT EXPIRATION DATE:** 1/1/0001

**INDICATE CREDIT RATING:** (For example, "AAA" or "Aaa")

Not Rated  Rated

Standard & Poor's AA +

Fitch

Moody's

Other

**REASON FOR NEGOTIATED REFUNDINGS**

If the issue is a negotiated refunding, indicate the reason(s) why the bonds were issued at a private or negotiated versus a competitive sale.

- (1) Timing of the sale provided more flexibility than a public sale.
- (2) More cost savings were expected to be realized than a public sale.
- (3) More flexibility in debt structure was available than a public sale.
- (4) Issuer able to work with participants familiar with issue/r than a public sale.
- (5) All of the above.
- (6) Other (please specify) N/A

**IS THE INTEREST ON THE DEBT EXEMPT FROM TAXATION?**

Under State Law:  Yes (taxable)  No (tax-exempt)

Under Federal Law:  Yes (taxable)  No (tax-exempt)

If the issue is federally tax-exempt, is interest a specific preference item for the purpose of alternative minimum tax?  Yes  No

**INTEREST TYPE** (Please provide both NIC & TIC if available) :

NIC Int. Cost 2.821%

TIC Int. Cost 2.760%

Variable

**CAPITOL APPRECIATION BOND:**  Yes  No

**ISSUANCE COSTS AND FEES :**

A. Management Fee	\$0.00
B. Total Takedown	\$0.00
C. Underwriter Expenses	\$0.00
<b>Underwriter Spread or Discount</b>	\$61,021.60
D. Bond Counsel	\$71,500.00
E. Co-Bond Counsel	\$0.00
F. Disclosure Counsel	\$0.00
G. Financial Advisor	\$53,445.01
H. Rating Agency	\$14,000.00
I. Credit Enhancement	\$0.00
J. Trustee Fees	\$4,500.00
K. Placement Agent	\$0.00
L. Other Expenses	\$0.00
<b>Total Issuance Costs</b>	\$255,282.24
Original Issue Premium	\$0.00
Original Issue Discount	\$0.00
Net Original Premium/ Discount	\$571,904.80

**RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY  
LEASE REVENUE REFUNDING BONDS, SERIES 2012A**

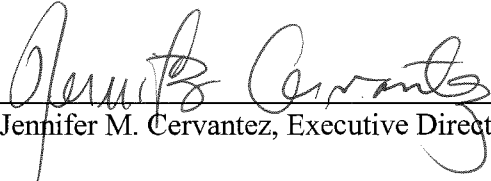
**CERTIFICATE AS TO FINALITY  
OF THE PRELIMINARY OFFICIAL STATEMENT**

I, Jennifer M. Cervantez, hereby certify that I am the duly appointed, qualified and acting Executive Director of the Rancho Santa Margarita Public Financing Authority (the "Authority") and as such I am authorized to execute this Certificate on behalf of the Authority.

I hereby further certify that there has been delivered to Stifel, Nicolaus & Company, Incorporated dba Stone & Youngberg, a Division of Stifel Nicolaus (the "Underwriter"), of the Rancho Santa Margarita Public Financing Authority Lease Revenue Refunding Bonds, Series 2012A (the "Bonds"), a preliminary official statement, dated November 29, 2012, which the Authority deems to be final as of its date for purposes of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12"), except for the information permitted by Rule 15c2-12 to be omitted therefrom with respect to the Bonds.

IN WITNESS WHEREOF, I hereunto set my hand this 29th day of November, 2012.

RANCHO SANTA MARGARITA PUBLIC FINANCING  
AUTHORITY

By:   
Jennifer M. Cervantez, Executive Director

**\$11,230,000**  
**RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY**  
**LEASE REVENUE REFUNDING BONDS, SERIES 2012A**

**AUTHORITY INCUMBENCY AND SIGNATURE CERTIFICATE**



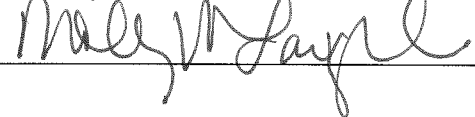
The undersigned hereby states and certifies that:

1. She is the duly appointed, qualified and acting Secretary of the Rancho Santa Margarita Public Financing Authority, a joint exercise of powers authority duly organized, validly existing and in good standing under the Constitution and the laws of the State of California (the "Authority"), and, as such, is familiar with the facts herein certified and is authorized to certify the same.

2. The following are the duly appointed or elected, qualified and acting members of the Board of Directors and officers of the Authority:

<b>Name</b>	<b>Office</b>
L. Anthony Beall	President
Carol A. Gamble	Vice President
Bradley J. McGirr	Member
Steven Baric	Member
Jesse Petrilla	Member
Jennifer M. Cervantez	Executive Director and Treasurer
Molly McLaughlin	Secretary
Paul Boyer	Director of Administrative Services

The signatures set forth below are the true and correct specimens of the genuine signatures of the undersigned:

Name	Office	Signature
Jennifer M. Cervantez	Executive Director and Treasurer	
Paul Boyer	Director of Administrative Services	
Molly McLaughlin	Secretary	

3. The bonds issued by the Authority, designated “Rancho Santa Margarita Public Financing Authority Lease Revenue Refunding Bonds, Series 2012A” in the aggregate principal amount of \$11,230,000 dated December 19, 2012 (the “Bonds”), are executed by the facsimile signatures of the within-named Executive Director and Secretary.

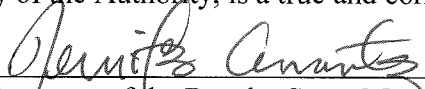
4. Resolution No. PFA-12-11-14-02 adopted on November 14, 2012, by the Board of Directors of the Authority (the “Resolution”) and heretofore delivered to bond counsel for inclusion in the transcript of proceedings is a true, complete and correct copy thereof and said Resolution was duly adopted by the Authority and said Resolution has not been modified, amended or repealed and is in full force and effect in accordance with its terms on and as of the date hereof in the form previously delivered to bond counsel.

Dated: December 19, 2012

RANCHO SANTA MARGARITA PUBLIC  
FINANCING AUTHORITY

By:   
Secretary

The undersigned Treasurer of the Rancho Santa Margarita Public Financing Authority hereby certifies that the above signature of the Secretary of the Authority, is a true and correct signature.

  
Treasurer of the Rancho Santa Margarita Public  
Financing Authority

**\$11,230,000**  
**RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY**  
**LEASE REVENUE REFUNDING BONDS, SERIES 2012A**

**CERTIFICATE REGARDING EFFECTIVENESS OF  
JOINT POWERS AGREEMENT**

The undersigned hereby states and certifies that:

(i) she is the duly appointed, qualified and acting Secretary of the Rancho Santa Margarita Public Financing Authority, a joint powers authority duly organized and existing under the laws of the State of California (the "Authority"), and operating pursuant to Articles 1 through 4 (commencing with Section 6500) of Chapter 5, Division 7, Title 1 of the California Government Code (the "Act") and pursuant to a Joint Exercise of Powers Agreement dated as of October 15, 2012, by and between the City of Rancho Santa Margarita and the California Municipal Finance Authority (the "Agreement"), and, as such, is familiar with the facts herein certified and is authorized and qualified to certify the same;

(ii) attached hereto as Exhibit A is a true, correct and complete copy of the Agreement, which each original member of the Authority has duly executed, which Agreement has not been amended, modified or rescinded in any way and is in full force and effect as of the date hereof; and

(iii) to the best of my knowledge after due inquiry, all filings with the Secretary of State of the State of California required to be made by the Authority under the Act have been made, and the Authority is in good standing as a joint exercise of powers agency under the Act.

Dated: December 19, 2012

RANCHO SANTA MARGARITA PUBLIC  
FINANCING AUTHORITY

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

  
Secretary

**JOINT EXERCISE OF POWERS AGREEMENT**

**by and between**

**CITY OF RANCHO SANTA MARGARITA**

**and**

**CALIFORNIA MUNICIPAL FINANCE AUTHORITY**

**creating the**

**RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY**

dated as of

October 15, 2012



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## JOINT EXERCISE OF POWERS AGREEMENT

THIS AGREEMENT, dated as of October 15, 2012, by and between the CITY OF RANCHO SANTA MARGARITA (the "City"), a municipal corporation and general law city duly organized and existing under and by virtue of the laws of the State of California, and CALIFORNIA MUNICIPAL FINANCE AUTHORITY ("CMFA"), a public body, corporate and politic, duly organized and existing under the laws of the State of California.

### DECLARATION OF PURPOSE

A. Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California authorizes the City and CMFA to create a joint exercise of powers entity which has the power to exercise any powers common to the City and CMFA and to exercise additional powers granted to it under the Act. This Agreement creates such an Authority, which shall be known as the Rancho Santa Margarita Public Financing Authority for the purposes and to exercise the powers described herein.

B. The City is authorized to buy, sell, lease and use property and to incur indebtedness for public purposes pursuant to the laws of the State of California.

C. CMFA is authorized to buy, sell and lease property and to issue bonds, expend bond proceeds, and borrow and loan money for any of its corporate purposes pursuant to the Act and a Joint Exercise of Powers Agreement Relating to the California Municipal Finance Authority, dated as of January 1, 2004, by and among the cities, counties, districts and other political subdivisions that are parties to that agreement.

D. Article 4 of the Act (known as the "Marks-Roos Local Bond Pooling Act of 1985," Government Code Section 6584 *et seq.*) authorizes and empowers the Authority to issue bonds and to purchase bonds issued by, or to make loans to, the City or CMFA for financing public capital improvements, working capital, liability and other insurance needs, or projects whenever there are significant public benefits, as determined by the City or CMFA. The Marks-Roos Local Bond Pooling Act of 1985 further authorizes and empowers the Authority to sell bonds so issued or purchased to public or private purchasers at public or negotiated sale.

### TERMS OF AGREEMENT

**Section 1. Definitions.** Unless the context otherwise requires, the terms defined in this Section 1 shall for all purposes of this Agreement have the meanings herein specified.

#### Act

The term "Act" shall mean Articles 1, 2 and 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (6500 *et seq.*), as amended.

#### Agreement

The term "Agreement" shall mean this Joint Exercise of Powers Agreement, as it may be amended from time to time, creating the Authority.

Authority

The term “Authority” shall mean the Rancho Santa Margarita Public Financing Authority created by this Agreement.

Board; Board of Directors

The term “Board” or “Board of Directors” shall mean the governing board of the Authority.

Bonds

The term “Bonds” shall mean bonds and any other evidence of indebtedness of the Authority authorized and issued pursuant to the Act.

Brown Act

The term “Brown Act” shall mean the Government Code provisions beginning at Section 54950 et seq. governing the notice and agenda requirements for meetings of government agencies in the State of California and any later amendments, revisions, or successor enactments.

City

The term “City” shall mean the City of Rancho Santa Margarita, a municipal corporation and general law city duly organized and existing under and by virtue of the laws of the State of California.

CMFA

The term “CMFA” shall mean California Municipal Finance Authority, a joint exercise of powers authority, duly organized and existing under and by virtue of the laws of the State of California.

Indenture

The term “Indenture” shall mean each indenture, trust agreement or other such instrument pursuant to which Bonds are issued.

Member

The term “Member” or “Members” shall mean the City and/or CMFA, as appropriate.

**Section 2. Purpose.** This Agreement is made pursuant to the Act for the purpose of assisting the financing and refinancing of capital improvement projects of the City and to finance working capital for the City by exercising the powers referred to in this Agreement.

**Section 3. Term.** This Agreement shall become effective as of the date hereof and shall continue in full force and effect until terminated by a supplemental agreement of CMFA and the City; provided, however, that in no event shall this Agreement terminate while any Bonds or other obligations of the Authority remain outstanding under the terms of any indenture, trust agreement,

contract, agreement, lease, sublease or other instrument pursuant to which such Bonds are issued or other obligations are incurred.

#### **Section 4. The Authority.**

A. Creation of the Authority. There is hereby created pursuant to the Act an authority and public entity to be known as the “Rancho Santa Margarita Public Financing Authority.” As provided in the Act, the Authority shall be a public entity separate from the City and CMFA. The debts, liabilities and obligations of the Authority shall not constitute debts, liabilities or obligations of the City or CMFA.

Within 30 days after the effective date of this Agreement or any amendment hereto, the Authority will cause a notice of this Agreement or amendment to be prepared and filed with the office of the Secretary of State of the State of California in the manner set forth in Sections 6503.5 of the Act. Such notice shall also be filed with the office of the Controller of the State of California.

B. Governing Board. The Authority shall be administered by the Board which shall consist of the city council of the City. The term of office as a member of the Board shall terminate when such member of the Board shall cease to hold his/her respective office at the City; and the successor to such officer of the City shall become a member of the Board, upon assuming such office.

Members of the Board shall serve without compensation. The Members of the Board shall be entitled to reimbursement for any expenses actually incurred in connection with serving as a member of the Board; provided, however, that the same shall not exceed the reimbursable amounts set by the City for expenses as the same may be established and/or revised from time to time.

#### C. Meetings of Board.

(1) Time and Place. The Board shall hold its regular meetings concurrent with and/or immediately following the regular meetings of the City in the manner set by the Authority bylaws and the same shall occur consistent with the schedule set by Ordinance or Resolution of the City for its regular meetings as to time/place and location. The Board may suspend the holding of regular meetings so long as there is no need for Authority business, and provided that any action taken regarding the sale of bonds shall occur by Resolution placed on a noticed and posted meeting agenda consistent with the requirements for regular meetings under the Brown Act. At all times, each regular meeting of the Authority shall take place pursuant to a 72 hour notice and agenda requirement or as otherwise provided by the Brown Act. The Authority Board may hold special meetings at any time and from time to time in accordance with the Brown Act.

(2) Legal Notice. All regular and special meetings of the Board shall be called, noticed, held and conducted subject to the provisions of the Brown Act.

(3) Minutes. The Secretary of the Authority shall cause minutes of all meetings of the Board to be kept and shall, as soon as practicable after each meeting, cause a copy of the minutes to be forwarded to each member of the Board and to the City and CMFA.

(4) Quorum. A majority of the members of the Board shall constitute a quorum for the transaction of business, except that less than a quorum may adjourn meetings from time to time.

D. Officers; Duties; Bonds.

(1) The Officers of the Authority shall be the President, Vice President, Secretary, Executive Director, Director of Administrative Services and Treasurer. The officers of the Authority shall be the persons specified in the By-Laws of the Authority adopted by the Board (the "By-Laws") and shall have the powers vested in them pursuant to such By-Laws and such other powers as may be granted by the Board from time to time by resolution. Such officers may be councilmembers or officers of the City serving ex officio.

(2) In accordance with Section 6505.1 of the Act, the Treasurer of the Authority is designated as the public officer or person who has charge of, handles, or has access to any property of the Authority, and such officer shall file an official bond if so required by the Board of the Authority in accordance with the Authority By-Laws.

(3) So long as required by Section 6505 and Section 6505.5 of the Act, the Director of Administrative Services of the Authority shall prepare or cause to be prepared: (a) a special audit as required pursuant to Section 6505 of the Act no less frequently than once in every two-year period during the term of this Agreement; and (b) a report in writing on the first day of July, October, January and April of each year to the Board, the City and CMFA which report shall describe the amount of money held by the Treasurer of the Authority for the Board, the amount of receipts since the last such report, and the amount paid out since the last such report (which may exclude amounts held by a trustee of other fiduciary in connection with any Bonds to the extent that such trustee or other fiduciary provides regular reports covering such amounts).

(4) The services of the Officers shall be without compensation by the Authority unless said Officers are otherwise compensated as employees of the City. The City will provide such other administrative services as required by the Authority, and shall not receive economic remuneration from the Authority for the provision of such services.

(5) The Board shall have the power to appoint such other officers and employees as it may deem necessary and to retain independent counsel, consultants and accountants.

(6) All of the privileges and immunities from liability, exemptions from laws, ordinances and rules, all pension, relief, disability, worker's compensation and other benefits which apply to the activities of officers, agents or employees of the Members when performing their respective functions within the territorial limits of their respective Member, shall apply to them to the same degree and extent while engaged in the performance of any of their functions and duties extraterritorially under the provisions of this Agreement.

(7) None of the officers, agents or employees, if any, directly employed by the Authority shall be deemed, by reason of their employment by the Authority, to be employed by any Member or, by reason of their employment by the Authority, to be subject to any of the requirements of any Member.

(8) The Members hereby confirm their intent and agree that, as provided in Section 4(A) hereof and in the Act, the debts, liabilities and obligations of the Authority shall not constitute debts, liabilities or obligations of the City or CMFA, and they do not intend by the following sentence to impair this provision. With the exception only of the willful misconduct of CMFA, its officers, agents or employees, arising from the exercise of its or their discretion in the entering into or performance of the obligations under this Agreement, to the extent that liability is imposed or a claim is made on CMFA, for any reason whatsoever notwithstanding Section 4(A) hereof and the Act, directly or indirectly arising out of a transaction or series of transactions undertaken by or for the benefit of the City in connection with the activities of the Authority, the City shall indemnify, defend and hold harmless CMFA and each of CMFA's officers, directors, employees and agents from and against any and all costs, expenses, losses, claims, damages and liabilities arising out of or in connection with the activities of the Authority. CMFA may elect to defend itself in any such action with counsel of its choice, the reasonable fees of such counsel to be paid by the City. The Authority and the City shall be jointly and severally liable for any indemnity obligation owed to CMFA. Notwithstanding the provisions of Section 895.6 of the Government Code of the State, the City shall not have any right to contribution from CMFA.

(9) In any event, the Authority or the City shall cause all records regarding the Authority's formation, existence, operations, any Bonds issued by the Authority, obligations incurred by it and proceedings pertaining to its termination to be retained for at least six (6) years following termination of the Authority or final payment of any Bonds issued by the Authority, whichever is later.

**Section 5. Powers.** The Authority shall have any and all powers which are common powers of the City and CMFA, and the powers separately conferred by law upon the Authority. All such powers, whether common to the Parties or separately conferred by law upon the Authority, are specified as powers of the Authority except any such powers which are specifically prohibited to the Authority by applicable law. The Authority's exercise of its powers is subject to the restrictions upon the manner of exercising the powers of the City.

The Authority is hereby authorized, in its own name, to do all acts necessary or convenient for the exercise of its powers, including, but not limited to, any or all of the following: to sue and be sued; to make and enter into contracts; to employ agents, consultants, attorneys, accountants, and employees; to acquire, hold or dispose of property, whether real or personal, tangible or intangible, wherever located; to issue Bonds or otherwise incur debts, liabilities or obligations to the extent authorized by the Act or any other applicable provision of law and to pledge any property or revenues or the rights thereto as security for such Bonds and other indebtedness.

Notwithstanding the foregoing, the Authority shall have any additional powers conferred under the Act or under applicable law, insofar as such additional powers may be necessary to accomplish the purposes set forth in Section 2 hereof.

**Section 6. Termination of Powers.** The Authority shall continue to exercise the powers herein conferred upon it until the termination of this Agreement in accordance with Section 3 hereof.

**Section 7. Fiscal Year.** Unless and until changed by resolution of the Board, the fiscal year of the Authority shall be the period from July 1 of each year to and including the following June 30, except for the first fiscal year which shall be the period from the date of this Agreement to June 30, 2013.

**Section 8. Disposition of Assets.** Upon termination of this Agreement pursuant to Section 3 hereof, any surplus money in possession of the Authority or on deposit in any fund or account of the Authority shall be returned in proportion to any contributions made as required by Section 6512 of the Act. The Board is vested with all powers of the Authority for the purpose of concluding and dissolving the business affairs of the Authority. After rescission or termination of this Agreement pursuant to Section 3 hereof, all property of the Authority, both real and personal, shall be distributed to the City, subject to Section 9 hereof.

**Section 9. Contributions and Advances.** Contributions or advances of public funds and of personnel, equipment or property may be made to the Authority by the City and CMFA for any of the purposes of this Agreement. Payment of public funds may be made to defray the cost of any such contribution. Any such advance made in respect of a revenue-producing facility shall be made subject to repayment, and shall be repaid, in the manner agreed upon by the City or CMFA, as the case may be, and the Authority at the time of making such advance as provided by 6512.1 of the Act. It is mutually understood and agreed that neither the City nor CMFA has any obligation to make advances or contributions to the Authority to provide for the costs and expenses of administration of the Authority, even though either may do so. The City or CMFA may allow the use of personnel, equipment or property in lieu of other contributions or advances to the Authority.

**Section 10. Bonds.**

A. Authority To Issue Bonds. When authorized by the Act or other applicable provisions of law and by resolution of the Board, the Authority may issue Bonds for the purpose of raising funds for the exercise of any of its powers or to otherwise carry out its purposes under this Agreement. Said Bonds shall have such terms and conditions as are authorized by the Board.

B. Bonds Limited Obligations. The Bonds, including the principal and any purchase price thereof, and the interest and premium, if any, thereon, shall be special obligations of the Authority payable solely from, and secured solely by, the revenues, funds and other assets pledged therefor under the applicable Indenture(s) and shall not constitute a charge against the general credit of the Authority. The Bonds shall not be secured by a legal or equitable pledge of, or lien or charge upon or security interest in, any property of the Authority or any of its income or receipts except the property, income and receipts pledged therefor under the applicable Indenture(s). The Bonds shall not constitute a debt, liability or obligation of the State or any public agency thereof, including CMFA and the City, other than the special obligation of the Authority as described above. Neither the faith and credit nor the taxing power of the State of California or any public entity thereof, including CMFA and the City, shall be pledged to the payment of the principal or purchase price of, or the premium, if any, or interest on the Bonds nor shall the State of California or any public entity or instrumentality thereof, including CMFA and the City, in any manner be obligated to make any appropriation for such payment. The Authority shall have no taxing power.

No covenant or agreement contained in any Bond or Indenture shall be deemed to be a covenant or agreement of any director, officer, agent or employee of the Authority, in his or her individual capacity and no director or officer of the Authority executing a Bond shall be liable personally on such Bond or be subject to any personal liability or accountability by reason of the issuance of such Bond.

**Section 11. Agreement Not Exclusive.** This Agreement shall not be exclusive and shall not be deemed to amend or alter the terms of other agreements between the City and CMFA, except

as the terms of this Agreement shall conflict therewith, in which case the terms of this Agreement shall prevail.

**Section 12. Accounts and Reports.** All funds of the Authority shall be strictly accounted for in books of account and financial records maintained by the Authority, including a report of all receipts and disbursements. The Authority shall establish and maintain such funds and accounts as may be required by generally accepted accounting principles and by each Indenture for outstanding Bonds (to the extent such duties are not assigned to a trustee for owners of Bonds). The books and records of the Authority shall be open to inspection at all reasonable times by the City and CMFA and their representatives.

The Authority shall require that each Indenture provide that the trustee appointed thereunder shall establish suitable funds, furnish financial reports and provide suitable accounting procedures to carry out the provisions of such Indenture. Said trustee may be given such duties in said Indenture as may be desirable to carry out the requirements of this Section.

A. Audits. The Treasurer of the Authority shall cause an independent audit to be made of the books of accounts and financial records of the Authority in compliance with the requirements of the Act. Any costs of the audit, including contracts with, or employment of, certified public accountants or public accountants in making an audit pursuant to this Section, shall be borne by the Authority and shall be a charge against any unencumbered funds of the Authority available for that purpose.

B. Audit Reports. The Treasurer of the Authority, as soon as practicable after the close of each Fiscal Year but in any event within the time necessary to comply with the requirements of the Act shall file a report of the audit performed pursuant to Subsection A of this Section 12 as required by the Act and shall send a copy of such report to public entities and persons in accordance with the requirements of the Act.

**Section 13. Funds.** Subject to the provisions of each Indenture for outstanding Bonds providing for a trustee to receive, have custody of and disburse funds which constitute Authority funds, the Director of Administrative Services of the Authority shall receive, have the custody of and disburse Authority funds pursuant to accounting procedures approved by the Board and shall make the disbursements required by this Agreement or otherwise necessary to carry out the provisions and purposes of this Agreement.

**Section 14. Conflict of Interest Code.** The Authority shall adopt or be incorporated into the conflict of interest code of the City.

**Section 15. Breach.** If default shall be made by the City or CMFA in any covenant contained in this Agreement, such default shall not excuse either the City or CMFA from fulfilling its obligations under this Agreement and the City and CMFA shall continue to be liable for the payment of contributions and the performance of all conditions herein contained. The City and CMFA hereby declare that this Agreement is entered into for the benefit of the Authority created hereby and the City and CMFA hereby grant to the Authority the right to enforce by whatever lawful means the Authority deems appropriate all of the obligations of each of the parties hereunder. Each and all of the remedies given to the Authority hereunder or by any law now or hereafter enacted are cumulative and the exercise of one right or remedy shall not impair the right of the Authority to any or all other remedies.



**Section 16. Notices.** Notices and other communications hereunder to the parties shall be sufficient if delivered to the clerk or secretary of the governing body of each party.

**Section 17. Withdrawal.** Neither CMFA nor the City may withdraw from this Agreement prior to the end of the term of this Agreement determined in accordance with Section 3.

**Section 18. Effectiveness.** This Agreement shall become effective and be in full force and effect and a legal, valid and binding obligation of CMFA and the City when each party has executed a counterpart of this Agreement.

**Section 19. Severability.** Should any part, term, or provision of this Agreement be decided by the courts to be illegal or in conflict with any law of the State of California, or otherwise be rendered unenforceable or ineffectual, the validity of the remaining parts, terms or provisions hereof shall not be affected thereby.

**Section 20. Successors; Assignment.** This Agreement shall be binding upon and shall inure to the benefit of the successors of the parties. Except to the extent expressly provided herein, neither party may assign any right or obligation hereunder without the consent of the other.

**Section 21. Amendment of Agreement.** This Agreement may be amended by supplemental agreement executed by the Members at any time; provided, however, that this Agreement may be terminated only in accordance with Section 3 hereof and, provided further, that such supplemental agreement shall be subject to any restrictions contained in any Bonds or documents related to any Bonds to which the Authority is a party.

**Section 22. Form of Approvals.** Whenever an approval is required in this Agreement, unless the context specifies otherwise, it shall be given, in the case of CMFA, by resolution duly adopted by the board of directors of CMFA, and, in the case of the City, by resolution duly adopted by the legislative body of the City, and, in the case of the Authority, by resolution duly adopted by the Board. Whenever in this Agreement any consent or approval is required, the same shall not be unreasonably withheld.

**Section 23. Waiver of Personal Liability.** No member, officer or employee of the Authority, the City or CMFA shall be individually or personally liable for any claims, losses, damages, costs, injury and liability of any kind, nature or description arising from the actions of the Authority or the actions undertaken pursuant to this Agreement, and the City shall defend such members, officers or employees against any such claims, losses, damages, costs, injury and liability. Without limiting the generality of the foregoing, no member, officer or employee of the Authority or of any Member shall be personally liable on any Bonds or be subject to any personal liability or accountability by reason of the issuance of Bonds pursuant to the Act and this Agreement. To the full extent permitted by law, the Board shall provide for indemnification by the Authority of any person who is or was a member of the Board, or an officer, employee or other agent of the Authority, and who was or is a party or is threatened to be made a party to a proceeding by reason of the fact that such person is or was such a member of the Board, or an officer, employee or other agent of the Authority, against expenses, judgments, fines, settlements and other amounts actually and reasonably incurred in connection with such proceeding, if such person acted in good faith and in the course and scope of his or her office, employment or authority. In the case of a criminal proceeding, the Board may provide for indemnification and defense of a member of the Board, or an officer, employee or other agent of the Authority to the extent permitted by law.

**Section 24. Section Headings.** All section headings contained herein are for convenience of reference only and are not intended to define or limit the scope of any provision of this Agreement.

**Section 25. Miscellaneous.** This 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.

Where reference is made to duties to be performed for the Authority by a public official or employee, such duties may be performed by that person's duly authorized deputy or assistant. Where reference is made to actions to be taken by CMFA or the City, such action may be exercised through the officers, staff or employees of CMFA or the City, as the case may be, in the manner provided by law.

The section and subsection headings herein are for convenience only and are not to be construed as modifying or governing the language in the section or subsection referred to.

This Agreement is made in the State of California, under the Constitution and laws of the state and is to be construed as a contract made and to be performed in the State of California.

This Agreement is the complete and exclusive statement of the agreement among the parties with respect to the subject matter hereof, which supersedes and merges all prior proposals, understandings, and other agreements, whether oral, written, or implied in conduct, between the parties relating to the subject matter of this Agreement

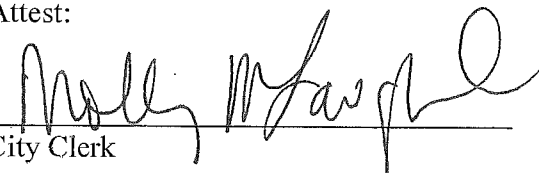
[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and attested by their proper officers thereunto duly authorized, as of the day and year first above written.

CITY OF RANCHO SANTA MARGARITA

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

Attest:

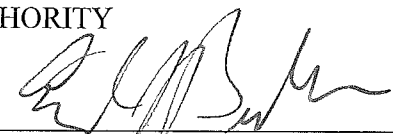
  
\_\_\_\_\_  
City Clerk

APPROVED AS TO FORM:

STRADLING YOCCA CARLSON & RAUTH

  
\_\_\_\_\_  
Special Counsel

CALIFORNIA MUNICIPAL FINANCE  
AUTHORITY

By  \_\_\_\_\_  
Member of the Board of Directors



State of California
Secretary of State

FILE NO. 2226

FILED
In the office of the Secretary of State
of the State of California

NOV -8 2012

(Office Use Only)

NOTICE OF A JOINT POWERS AGREEMENT

(Government Code section 6503.5)

Instructions:

- 1. Complete and mail to: Secretary of State, P.O. Box 942877, Sacramento, CA 94277-0001.
2. Include filing fee of \$1.00.
3. Do not include attachments, unless otherwise specified.
4. A copy of the full text of the joint powers agreement and amendments, if any, must be submitted to the State Controller's office. For address information, contact the State Controller's office at www.sco.ca.gov.

Name of the agency or entity created under the agreement and responsible for the administration of the agreement:

Rancho Santa Margarita Public Financing Authority

Agency's or Entity's Mailing Address: c/o City of Rancho Santa Margarita

22112 El Paseo, Rancho Santa Margarita, CA 92688

Title of the agreement: Joint Exercise of Powers Agreement

The public agencies party to the agreement are (if more space is needed, continue on a separate sheet and attach it to this form):

(1) City of Rancho Santa Margarita

(2) California Municipal Finance Authority

(3)

Effective date of the agreement: October 15, 2012

Provide a condensed statement of the agreement's purpose or the powers to be exercised: Assisting the financing and refinancing of capital improvement projects of the City and to finance working capital for the City.

RETURN ACKNOWLEDGMENT TO: (Type or Print)

NAME

ADDRESS

CITY/STATE/ZIP

November 6, 2012

Date

Signature

Brian P. Forbath, Esq., Stradling

Typed Name and Title Yocca Carlson & Rauth



**State of California  
Secretary of State**

**STATEMENT OF FACTS  
ROSTER OF PUBLIC AGENCIES FILING**

(Government Code section 53051)

**FILED**  
In the office of the Secretary of State  
of the State of California

NOV 30 2012

(Office Use Only)

Instructions:

1. Complete and mail to: Secretary of State,  
P.O. Box 942877, Sacramento, CA 94277-0001 (916) 653-3984
2. A street address must be given as the official mailing address or as  
the address of the presiding officer.
3. Complete addresses as required.
4. If you need additional space, attach information on an 8½" X 11" page, one sided and legible.

New Filing

Update

Legal name of Public Agency: Rancho Santa Margarita Public Financing Authority

Nature of Update: \_\_\_\_\_

County: Orange

Official Mailing Address: 22112 El Paseo, Rancho Santa Margarita, CA 92688

Name and Address of each member of the governing board:

**Chairman, President or other Presiding Officer** (Indicate Title): President

Name: L. Anthony Beall Address: 22112 El Paseo, Rancho Santa Margarita, CA 92688

**Secretary or Clerk** (Indicate Title): Secretary

Name: Molly McLaughlin Address: 22112 El Paseo, Rancho Santa Margarita, CA 92688

**Members:**

Name: Steven Baric Address: 22112 El Paseo, Rancho Santa Margarita, CA 92688

Name: Carol Gamble Address: 22112 El Paseo, Rancho Santa Margarita, CA 92688

Name: Jerry Holloway Address: 22112 El Paseo, Rancho Santa Margarita, CA 92688

Name: Jesse Petrilla Address: 22112 El Paseo, Rancho Santa Margarita, CA 92688

Name: \_\_\_\_\_ Address: \_\_\_\_\_

RETURN ACKNOWLEDGMENT TO: (Type or Print)

NAME [

ADDRESS

CITY/STATE/ZIP ]

November 19, 2012

Date

Signature

Molly McLaughlin, Secretary

Typed Name and Title

**\$11,230,000**  
**RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY**  
**LEASE REVENUE REFUNDING BONDS, SERIES 2012A**

**CERTIFICATE OF CITY CLERK**  
**BRINGING FORWARD AUTHORITY FORMATION RESOLUTION**

I hereby certify that the resolution identified on Exhibit A attached hereto and previously adopted by the City Council of the City of Rancho Santa Margarita has not been amended, supplemented or superseded since its date of adoption.

Dated: December 19, 2012

CITY OF RANCHO SANTA MARGARITA

By:   
City Clerk

## **EXHIBIT A**

Resolution No. 12-10-24-01 entitled "A Resolution of the City Council of the City of Rancho Santa Margarita, California, Authorizing the Execution and Delivery of Joint Exercise of Powers Agreements by and between the City of Rancho Santa Margarita and California Municipal Finance Authority Approving Membership in the Authority and Forming the Rancho Santa Margarita Public Financing Authority," adopted October 24, 2012.

**\$11,230,000**  
**RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY**  
**LEASE REVENUE REFUNDING BONDS, SERIES 2012A**

**CLOSING CERTIFICATE OF THE AUTHORITY**

The undersigned hereby states and certifies that:

1. She is the duly appointed, qualified and acting Executive Director of the Rancho Santa Margarita Public Financing Authority, a joint exercise of powers authority organized, validly existing and in good standing under the Constitution and the laws of the State of California (the "Authority"), and, as such, is familiar with the facts herein certified and is authorized to certify the same.

2. She is a duly qualified Authorized Authority Representative, as that term is defined in Section 1.01 of the Indenture dated as of December 1, 2012 (the "Indenture"), by and among the Authority, the City of Rancho Santa Margarita and Wells Fargo Bank, National Association, as Trustee (the "Trustee"), with authority to sign all agreements relating to the sale and issuance of the above-captioned bonds (the "Bonds").

3. The representations, warranties and covenants of the Authority contained in the Bond Purchase Agreement dated December 5, 2012 (the "Purchase Agreement"), among the Authority, the City of Rancho Santa Margarita and Stifel, Nicolaus & Company, Incorporated dba Stone & Youngberg, a Division of Stifel Nicolaus (the "Underwriter"), are true and correct in all material respects on and as of the date hereof with the same effect as if made on the date hereof, except that all references therein to the Preliminary Official Statement shall be deemed to be references to the Official Statement.

4. The Authority has complied with all of the terms and conditions of the Authority Documents required to be complied with by the Authority at or prior to the date hereof.


5. To the best knowledge of the undersigned, no event affecting the Authority has occurred since the date of the Official Statement which has not been disclosed therein or in any supplement or amendment thereto which event should be disclosed in the Official Statement in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.



Capitalized terms used herein and not defined shall have the meanings given such terms in the Purchase Agreement.

Dated: December 19, 2012

RANCHO SANTA MARGARITA PUBLIC  
FINANCING AUTHORITY

By:   
Executive Director

**\$11,230,000**  
**RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY**  
**LEASE REVENUE REFUNDING BONDS, SERIES 2012A**

**INSTRUCTIONS TO THE TRUSTEE AND PRIOR TRUSTEE**

The undersigned hereby states and certifies to Wells Fargo Bank, National Association, as trustee (the "Trustee") under the Indenture dated as December 1, 2012 (the "Indenture"), by and among the Rancho Santa Margarita Public Financing Authority (the "Authority"), the City of Rancho Santa Margarita (the "City") and the Trustee regarding the sale and issuance of the above-captioned bonds (collectively, the "Bonds") as follows:

1. The undersigned is an Authorized Authority Representative, as such term is defined in Section 1.01 of the Indenture, with authority to instruct the Trustee regarding the disbursement of the proceeds of the Bonds and the authentication of the Bonds.

2. Pursuant to the terms of the Indenture, the Authority has delivered to the Trustee \$11,230,000 aggregate principal amount of the Bonds. The Trustee is hereby authorized and directed to authenticate the Bonds and to hold the Bonds as FAST Agent on behalf of The Depository Trust Company, New York, New York, for the account of Stifel, Nicolaus & Company, Incorporated dba Stone & Youngberg, a Division of Stifel Nicolaus (the "Underwriter"), upon payment by the Underwriter to the Trustee of the sum of \$11,740,883.20 (representing the principal amount of the Bonds of \$11,230,000.00, less Underwriter's discount of \$61,021.60, plus net original issue premium of \$571,904.80).


The Trustee is instructed to apply \$11,740,883.20 from the proceeds of the sale of the Bonds, together with \$2,347,605.09 (consisting of \$847,605.09 from the prior debt service reserve fund and \$1,500,000.00 City prepayment of Base Rental Payments), as follows:

\$ 850,000.00	to the Construction Fund
11,544,227.65	to the Escrow Fund
1,500,000.00	to the Prepaid Base Rental Account
<u>194,260.64</u>	to the Costs of Issuance Fund
<u>\$14,088,488.29</u>	TOTAL

Capitalized terms used herein and not defined shall have the meanings given to them in the Indenture.

Dated: December 19, 2012

RANCHO SANTA MARGARITA PUBLIC  
FINANCING AUTHORITY

By:   
Executive Director

**\$11,230,000**  
**RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY**  
**LEASE REVENUE REFUNDING BONDS, SERIES 2012A**

**TAX CERTIFICATE**

The Rancho Santa Margarita Public Financing Authority (the “Issuer”), together with the City of Rancho Santa Margarita (the “City”), hereby make the following representations of facts and expectations and covenant to comply with the requirements of this Tax Certificate in connection with the \$11,230,000 Rancho Santa Margarita Public Financing Authority Lease Revenue Refunding Bonds, Series 2012A (the “Obligations”). These representations and covenants are in furtherance of the covenants contained in Section 6.08 of the Indenture dated as of December 1, 2012, by and among Wells Fargo Bank, National Association, as Trustee, the Issuer and the City (the “Issuance Document”), and in part are made pursuant to Section 1.141-2(d)(2) and Section 1.148-2(b)(2) of the Treasury Regulations. Capitalized terms used herein which are not otherwise defined herein shall have the respective meanings set forth in the Issuance Document.

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**I. General Matters.**

(a) Authority for Issuance. The undersigned and other officers and members of the governing board of the Issuer are charged with the responsibility of authorizing and requesting the issuance of the Obligations.

(b) Sale of Obligations. The Obligations are being delivered to Stifel, Nicolaus & Company, Incorporated dba Stone & Youngberg, a Division of Stifel Nicolaus (the “Underwriter”) on the date hereof.

(c) Purpose of Obligations. The Obligations are being sold and delivered for the purpose of (a) financing the cost of various public capital improvements located within the City, which are expected to consist of various local improvements (the “2012 Project”), (b) advance refunding the City’s Certificates of Participation (City Hall and Regional Community Center) (the “Advance Refunded Obligations”), and (c) paying costs of issuance with respect to the Obligations (the “Issuance Costs”). The Issuer covenants to use the proceeds of the Obligations solely for the above-described purposes, unless an opinion of Bond Counsel is received permitting uses of proceeds for other than the above-described purposes.

(d) The Advance Refunded Obligations were issued to finance the acquisition and construction of a new City Hall and adjacent Community Center (the “2002 Project”, which together with the 2012 Project is referred to as the “Project”).

(e) Nature of Issue. All the Obligations are being sold and issued at the same time, have been sold pursuant to the same plan of financing, and are reasonably expected to be paid from substantially the same source of funds. Accordingly, the Obligations are a single issue of obligations for certain federal income tax purposes relating to the exclusion from gross income of interest on the Obligations. No other governmental obligations which are reasonably expected to be paid from

substantially the same source of funds are being sold or issued at substantially the same time and sold pursuant to the same plan of financing as the Obligations.

(f) Purpose of Tax Certificate. The Issuer and City are executing this Tax Certificate (including all exhibits hereto) with the understanding and acknowledgement that Stradling Yocca Carlson & Rauth, a Professional Corporation (“Bond Counsel”) will rely on the representations and certifications made in this Tax Certificate (including all exhibits hereto) in rendering its opinion that interest on the Obligations is excluded from gross income for federal income tax purposes, and the execution of this Tax Certificate is necessary to ensure that interest on the Obligations is excluded from gross income for federal income tax purposes.

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## II. Private Activity.

(a) Governmental Use of Proceeds. Absent an opinion of nationally recognized bond counsel that the exclusion from gross income of interest on the Obligations will not be adversely affected for federal income tax purposes, the Issuer and City will not allow any of the proceeds of the Obligations, or any refinanced obligations thereof, or any of the facilities financed or refinanced with such obligations to be used in the trade or business of any nongovernmental persons (other than in their roles as members of the general public) and will not loan any of the proceeds of the Obligations or any refinanced obligations to any nongovernmental persons. In furtherance of the foregoing, the Issuer and City represent the following with respect to the use of proceeds of the Obligations and the facilities financed and refinanced therewith.

(b) In General. No more than 10% of the proceeds of the Obligations or the Project (based on the cost of the components of the Project or, with respect to a unitary structure, on the relative fair rental value of such components) has been or will be used in the aggregate for any activities that constitute a “Private Use” (as such term is defined in Subsection (e) below). No more than 10% of the principal of or interest on the Obligations, under the terms thereof or any underlying arrangement, has been or will be secured by any interest in property (whether or not the Project) used for a Private Use or in payments in respect of property used for a Private Use, or will be derived from payments in respect of property used for a Private Use.

(c) No Private Loan Financing. No more than the lesser of 5% of the proceeds of the Obligations or \$5,000,000 will be used to make or finance loans to any person other than to a state or local governmental unit (other than loans to finance any governmental tax or assessment of general application for a specific essential governmental function or loans that are used to acquire or carry Nonpurpose Investments (as such term is defined below)).

(d) No Disproportionate or Unrelated Use. No more than 5% of the proceeds of the Obligations or the Project has been or will be used for a Private Use that is unrelated or disproportionate to the governmental use of the proceeds of the Obligations (an “Unrelated or Disproportionate Use”), and no more than 5% of the principal of or interest on any of the Obligations has been or will be, under the terms of the Obligations or any underlying arrangement, directly or indirectly, secured by any interest in property used or to be used for a Private Use that is an Unrelated or Disproportionate Use or in payments in respect of property used or to be used for a Private Use that is an Unrelated or Disproportionate Use.

(e) Definition of Private Use. For purposes of this Tax Certificate, the term “Private Use” means any activity that constitutes a trade or business that is carried on by persons or entities other than governmental entities. The leasing, operating or other usage of property financed or refinanced with proceeds of the Obligations or the use by or the access of a person or entity other than a governmental unit to property or services on a basis other than as a member of the general public shall constitute a Private Use unless such lease, operating agreement or other usage agreement has a right to terminate, without penalty or cause, upon fifty days or less notice.

(f) Management and Service Contracts. With respect to management and service contracts, the determination of whether a particular use constitutes Private Use under this Tax Certificate shall be determined on the basis of applying the relevant sections of the Treasury Regulations and Revenue Procedure 97-13. As of the date hereof, no portion of the proceeds derived from the sale of the Obligations is being used to provide property subject to contracts or other arrangements with persons or entities engaged in a trade or business (other than governmental units) that involve the management of property or the provision of services with respect to property financed or refinanced by proceeds of the Obligations that do not comply with the standards of the Treasury Regulations or Revenue Procedure 97-13.

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### **III. Arbitrage Certifications.**

The following states the expectations of the Issuer with respect to the amount and uses of the proceeds of the Obligations and certain other monies or property:

(a) Source and Use of Funds. The total proceeds to be derived by the Issuer and City from the sale of the Obligations, in the aggregate amount of \$11,740,883.20 (representing \$11,230,000.00 face amount of the Obligations, plus net original issue premium of \$571,904.80, less Underwriter’s discount of \$61,021.60) are expected to be needed and fully expended as follows:

(i) \$194,260.64 of such proceeds will be deposited in the Costs of Issuance Fund and, together with investment earnings thereon, will be expended to pay Issuance Costs within one year of the date hereof;

(ii) \$850,000.00 of such proceeds will be deposited in the Construction Fund; and

(iii) \$10,696,622.56 of such proceeds will be deposited in the Escrow Fund.

(b) Over-Issuance. The total proceeds to be received by the Issuer and City from the sale of the Obligations, together with anticipated investment earnings thereon, do not exceed the total amount necessary for the purposes described above.

(c) Refunding Plan.

(i) Plan. \$10,696,622.56 of proceeds of the Obligations, together with \$847,605.09 held in a reasonably required reserve fund for the Advance Refunded Obligations, will be utilized to retire the Advance Refunded Obligations on October 1, 2013.

(ii) Purpose of Refunding. The Obligations are being issued for purposes of providing savings. The refunding of the Advance Refunded Obligations does not involve a device employed to obtain a material financial advantage.

(iii) Other Monies. Other than as described above, no unexpended proceeds exist with respect to the Advance Refunded Obligations.

(d) Reserved.

(e) Reserved.

(f) Working Capital. No operational expenditures of the Issuer, the City or any related entity are to be financed directly or indirectly with proceeds derived from the sale of the Obligations.

(g) Funds and Accounts. The Issuance Document creates and establishes the following funds and accounts with respect to the Obligations:

(i) the Base Rental Payment Fund, and within such fund,

(A) the Prepaid Base Rental Account;

(ii) the Interest Fund;

(iii) the Costs of Issuance Fund;

(iv) the Principal Fund;

(v) the Redemption Fund;

(vi) the Rebate Fund; and

(vii) the Construction Fund.

(h) Sinking Funds.

(i) Bona Fide Debt Service Funds. The Base Rental Payment Fund (other than the Prepaid Base Rental Account), Interest Fund, Principal Fund, and the portion of the Redemption Fund that is reasonably expected to be depleted annually (collectively, the "Bona Fide Debt Service Funds"), will be used primarily to achieve a proper matching of revenues (and certain other monies) and payments of principal and interest with respect to the Obligations within each year. Amounts deposited in the Bona Fide Debt Service Funds will be depleted at least once a year except for a reasonable carryover amount, if any, which, in the aggregate, will not exceed the greater of (i) one year's earnings on such funds for the

immediately preceding bond year, or (ii) one-twelfth of the annual debt service with respect to the Obligations for the immediately preceding bond year.

(ii) Reserved.

(iii) No Other Proceeds. Other than the Bona Fide Debt Service Funds and the Prepaid Base Rental Account, there are no funds or accounts of the Issuer established pursuant to the Issuance Document, or otherwise, that are reasonably expected to be used for the payment of principal and interest with respect to the Obligations or that are pledged as collateral for the Obligations and for which there is a reasonable assurance that amounts on deposit therein will be available for the payment of principal and interest with respect to the Obligations if the Issuer encounters financial difficulties. The term of the Obligations is not longer than is reasonably necessary for the governmental purpose of the issue, and the weighted average maturity of the Obligations does not exceed 120 percent of the average reasonably expected economic life of the financed and refinanced Project.

(i) Rebate Liability Account. Amounts deposited in the Rebate Fund are to assist the Issuer and the City with compliance of Section 148(f) of the Code.

(j) Investment. The Issuer and City represent that the proceeds derived from the sale of the Obligations and the amounts on deposit in the aforementioned funds and accounts may be invested as follows:

(i) Amounts held in the Rebate Fund may be invested without regard to yield.

(ii) Amounts deposited in the Bona Fide Debt Service Funds may be invested at an unrestricted yield for a period not in excess of 13 months from the date of deposit of such amounts to such funds. Amounts described in the previous sentence that may not be invested at an unrestricted yield pursuant to such Subparagraph shall be invested either at a yield not in excess of the yield on the Obligations or in Tax Exempt Obligations (as defined in Section IV).

(iii) Amounts held in the Construction Fund, including earnings thereon, may be invested at an unrestricted yield for a term of three years and thereafter at a yield not in excess of the yield on the Obligations or in Tax-Exempt Obligations.

(iv) Amounts held in the Redemption Fund (not described above) and the Prepaid Base Rental Account will be invested at a yield not in excess of the yield on the Bonds or in Tax-Exempt Obligations.

(v) Amounts held in the Escrow Fund will be invested at a yield not in excess of the yield on the Obligations.

(vi) Amounts held in the Costs of Issuance Fund may be invested without regard to yield.

(k) Yield. For purposes of this Section III of this Tax Certificate, yield is calculated as set forth in Section 148 of the Code and Section 1.148-4 of the Treasury Regulations. Thus, yield generally means that discount rate which when used in computing the present value of all unconditionally payable payments representing principal, interest, and the fees of qualified



guarantees paid and to be paid with respect to the Obligations produces an amount equal to the issue price of the Obligations. The issue price of the Obligations is \$11,801,904.80 which is equal to the initial offering price of the Obligations to the public (excluding bond houses, brokers and similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount (at least 10 percent) of each maturity of the Obligations was or is reasonably expected to be sold, as represented by the Underwriter in Exhibit C. Yield with respect to the obligations allocable to proceeds of the Obligations, is that discount rate which when used in computing the present worth of the payments of principal and interest with respect to the obligations produces an amount equal to the purchase price of the obligation.

(l) Special Rule for Optional Early Redemption. None of the Obligations (i) is subject to optional redemption within five years of the date hereof, or (ii) bears interest at increasing interest rates (i.e., a stepped coupon bond). The Obligations maturing on 11/1/2023, 11/1/2024 and 11/1/2025 (all with a 4.000% rate), shall be treated as called on 11/1/2022 for redemption at par for purposes of calculating yield on the Obligations.

(m) Yield Reduction Payments. Notwithstanding the provisions of Section (i) above that require the Issuer to invest proceeds derived from the sale of the Obligations and investment earnings thereon at a yield not in excess of the yield on the Obligations, the yield on certain nonpurpose investments acquired with proceeds of the Obligations will not be considered to be higher than the applicable yield limitation described in Section (i) above if the Issuer makes “yield reduction payments” to the United States Treasury at the time and in the amounts described in §1.148-5(c) of the Treasury Regulations. The Issuer covenants to retain and consult with Bond Counsel prior to making any “yield reduction payments” pursuant to §1.148-5(c) of the Treasury Regulations.

(n) No Artifice or Device. The Issuer and City represent that the Obligations are not and will not be part of a transaction or series of transactions (i) that attempts to circumvent the provisions of Section 148 of the Code, or any successor thereto, and the regulations promulgated thereunder or under any predecessor thereto, enabling the Issuer or any related person to exploit the difference between tax-exempt and taxable interest rates to gain a material financial advantage, and (ii) that increases the burden on the market for tax-exempt obligations in any manner, including, without limitation, by selling bonds that would not otherwise be sold, or selling more bonds, or issuing bonds sooner, or allowing bonds to remain outstanding longer, than otherwise would be necessary.

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#### **IV. Rebate Compliance.**

(a) Covenants. The Issuer and City hereby covenant to comply with the rebate requirements of Section 148(f) of the Code.

The Issuer and City acknowledge that the United States Department of the Treasury has issued certain regulations with respect to certain requirements relating to compliance with Section 148(f) of the Code. The Issuer and City covenant that they will determine precisely what is required with respect to Section 148(f) of the Code and will comply with any requirements applicable to the Obligations.

The Issuer and City acknowledge that, to the extent that an exception to the rebate requirements of Section 148(f) of the Code is not available with respect to the Obligations, under

Section 148(f) of the Code, the federal government must be paid the sum of (i) the excess of the amount earned on all “nonpurpose investments” with respect to the Obligations over the amount that would have been earned had such investments been invested at a rate equal to the yield with respect to the Obligations, plus (ii) any income attributable to the excess described in (i) (the “Rebate Requirement”).

The Issuer and City acknowledge that currently, unless an exception to the Rebate Requirement is available, compliance with Section 148(f) of the Code generally involves a multi-step process: (1) ascertaining the funds (the “Gross Proceeds”) and investments (the “Nonpurpose Investments”) subject to the Rebate Requirement of Section 148(f) of the Code after applying, if applicable, a universal cap with respect to the Obligations (the “Universal Cap”), (2) creating an investment history cash flow report with respect to the investment of Gross Proceeds of the Obligations, (3) determining the yield with respect to the Obligations (the “Yield”), (4) future valuing receipts and payments in the cash flow report (including certain deemed receipts and payments) using the Yield as the discount factor, and (5) determining the amount of rebatable arbitrage with respect to the Obligations and paying the appropriate amount to the United States Treasury. See Treas. Reg. §§ 1.148-O through 1.148-11, 1.149(d)-1, and 1.150-1 for rules with respect to rebate compliance methodology. See Subparagraph (b)(i) below for a description of Nonpurpose Investments with respect to the Obligations, Subparagraph (b)(ii) below for a description of Gross Proceeds of the Obligations, Subparagraph (b)(iii) below for the description of a Universal Cap with respect to the Obligations, Subparagraph (b)(iv) below for a description of Yield with respect to the Obligations for purposes of compliance with Section 148(f) of the Code, and Subparagraph (d) and (e) with respect to allocating Gross Proceeds, recordkeeping, and permitted investment of Gross Proceeds.

The Issuer and City also acknowledge that additional or different requirements may be applicable to the Obligations if certain exceptions are satisfied. See Paragraph (c) herein.

(b) Operative Terms.

(i) Nonpurpose Investments. Subject to the limitation in Subparagraph (b)(iii) below, Nonpurpose Investments are generally securities, obligations, annuity contracts or any other investment-type property that are not acquired to carry out the governmental purpose of the Obligations that are allocated to Gross Proceeds. However, Nonpurpose Investments do not include:

(A) United States Treasury - State and Local Government Series, Demand Deposit Securities; or

(B) Tax-exempt obligations. The term “Tax Exempt Obligations” for the purposes of this Tax Certificate includes (i) obligations the interest on which is excludable from gross income for federal income tax purposes, and not treated as an item of tax preference under Section 57(a)(5)(C) of the Code, (ii) an interest in a regulated investment company to the extent that at least ninety-five percent (95%) of the income to the holder of the interest is excludable from gross income under Section 103 of the Code, and (iii) a certificate of indebtedness issued by the United States Treasury pursuant to the demand deposit State and Local Government Series program described in 31 CFR Part 344.

(ii) Gross Proceeds. Subject to the limitation in Subparagraph (b)(iii) below, “Gross Proceeds” with respect to the Obligations means:

(A) amounts actually or constructively received from the sale (or other disposition) of the Obligations;

(B) amounts actually or constructively received from investing amounts described in (A);

(C) amounts (other than proceeds derived from the sale of the Obligations) that are reasonably expected to be or are in fact used to pay debt service with respect to the Obligations;

(D) amounts pledged as security for the payment of debt service with respect to the Obligations or otherwise serving as a reserve fund with respect to the Obligations;

(E) “transferred proceeds” of the Obligations; and

(F) any other amounts which are replacement proceeds of the Obligations within the meaning of Treasury Regulation § 1.148-1(c).

(iii) Universal Cap. Except as provided below, in no event shall the value of Nonpurpose Investments allocated to Gross Proceeds of the Obligations exceed the Universal Cap of the Obligations computed in accordance with Section 1.148-6 of the Treasury Regulations. The Universal Cap of the Obligations is equal to the value of the outstanding Obligations computed in accordance with Section 1.148-4 of the Treasury Regulations. The value of a Nonpurpose Investment on a date allocated to Gross Proceeds of the Obligations for this purpose is equal to the value of such investment in accordance with Treasury Regulation § 1.148-5(d). The Universal Cap value and the value of Nonpurpose Investments are to be computed as of the first day of each bond year that commences after the second anniversary of the issue date and if the applicable obligations, are a refunding issue, as of each date that, without regard to the Universal Cap, proceeds of any refunded issue become “transferred proceeds” of the Obligations within the meaning of Section 1.148-9 of the Treasury Regulations (a “Cap Computation Date”). Amounts described in Subparagraph (c)(i) are not subject to the Universal Cap. Between Cap Computation Dates, Nonpurpose Investments cease to be allocated to the Obligations to the extent they are expended or otherwise cease to be allocated to the Obligations under Section 1.148-6 of the Treasury Regulations. To the extent Nonpurpose Investments cease to be allocated to the obligations of an Obligations, other investments become so allocated up to the amount of the unused Universal Cap, computed in accordance with Section 1.148-6 of the Treasury Regulations. If on a Cap Computation Date Nonpurpose Investments have a value in excess of the Universal Cap, an amount of such investments necessary to eliminate that excess ceases to be allocated to the Obligations. Nonpurpose Investments cease to be allocated to the Obligations in the following order, within the meaning of Section 1.148-6 of the Treasury Regulations:

(1) first, amounts held in a sinking fund, pledged fund, or reserve or replacement fund for the Obligations (other than proceeds derived from the sale of the Obligations),

(2) second, transferred proceeds, and

(3) third, proceeds derived from the sale of the Obligations and earnings thereon, all within the meaning of Section 1.148-6 of the Treasury Regulations.

(4) A failure to do a Universal Cap calculation on a Cap Computation Date will not result in noncompliance with Section 148(f) of the Code if, in the absence of that failure, the Obligations would have satisfied the Rebate Requirement.

(iv) Yield. See Section III hereof.

(c) Rebate Exception.

(i) Bona Fide Debt Service Funds. The Issuer and City will be relieved of the obligation to pay the Rebate Requirement with respect to amounts earned on funds in the Bona Fide Debt Service Funds.

(ii) Expenditure Exceptions. The Issuer and City will be relieved of the obligation to pay the Rebate Requirement with respect to that portion of the proceeds of the Obligations described in Subclause (1) below of Clause (A), (B), or (C) if the requirements set forth in Subclause (2) below are satisfied of (A), (B), or (C).

(A) Six Month Exception.

(1) All Gross Proceeds of the Obligations (other than “transferred proceeds” of the Obligations, and amounts described in Subparagraph (c)(i) of this Section IV of this Tax Certificate), are described in this Subclause.

(2) This exception will be treated as having been satisfied if all Gross Proceeds of the Obligations subject to this exception are expended for the governmental purposes of the Obligations no later than the day that is six months after the date of issue of the Obligations.

(B) Two-Year Exception. The Issuer and City will be relieved of the obligation to pay the Rebate Requirement with respect to the portion of the proceeds of the Obligations described in Section (1) if the requirements described in Section (2) are satisfied.

(1) Applicability. The portion of the “available construction proceeds” (as defined below) of the Obligations at least 75 percent of which are to be used for construction expenditures (including reconstruction and rehabilitation) with respect to property that is to be owned by a governmental unit or an organization described in Section 501(c)(3) of the Code and exempt

from federal income tax under Section 501(a) of the Code is described in this Section (1). The term “available construction proceeds” means an amount equal to the portion of the issue price (as defined in Section III of this Tax Certificate) of the Obligations, increased by earnings thereon, and increased by the proportionate amount of earnings on a reasonably required reserve fund, if any, allocable to the portion of the issue described in this Section earned prior to the earlier of the close of the two-year period described in Section (2) or the date construction of the Project are substantially complete. Available construction proceeds do not include amounts to be used to pay the refunding portion, issuance costs of the Obligations or proceeds derived from the sale of the Obligations deposited in a reasonably required reserve fund, if any (other than the earnings thereon described above). See Treas. Reg. §1.148-7(i). The Issuer and City should note that earnings on the portion of a reasonably required reserve fund, if any, described above earned other than during the period described in Section (2) are subject to the Rebate Requirement.

(2) Qualification. This exception will be treated as being satisfied if at least 10% of the available construction proceeds of the Obligations are expended for the governmental purposes of the Obligations within the six-month period beginning on the date of issue of the Obligations, at least 45% of such amounts are expended for the governmental purposes of the Obligations within the one-year period beginning on the date of issue of the Obligations, at least 75% of such amounts are expended for the governmental purposes of the Obligations within the 18-month period beginning on the date of issue of the Obligations, and all of such amounts are expended for the governmental purposes of the Obligations within the two-year period beginning on the date of issue of the Obligations. The requirement that 100% of the available construction proceeds of the Obligations be expended within two years may be reduced to not below 95% provided that the amount not expended is held by the Issuer and City for a period not exceeding one year as a “reasonable retainage” as required or permitted by construction contracts with contractors. The requirement that 100% of the Gross Proceeds be expended within two years may be reduced by an amount equal to the lesser of 3% of the issue price of the Obligations or \$250,000.00 if the Issuer and City exercised due diligence to complete the Project.

(C) Eighteen-Month Exception. The Issuer and City will be relieved of the obligation to pay the Rebate Requirement with respect to the portion of the proceeds of the Obligations described in Section (1) below if the requirements described in Section (2) are satisfied.

(1) Applicability. All Gross Proceeds of the Obligations allocable to new money purposes that may be invested at an unrestricted yield, including reasonably expected investment earnings as of the date hereof (other than amounts described in Section (c)(i) of this Tax Certificate, and amounts held in a reasonably required reserve fund, if any), are described in this Section. See Treas. Reg. §§1.148-7(c)(3) and (d)(3).

(2) Qualification. This exception will be treated as being satisfied if at least 15% of such moneys are expended for the governmental purposes of the Obligations within the six-month period beginning on the date of issue of the Obligations, at least 60% of such moneys are expended for the governmental purposes of the Obligations within the one-year period beginning on the date of issue of the Obligations, and 100% of such moneys are expended for the governmental purpose of the Obligations within the 18-month period beginning on the date of issue of the Obligations. The requirement that 100% of the Gross Proceeds be expended within 18 months may be reduced to not below five percent (5%) of the proceeds derived from the sale of the Obligations subject to this exception that is retained for reasonable business purposes relating to the property financed with the Obligations provided such moneys are expended within 30 months of the issue date of the Obligations. Additionally, the requirement that 100% of the Gross Proceeds be expended within 18 months may be reduced by an amount equal to the lesser of 3% of the issue price of the Obligations or \$250,000.00 if the Issuer and City exercised due diligence to complete the Project.

(iii) Expectations. The Issuer and City reasonably expect that at least seventy-five percent of the new money proceeds of the Obligations allocable to the Project, and earnings thereon, will be used for construction expenditures incurred with respect to the Project. For purposes of Section (ii)(B) hereof, “construction expenditures” include costs for construction, reconstruction and rehabilitation, but do not include costs of acquisition of interests in land or other existing real property. See Treas. Reg. §1.148-7(g).

(iv) Elections.

(A) Seventy-Five Percent Test. Pursuant to Treasury Regulation §1.148 7(f)(1)(i), the Issuer and City expressly elect to satisfy the requirements of Section 148(f)(4)(C)(iv)(I) of the Code based upon reasonable expectations.

(B) Penalty in Lieu of Rebate. Pursuant to Section 148(f)(4)(C)(vii) of the Code, the Issuer and City may elect, on the date hereof, to pay a penalty (the “1½% Penalty”), with respect to each six-month period after the date the Obligations are issued, equal to 1½ percent of the amount of available construction proceeds (as described above), which as of the close of the six-month period are not spent as required by Section (B). The 1½% Penalty shall cease to apply: (A) if the available construction proceeds are expended, (B) if a special three percent penalty (the “3% Penalty”) is paid in accordance with Section 148(f)(4)(C) of the Code, or (C) after the latest maturity date of any Obligations (including any refunding bond). All penalties are to be paid to the United States not later than 90 days after the period to which the penalty relates. The Issuer and City expressly do not elect to pay the penalty described in Section 148(f)(4)(C)(vii) of the Code in lieu of the Rebate Requirement described in Section 148(f)(2) of the Code, the 3% Penalty described in Section 148(f)(4)(C)(viii) of the Code, or to terminate the 1½% Penalty pursuant to Section 148(f)(4)(C)(ix) of the Code. Additionally, the Issuer and City expressly do not elect to exclude earnings on any reasonably required reserve fund as available construction proceeds pursuant to Section 148(f)(4)(C)(vi)(IV) of the Code.

(d) Prohibited Investments and Dispositions. The Issuer and City acknowledge that compliance with Section 148(f) of the Code may involve taking no action to artificially reduce the Rebate Requirement by the manner of investing Gross Proceeds. The Issuer and City covenant that absent an opinion of nationally recognized bond counsel that the exclusion from gross income of interest with respect to the Obligations will not be adversely affected, they will comply with the rules of this Subsection to assure compliance with Section 148(f) of the Code.

(i) Except to the extent imputed receipts would not arise under Section 1.148-5 of the Treasury Regulations, no Nonpurpose Investment may be acquired with Gross Proceeds for an amount in excess of the fair market value of such Nonpurpose Investment. No Nonpurpose Investment may be sold or otherwise disposed of for an amount less than the fair market value of the Nonpurpose Investment.

(ii) The fair market value of any Nonpurpose Investment is the price which a willing buyer would pay to a willing seller to acquire the Nonpurpose Investment in a bona fide, arm's-length transaction, with no amounts to artificially reduce or increase the yield on the Nonpurpose Investment. Fair market value generally is determined on the date on which a contract to purchase or sell the Nonpurpose Investment becomes binding (i.e., the trade date rather than the settlement date). The purchase or sales price of a Nonpurpose Investment is not adjusted (except as provided below) to take into account any administrative costs of the Nonpurpose Investment. For calendar year 2012 brokerage commission or similar fee for an investment contract is included as a receipt with respect to the investment contract and for investments for a yield restricted defeasance escrow to the extent the commission exceeds the lesser of (A) \$37,000.00 and (B) .2% of the computational base or, if more, \$4,000; provided, a brokers fee or similar fee is included as a receipt to the extent all brokers fees or similar fees of the issue of Obligations exceed \$103,000.00. For purposes of this Tax Certificate "computational base" means (A) for a guaranteed investment contract, the amount of Gross Proceeds to be deposited in the contract, and (B) for investments (other than guaranteed investment contracts) to be deposited in a yield restricted defeasance escrow, the amount of Gross Proceeds initially invested in those investments. For subsequent calendar years, the dollar limits described in this Subsection may be increased for cost-of-living adjustments. See Treas. Reg. § 1.148-5(e)(2)(iii). Certain administrative costs, including reasonable direct administrative costs, other than carrying costs, such as brokerage commissions or selling commissions, but not legal and accounting fees, recordkeeping, custody and similar costs, may be taken into account in computing the Rebate Requirement with respect to investments. See Treas. Reg. § 1.148-5. General overhead costs and similar indirect costs of the District such as employee salaries and office expenses and costs of computing rebatable arbitrage may not be taken into account. The following provisions provide guidelines as to when the Nonpurpose Investment will be deemed to be acquired for its fair market value. Other methods may be used, however, to establish fair market value.

(iii) Nonpurpose Investments that are investment contracts will be considered acquired and disposed of for an amount equal to the fair market value of such obligations if the following Subsections are satisfied:

(A) a bona fide solicitation is made for the Nonpurpose Investment with specified material terms and at least three bids on the Nonpurpose Investment are received from different reasonably competitive providers of the Nonpurpose

Investment other than those with a material financial interest in the Obligations (e.g., the purchaser);

(B) the yield (determined net of broker's fees) on the Nonpurpose Investment is at least equal to the yield offered under the highest bid received from a noninterested party (or the Issuer has significant bona fide non tax reasons, such as creditworthiness of the bidder, for failure to purchase the highest yielding investment);

(C) the yield on the Nonpurpose Investment (determined net of broker's fees) is not less than the yield then currently available from the provider or reasonably comparable investments offered to other persons, if any, from a source of funds other than Gross Proceeds of tax exempt obligations;

(D) the price of the Nonpurpose Investment takes into account as a significant factor the Issuer's reasonably expected draw down schedule, exclusive of float funds and reasonably required reserve funds;

(E) the terms of the Nonpurpose Investment, including the collateral security requirements for the Nonpurpose Investment, are reasonable; and

(F) the obligor of the Nonpurpose Investment certifies the administrative costs that are reasonably expected to be paid to third parties in connection with the Nonpurpose Investment.

(iv) Nonpurpose Investments that are certificates of deposit with a fixed interest rate, a fixed principal payment schedule, a fixed maturity, and a substantial penalty for early withdrawal, will be considered acquired for their fair market value if the following requirements are satisfied:

(A) the yield on the certificate of deposit is not less than the yield on reasonably comparable direct obligations of the United States; and

(B) the yield on the certificate of deposit is not less than the highest yield that is published or posted by the provider to be currently available from the provider on comparable certificates of deposit offered to the public.

(v) Except as described above, the fair market value of any Nonpurpose Investment for which there is an established market shall be determined as provided in this Subclause (v). Any market especially established to provide Nonpurpose Investments to an issuer of governmental obligations shall not be treated as an established market.

(A) If a Nonpurpose Investment is acquired pursuant to an arm's length transaction without regard to any amount paid to reduce the yield on the Nonpurpose Investment, the fair market value of the Nonpurpose Investment shall be the amount paid for the Nonpurpose Investment (without an increase for transaction costs except as provided infra).

(B) If a Nonpurpose Investment is sold or otherwise disposed of in an arm's length transaction without regard to any reduction in the disposition price to



reduce the amount due under Section 148(f) of the Code, the fair market value of the Nonpurpose Investment shall be the amount realized from the sale or other disposition of the Nonpurpose Investment (without reduction for transaction costs except as provided infra).

(C) If a United States Treasury obligation is acquired directly from or disposed of directly to the United States Treasury (as in the case of State and Local Government Series (“SLGS”) obligations), such acquisition or disposition shall be treated as establishing a market for the obligation and as establishing the fair market value of the obligation.

(D) Alternatively, the fair market value of any Nonpurpose Investment for which there is an established market may be set at the mean of the bid and offered prices on an established market where such Nonpurpose Investment is traded on the date a binding contract to acquire such Nonpurpose Investment is entered into, or, if there are no bid and offered prices on such date, on the first day preceding such date for which there are bid and offered prices. Such mean price may be determined by reference to any appropriate publication, such as, for example, “Composite Closing Quotations for United States Government Securities” published by the Federal Reserve Bank of New York. Where the price of any Nonpurpose Investment is quoted on an established market in terms of yield, the fair market value shall be the amount necessary to produce such yield.

(E) The fair market value of Nonpurpose Investments may also be established by the borrowing practices of the issuer of such Nonpurpose Investments, as, for example, by determining the fair market value based on the interest ordinarily paid by such issuer to persons other than governmental units with respect to Nonpurpose Investments of comparable maturities.

(vi) Except to the extent the requirements of Paragraph (c) are met, any Nonpurpose Investment for which there is no established market shall be rebuttably presumed to be for an amount in excess of the fair market value of the Nonpurpose Investment.

(e) Bond Year. For purposes of this Certificate, Bond Year ends on each December 18 and begins on each December 19; provided that the first Bond Year begins on the date hereof and the last Bond Year ends on the date no Obligations are outstanding.

\* \* \*

## V. **Recordkeeping and Allocation of Gross Proceeds.**

(a) Recordkeeping. The Issuer and City must maintain sufficient records to support compliance with the provisions of this Tax Certificate and to support the exclusion from gross income of interest on the Obligations for federal income tax purposes, including, but not limited to, the following:

(i) basic records relating to the Obligations (e.g., indenture, loan agreement, and opinions);

- (ii) documentation evidencing expenditure of Obligations proceeds;
- (iii) documentation evidencing use of Obligations financed property (e.g., management and service contracts);
- (iv) documentation evidencing sources of payment and security for Obligations;  
and
- (v) documentation pertaining to the investment of Obligations proceeds (including rebate calculations).

In particular, the Issuer and City will maintain or cause to be maintained detailed records with respect to each security, obligation, annuity contract, or an other investment-type property allocated to Gross Proceeds, including: (i) purchase date, (ii) purchase price, (iii) information establishing fair market value on the date such investment is allocated to Gross Proceeds, (iv) any accrued interest paid, (v) face amount, (vi) coupon rate, (vii) periodicity of interest payments, (viii) disposition price, (ix) any accrued interest received, and (x) disposition date. The Issuer and City shall establish separate sub-accounts or take other accounting measures in order to account fully for all Gross Proceeds. The Issuer shall maintain books and records with respect to the allocation of Gross Proceeds in accordance with this Tax Certificate. All records required to be maintained pursuant to this Tax Certificate must be kept as long as the Obligations are outstanding plus three years after all Obligations are retired, and with respect to Obligations refunded by the Obligations, for the same period required for the Obligations.

(b) Allocation. The Issuer and City may use any reasonable, consistently applied accounting method to account for Gross Proceeds of the Obligations in accordance with Treasury Regulation § 1.148-6; for purposes of allocating Gross Proceeds to capital expenditures intended to be financed pursuant to this Tax Certificate after the date of issue of the applicable tax-exempt obligation, and paid to unrelated third parties (“Qualified Capital Expenditures”), the Issuer may use the following accounting methods: “specific tracing,” “gross-proceeds-spent-first,” “first-in, first-out,” or a ratable allocation method. The Issuer and City covenant to consult with nationally recognized bond counsel with respect to the applicable method of allocation of Gross Proceeds to expenditures that are not Qualified Capital Expenditures. In addition, the accounting method applied must account uniformly for (i) Gross Proceeds commingled with other moneys in excess of \$25,000 and such other commingled moneys and (ii) Gross Proceeds for each fiscal year or interim fiscal period therein during which the issue is outstanding. Another accounting method may, however, be utilized for moneys if it is for a bona fide purpose unrelated to federal income tax restrictions. If Gross Proceeds are commingled with other moneys (other than in an open-end regulated investment company) in an amount in excess of \$25,000 (a “Commingled Fund”), the following additional requirements must be satisfied. First, all payments and receipts with respect to investments in the Commingled Fund must be allocated among the different moneys ratably based upon either (i) average daily balances during a “Computation Period” (as defined below) or (ii) the average of the beginning and ending balances of the amounts in the Commingled Fund for a Computation Period that does not exceed one month. A Commingled Fund may use as its Computation Period any consistent time period within its fiscal year that does not exceed three months. Not less frequently than at the end of each Computation Period, the Commingled Fund must compute and allocate to different types of moneys all payments, receipts, income, gain or losses realized, and expenditures. Second, except as provided below, the Commingled Fund must treat all of its investments as if sold at fair market value on the last day of the fiscal year or as of the last day of each Computation Period,

and so allocate net gains or losses from such deemed sales (the “Mark-to-Market Requirement”). A Commingled Fund need not satisfy the Mark-to-Market Requirement if (i) the remaining weighted average maturity of all investments held by the Commingled Fund during a fiscal year does not exceed eighteen months and such investments consist exclusively of debt obligations, (ii) the Commingled Fund serves as a common reserve fund or sinking fund for two or more issues of the same issuer or (iii) the Issuer (and any related party) do not own more than twenty-five percent of beneficial interests in the Commingled Fund. Common reserve funds or sinking funds for two or more issues must be ratably allocated (not less frequently than once every five years and on each date a new issue is added or retired (if relative original principal amounts are used to so allocate)) in accordance with (i) the value of the bonds under Treasury Regulation § 1.148-4(e), (ii) the relative amounts of the remaining maximum annual debt service payable on the issues, or (iii) the relative original stated principal amounts of the outstanding issues. Notwithstanding any other provision of this Tax Certificate, the allocation methodology applied must be consistent for all purposes of this Tax Certificate.

The Issuer and City must account for the allocation of Gross Proceeds to expenditures not later than eighteen months after the later of the date the expenditure is paid and the date the applicable Project is placed in service and in any event, by the date sixty days after the fifth anniversary of the issue date of the Obligations or the date 60 days after the retirement of the Obligations if earlier.

\* \* \*

## **VI. Miscellaneous.**

(a) Federal Guarantee. The Issuer and City will not invest any of the proceeds of the Obligations in a manner which would result in the Obligations being considered “federally guaranteed” within the meaning of Section 149(b) of the Code, except as permitted therein (i.e., will not cause interest with respect to the Obligations to be included in gross income for federal income tax purposes).

(b) Information Reporting. Attached as Exhibit D is a copy of the Form 8038-G filed with respect to the Obligations.

(c) No Pooling. The Issuer and City do not expect to use and will not use the proceeds of the Obligations to make or finance loans to two or more ultimate borrowers.

(d) Hedge Bonds. Not more than 50% of the proceeds of the Obligations allocable to new money purposes will be invested at a guaranteed rate of return for a term of four years or more.

\* \* \*

**VII. Concluding Matters.**

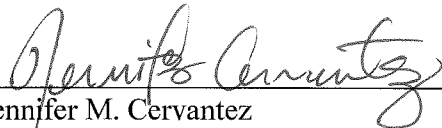
(a) Reliance. The expectations of the Issuer and City concerning certain uses of Obligation proceeds and certain other moneys described herein and other matters are based in whole or in part upon representations of other parties as set forth in this Tax Certificate or the exhibits attached hereto. The Issuer and City are not aware of any facts or circumstances that would cause them to question the accuracy or reasonableness of any representations made in this Tax Certificate or exhibits attached hereto.

(b) Authority. The undersigned are authorized representatives of the Issuer and City, and are acting for and on behalf of the Issuer and City in executing this Tax Certificate. To the best of the knowledge and belief of the undersigned, there are no other facts, estimates or circumstances that would materially change the expectations as set forth herein, and said expectations are reasonable.

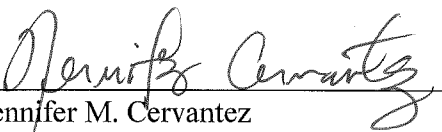
(c) Amendment. Notwithstanding any provision of this Tax Certificate, the Issuer and City may amend this Tax Certificate and thereby alter any actions allowed or required by this Tax Certificate if such amendment is based on an opinion of bond counsel that the exclusion from gross income of interest with respect to the Obligations will not be adversely affected.

Dated: December 19, 2012

RANCHO SANTA MARGARITA PUBLIC  
FINANCING AUTHORITY

By:   
Jennifer M. Cervantez  
Executive Director

CITY OF RANCHO SANTA MARGARITA

By:   
Jennifer M. Cervantez  
City Manager

**EXHIBIT A**

[Reserved]

**EXHIBIT B**

[Reserved]

## EXHIBIT C

### CERTIFICATE OF THE UNDERWRITER

Stifel, Nicolaus & Company, Incorporated dba Stone & Youngberg, a Division of Stifel Nicolaus (the “Underwriter”) has acted as the Underwriter of the \$11,230,000 Rancho Santa Margarita Public Financing Authority Lease Revenue Refunding Bonds, Series 2012A (the “Obligations”), and the Underwriter, in such capacity, hereby certifies and represents the following, under penalties of perjury, based upon the information available to it:

A. Issue Price.

1. As of the date the purchase agreement was entered into by the Issuer and the Underwriter with respect to the Obligations (the “Sale Date”), the Underwriter reasonably expected to sell a substantial amount of each maturity of the Obligations (i.e., at least 10%) to the general public (excluding bond houses, brokers, or similar persons acting in the capacity of underwriters or wholesalers) in a bona fide public offering at the prices listed on Schedule A.

2. In our opinion, and based upon our estimate as of the Sale Date, the issue prices of the Obligations set forth in Schedule A are within a reasonable range of, and should reflect, the fair market prices for such Obligations.

3. As of the date of execution of the attached Tax Certificate, all of the Obligations have actually been offered to the general public at the prices listed in Schedule A.

4. Except for the Obligations maturing November 1, 2019, November 1, 2020, November 1, 2025, November 1, 2027 through November 1, 2029, November 1, 2031 and November 1, 2032, at least 10% of each maturity of the Obligations have been sold at the prices referred to in Schedule A.

B. Arbitrage Yield.

1. We have calculated the arbitrage yield with respect to the Obligations to be 2.678327% in accordance with Section III of the Tax Certificate.

To the extent that we provided the Issuer and Bond Counsel with certain computations of bond yield, issue price, weighted average maturity and certain other information with respect to the Bonds, these computations are based on our understanding of directions that we have received from Bond Counsel regarding interpretation of the applicable law. We express no view regarding the legal sufficiency of any such computations or the correctness of any legal interpretation made by Bond Counsel.

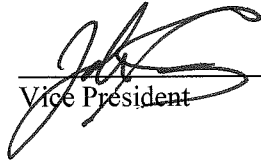
Nothing herein represents our interpretation of any laws or regulations under the Internal Revenue Code of 1986, as amended.

All terms not defined herein have the meanings ascribed to those terms in the attached Tax Certificate.

Dated: December 19, 2012

STIFEL, NICOLAUS & COMPANY,  
INCORPORATED DBA STONE & YOUNGBERG,  
A DIVISION OF STIFEL NICOLAUS

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



Vice President



## SCHEDULE A

Price of Obligations Offered or Reasonably Expected to be Offered to the General Public in a Bona Fide Public Offering

### MATURITY SCHEDULE

<i>Maturity Date (November 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Price</i>
2013	\$430,000	2.000%	101.382
2014	370,000	3.000	104.447
2015	385,000	4.000	109.289
2016	405,000	4.000	111.875
2017	420,000	4.000	114.010
2018	430,000	4.000	115.753
2019	455,000	4.000	116.607
2020	470,000	4.000	116.947
2021	490,000	4.000	116.704
2022	505,000	4.000	116.076
2023	525,000	4.000	114.074*
2024	545,000	4.000	112.204*
2025	570,000	4.000	110.826*
2026	590,000	2.500	96.012
2027	610,000	2.625	96.578
2028	625,000	2.750	97.230
2029	645,000	2.750	96.321
2030	660,000	2.750	95.356
2031	680,000	3.000	97.876
2032	700,000	3.000	96.930
2033	720,000	3.000	95.937

C Yield to first optional redemption date of November 1, 2022.

**EXHIBIT D**  
**INFORMATION REPORTING**  
**FORM 8038-G**

**Information Return for Tax-Exempt Governmental Obligations**

▶ Under Internal Revenue Code section 149(e)

▶ See separate instructions.

Caution: If the issue price is under \$100,000, use Form 8038-GC.

<b>Part I Reporting Authority</b>		If Amended Return, check here <input type="checkbox"/>	
1 Issuer's name <b>Rancho Santa Margarita Public Financing Authority</b>		2 Issuer's employer identification number (EIN) <b>91-2017167</b>	
3a Name of person (other than issuer) with whom the IRS may communicate about this return (see instructions) <b>Carol L. Lew, Esq.</b>		3b Telephone number of other person shown on 3a <b>949-725-4237</b>	
4 Number and street (or P.O. box if mail is not delivered to street address)	Room/suite	5 Report number (For IRS Use Only)	
<b>22112 El Paseo</b>		<b>3</b>	
6 City, town, or post office, state, and ZIP code <b>Rancho Santa Margarita, CA 92688</b>		7 Date of issue <b>12/19/2012</b>	
8 Name of issue <b>Lease Revenue Refunding Bonds, Series 2012A</b>		9 CUSIP number <b>75214TAW0</b>	
10a Name and title of officer or other employee of the issuer whom the IRS may call for more information (see instructions) <b>Jennifer M. Cervantez, Executive Director</b>		10b Telephone number of officer or other employee shown on 10a <b>949-635-1811</b>	

<b>Part II Type of Issue (enter the issue price).</b> See the instructions and attach schedule.	
11 Education . . . . .	11
12 Health and hospital . . . . .	12
13 Transportation . . . . .	13
14 Public safety . . . . .	14
15 Environment (including sewage bonds) . . . . .	15
16 Housing . . . . .	16
17 Utilities . . . . .	17
18 Other. Describe ▶ <b>public infrastructure</b>	18 <b>11,801,904.80</b>
19 If obligations are TANs or RANs, check only box 19a . . . . . ▶ <input type="checkbox"/>	
If obligations are BANs, check only box 19b . . . . . ▶ <input type="checkbox"/>	
20 If obligations are in the form of a lease or installment sale, check box . . . . . ▶ <input type="checkbox"/>	

<b>Part III Description of Obligations.</b> Complete for the entire issue for which this form is being filed.					
	(a) Final maturity date	(b) Issue price	(c) Stated redemption price at maturity	(d) Weighted average maturity	(e) Yield
21	11/01/2033	\$ 11,801,904.80	\$ 11,230,000.00	11.7312 years	2.6783%

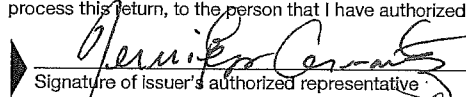
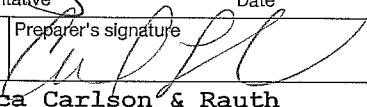
<b>Part IV Uses of Proceeds of Bond Issue (including underwriters' discount)</b>				
22	Proceeds used for accrued interest . . . . .	22		0.00
23	Issue price of entire issue (enter amount from line 21, column (b)) . . . . .	23		11,801,904.80
24	Proceeds used for bond issuance costs (including underwriters' discount) . . . . .	24	255,282.24	
25	Proceeds used for credit enhancement . . . . .	25	0.00	
26	Proceeds allocated to reasonably required reserve or replacement fund . . . . .	26	0.00	
27	Proceeds used to currently refund prior issues . . . . .	27	0.00	
28	Proceeds used to advance refund prior issues . . . . .	28	10,696,622.56	
29	Total (add lines 24 through 28) . . . . .	29		10,951,904.80
30	Nonrefunding proceeds of the issue (subtract line 29 from line 23 and enter amount here) . . . . .	30		850,000.00

<b>Part V Description of Refunded Bonds.</b> Complete this part only for refunding bonds.			
31	Enter the remaining weighted average maturity of the bonds to be currently refunded . . . . . ▶	N/A	years
32	Enter the remaining weighted average maturity of the bonds to be advance refunded . . . . . ▶	12.4121	years
33	Enter the last date on which the refunded bonds will be called (MM/DD/YYYY) . . . . . ▶	10/01/2013	
34	Enter the date(s) the refunded bonds were issued ▶ (MM/DD/YYYY)	11/13/2003	

For Paperwork Reduction Act Notice, see separate instructions.

**Part VI Miscellaneous**

<b>35</b>	Enter the amount of the state volume cap allocated to the issue under section 141(b)(5) . . . . .	<b>35</b>	0.00
<b>36a</b>	Enter the amount of gross proceeds invested or to be invested in a guaranteed investment contract (GIC) (see instructions) . . . . .	<b>36a</b>	0.00
<b>b</b>	Enter the final maturity date of the GIC ▶ _____		
<b>c</b>	Enter the name of the GIC provider ▶ _____		
<b>37</b>	Pooled financings: Enter the amount of the proceeds of this issue that are to be used to make loans to other governmental units . . . . .	<b>37</b>	0.00
<b>38a</b>	If this issue is a loan made from the proceeds of another tax-exempt issue, check box ▶ <input type="checkbox"/> and enter the following information:		
<b>b</b>	Enter the date of the master pool obligation ▶ _____		
<b>c</b>	Enter the EIN of the issuer of the master pool obligation ▶ _____		
<b>d</b>	Enter the name of the issuer of the master pool obligation ▶ _____		
<b>39</b>	If the issuer has designated the issue under section 265(b)(3)(B)(i)(III) (small issuer exception), check box . . . . . ▶		<input type="checkbox"/>
<b>40</b>	If the issuer has elected to pay a penalty in lieu of arbitrage rebate, check box . . . . . ▶		<input type="checkbox"/>
<b>41a</b>	If the issuer has identified a hedge, check here ▶ <input type="checkbox"/> and enter the following information:		
<b>b</b>	Name of hedge provider ▶ _____		
<b>c</b>	Type of hedge ▶ _____		
<b>d</b>	Term of hedge ▶ _____		
<b>42</b>	If the issuer has superintegrated the hedge, check box . . . . . ▶		<input type="checkbox"/>
<b>43</b>	If the issuer has established written procedures to ensure that all nonqualified bonds of this issue are remediated according to the requirements under the Code and Regulations (see instructions), check box . . . . . ▶		<input checked="" type="checkbox"/>
<b>44</b>	If the issuer has established written procedures to monitor the requirements of section 148, check box . . . . . ▶		<input checked="" type="checkbox"/>
<b>45a</b>	If some portion of the proceeds was used to reimburse expenditures, check here ▶ <input type="checkbox"/> and enter the amount of reimbursement . . . . . ▶ _____		
<b>b</b>	Enter the date the official intent was adopted ▶ _____		

<b>Signature and Consent</b>	Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. I further declare that I consent to the IRS's disclosure of the issuer's return information, as necessary to process this return, to the person that I have authorized above.			
	 Signature of issuer's authorized representative		Jennifer M. Cervantez Executive Director Type or print name and title	
<b>Paid Preparer Use Only</b>	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed
	Carol L. Lew, Esq.		12/19/2012	PTIN P01259683
	Firm's name ▶ Stradling Yocca Carlson & Rauth			Firm's EIN ▶
	Firm's address ▶ 660 Newport Ctr Dr, Ste 1600, Newport Beach, CA 92660			Phone no. 949-725-4237

UNITED STATES POSTAL SERVICE



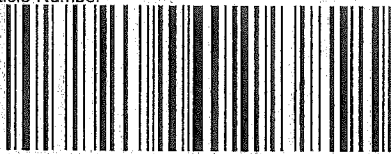
First-Class Mail  
Postage & Fees Paid  
USPS  
Permit No. G-10

• Print your name, address and ZIP Code below •

STRADLING YOCCA CARLSON & RAUTH  
660 NEWPORT CENTER DR #1600  
NEWPORT BEACH CA 92660-6422

Att: J. Krawiec  
200408-0001

2. Article Number



7106 4575 1292 2629 6109

3. Service Type **CERTIFIED MAIL**

4. Restricted Delivery? (Extra Fee)  Yes

1. Article Addressed to:

Internal Revenue Service Center

Ogden UT 84201

COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly)

B. Date of Delivery

RECEIVED

C. Signature

X JAN 31 2013

Agent  
 Addressee

D. Is delivery address different from item 1?  
If YES, enter delivery address below:

Yes  
 No

OGDEN, UT

## EXHIBIT E

**\$11,230,000**  
**RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY**  
**LEASE REVENUE REFUNDING BONDS, SERIES 2012A**

### POST ISSUANCE COMPLIANCE

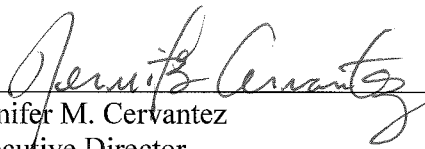
The Issuer and City understand that post issuance compliance with the restrictions contained in the attached Tax Certificate is required to ensure that interest on the Obligations remains excluded from gross income for federal income purposes. The Issuer and City understand that the attached Tax Certificate, together with this exhibit, contains written post issuance procedures of the Issuer and City to effectuate post issuance compliance. In furtherance thereof, the Issuer and City hereby agree to:

1. Assign responsible personnel of the Issuer and City to monitor and ensure compliance with the restrictions contained in the attached Tax Certificate.
2. Provide adequate training to responsible Issuer and City personnel to effectuate the purposes of this exhibit.
3. Have Issuer and City personnel regularly review the restrictions of the Tax Certificate and establish adequate record retention and calendaring mechanisms internally to ensure that the Issuer and City will be able to establish post issuance compliance with the restrictions of the attached Tax Certificate. In particular, the Issuer and City will maintain records detailing the investment and expenditures of Obligation proceeds, as provided in the Tax Certificate. The Issuer and City will seek expert advice regarding compliance with the arbitrage rebate and yield restriction provisions of the Tax Certificate, and carefully monitor and calendar the dates by which Obligation proceeds should be expended to comply with yield restriction and rebate exceptions and the dates rebate must be paid.
4. Regularly consult with Bond Counsel and other Issuer and City advisors regarding any issues that arise regarding post issuance compliance with the attached Tax Certificate (including any failure or anticipated failure to expend Obligation proceeds during the periods described in the attached Tax Certificate or any changes in use of the Project). The Issuer and City understand that the use of the Project financed by the Obligations must be monitored throughout the term to maturity of the Obligations, and records must be retained regarding any contracts or other arrangements relating to such use as provided in the Tax Certificate.

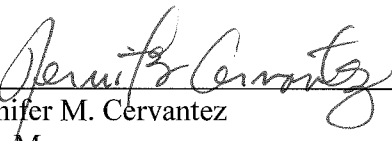
All terms not defined herein have the meanings ascribed in the attached Tax Certificate.

Dated: December 19, 2012

RANCHO SANTA MARGARITA PUBLIC  
FINANCING AUTHORITY

By:   
Jennifer M. Cervantez  
Executive Director

CITY OF RANCHO SANTA MARGARITA

By:   
Jennifer M. Cervantez  
City Manager

# The Depository Trust Company

A subsidiary of the Depository Trust & Clearing Corporation

## BLANKET ISSUER LETTER OF REPRESENTATIONS

(To be completed by Issuer and Co-Issuer(s), if applicable)

Rancho Santa Margarita Public Financing Authority

(Name of Issuer and Co-Issuer(s), if applicable)

November 19, 2012

(Date)

**The Depository Trust Company**  
55 Water Street, 15L  
New York, NY 10041-0099  
Attention: Underwriting Department

Ladies and Gentlemen:

This letter sets forth our understanding with respect to all issues (the "Securities") that Issuer shall request to be made eligible for deposit by The Depository Trust Company ("DTC").

Issuer is: **(Note: Issuer shall represent one and cross out the other.)**

~~INCORPORATED~~ [formed under the laws of] the State of California

To induce DTC to accept the Securities as eligible for deposit at DTC, and to act in accordance with DTC's Rules with respect to the Securities, Issuer represents to DTC that issuer will comply with the requirements stated in DTC's Operational Arrangements, as they may be amended from time to time.

Very truly yours,

Note:

Schedule A contains statements that DTC believes accurately describe DTC, the method of effecting book-entry transfers of securities distributed through DTC, and certain related matters.

Received and Accepted  
**THE DEPOSITORY TRUST COMPANY**

By: Jeanne Mauro



The Depository Trust &  
Clearing Corporation

Rancho Santa Margarita Public Financing Authority  
(Issuer)

By: Jennifer Cervantez  
(Authorized Officer's Signature)

Jennifer Cervantez

(Print Name)

22112 El Paseo

(Street Address)

Rancho Santa Margarita, CA, USA 92688

(City) (State) (Country) (Zip Code)

949-635-1811

(Phone Number)

jcervantez@cityofrsm.org

(E-mail Address)

BLOR 08/10/11



**SAMPLE OFFERING DOCUMENT LANGUAGE**  
**DESCRIBING BOOK-ENTRY-ONLY ISSUANCE**

(Prepared by DTC—bracketed material may be applicable only to certain issues)

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.]

2. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; 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 Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

**SCHEDULE A**  
(To Blanket Issuer Letter of Representations)

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. [Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.]

[6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.]

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

[9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.]

10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

11. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

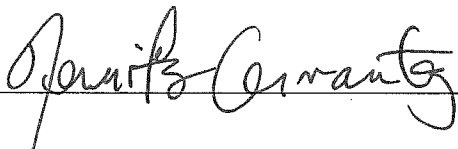
12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

DEC 6 2012

**DEBRA BOWEN**  
Secretary of State  
[SECRETARY OF STATE: PLEASE AFFIX STAMP BELOW THIS SPACE]

STATE OF CALIFORNIA            )  
  ) ss.  
COUNTY OF ORANGE            )

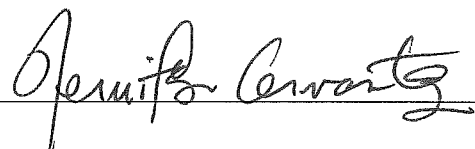
In accordance with the Uniform Facsimile Signatures of Public Officials Act (Government Code Sections 5500, *et seq.*), I hereby file with the Secretary of State my manual signature and hereby certify under oath my manual signature as follows:

Manual Signature                \_\_\_\_\_   
Jennifer M. Cervantez

Title of Office                    Executive Director of the Rancho Santa Margarita Public  
  Financing Authority

I certify under penalty of perjury that the foregoing is true and correct.

EXECUTED this 3<sup>rd</sup> day of December, 2012, at Rancho Santa Margarita, California.

Signed                               \_\_\_\_\_   
Jennifer M. Cervantez

[SECRETARY OF STATE: PLEASE  
AFFIX STAMP BELOW THIS SPACE]


**ENDORSED - FILED**  
in the office of the Secretary of State  
of the State of California

NOV 30 2012

STATE OF CALIFORNIA     )  
  ) ss.  
COUNTY OF ORANGE     )

**DEBRA BOWEN**  
Secretary of State

In accordance with the Uniform Facsimile Signatures of Public Officials Act (Government Code Sections 5500, *et seq.*), I hereby file with the Secretary of State my manual signature and hereby certify under oath my manual signature as follows:


Manual Signature     

Molly McLaughlin

Title of Office         Secretary of the Rancho Santa Margarita Public Financing  
  Authority

I certify under penalty of perjury that the foregoing is true and correct.

EXECUTED this 26<sup>th</sup> day of November, 2012, at Rancho Santa Margarita, California.

Signed                 

Molly McLaughlin

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

**RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY  
LEASE REVENUE REFUNDING BOND  
SERIES 2012A**

<b>INTEREST RATE</b>	<b>MATURITY DATE</b>	<b>DATED DATE</b>	<b>CUSIP</b>
3.000%	November 1, 2033	December 19, 2012	75214TAW0

**REGISTERED OWNER:** CEDE & CO.



**PRINCIPAL AMOUNT:** SEVEN HUNDRED TWENTY THOUSAND DOLLARS

The Rancho Santa Margarita Public Financing Authority (the "Authority"), for value received; hereby promises to pay, solely from the Base Rental Payments (as hereinafter defined) or amounts in certain funds and accounts held under the Indenture (as hereinafter defined), to the Registered Owner identified above or registered assigns (the "Registered Owner"); on the Maturity Date identified above or on any earlier redemption date, the Principal Amount identified above in lawful money of the United States of America; and to pay interest thereon at the Rate of Interest identified above in like lawful money from the date hereof payable semiannually on May 1 and November 1 in each year, commencing May 1, 2013 (the "Interest Payment Dates"), until payment of such Principal Amount in full. This Bond shall bear interest from the Interest Payment Date next preceding the date of authentication of this Bond (unless this Bond is authenticated on or before an Interest Payment Date and after the close of business on the fifteenth calendar day of the month next preceding such Interest Payment Date, whether or not such day is a Business Day, in which event it shall bear interest from such Interest Payment Date, or unless this Bond is authenticated on or prior to April 15, 2013, in which event it shall bear interest from the Dated Date identified above; provided, however, that if, at the time of authentication of this Bond, interest is in default on this Bond, interest on this Bond shall be payable from the date to which interest hereon has been paid in full, payable on each Interest Payment Date). The Principal Amount hereof is payable upon surrender hereof upon maturity or earlier redemption at the Office of the Trustee (as hereinafter defined). Interest hereon is payable by wire or check of Wells Fargo Bank, National Association, as Trustee (the "Trustee"), mailed by first class mail, postage prepaid, on each Interest Payment Date to the Registered Owner hereof at the address of the Registered Owner shown on the Registration

Books at the close of business on the fifteenth calendar day of the month next preceding such Interest Payment Date. "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 Authority and the City of Rancho Santa Margarita (the "City") by the Trustee in writing, except that with respect to presentation of Bonds for payment or for registration of transfer and exchange such term shall mean the office or the agency of the Trustee at which, at any particular time, its corporate trust agency shall be conducted as specified to the Authority and the City by the Trustee in writing.

This Bond is one of a series of a duly authorized issue of bonds designated as "Rancho Santa Margarita Public Financing Authority Lease Revenue Refunding Bonds, Series 2012A" (the "Series 2012 Bonds") in the aggregate principal amount of \$11,230,000. The Series 2012 Bonds are issued pursuant to the Indenture, dated as of December 1, 2012 (the "Indenture"), by and among the Authority, the City and the Trustee, and this reference incorporates the Indenture herein, and by acceptance hereof the owner of this Bond assents to said terms and conditions. Pursuant to and as more particularly provided in the Indenture, additional bonds ("Additional Bonds"), may be issued by the Authority secured by a lien on a parity with the lien securing the Series 2012 Bonds. The Series 2012 Bonds and any Additional Bonds are collectively referred to as the "Bonds." The Indenture is entered into, and this Bond is issued under, the Marks-Roos Local Bond Pooling Act of 1985 (the "Act") and the laws of the State of California.

Pursuant to the Indenture, the principal of and interest on the Bonds are payable solely from certain base rental payments (the "Base Rental Payments") under and pursuant to that certain Lease Agreement, dated as of December 1, 2012 (the "Lease Agreement"), by and between the City, as lessee, and the Authority, as lessor, all of which rights to receive such Base Rental Payments have been assigned without recourse by the Authority to the Trustee. Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, all of the Base Rental Payments and any other amounts (including proceeds of the sale of the Bonds) held in the Base Rental Payment Fund, the Interest Fund, the Principal Fund and the Redemption Fund established under the Indenture are 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 constitutes a first lien on such assets.

The Series 2012 Bonds are authorized to be issued in the form of fully registered bonds without coupons in denominations of \$5,000 or any integral multiple thereof ("Authorized Denominations").

The Series 2012 Bonds shall be subject to redemption, in whole or in part, on any date, in Authorized Denominations, from and to the extent of any net insurance proceeds received with respect to all or a portion of the property leased under the Lease Agreement, remaining after payment therefrom of all reasonable expenses incurred in the collection thereof, deposited by the Trustee in the Redemption Fund established under the Indenture, at a Redemption Price equal to the principal amount of the Series 2012 Bonds to be redeemed, plus accrued interest thereon to the date of redemption, without premium.

The Series 2012 Bonds maturing on or after November 1, 2023, shall be subject to optional redemption, in whole or in part, on any date on or after November 1, 2022, in Authorized Denominations, from and to the extent of prepaid Base Rental Payments paid pursuant the Lease Agreement, at a Redemption Price equal to the principal amount of the Series 2012 Bonds to be redeemed, plus accrued interest thereon to the date of redemption.

The Trustee on behalf and at the expense of the Authority shall mail (by first class mail) notice of any redemption to the respective owners of any Series 2012 Bonds designated for redemption, at their respective addresses appearing on the Registration Books, at least 20 but not more than 60 days prior to the date fixed for redemption; provided, however, that neither failure to receive any such notice so mailed, nor any defect therein, shall affect the validity of the proceedings for the redemption of such Series 2012 Bonds or the cessation of accrual of interest thereon from and after the date fixed for redemption. The Redemption Price of the Series 2012 Bonds to be redeemed shall be paid only upon presentation and surrender thereof at the Office of the Trustee. From and after the date fixed for redemption of any Series 2012 Bonds, interest on such Series 2012 Bonds will cease to accrue and become payable.

Subject to the limitations and upon payment of the charges, if any, provided in the Indenture, fully registered Series 2012 Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount and maturity of fully registered Series 2012 Bonds of other authorized denominations.

This Bond is transferable by the Registered Owner hereof, in person or by his duly authorized attorney, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Bond. Upon such transfer a new fully registered Series 2012 Bond or Series 2012 Bonds, in Authorized Denominations, for the same aggregate principal amount will be issued to the transferee in exchange herefor. The Authority, the City and the Trustee may treat the Registered Owner hereof as the absolute owner hereof for all purposes, and the Authority, the City and the Trustee shall not be affected by any notice to the contrary.

The Indenture and the rights and obligations of the Authority, the City, the owners of the Bonds and the Trustee may be modified or amended from time to time and at any time in the manner, to the extent, and upon the terms provided in the Indenture; provided that no such modification or amendment shall (a) extend the fixed maturity of any Bonds, or reduce the 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, or, (b) reduce the percentage of Bonds the consent of the owners of which is required to effect any such amendment or modification, or (c) permit the creation of any lien on the Base Rental Payments 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 the Base Rental Payments and such other assets (except as expressly provided in the Indenture), without the consent of the owners of all Bonds then outstanding.

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

All obligations of the Authority under the Indenture shall be special obligations of the Authority, payable solely from Rental Payments and the other assets pledged therefor under the Indenture; provided, however, that all obligations of the Authority under the Bonds shall be special obligations of the Authority, payable solely from Base Rental Payments and the other assets pledged therefor under the Indenture. Neither the faith and credit nor the taxing power of the Authority, the City or the State of California, or any political subdivision thereof, is pledged to the payment of the Bonds.

IN WITNESS WHEREOF, the Authority has caused this Bond to be signed in its name and on its behalf by the facsimile signatures of its Executive Director and Secretary, all as of the Dated Date identified above.

RANCHO SANTA MARGARITA PUBLIC  
FINANCING AUTHORITY

By: *[Signature]*  
Executive Director

**SPECIMEN**

Attest:

*[Signature]*  
Secretary

**SPECIMEN**

**TRUSTEE'S CERTIFICATE OF AUTHENTICATION**

This is one of the Series 2012A Bonds described in the within-mentioned Indenture and registered on the Registration Books.

Date: December 19, 2012

WELLS FARGO BANK, NATIONAL  
ASSOCIATION, as Trustee

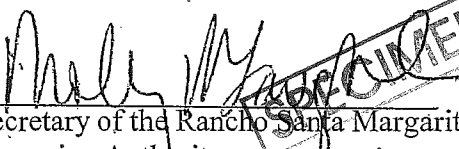
By: *[Signature]*  
Authorized Signatory

**SPECIMEN**



**LEGAL OPINION**

The following is a true copy of the opinion rendered by Stradling Yocca Carlson & Rauth, a Professional Corporation in connection with the issuance of, and dated as of the date of the original delivery of, the bonds. A signed copy is on file in my office.

  
Secretary of the Rancho Santa Margarita Public  
Financing Authority

STRADLING YOCCA CARLSON & RAUTH

A PROFESSIONAL CORPORATION

ATTORNEYS AT LAW

660 NEWPORT CENTER DRIVE, SUITE 1600

NEWPORT BEACH, CA 92660-6422

TELEPHONE (949) 725-4000

FACSIMILE (949) 725-4100

SAN DIEGO  
(858) 720-2150

SAN FRANCISCO  
(415) 283-2240

SANTA BARBARA  
(805) 730-6800

SANTA MONICA  
(424) 214-7000

SACRAMENTO  
(916) 449-2350

December 19, 2012

Rancho Santa Margarita Public Financing Authority  
22112 El Paseo  
Rancho Santa Margarita, California 92688

*Re: \$11,230,000 Rancho Santa Margarita Public Financing Authority Lease Revenue  
Refunding Bonds, Series 2012A*

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Rancho Santa Margarita Public Financing Authority (the "Authority") of the Rancho Santa Margarita Public Financing Authority Lease Revenue Refunding Bonds, Series 2012A (the "Bonds") in the aggregate principal amount of \$11,230,000. In such connection, we have reviewed the Indenture, dated as of December 1, 2012 (the "Indenture"), by and among Wells Fargo Bank, National Association, as Trustee (the "Trustee"), the Authority and the City of Rancho Santa Margarita (the "City"), the Lease Agreement, dated as of December 1, 2012 (the "Lease Agreement"), by and between the City and the Authority, the Ground Lease, dated as of December 1, 2012 (the "Ground Lease"), by and between the City and the Authority, the Assignment Agreement, dated as of December 1, 2012 (the "Assignment Agreement"), by and between the Authority and the Trustee, the Tax Certificate of the Authority and the City, dated as of the date hereof (the "Tax Certificate"), opinions of counsel to the Authority, the City and the Trustee, certificates of the Authority, the City and the Trustee and others and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

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

(1) The obligation of the City to pay Base Rental Payments in accordance with the terms of the Lease Agreement is a valid and binding obligation payable from the funds of the City lawfully available therefore, except as the same may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights, by equitable principles, by the exercise of judicial discretion in appropriate cases and by the limitations on legal remedies against municipalities in the State of California. The obligation of the City to make Base Rental Payments under the Lease does not constitute a debt of the City, the State of California or any political subdivision thereof within the meaning of any

statutory or constitutional debt limitation or restriction and does not constitute a pledge of the faith and credit or taxing power of the City, the State of California or any political subdivision thereof.

(2) The Lease Agreement and the Indenture have been duly authorized, executed and delivered by the City and the Authority and constitute valid and legally binding agreements of the City and the Authority enforceable against the City and the Authority in accordance with their terms, except as the same may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights, by equitable principles, by the exercise of judicial discretion in appropriate cases and by the limitations on legal remedies against municipalities in the State of California, except that we express no opinion as to any provisions in the Lease Agreement or the Indenture with respect to indemnification, penalty, contribution, choice of law, choice of forum or waiver.

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

(4) Interest (and original issue discount) on the Bonds is exempt from personal income taxes imposed in the State of California.

(5) The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity are to be sold to the public) and the stated redemption price at maturity with respect to such Bonds constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bond owner will increase the Bond owner's basis in the applicable Bond. Original issue discount that accrues to a Bond owner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals or corporations (as described in paragraph (3) above) and is exempt from State of California personal income tax.

(6) The amount by which a Bond owner's original basis for determining loss on sale or exchange in a Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium, which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"); such amortizable Bond premium reduces the Bond owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bond owner realizing a taxable gain when a Bond is sold by the owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the owner.

The opinions expressed in paragraphs (3) and (5) are subject to the condition that the City and the Authority comply with all requirements of the Code, that must be satisfied subsequent to the delivery of the Bonds to assure that such interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) with respect to the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The City and the Authority have covenanted to comply with all such requirements.

Except as expressly set forth in paragraphs (3), (4), (5) and (6) we express no opinion regarding any tax consequences with respect to the Bonds.

Certain agreements, requirements and procedures contained or referred to in the Indenture, the Tax Certificate executed by the City and the Authority and other documents related to the Bonds may be changed and certain actions may be taken or omitted, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. We express no opinion as to the effect on the exclusion from gross income for federal income tax purposes of interest (and original issue discount) due with respect to any Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

We have not made or undertaken to make an investigation of the state of title to any of the real property described in the Lease Agreement, the Ground Lease and the Assignment Agreement or of the accuracy or sufficiency of the description of such property contained therein, and we express no opinion with respect to such matters.

We are admitted to the practice of law only in the State of California and our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

The opinions expressed herein are based upon our analysis and interpretation of existing statutes, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Our engagement with respect to the Bonds terminates on the date of their execution and delivery.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds and expressly disclaim any duty to advise the owners of the Bonds with respect to matters contained in the Official Statement.

Respectfully submitted,

Stradling Yocca Carlson & Rauth  


## ASSIGNMENT

For value, received the undersigned hereby sells, assigns and transfers unto \_\_\_\_\_ whose address and social security or other tax identifying number is \_\_\_\_\_, the within-mentioned Bond and hereby irrevocably constitute(s) and appoint(s) \_\_\_\_\_ attorney, to transfer the same on the registration books of the Trustee with full power of substitution in the premises.

Dated: \_\_\_\_\_

Signature Guaranteed:

\_\_\_\_\_  
Note: Signature(s) must be guaranteed by an eligible guarantor.

\_\_\_\_\_  
Note: The signature(s) on this Assignment must correspond with the name(s) as written on the face of the within bond in every particular without alteration or enlargement or any change whatsoever.



## CITY OF RANCHO SANTA MARGARITA

*Mayor*

L. Anthony Beall

*Mayor Pro Tempore*

Steven Baric

*Council Members*

Carol A. Gamble

Jerry Holloway

Jesse Petrilla

*City Manager*


Jennifer M. Cervantez

## CITY OF RANCHO SANTA MARGARITA CERTIFICATION

STATE OF CALIFORNIA )  
COUNTY OF ORANGE ) ss.  
CITY OF RANCHO SANTA MARGARITA )

I, MARIA A. FERRIS, Deputy City Clerk of the City of Rancho Santa Margarita, California, DO HEREBY CERTIFY that the attached is a copy of fully executed Resolution No. 12-11-14-03 that was adopted by the City Council of the City of the Rancho Santa Margarita on November 14, 2012.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of the City of Rancho Santa Margarita, California, this 13<sup>th</sup> day of December, 2012.

  
\_\_\_\_\_  
MARIA A. FERRIS, DEPUTY CITY CLERK  
Rancho Santa Margarita, California

RESOLUTION NO. 12-11-14-03

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF RANCHO SANTA MARGARITA, CALIFORNIA, AUTHORIZING THE EXECUTION AND DELIVERY BY THE CITY OF A GROUND LEASE, LEASE AGREEMENT, INDENTURE, ESCROW AGREEMENT, CONTINUING DISCLOSURE CERTIFICATE AND A BOND PURCHASE AGREEMENT IN CONNECTION WITH THE ISSUANCE OF RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY LEASE REVENUE REFUNDING BONDS, SERIES 2012A, APPROVING THE ISSUANCE OF SUCH BONDS IN AN AGGREGATE PRINCIPAL AMOUNT OF NOT TO EXCEED \$12,500,000, AUTHORIZING THE DISTRIBUTION OF AN OFFICIAL STATEMENT IN CONNECTION WITH THE OFFERING AND SALE OF SUCH BONDS AND AUTHORIZING THE EXECUTION OF NECESSARY DOCUMENTS AND CERTIFICATES AND RELATED ACTIONS

WHEREAS, the City of Rancho Santa Margarita, California (the "City") is a municipal corporation and general law city duly organized and existing under and pursuant to the Constitution and laws of the State of California (the "State"); and

WHEREAS, the City previously financed a portion of the costs of the acquisition, construction and installation of certain capital improvements constituting the City Hall and Regional Community Center and related improvements, facilities and equipment (the "2003 Project");

WHEREAS, in order to accomplish such financing, the City determined to provide the funds necessary to finance the acquisition, construction and installation of the 2003 Project through the execution and delivery by the City of the City of Rancho Santa Margarita Certificates of Participation (the "2003 Certificates"), payable from certain base rental payments to be made by the City under a lease agreement;

WHEREAS, the City desires to refinance all or a portion of the 2003 Project originally financed with the proceeds of the 2003 Certificates;

WHEREAS, in addition, the City desires to finance the acquisition and/or construction of various "public capital improvements", within the meaning of the Act (defined below), all of which are or shall be located within the boundaries of the City and collectively constitute the "2012 Project;"

WHEREAS, the City has determined that it would be in the best interests of the City and residents of the City to authorize the preparation, sale and delivery of the "Rancho Santa Margarita Public Financing Authority Lease Revenue Refunding Bonds, Series 2012A" (the "Bonds") for the purpose of financing the 2012 Project and refinancing the 2003 Certificates;

WHEREAS, in order to facilitate the issuance of the Bonds, the City and the Authority desire to enter into a Ground Lease between the City and the Authority (the "Ground Lease") pursuant to which the City will lease certain real property (which real property shall consist of assets generally described as the City Hall and Regional

Community Center) ("Leased Assets") to the Authority, and a Lease Agreement between the City and the Authority (the "Lease Agreement"), pursuant to which the City will lease the Leased Assets back from the Authority, and pay certain Base Rental Payments (as defined in the Lease Agreement), which are pledged to the owners of the Bonds by the Authority pursuant to an Indenture of Trust by and between Wells Fargo Bank, National Association (the "Trustee") and the Authority (the "Indenture"); and

WHEREAS, the City has determined that debt service savings can be achieved by the prepayment and defeasance of the 2003 Certificates;

WHEREAS, the City has determined that it would be in the best interests of the City to provide the funds necessary to finance the 2012 Project and refinance the 2003 Project originally financed with the proceeds of the 2003 Certificates through the offering and sale of the Bonds;

WHEREAS, the defeasance of the 2003 Certificates to be prepaid will be accomplished by means of an Escrow Agreement (the "Escrow Agreement") by and between Wells Fargo Bank, National Association, as escrow agent ("Escrow Agent") and the City, the form of which has been presented to this City Council at the meeting at which this Resolution is being adopted;

WHEREAS, the Bonds will be issued pursuant to the Marks-Roos Local Bond Pooling Act of 1985, commencing with Section 6584 of the California Government Code (the "Act");

WHEREAS, the City and the Authority desire to provide for the negotiated sale of the Bonds;

WHEREAS, the City and the Authority have selected Stifel Nicolaus & Co. Inc., dba Stone & Youngberg, a Division of Stifel Nicolaus, to act as underwriter ("Underwriter") to purchase the Bonds from the Authority pursuant to a Bond Purchase Agreement (the "Bond Purchase Agreement");

WHEREAS, Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 ("Rule 15c2-12") requires that, in order to be able to purchase or sell the Bonds, the underwriter thereof must have reasonably determined that the City has undertaken in a written agreement or contract for the benefit of the holders of the Bonds to provide disclosure of certain financial information and certain events on an ongoing basis;

WHEREAS, in order to cause such requirement to be satisfied, the City desires to execute and deliver a Continuing Disclosure Certificate (the "Continuing Disclosure Certificate");

WHEREAS, a form of the Preliminary Official Statement (the "Preliminary Official Statement") has been prepared;



WHEREAS, the City is a member of the Authority, and the 2012 Project and the 2003 Project are located within the boundaries of the City;

WHEREAS, the City has, prior to the consideration of this resolution, held a public hearing on the refinancing of the 2003 Certificates with the proceeds of the issuance of the Bonds in accordance with Section 6586.5 of the Act, which hearing was held at 22112 El Paseo, Rancho Santa Margarita, California on November 14, 2012;

WHEREAS, in accordance with Section 6586.5 of the Act, notice of such hearing was published once at least five days prior to the hearing in the Orange County Register, a newspaper of general circulation in the City;

WHEREAS, the City Council has been presented with the form of each document referred to herein relating to the refinancing contemplated hereby, and the City Council has examined and approved each document and desires to authorize and direct the execution of such documents and the consummation of such refinancing; and

WHEREAS, all acts, conditions and things required by the laws of the State of California to exist, to have happened and to have been performed precedent to and in connection with the consummation of such refinancing authorized hereby do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the City is now duly authorized and empowered, pursuant to each and every requirement of law, to consummate such refinancing for the purpose, in the manner and upon the terms herein provided;

**NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF RANCHO SANTA MARGARITA, as follows:**

Section 1. Each of the above recitals is true and correct. Following a duly noticed and conducted public hearing, the City Council hereby further finds and determines that there are significant public benefits to the citizens of the City through the use of the Act to assist the City with respect to the subject matter hereof through the approval of the issuance of the Bonds and otherwise hereunder within the meaning of Section 6586(a)-(d), inclusive, of the Act, in that the issuance of the Bonds and related transactions will result in demonstrable savings in effective interest rate to the City.

Section 2. The forms of the Ground Lease and Lease Agreement, on file with the City Clerk, are hereby approved, and the Mayor of the City, or such other member of the City Council as the Mayor may designate, the City Manager of the City and the Director of Administrative Services of the City (the "Authorized Officers"), are each hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver the Ground Lease and Lease Agreement in substantially said forms, with such changes, insertions and omissions therein as the Authorized Officer executing the same may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof; provided, however, that the term of the Ground Lease and Lease Agreement shall terminate no later than November 1, 2033 (provided that such term may be extended as

provided therein) and the true interest cost applicable to the interest components of the Base Rental Payments shall not exceed 4.0% per annum.

Section 3. The form of Indenture, on file with the City Clerk, is hereby approved, and the Authorized Officers are each hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver the Indenture in substantially said form, with such changes, insertions and omissions therein as the Authorized Officer executing the same may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof; provided, however, that the aggregate amount of the Bonds shall not exceed \$12,500,000, the final maturity date of the Bonds shall be no later than November 1, 2033 and the true interest cost applicable to the Bonds shall not exceed 4.00% per annum, and, provided, further, that such changes, insertions and omissions shall be consistent with the terms of the Bonds established at negotiated sale pursuant to the Bond Purchase Agreement.

Section 4. The Bond Purchase Agreement, on file with the City Clerk, is hereby approved and the Authorized Officers are, and each of them is, hereby authorized and directed, for and in the name of the City, to execute and deliver the acceptance thereof set forth in the Bond Purchase Agreement, with such changes, insertions and omissions as the Authorized Officer executing the same may require or approve, such requirement or approval to be conclusively evidenced by the execution of the Bond Purchase Agreement by such Authorized Officer; provided, however, that such changes, insertions and omissions shall not result in an aggregate underwriter's discount (not including any original issue discount paid by the Underwriter) from the principal amount of the Bonds in excess of six-tenths of one percent (0.6%) of the aggregate principal amount of the Bonds.

Section 5. The issuance of not to exceed \$12,500,000 aggregate principal amount of the Bonds, in the principal amounts, bearing interest at the rates and maturing on the dates as specified in the Indenture as finally executed, is hereby approved.

Section 6. The form of Preliminary Official Statement, on file with the City Clerk, with such changes, insertions and omissions therein as may be approved by an Authorized Officer, is hereby approved, and the use of the Preliminary Official Statement in connection with the offering and sale of the Bonds is hereby authorized and approved. The Authorized Officers are each hereby authorized to certify on behalf of the City that the Preliminary Official Statement is deemed final as of its date, within the meaning of Rule 15c2-12 (except for the omission of certain final pricing, rating and related information as permitted by Rule 15c2-12).

The Authorized Officers are each hereby authorized and directed to furnish, or cause to be furnished, to prospective bidders for the Bonds a reasonable number of copies of the Preliminary Official Statement.

Section 7. The preparation and delivery of an Official Statement, and its use in connection with the offering and sale of the Bonds, is hereby authorized and approved. The Official Statement shall be in substantially the form of the Preliminary Official Statement with such changes, insertions and omissions as may be approved by an Authorized Officer, such

approval to be conclusively evidenced by the execution and delivery thereof. The Authorized Officers are each hereby authorized and directed, for and in the name of and on behalf of the City, to execute the final Official Statement and any amendment or supplement thereto for and in the name and on behalf of the City.

Section 8. The form of Escrow Agreement, on file with the City Clerk, is hereby approved, and the Authorized Officers are each hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver the Escrow Agreement in substantially said form, with such changes, insertions and omissions therein as the Authorized Officer executing the same may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

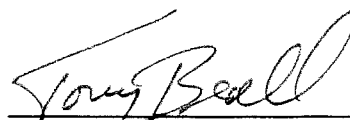
Section 9. The form of Continuing Disclosure Certificate, on file with the City Clerk, is hereby approved, and the Authorized Officers are each hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver the Continuing Disclosure Certificate in substantially said form, with such changes, insertions and omissions therein as the Authorized Officer executing the same may require or approve, such approval to be conclusively evidenced to the execution and delivery thereof.

Section 10. The prepayment of Base Rental Payments (as that term is defined in the Lease Agreement) in connection with the repair work to be performed on City Hall is hereby approved in an amount not to exceed \$1,500,000, which amount shall be deposited with the Trustee in the Prepaid Base Rental Account. The Authorized Officers are hereby authorized and directed, for and in the name of and on behalf of the City, to execute and deliver such documents, and take such actions to transfer such funds, as necessary to effect such prepayment on or before the closing date of the Bonds.

Section 11. The officers, employees and agents of the City are hereby authorized and directed, jointly and severally, to do any and all things which they may deem necessary or advisable in order to consummate the transactions herein authorized and otherwise to carry out, give effect to and comply with the terms and intent of this Resolution, including, but not limited to, the execution and delivery of agreements terminating the leasehold and subleasehold interests of the City and the City of Rancho Santa Margarita Nonprofit Corporation securing the 2003 Certificates (including, but not limited to, the Termination of Ground Lease and Termination of Lease Agreement substantially in the forms on file with the City Clerk). All actions heretofore taken by the officers, employees and agents of the City with respect to the transactions set forth above are hereby approved, confirmed and ratified.

Section 12. This Resolution shall take effect from and after its date of adoption.

PASSED, APPROVED AND ADOPTED THIS 14<sup>TH</sup> DAY OF NOVEMBER 2012.



L. ANTHONY BEALL, MAYOR

ATTEST:

  
\_\_\_\_\_  
MOLLY MCLAUGHLIN, CITY CLERK

STATE OF CALIFORNIA )  
COUNTY OF ORANGE ) ss  
CITY OF RANCHO SANTA MARGARITA )

I, Molly McLaughlin, City Clerk of the City of Rancho Santa Margarita, California, DO HEREBY CERTIFY that the foregoing is a true and correct copy of Resolution No. 12-11-14-03 was duly adopted at a meeting of the Rancho Santa Margarita by the City Council held on the 14<sup>th</sup> day of November, 2012, by the following vote:

AYES:	5	COUNCIL MEMBERS:	Holloway, Gamble, Petrilla, Mayor Pro Tempore Baric and Mayor Beall
NOES:	0	COUNCIL MEMBERS:	None
ABSTAIN:	0	COUNCIL MEMBERS:	None
ABSENT:	0	COUNCIL MEMBERS:	None

  
\_\_\_\_\_  
MOLLY MCLAUGHLIN, CITY CLERK

**\$11,230,000**  
**RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY**  
**LEASE REVENUE REFUNDING BONDS, SERIES 2012A**

**CITY INCUMBENCY AND SIGNATURE CERTIFICATE**

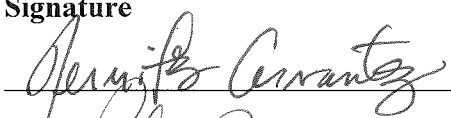

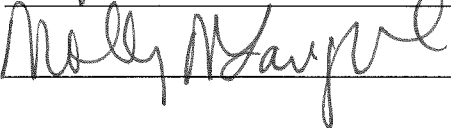
The undersigned hereby states and certifies that:

1. She is the duly appointed, qualified and acting City Clerk of the City of Rancho Santa Margarita, a municipal corporation and general law city duly organized and existing under the laws of the State of California (the "City"), and, as such, is familiar with the facts herein certified and is authorized to certify the same.

2. The following are the duly appointed or elected, qualified and acting members of the City Council of the City and officers of the City:

<b>Name</b>	<b>Office</b>
L. Anthony Beall	Mayor
Carol A. Gamble	Mayor <i>Pro Tempore</i>
Bradley J. McGirr	Councilmember
Steven Baric	Councilmember
Jesse Petrilla	Councilmember
Jennifer M. Cervantez	City Manager
Paul Boyer	Director of Administrative Services
Molly McLaughlin	City Clerk

3. The signatures set forth below are the true and correct specimens of the genuine signatures of the undersigned:

Name	Title	Signature
Jennifer M. Cervantez	City Manager	
Paul Boyer	Director of Administrative Services	
Molly McLaughlin	City Clerk	

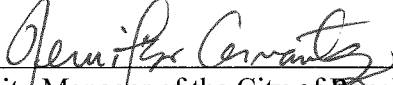
4. Resolution No. 12-11-14-03 adopted on November 14, 2012 by the City Council of the City (the "Resolution") and heretofore delivered to bond counsel for inclusion in the transcript of proceedings is a true, complete and correct copy thereof and said Resolution was duly adopted by the City Council and said Resolution has not been modified, amended or repealed and is in full force and effect in accordance with its terms on and as of the date hereof in the form previously delivered to bond counsel.

Dated: December 19, 2012

CITY OF RANCHO SANTA MARGARITA

By:   
City Clerk

The undersigned City Manager of the City of Rancho Santa Margarita hereby certifies that the above signature of the City Clerk of the City, is a true and correct signature.

  
City Manager of the City of Rancho Santa Margarita

**\$11,230,000**  
**RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY**  
**LEASE REVENUE REFUNDING BONDS, SERIES 2012A**

**CLOSING CERTIFICATE OF THE CITY**

The undersigned hereby states and certifies that:

1. She is the duly qualified and acting City Manager of the City of Rancho Santa Margarita (the "City"), and, as such, is familiar with the facts herein certified and is authorized to certify the same.

2. The City is a municipal corporation duly organized and existing under the laws of the State of California with all power and authority to execute and deliver and perform its duties under the Joint Exercise of Powers Agreement dated as of October 15, 2012 (the "Joint Powers Agreement"), by and between the City and the California Municipal Finance Authority.

3. The representations and warranties of the City contained in the Bond Purchase Agreement dated December 5, 2012 (the "Purchase Agreement"), among the City, the Rancho Santa Margarita Public Financing Authority (the "Authority") and Stifel, Nicolaus & Company, Incorporated dba Stone & Youngberg, a Division of Stifel Nicolaus (the "Underwriter"), are true and correct in all material respects on and as of the date hereof with the same effect as if made on the date hereof, except that all references therein to the Preliminary Official Statement shall be deemed to be references to the Official Statement.

4. The City has complied with all agreements, covenants and conditions on its part to be complied with at or prior to the date hereof.

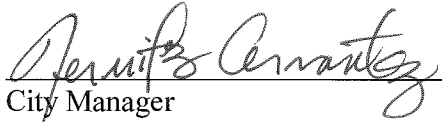
5. To the best knowledge of the undersigned, no event affecting the City has occurred since the date of the Official Statement which either makes untrue or incorrect in any material respect as of the date hereof the statements or information contained in the Official Statement or is not reflected in the Official Statement but should be reflected therein in order to make the statements and information therein not misleading in any material respect.

6. The City has authorized and consented to the inclusion in the Official Statement of the City's financial report and accountant's opinion for the year ended June 30, 2012, and no further consent of any party is required for such inclusion.

Capitalized terms used herein and not defined shall have the meanings given to such terms in the Purchase Agreement.

Dated: December 19, 2012

CITY OF RANCHO SANTA MARGARITA

By:  \_\_\_\_\_  
City Manager



**\$11,230,000**  
**RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY**  
**LEASE REVENUE REFUNDING BONDS, SERIES 2012A**

**REQUISITION NO. 1 FOR DISBURSEMENTS FROM**  
**COSTS OF ISSUANCE FUND**

The undersigned states that the obligations in the respective stated "Not to Exceed" amount described in Attachment 1 hereto have been incurred with respect to Costs of Issuance pursuant to that certain Indenture dated as of December 1, 2012 (the "Indenture"), by and among the Rancho Santa Margarita Public Financing Authority, the City of Rancho Santa Margarita and Wells Fargo Bank, National Association, as Trustee, and each item thereof is a proper charge against moneys in the Costs of Issuance Fund to pay Costs of Issuance, and has not been the subject of a previous requisition.

The Trustee is hereby directed to pay such obligations upon receipt of an invoice therefor.

Dated: December 19, 2012

CITY OF RANCHO SANTA MARGARITA

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

Director of Administrative Services

**ATTACHMENT 1**

**\$11,230,000  
RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY  
LEASE REVENUE REFUNDING BONDS, SERIES 2012A**

**ESTIMATED COSTS OF ISSUANCE**

<b>Payee</b>	<b>Description</b>	<b>Not to Exceed Amount</b>
Stradling Yocca Carlson & Rauth	Bond Counsel and Disclosure Counsel Fee Expenses	\$ 70,000.00 1,500.00
Fieldman, Rolapp & Associates	Financial Advisor Fee Expenses	50,000.00 3,445.01
California Municipal Finance Authority	JPA Formation Fee	10,000.00
Squire Sanders (US) LLP	CMFA Counsel Fee and Expenses	7,500.00
Wells Fargo Bank, National Association	Trustee/Escrow Bank Fee and Expenses	4,500.00
Standard & Poor's Ratings Services	Rating Agency Fee	14,000.00
Imagemaster	POS Posting; OS Posting, Printing and Mailing	3,589.65
First American Title Insurance Company	Title Insurance Premium	6,963.00
Causey Demgen & Moore, P.C.	Verification Report	2,500.00
California Municipal Statistics	OS Tables	950.00
Contingency		<u>19,312.98</u>
<b>TOTAL COSTS OF ISSUANCE</b>		<b><u>\$194,260.64</u></b>

\$11,230,000  
RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY  
LEASE REVENUE REFUNDING BONDS, SERIES 2012A

REQUISITION NO. 2 FOR DISBURSEMENTS FROM  
COSTS OF ISSUANCE FUND

The undersigned states that the obligations in the respective stated "Not to Exceed" amount described in Attachment 1 hereto have been incurred with respect to Costs of Issuance pursuant to that certain Indenture dated as of December 1, 2012 (the "Indenture"), by and among the Rancho Santa Margarita Public Financing Authority, the City of Rancho Santa Margarita and Wells Fargo Bank, National Association, as Trustee, and each item thereof is a proper charge against moneys in the Costs of Issuance Fund to pay Costs of Issuance, and has not been the subject of a previous requisition.

The Trustee is hereby directed to pay such obligations upon receipt of an invoice therefor.

Dated: December 20, 2012

CITY OF RANCHO SANTA MARGARITA

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

Director of Administrative Services

**ATTACHMENT 1**

**\$11,230,000**

**RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY  
LEASE REVENUE REFUNDING BONDS, SERIES 2012A**

**ESTIMATED COSTS OF ISSUANCE**

<b>Payee</b>	<b>Description</b>	<b>Not to Exceed Amount</b>
First American Title Insurance Company	Recording Fees	\$48.00

**\$11,230,000**  
**RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY**  
**LEASE REVENUE REFUNDING BONDS, SERIES 2012A**

**CERTIFICATE REGARDING INSURANCE**

The undersigned hereby states and certifies as follows:

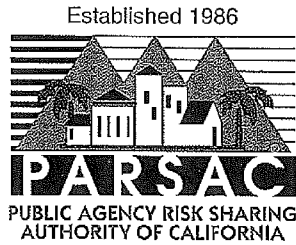
1. He is the Director of Administrative Services of the City of Rancho Santa Margarita (the "City") and is knowledgeable with respect to the matters set forth herein.
2. He has reviewed the provisions of Article V of the Lease Agreement dated as of December 1, 2012 (the "Lease"), by and between the City and the Rancho Santa Margarita Public Financing Authority.
3. Attached hereto are copies of the certificates of insurance evidencing the coverage required by Article V of the Lease.
4. Based upon a review of the Lease and the attached certificates, the City considers that the requirements of Article V of the Lease are satisfied as of the date hereof.

Dated: December 19, 2012

CITY OF RANCHO SANTA MARGARITA

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

Director of Administrative Services



October 31, 2012

To Whom It May Concern:

I am the Risk Manager for the Public Agency Risk Sharing Authority of California (PARSAC). PARSAC is a state wide risk sharing pool providing self funded general liability and workers' compensation coverage to municipalities, including the City of Rancho Santana Margarita.

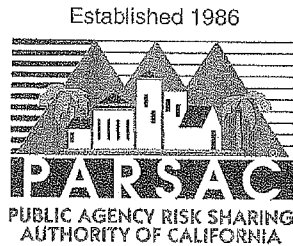
PARSAC's self funded liability and workers' compensation programs are funded above the 90% confidence level. I hereby certify that the self funded coverage programs are actuarially sound and reserves are adequate to meet the JPA's claims liabilities.

Sincerely,



Kin Ong, ARM

Risk Manager



December 7, 2012

**CERTIFICATE HOLDER:**

Wells Fargo Bank, National Association  
707 Wilshire Boulevard, 17<sup>th</sup> Floor  
Los Angeles, CA 90017  
Attn Corporate Services Department

**RE: EVIDENCE OF WORKERS' COMPENSATION COVERAGE # 012-285.1-RS**

Only as respects the Lease Agreement between the City of Rancho Santa Margarita and Rancho Santa Margarita Public Financing Authority for Lease Revenue Refunding Bonds, Series 2012A.

To Whom It May Concern:

Please be advised that the **CITY OF RANCHO SANTA MARGARITA** participates in PARSAC, the Public Agency Risk Sharing Authority of California. As such, it is collectively and permissibly self-insured under Sections 990.4 and 990.8 of the California Government Code. The specifics of the self-insured program are listed below:

**COVERAGE YEAR:                    JULY 1, 2012 - JULY 1, 2013**

➤ **Workers' Compensation:**

Limit: \$500,000 per accident through group self-insurance

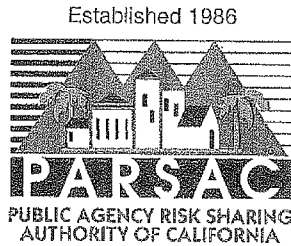
Employers' Liability: \$ 500,000

Occurrence Retention: \$ -0-

Respectfully,

Kin Ong, ARM  
Risk Manager

cc: City of Rancho Santa Margarita



**CERTIFICATE HOLDER:**

Wells Fargo Bank, National Association  
707 Wilshire Boulevard, 17<sup>th</sup> Floor  
Los Angeles, CA 90017  
Attn Corporate Services Department

**RE: EVIDENCE OF COVERAGE & ADDITIONAL COVERED PARTY ENDORSEMENT # 012-285-RS**

**Only as respects the Lease Agreement between the City of Rancho Santa Margarita and Rancho Santa Margarita Public Financing Authority for Lease Revenue Refunding Bonds, Series 2012A.**

To Whom It May Concern:

Please be advised that the **CITY OF RANCHO SANTA MARGARITA** participates in PARSAC, the Public Agency Risk Sharing Authority of California. As such, it is collectively and permissibly self-insured under Sections 990.4 and 990.8 of the California Government Code. The specifics of the self-insured program are listed below:

**COVERAGE YEAR: JULY 1, 2012 - JULY 1, 2013**

- General and Automobile Liability
  - Public Officials Errors & Omission
- Limit: \$1 Million per occurrence group self-insurance  
Occurrence Retention: \$ 10,000

**CONDITIONS OF THIS ADDITIONAL COVERED PARTY ENDORSEMENT**

**Effective Date: December 7, 2012 Expiration Date: July 1, 2013**

The coverage afforded as described above is subject to all terms, exclusions, conditions, definitions, and other provisions of the Public Agency Risk Sharing Authority of California's Memorandum of Coverage.

If collectible insurance with any insurer, coverage with any other joint powers authority or other self-funding mechanism is available to the Additional Covered Party named above covering a loss to which the PARSAC Memorandum of Coverage applies (whether on a primary, excess or contingent basis), the coverage of such Memorandum shall be in excess of, and shall not contribute with such other insurance or coverage; provided that this clause does not apply with respect to excess insurance or coverage purchased specifically to be in excess of such Memorandum. The bankruptcy of, insolvency of, or placement into rehabilitation or receivership by any regulatory agency of any joint powers authority or insurance company providing joint powers authority protection or insurance coverage to the Additional Covered Party, named above, shall not amend the application of this condition.

This Endorsement does not apply to liability arising out of the sole negligence of the Additional Covered Party named above.

Coverage is in effect as stated above and will not be cancelled except upon 30 days written notice to the Additional Covered Party.

December 7, 2012

Kin Ong, ARM  
Risk Manager

cc: City of Rancho Santa Margarita  
Form Revised 3/12/12



CERTIFICATE NO.

ISSUE DATE (MM/DD/YYYY)

GL1-4714	AI	<b>CERTIFICATE OF COVERAGE</b>	12/10/2012
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<p><b>CSAC Excess Insurance Authority</b>                  C/O ALLIANT INSURANCE SERVICES, INC.                  PO BOX 6450                  NEWPORT BEACH, CA 92658-6450                  PHONE (949) 756-0271 / FAX (619) 699-0901                  LICENSE #OC36861</p>	<p>THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BELOW. THIS CERTIFICATE OF COVERAGE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.</p> <p>IMPORTANT: If the certificate holder is an ADDITIONAL INSURED and/or requesting a WAIVER OF SUBROGATION, the Memorandums of Coverage must be endorsed. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).</p> <p>COVERAGE AFFORDED <b>A - CSAC Excess Insurance Authority</b></p>
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<p><b>Member:</b>                  PUBLIC AGENCY RISK SHARING AUTHORITY OF CALIFORNIA (PARSAC)                  1525 RESPONSE ROAD, SUITE 1                  SACRAMENTO, CA 95815</p>	<p>COVERAGE AFFORDED <b>B</b></p> <p>COVERAGE AFFORDED <b>C</b></p> <p>COVERAGE AFFORDED <b>D</b></p>
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**Coverages**  
 THIS IS TO CERTIFY THAT THE MEMORANDUMS OF COVERAGE LISTED BELOW HAVE BEEN ISSUED TO THE MEMBER NAMED ABOVE FOR THE PERIOD INDICATED, NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN. THE COVERAGE AFFORDED BY THE MEMORANDUMS DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS, AND CONDITIONS OF SUCH MEMORANDUMS. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

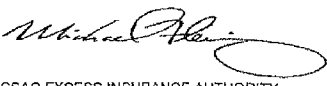
CO LTR	TYPE OF COVERAGE	MEMORANDUM NUMBER	COVERAGE EFFECTIVE DATE (MM/DD/YYYY)	COVERAGE EXPIRATION DATE (MM/DD/YYYY)	LIABILITY LIMITS
A	<input type="checkbox"/> <input checked="" type="checkbox"/> Excess General Liability <input checked="" type="checkbox"/> Excess Auto Liability <input checked="" type="checkbox"/> Excess Errors & Omissions	EIA-PE 12 EL-76	07/01/2012	07/01/2013	Difference between \$2,000,000 and the Member's Self-Insured Retention of \$1,000,000  Completed Operations Aggregate Applies

**Description of Operations/Locations/Vehicles/Special Items:**

AS RESPECTS LEASE AGREEMENT BETWEEN CITY OF RANCHO SANTA MARGARITA AND RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY RELATING TO \$11,230,000 LEASE REVENUE REFUNDING BONDS, SERIES 2012A. PROPERTY: CITY HALL AT 22112 EL PASEO AND THE BELL TOWER REGIONAL COMMUNITY CENTER AT 22232 EL PASEO, RANCHO SANTA MARGARITA, CA.

RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY, LESSOR AND ITS MEMBERS, OFFICERS, AGENTS AND EMPLOYEES AND WELLS FARGO BANK, NATIONAL ASSOCIATION, TRUSTEE ARE INCLUDED AS ADDITIONAL COVERED PARTIES, BUT ONLY INsofar AS THE OPERATIONS UNDER THIS CONTRACT ARE CONCERNED.

CITY OF RANCHO SANTA MARGARITA IS A MEMBER OF PUBLIC AGENCY RISK SHARING AUTHORITY OF CALIFORNIA (PARSAC)

<p><b>Certificate Holder</b></p> <p>WELLS FARGO BANK, NATIONAL ASSOCIATION                  ATTN: CORPORATE SERVICES DEPARTMENT                  707 WILSHIRE BLVD., 17TH FLOOR                  LOS ANGELES, CA 90017</p>	<p><b>Cancellation</b>                  SHOULD ANY OF THE ABOVE DESCRIBED MEMORANDUMS OF COVERAGES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE MEMORANDUMS OF COVERAGE PROVISIONS.</p> <p>AUTHORIZED REPRESENTATIVE</p> <p style="text-align: center;"></p> <p style="text-align: center;">CSAC EXCESS INSURANCE AUTHORITY</p>
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ENDORSEMENT NO. U-1  
CSAC EXCESS INSURANCE AUTHORITY  
GENERAL LIABILITY I  
ADDITIONAL COVERED PARTY AMENDATORY ENDORSEMENT

It is agreed that the "Covered Party, Covered Persons or Entities" section of the Memorandum is amended to include the person or organization named on the Certificate of Coverage, but only with respect to liability arising out of premises owned by or rented to the Member, or operations performed by or on behalf of the Member or such person or organization so designated.

Coverage provided under this endorsement is limited to the lesser of the limits stated on the Certificate of Coverage or the minimum limits required by contract.

ADDITIONAL COVERED PARTY:

NAME OF PERSON OR ORGANIZATION SCHEDULED PER ATTACHED CERTIFICATE OF COVERAGE

AS RESPECTS:

PER ATTACHED CERTIFICATE OF COVERAGE

It is further agreed that nothing herein shall act to increase the Authority's limit of liability.

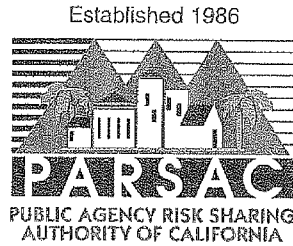
This endorsement is part of the Memorandum and takes effect on the effective date of the Memorandum unless another effective date is shown below. All other terms and conditions remain unchanged.

Effective Date: \_\_\_\_\_

Memorandum No.: PER ATTACHED CERTIFICATE OF COVERAGE

Issue Date: July 1, 2012

  
\_\_\_\_\_  
Authorized Representative  
CSAC Excess Insurance Authority



December 7, 2012

**CERTIFICATE HOLDER:**

Rancho Santa Margarita Public Financing Authority  
c/o City of Rancho Santa Margarita  
22112 El Paseo  
Rancho Santa Margarita, CA 92688  
Attn: Executive Director

**RE: EVIDENCE OF WORKERS' COMPENSATION COVERAGE # 012-286.1-RS**

**Only as respects the Lease Agreement between the City of Rancho Santa Margarita and Rancho Santa Margarita Public Financing Authority for Lease Revenue Refunding Bonds, Series 2012A.**

To Whom It May Concern:

Please be advised that the **CITY OF RANCHO SANTA MARGARITA** participates in PARSAC, the Public Agency Risk Sharing Authority of California. As such, it is collectively and permissibly self-insured under Sections 990.4 and 990.8 of the California Government Code. The specifics of the self-insured program are listed below:

**COVERAGE YEAR:                      JULY 1, 2012 – JULY 1, 2013**

➤ **Workers' Compensation:**

Limit: \$500,000 per accident through group self-insurance

Employers' Liability: \$ 500,000

Occurrence Retention: \$ -0-

Respectfully,

Kin Ong, ARM  
Risk Manager

cc: City of Rancho Santa Margarita

CERTIFICATE NO.

ISSUE DATE (MM/DD/YYYY)

GL1-4713	AI	<b>CERTIFICATE OF COVERAGE</b>	12/10/2012
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<p><b>CSAC Excess Insurance Authority</b>                  C/O ALLIANT INSURANCE SERVICES, INC.                  PO BOX 6450                  NEWPORT BEACH, CA 92658-6450                  PHONE (949) 756-0271 / FAX (619) 699-0901                  LICENSE #0C36861</p>	<p>THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BELOW. THIS CERTIFICATE OF COVERAGE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.</p> <p>IMPORTANT: If the certificate holder is an ADDITIONAL INSURED and/or requesting a WAIVER OF SUBROGATION, the Memorandums of Coverage must be endorsed. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).</p>
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<p><b>Member:</b>                  PUBLIC AGENCY RISK SHARING AUTHORITY OF CALIFORNIA (PARSAC)                  1525 RESPONSE ROAD, SUITE 1                  SACRAMENTO, CA 95815</p>	<p>COVERAGE AFFORDED <b>A - CSAC Excess Insurance Authority</b></p> <p>COVERAGE AFFORDED <b>B</b></p> <p>COVERAGE AFFORDED <b>C</b></p> <p>COVERAGE AFFORDED <b>D</b></p>
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**Coverages**  
 THIS IS TO CERTIFY THAT THE MEMORANDUMS OF COVERAGE LISTED BELOW HAVE BEEN ISSUED TO THE MEMBER NAMED ABOVE FOR THE PERIOD INDICATED, NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN. THE COVERAGE AFFORDED BY THE MEMORANDUMS DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS, AND CONDITIONS OF SUCH MEMORANDUMS. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.


CO LTR	TYPE OF COVERAGE	MEMORANDUM NUMBER	COVERAGE EFFECTIVE DATE (MM/DD/YYYY)	COVERAGE EXPIRATION DATE (MM/DD/YYYY)	LIABILITY LIMITS
A	<input type="checkbox"/> <input checked="" type="checkbox"/> Excess General Liability <input checked="" type="checkbox"/> Excess Auto Liability <input checked="" type="checkbox"/> Excess Errors & Omissions	EIA-PE 12 EL-76	07/01/2012	07/01/2013	Difference between \$2,000,000 and the Member's Self-Insured Retention of \$1,000,000  Completed Operations Aggregate Applies

**Description of Operations/Locations/Vehicles/Special Items:**

AS RESPECTS LEASE AGREEMENT BETWEEN CITY OF RANCHO SANTA MARGARITA AND RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY RELATING TO \$11,230,000 LEASE REVENUE REFUNDING BONDS, SERIES 2012A. PROPERTY: CITY HALL AT 22112 EL PASEO AND THE BELL TOWER REGIONAL COMMUNITY CENTER AT 22232 EL PASEO, RANCHO SANTA MARGARITA, CA.

RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY, LESSOR AND ITS MEMBERS, OFFICERS, AGENTS AND EMPLOYEES AND WELLS FARGO BANK, NATIONAL ASSOCIATION, TRUSTEE ARE INCLUDED AS ADDITIONAL COVERED PARTIES, BUT ONLY INsofar AS THE OPERATIONS UNDER THIS CONTRACT ARE CONCERNED.

CITY OF RANCHO SANTA MARGARITA IS A MEMBER OF PUBLIC AGENCY RISK SHARING AUTHORITY OF CALIFORNIA (PARSAC)

<p><b>Certificate Holder</b></p> <p>RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY                  C/O CITY OF RANCHO SANTA MARGARITA                  ATTN: EXECUTIVE DIRECTOR                  22112 EL PASEO                  RANCHO SANTA MARGARITA, CA 92688</p>	<p><b>Cancellation</b>                  SHOULD ANY OF THE ABOVE DESCRIBED MEMORANDUMS OF COVERAGES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE MEMORANDUMS OF COVERAGE PROVISIONS.</p> <hr/> <p>AUTHORIZED REPRESENTATIVE</p> <p style="text-align: center;"></p> <p style="text-align: center;">CSAC EXCESS INSURANCE AUTHORITY</p>
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ENDORSEMENT NO. U-1  
CSAC EXCESS INSURANCE AUTHORITY  
GENERAL LIABILITY I  
ADDITIONAL COVERED PARTY AMENDATORY ENDORSEMENT

It is agreed that the "Covered Party, Covered Persons or Entities" section of the Memorandum is amended to include the person or organization named on the Certificate of Coverage, but only with respect to liability arising out of premises owned by or rented to the Member, or operations performed by or on behalf of the Member or such person or organization so designated.

Coverage provided under this endorsement is limited to the lesser of the limits stated on the Certificate of Coverage or the minimum limits required by contract.

ADDITIONAL COVERED PARTY:

NAME OF PERSON OR ORGANIZATION SCHEDULED PER ATTACHED CERTIFICATE OF COVERAGE

AS RESPECTS:

PER ATTACHED CERTIFICATE OF COVERAGE

It is further agreed that nothing herein shall act to increase the Authority's limit of liability.

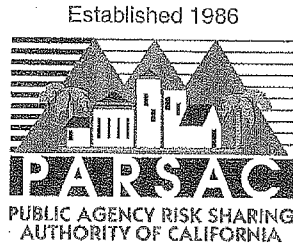
This endorsement is part of the Memorandum and takes effect on the effective date of the Memorandum unless another effective date is shown below. All other terms and conditions remain unchanged.

Effective Date: \_\_\_\_\_

Memorandum No.: PER ATTACHED CERTIFICATE OF COVERAGE

Issue Date: July 1, 2012

  
\_\_\_\_\_  
Authorized Representative  
CSAC Excess Insurance Authority



**CERTIFICATE HOLDER**

Rancho Santa Margarita Public Financing Authority  
c/o City of Rancho Santa Margarita  
22112 El Paseo  
Rancho Santa Margarita, CA 92688  
Attn: Executive Director

**RE: EVIDENCE OF COVERAGE & ADDITIONAL COVERED PARTY ENDORSEMENT # 012-286-RS**

**Only as respects the Lease Agreement between the City of Rancho Santa Margarita and Rancho Santa Margarita Public Financing Authority for Lease Revenue Refunding Bonds, Series 2012A.**

**To Whom It May Concern:**

Please be advised that the **CITY OF RANCHO SANTA MARGARITA** participates in PARSAC, the Public Agency Risk Sharing Authority of California. As such, it is collectively and permissibly self-insured under Sections 990.4 and 990.8 of the California Government Code. The specifics of the self-insured program are listed below:

**COVERAGE YEAR: JULY 1, 2012 – JULY 1, 2013**

- General and Automobile Liability
  - Public Officials Errors & Omission
- Limit: \$1 Million per occurrence group self-insurance  
Occurrence Retention: \$ 10,000

**CONDITIONS OF THIS ADDITIONAL COVERED PARTY ENDORSEMENT**

**Effective Date:** December 7, 2012 **Expiration Date:** July 1, 2013

The coverage afforded as described above is subject to all terms, exclusions, conditions, definitions, and other provisions of the Public Agency Risk Sharing Authority of California's Memorandum of Coverage.

If collectible insurance with any insurer, coverage with any other joint powers authority or other self-funding mechanism is available to the Additional Covered Party named above covering a loss to which the PARSAC Memorandum of Coverage applies (whether on a primary, excess or contingent basis), the coverage of such Memorandum shall be in excess of, and shall not contribute with such other insurance or coverage; provided that this clause does not apply with respect to excess insurance or coverage purchased specifically to be in excess of such Memorandum. The bankruptcy of, insolvency of, or placement into rehabilitation or receivership by any regulatory agency of any joint powers authority or insurance company providing joint powers authority protection or insurance coverage to the Additional Covered Party, named above, shall not amend the application of this condition.

This Endorsement does not apply to liability arising out of the sole negligence of the Additional Covered Party named above.

Coverage is in effect as stated above and will not be cancelled except upon 30 days written notice to the Additional Covered Party.

December 7, 2012

Kin Ong, ARM  
Risk Manager

cc: City of Rancho Santa Margarita  
Form Revised 3/12/12



# EVIDENCE OF PROPERTY INSURANCE

ISSUE DATE (MM/DD/YYYY) 12/11/2012
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THIS EVIDENCE OF PROPERTY INSURANCE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE ADDITIONAL INTEREST NAMED BELOW. THIS EVIDENCE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS EVIDENCE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S) AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE ADDITIONAL INTEREST.			
<b>PRODUCER</b> ALLIANT INSURANCE SERVICES, INC. P.O. BOX 6450 NEWPORT BEACH, CA 92658-6450 PH (949) 756-0271 / FAX (949) 756-2713 LICENSE NO. 0C36861 CODE    SUB-CODE	<b>COMPANY</b> VARIOUS PER ATTACHED SCHEDULE 03		
<b>INSURED</b> PUBLIC ENTITY PROPERTY INSURANCE PROGRAM (PEPIP): PUBLIC AGENCY RISK SHARING AUTHORITY OF CALIFORNIA (PARSAC) MEMBER CITY OF RANCHO SANTA MARGARITA C/O KIN ONG, PARSAC ADMIN. 1525 RESPONSE RD., STE. ONE SACRAMENTO, CA 95815	<b>LOAN NUMBER</b>	<b>PRIMARY LAYER POLICY NUMBER</b> <div style="text-align: center;">11660423</div>	
		<b>EFFECTIVE DATE (MM/DD/YY)</b> <div style="text-align: center;">07/01/12</div>	<b>EXPIRATION DATE (MM/DD/YY)</b> <div style="text-align: center;">07/01/13</div>
		<b>CONT. UNTIL TERMINATED IF CHECKED</b> <input type="checkbox"/>	
<b>THIS REPLACES PRIOR EVIDENCE DATED:</b>			

**PROPERTY INFORMATION**

**LOCATION / DESCRIPTION**  
 AS RESPECTS LEASE AGREEMENT BY AND BETWEEN THE CITY OF RANCHO SANTA MARGARITA AND RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY DATED DECEMBER 1, 2012 REGARDING \$11,230,000 RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY LEASE REVENUE REFUNDING BONDS, SERIES 2012A FOR PROPERTIES LOCATED AT 22112 EL PASEO (LOC 3) AND 22232 EL PASEO, RANCHO SANTA MARGARITA, CA 96288 (LOC 4). INCLUDES \$1,509,198.34 RENTAL INTERRUPTION. RANCHO SANTA MARGARITA AND RSM PUBLIC FINANCE AUTHORITY ARE INCLUDED AS ADDITIONAL INSURED.  
 THIS CANCELS AND REPLACES CERTIFICATE ISSUED 12/10/12 TO CHANGE THE AMOUNT OF RENTAL INTERRUPTION.

COVERAGE / PERILS / FORMS	AMOUNT OF INSURANCE	DEDUCTIBLE
ALL RISK OF DIRECT PHYSICAL LOSS OR DAMAGE EXCLUDING EARTHQUAKE AND FLOOD. COVERAGE INCLUDES REAL AND PERSONAL PROPERTY, RENTAL INCOME INCLUDING BOND REVENUE REQUIREMENTS, BUSINESS INTERRUPTION, EXTRA EXPENSE AND ALL EXTENSIONS AND SUBLIMITS OF COVERAGE AS SHOWN ON MANUSCRIPT POLICY FORM.  REPAIR OR REPLACEMENT COST VALUATION SUBJECT TO POLICY PROVISIONS VEHICLES IF PURCHASED ARE SUBJECT TO ACTUAL CASH VALUE (ACV) OR REPLACEMENT COST PER POLICY PROVISIONS	\$1,000,000,000 LOSS LIMIT PER OCCURRENCE  BOILER & MACHINERY \$100,000,000	SEE BELOW
THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS EVIDENCE OF PROPERTY INSURANCE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.		

**REMARKS (Including Special Conditions)**

<b>DEDUCTIBLES:</b> ALL RISK: \$5,000	<b>VEHICLES:</b> \$5,000 COMPREHENSIVE \$5,000 COLLISION EXCEPT NO VEHICLE COVG FOR WATSONVILLE OR WILDOMAR  <b>OTHER:</b> \$5,000 CONTRACTORS EQUIPMENT BOILER & MACHINERY: \$5,000 - HIGHER DED APPLY BASED ON SPECIFIC OBJECT/SIZE/PERIL
--	--

**CANCELLATION**  
 SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.

**ADDITIONAL INTEREST**

<b>NAME AND ADDRESS</b>  WELLS FARGO BANK, NATIONAL ASSOCIATION ATTN: CORPORATE SERVICES DEPARTMENT 707 WILSHIRE BLVD., 17TH FLOOR LOS ANGELES, CA 90017	<table style="width: 100%;"> <tr> <td style="width: 50%;"> <input type="checkbox"/> MORTGAGEE         </td> <td style="width: 50%;"> <input type="checkbox"/> ADDITIONAL INSURED         </td> </tr> <tr> <td> <input checked="" type="checkbox"/> LOSS PAYEE            438BFU         </td> <td> <input type="checkbox"/> (OTHER)         </td> </tr> </table> <b>SIGNATURE OF AUTHORIZED AGENT OF COMPANY</b> 	<input type="checkbox"/> MORTGAGEE	<input type="checkbox"/> ADDITIONAL INSURED	<input checked="" type="checkbox"/> LOSS PAYEE 438BFU	<input type="checkbox"/> (OTHER)
<input type="checkbox"/> MORTGAGEE	<input type="checkbox"/> ADDITIONAL INSURED				
<input checked="" type="checkbox"/> LOSS PAYEE 438BFU	<input type="checkbox"/> (OTHER)				



**ALLIANT PROPERTY INSURANCE PROGRAM (APIP)**

**2012-2013**

**NAMED INSURED**

**AS OF 12/07/2012**

**MEMBER:** Public Agency Risk Sharing Authority of California (PARSAC)  
1525 Response Road, Suite One  
Sacramento, CA 95815

**NAMED INSURED:**

Public Agency Risk Sharing Authority of California (PARSAC) and its members

Alturas, City of	Tehama, City of
Amador City, City of	Trinidad, City of
Avalon, City of	Truckee, Town of
Blue Lake, City of	Twentynine Palms, City of
California City, City of	Watsonville, City of
Calimesa, City of	Watsonville Joint Powers Financing Authority
Calistoga, City of	Wheatland, City of
Calistoga Public Facilities Corporation	Wildomar, City of
Citrus Heights, City of	Yountville, Town of
Clearlake, City of	Yucaipa, City of
Coalinga, City of	Yucca Valley, Town of
Grass Valley, City of	Yucca Valley Community Center Authority
Highland, City of	and The Redevelopment Agency of the Town
Menifee, City of	of Yucca Valley
Nevada City, City of	
Pacific Grove, City of	
PARSAC Administration	
Placentia, City of	
Placerville, City of	
Plymouth, City of	
Rancho Cucamonga, City of	
Rancho Santa Margarita, City of	
RSM Public Finance Authority	
Rialto, City of	
San Juan Bautista, City of	
South Lake Tahoe, City of	
South Tahoe Joint Powers Financing Authority	

First Named Insured Member shall be deemed the sole agent of each and every named insured for the purpose of:

- (1) Giving notice of cancellation,
- (2) Giving instructions for changes in the Policy and accepting changes in this Policy
- (3) The payment of assessments / premiums or receipt of return assessments / premiums.



**LENDER'S LOSS PAYABLE ENDORSEMENT**

1. Loss or damage, if any, under this policy, shall be paid to the Payee named on the first page of this policy, its successors and assigns, hereinafter referred to as "the Lender", in whatever form or capacity its interests may appear and whether said interest be vested in said Lender in its individual or in its disclosed or undisclosed fiduciary or representative capacity, or otherwise, or vested in a nominee or trustee of said Lender.
2. The insurance under this policy, or any rider or endorsement attached thereto, as to the interest only of the Lender, its successors and assigns, shall not be invalidated nor suspended: (a) by any error, omission, or change respecting the ownership, description, possession, or location of the subject of the insurance or the interest therein, or the title thereto; (b) by the commencement of foreclosure proceedings or the giving of notice of sale of any of the property covered by this policy by virtue of any mortgage or trust deed; (c) by any breach of warranty, act, omission, neglect, or non-compliance with any of the provisions of this policy, including any and all riders now or hereafter attached thereto, by the named insured, the borrower, mortgagor, trustor, vendee, owner, tenant, warehouseman, custodian, occupant, or by the agents of either or any of them or by the happening of any event permitted by them or either of them, or their agents, or which they failed to prevent, whether occurring before or after the attachment of this endorsement, or whether before or after a loss, which under the provisions of this policy of insurance or of any rider or endorsement attached thereto would invalidate or suspend the insurance as to the named insured, excluding herefrom, however, any acts or omissions of the Lender while exercising active control and management of the property.
3. In the event of failure of the insured to pay any premium or additional premium which shall be or become due under the terms of this policy or on account of any change in occupancy or increase in hazard not permitted by this policy, this Insurer agrees to give written notice to the Lender of such non-payment of premium after sixty (60) days from and within one hundred and twenty (120) days after due date of such premium and it is a condition of the continuance of the rights of the Lender hereunder that the Lender when so notified in writing by this Insurer of the failure of the insured to pay such premium shall pay or cause to be paid the premium due within ten (10) days following receipt of the Insurer's demand in writing therefor. If the Lender shall decline to pay said premium or additional premium, the rights of the Lender under this Lender's Loss Payable Endorsement shall not be terminated before ten (10) days after receipt of said written notice by the Lender.
4. Whenever this Insurer shall pay to the Lender any sum for loss or damage under this policy and shall claim that as to the insured no liability therefor exists, this Insurer, at its option, may pay to the Lender the whole principal sum and interest and other indebtedness due or to become due from the insured, whether secured or unsecured, (with refund of all interest not accrued), and this Insurer, to the extent of such payment, shall thereupon receive a full assignment and transfer, without recourse, of the debt and all rights and securities held as collateral thereto.
5. If there be any other insurance upon the within described property, this Insurer shall be liable under this policy as to the Lender for the proportion of such loss or damage that the sum hereby insured bears to the entire insurance of similar character on said property under policies held by, payable to and expressly consented to by the Lender. Any Contribution Clause included in any Fallen Building Clause Waiver or any Extended Coverage Endorsement attached to this contract of insurance is hereby nullified, and also any Contribution Clause in any other endorsement or rider attached to this contract of insurance is hereby nullified except Contribution Clauses for the compliance with which the insured has received reduction in the rate charged or has received extension of the coverage to include hazards other than fire and compliance with such Contribution Clause is made a part of the consideration for insuring such other hazards. The Lender upon the payment to it of the full amount of its claim, will subrogate this Insurer (pro rata with all other insurers contributing to said payment) to all of the Lender's rights of contribution under said other insurance.
6. This Insurer reserves the right to cancel this policy at any time, as provided by its terms, but in such case this policy shall continue in force for the benefit of the Lender for ten (10) days after written notice of such cancellation is received by the Lender and shall then cease.
7. This policy shall remain in full force and effect as to the interest of the Lender for a period of ten (10) days after its expiration unless an acceptable policy in renewal thereof with loss thereunder payable to the Lender in accordance with the terms of this Lender's Loss Payable Endorsement, shall have been issued by some insurance Insurer and accepted by the Lender.
8. Should legal title to and beneficial ownership of any of the property covered under this policy become vested in the Lender or its agents, insurance under this policy shall continue for the term thereof for the benefit of the Lender but, in such event, any privileges granted by this Lender's Loss Payable Endorsement which are not also granted the insured under the terms and conditions of this policy and/or under other riders or endorsements attached thereto shall not apply to the insurance hereunder as respects such property.
9. All notices herein provided to be give by the Insurer to the Lender in connection with this policy and this Lender's Loss Payable Endorsement shall be mailed to or delivered to the Lender at its office or branch described on the first page of the policy.

Approved:

Board of Fire Underwriters of the Pacific,  
California Bankers' Association  
Committee on Insurance.

**ALLIANT INSURANCE SERVICES, INC.**  
**PUBLIC ENTITY PROPERTY INSURANCE PROGRAM (PEPIP)**  
**DEC #3 - CITIES 3 (\$1B CARRIERS)**  
**SCHEDULE OF CARRIERS**  
**EFFECTIVE JULY 1, 2012 TO JULY 1, 2013**

COMPANY	LIMIT	POLICY NO.
<b>100% of Primary \$25,000,000 All Risk Including EQ, FL and B&amp;M</b>		
<b>100% of \$100,000,000 per member per occurrence subject to \$200,000,000 Annual Aggregate as respects Property Damage, Business Interruption, Rental Income and Extra Expense Combined - Terrorism</b>		
Lexington Insurance Company	\$ 25,000,000	011660423 Ins 011660474 Re-Ins
<b>Total</b>	<b>\$ 25,000,000</b>	
<b>\$15,000,000 x/s \$25,000,000 All Risk *Including EQ, FL and B&amp;M and Excluding Terrorism</b>		
Liberty Syndicate Management Limited (Liberty 4472)	\$ 2,377,050	P112696
Axis Specialty Europe PLC	\$ 2,750,000	P112696
R.J.Kiln & Co. Limited (Kiln Combined Syndicate 510)	\$ 2,377,050	P112696
Lloyd's Syndicate BRT 2987	\$ 237,700	P112696
Lloyd's Syndicate APL 1969 (75%) and FSR 1861 (25%)	\$ 1,069,675	P112696
Ascot Underwriting Limited (Reith 1414)	\$ 5,000,000	P112758
MKL 3000	\$ 1,188,525	P112696
<b>Total</b>	<b>\$ 15,000,000</b>	
<b>\$2,500,000 x/s \$25,000,000 All Risk *Including EQ and FL Excluding B&amp;M and Terrorism</b>		
Lexington Insurance Company	\$ 2,500,000	011660460 Ins 011660461 Re-Ins
<b>Total</b>	<b>\$ 2,500,000</b>	
<b>\$5,625,000 x/s \$50,000,000 All Risk *Including EQ and FL Excluding CA EQ, B&amp;M and Terrorism</b>		
Ironshore Specialty Insurance Company	\$ 5,625,000	000517203
Ironshore Specialty Insurance Company (AZ Only)		000517403
<b>Total</b>	<b>\$ 5,625,000</b>	
<b>\$5,625,000 x/s \$87,500,000 All Risk *Including EQ, FL and B&amp;M Excluding Terrorism</b>		
Axis Specialty Europe PLC	\$ 5,625,000	P112716
<b>Total</b>	<b>\$ 5,625,000</b>	
<b>\$9,000,000 x/s \$50,000,000 All Risk *Including EQ, FL and B&amp;M Excluding Terrorism</b>		
Liberty Syndicate Management Limited (Liberty 4472)	\$ 3,750,000	P112696
Ascot Underwriting Limited (Reith 1414)	\$ 3,750,000	P112696
Brit Syndicates Limited (Brit Syndicate 2987)	\$ 1,500,000	P122696
<b>Total</b>	<b>\$ 9,000,000</b>	
<b>\$4,000,000 x/s \$50,000,000 All Risk *Including EQ, FL and B&amp;M Excluding Terrorism</b>		
AUW 609	\$ 3,500,000	P122711
BRT 2987	\$ 500,000	P123297
<b>Total</b>	<b>\$ 4,000,000</b>	
<b>\$2,000,000 x/s \$100,000,000 All Risk *Including EQ, FL and B&amp;M Excluding Terrorism</b>		
MKL 3000	\$ 2,000,000	P123296
<b>Total</b>	<b>\$ 2,000,000</b>	
<b>\$26,250,000 x/s \$50,000,000 All Risk *Including EQ and FL Excluding CA EQ, B&amp;M and Terrorism</b>		
Arch Specialty Insurance Company	\$ 11,250,000	ESP0050518-00
Liberty Surplus Insurance Corporation	\$ 7,500,000	LIUESP00244591
Ironshore Specialty Insurance Company	\$ 3,000,000	000517503
Ironshore Specialty Insurance Company (AZ Only)		000517603
Maxum Indemnity Company	\$ 4,500,000	MSP 6016154-02
<b>Total</b>	<b>\$ 26,250,000</b>	
<b>\$30,000,000 x/s \$25,000,000 All Risk *Including EQ and FL Excluding B&amp;M, Terrorism &amp; EQ at Locs in CA</b>		
Axis Surplus Insurance Company (Excluding EQ at Locations in CA)	\$ 25,000,000	EAF715987-12
Essex Insurance Company	\$ 5,000,000	EPEP 10147
<b>Total</b>	<b>\$ 30,000,000</b>	
<b>\$75,000,000 x/s \$125,000,000 All Risk *Including EQ and FL Excluding CA EQ, B&amp;M and Terrorism</b>		
Liberty Syndicate Management Limited (Liberty 4472)	\$ 3,750,000	P112696
Ascot Underwriting Limited (Reith 1414)	\$ 5,625,000	P112696
APL 1969/FSR 1861	\$ 2,250,625	P112696
ACE Underwriting Agencies Limited (Ace Global Markets 2488)	\$ 3,750,000	P112696
QBE 1866	\$ 975,000	P112696
JCD 5820	\$ 3,750,000	P123250
Lancashire Insurance Company (UK) Limited (Excluding MA)	\$ 5,025,000	P123247



**ALLIANT INSURANCE SERVICES, INC.**  
**PUBLIC ENTITY PROPERTY INSURANCE PROGRAM (PEPIP)**  
**DEC #3 - CITIES 3 (\$1B CARRIERS)**  
**SCHEDULE OF CARRIERS**  
**EFFECTIVE JULY 1, 2012 TO JULY 1, 2013**

COMPANY	LIMIT	POLICY NO.
<b>\$75,000,000 x/s \$125,000,000 All Risk *Including EQ and FL Excluding CA EQ, B&amp;M and Terrorism (Cont)</b>		
Lexington Insurance Company (MA Locs Only)		011660468
Axis Specialty Europe PLC	\$ 11,250,000	P122696
Axis Specialty Europe PLC	\$ 3,750,000	P122715
AMA 1200	\$ 2,625,000	P122744
Global Excess Partners - Lloyd's of London (100% KLN 510)	\$ 5,002,500	GEP 3061
Lexington Insurance Company	\$ 27,247,500	011660462 Ins 011660463 Re-Ins
<b>Total</b>	<b>\$ 75,000,000</b>	
<b>\$100,000,000 x/s \$200,000,000 All Risk *Including EQ and FL Excluding CA EQ, B&amp;M and Terrorism</b>		
Great American E & S Insurance Co.	\$ 100,000,000	CPP 2827731-05
<b>Total</b>	<b>\$ 100,000,000</b>	
<b>\$175,000,000 x/s \$300,000,000 All Risk *Including EQ and FL Excluding CA EQ, B&amp;M and Terrorism</b>		
R.J. Kiln & Company Limited (Kiln Combined Syndicate 510)	\$ 22,505,000	P122696
Liberty Syndicate Management Limited (Liberty 4472)	\$ 122,850	P122696
Ascot Underwriting Limited (Reith 1414)	\$ 18,499,950	P122696
HDU 382	\$ 12,500,075	P122696
ACE Underwriting Agencies Limited (Ace Global Markets (2488))	\$ 17,500,000	P123310
SJC 2003	\$ 10,799,075	P123227
QBE 1866	\$ 23,520,000	P122696
Canopus Managing Agents Limited	\$ 14,875,000	P122696
PartnerRe Ireland Insurance Limited	\$ 8,750,000	P123289
Lancashire Insurance Company (UK) Limited (Excluding MA)	\$ 14,875,000	P123247
AMA 1200	\$ 9,740,500	P122744
Axis Specialty Europe PLC	\$ 20,000,050	P112715
Markel 3000	\$ 1,312,500	P122696
<b>Total</b>	<b>\$ 175,000,000</b>	
<b>\$25,000,000 x/s \$475,000,000 All Risk *Including EQ and FL Excluding CA EQ, B&amp;M and Terrorism</b>		
Great American E&S Insurance Company	\$ 25,000,000	CPP 2007514 01
<b>Total</b>	<b>\$ 25,000,000</b>	
<b>\$250,000,000 x/s \$500,000,000 All Risk *Including "Limited" EQ and FL Excluding CA EQ, B&amp;M and Terrorism</b>		
XL Insurance America Inc.	\$ 250,000,000	US00010377PR12A
<b>Total</b>	<b>\$ 250,000,000</b>	
<b>\$100,000,000 x/s \$750,000,000 All Risk Excluding EQ, FL, B&amp;M and Terrorism</b>		
Continental Casualty Company	\$ 100,000,000	PRS2083566523
<b>Total</b>	<b>\$ 100,000,000</b>	
<b>\$100,000,000 x/s \$850,000,000 All Risk Excluding EQ, FL, B&amp;M and Terrorism</b>		
Homeland Insurance Company of NY	\$ 100,000,000	YSP5210
<b>Total</b>	<b>\$ 100,000,000</b>	
<b>\$50,000,000 x/s \$950,000,000 All Risk Excluding EQ, FL, B&amp;M and Terrorism</b>		
Maiden Specialty Insurance Company	\$ 50,000,000	S1LPY0200205S
<b>Total</b>	<b>\$ 50,000,000</b>	
<b>\$250,000,000 x/s \$100,000,000 *Excess Terrorism</b>		
Lloyds Syndicate HIS 33	\$ 27,500,000	P121689
Lloyds Syndicate ASC 1414	\$ 30,000,000	P121689
Axis Specialty Europe Limited	\$ 38,022,750	P121689
Lancashire Insurance Company (UK) Limited	\$ 50,000,000	P121689
Lloyds Syndicate LIB 4472	\$ 17,432,000	P121689
Lloyds Syndicate TAL 1183	\$ 22,725,000	P121689
Lloyds Syndicate AFB 2623	\$ 14,294,250	P121689
Lloyds Syndicate AFB 623	\$ 3,137,750	P121689
Lloyds Syndicate COF 1036	\$ 17,259,500	P121689
Lloyds Syndicate AES 1225	\$ 10,451,500	P121689
Lloyds Syndicate AUW 609	\$ 5,753,250	P121689
Lloyds Syndicate WRB 1967/RNR 1458	\$ 1,917,750	P121689
Lloyds Syndicate AUL 1274	\$ 1,917,750	P121689
Lloyds Syndicate BRT 2987	\$ 9,588,500	P121689
<b>Total</b>	<b>\$ 250,000,000</b>	



**ALLIANT INSURANCE SERVICES, INC.**  
**PUBLIC ENTITY PROPERTY INSURANCE PROGRAM (PEPIP)**  
**DEC #3 - CITIES 3 (\$1B CARRIERS)**  
**SCHEDULE OF CARRIERS**  
**EFFECTIVE JULY 1, 2012 TO JULY 1, 2013**

COMPANY	LIMIT	POLICY NO.
<b>\$6,250,000 x/s \$25,000,000 Specified Peril-*California Earthquake Only</b>		
Empire Indemnity Insurance Company	\$ 6,250,000	BPP5510763
<b>Total</b>	<b>\$ 6,250,000</b>	
<b>\$30,000,000 x/s \$50,000,000 Specified Peril-*California Earthquake Only</b>		
Empire Indemnity Insurance Company	\$ 20,000,000	BPP5510765
Princeton Excess & Surplus Lines Insurance Company	\$ 10,000,000	ESE11173-00
<b>Total</b>	<b>\$ 30,000,000</b>	
<b>\$14,820,000 x/s \$87,500,000 Specified Peril-*California Earthquake Only</b>		
Empire Indemnity Insurance Company	\$ 4,820,000	BPP5510764
QBE Specialty Insurance Company	\$ 10,000,000	ESE11174-00
<b>Total</b>	<b>\$ 14,820,000</b>	

**EXCESS BOILER & MACHINERY INSURANCE COMPANIES**  
*(APPLIES IF SEPARATE COVERAGE IS PURCHASED)*

Lexington Insurance Company	\$ 25,000,000	011660423 Ins 011660474 Re-Ins
Lexington Insurance Company	\$ 73,125,000	011660456 Ins 011660458 Re-Ins
See Page 1 Carrier Participation Reference	\$ 1,875,000	Various
<b>Total</b>	<b>\$ 100,000,000</b>	

**\*POLLUTION LIABILITY COMPANY**

Ace Illinois Union Insurance Company	100%	PPE G24544837 002
<b>Total</b>	<b>100%</b>	

**\*CYBER LIABILITY**

Lloyd's Syndicate Beazley 2623-623	100%	C121280
<b>Total</b>	<b>100%</b>	

**\$11,230,000**  
**RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY**  
**LEASE REVENUE REFUNDING BONDS**  
**SERIES 2012A**

**BOND PURCHASE AGREEMENT**

December 5, 2012

Rancho Santa Margarita Public Financing Authority  
c/o City of Rancho Santa Margarita  
22112 El Paseo  
Rancho Santa Margarita, California 92688

City of Rancho Santa Margarita  
22112 El Paseo  
Rancho Santa Margarita, California 92688

Ladies and Gentlemen:

Stifel, Nicolaus & Company, Incorporated dba Stone & Youngberg, a Division of Stifel Nicolaus, acting not as a fiduciary or agent for you, but on behalf of itself (the "Underwriter") hereby offers to enter into this Bond Purchase Agreement with you, the City of Rancho Santa Margarita (the "City") and the Rancho Santa Margarita Public Financing Authority (the "Authority"), for the purchase by the Underwriter and the delivery by you of the Bonds specified below. The Bonds are being issued by the Authority for the purpose of (i) finance the cost of various public capital improvements of the City, (ii) refinance the outstanding City of Rancho Santa Margarita Certificates of Participation (City Hall and Regional Community Center) (the "Prior Obligations"), and (iii) paying the costs of issuing the Bonds. This offer is made subject to acceptance by you prior to 11:59 p.m., Los Angeles time, on the date hereof. Upon such acceptance, this Bond Purchase Agreement shall be in full force and effect in accordance with its terms and shall be binding upon you and the Underwriter. All terms not defined herein shall have the meanings set forth in the Indenture (defined below).

**1. Purchase and Sale.** Upon the terms and conditions and upon the basis of the representations, warranties and agreements hereinafter set forth, the Underwriter agrees to purchase from the Authority, and the Authority agrees to sell to the Underwriter, all (but not less than all) of the \$11,230,000 aggregate principal amount of the Authority's Lease Revenue Refunding Bonds, Series 2012A (the "Bonds"), at the purchase price of \$11,740,883.20 (being the principal amount of the Bonds, less an Underwriter's discount in the amount of \$61,021.60, and plus net original issue premium of \$571,904.80).

The Bonds will be dated the date of delivery thereof, and will have the maturities and bear interest at the rates set forth on Exhibit A hereto. The Bonds will be subject to redemption as set

forth in the Official Statement herein described. The Bonds will be issued in book-entry form only. It is anticipated that CUSIP identification numbers will be inserted on the Bonds, but neither the failure to provide such numbers nor any error with respect thereto shall constitute a cause for failure or refusal by the Underwriter to accept delivery of the Bonds in accordance with the terms of this Bond Purchase Agreement.

**2. Authorizing Instruments and Law.** The Bonds shall be issued pursuant to the provisions of a resolution (the "Resolution") adopted by the Authority authorizing the issuance of the Bonds and the Marks-Roos Local Bond Pooling Act of 1985, constituting Section 6584 *et seq.* of the California Government Code (the "JPA Act"). The Bonds are issued pursuant to an Indenture, dated as of December 1, 2012 (the "Indenture"), among the City, the Authority and Wells Fargo Bank, National Association (the "Trustee"), and shall be as described in the Indenture.

The Bonds are limited obligations of the Authority payable primarily from and secured by certain rental revenues (the "Rental Payments") consisting of certain Base Rental payments to be paid by the City pursuant to a Lease Agreement (the "Lease Agreement"), dated as of December 1, 2012, between the City and the Authority, for certain real property and the improvements thereon (the "Property"). The City will lease the Property to the Authority pursuant to a Ground Lease, dated as of December 1, 2012 (the "Ground Lease"), between the City and the Authority. Under the Indenture, Additional Bonds payable on a parity with the Bonds may be issued provided that certain conditions have been met.

**3. Offering the Bonds.** The Underwriter agrees to offer all the Bonds to the public initially at the prices (or yields) set forth on the cover pages of the Official Statement of the Authority pertaining to the Bonds, dated December 5, 2012 (the Official Statement, together with all appendices thereto, and with such changes therein and supplements thereto as are consented to in writing by the Underwriter, are herein called the "Official Statement"). Subsequent to the initial public offering of the Bonds, the Underwriter reserves the right to change the public offering prices (or yields) as it deems necessary in connection with the marketing of the Bonds. The Bonds may be offered and sold to certain dealers at prices lower than such initial public offering prices. "Public Offering" shall include an offering to a representative number of institutional investors or registered investment companies, regardless of the number of such investors to which the Bonds are sold.

The City and the Authority acknowledge and agree that (i) the purchase and sale of the Bonds pursuant to this Bond Purchase Agreement is an arm's-length commercial transaction between the City, the Authority and the Underwriter, and that the Underwriter has financial and other interests that differ from those of the City and the Authority, (ii) in connection with such transaction the Underwriter is not acting as a municipal advisor, financial advisor or fiduciary to the City and the Authority or any other person or entity and has not assumed a fiduciary responsibility in favor of the City or the Authority with respect to the offering of the Bonds or the process leading thereto (whether or not the Underwriter has advised or is currently advising the City or the Authority on other matters), (iii) the only obligations the Underwriter has to the City and the Authority with respect to the transaction contemplated hereby expressly are set forth in

this Bond Purchase Agreement, and (iv) the City and the Authority have consulted with their own legal and other professional advisors to the extent they deemed appropriate in connection with the offering of the Bonds. The City and the Authority acknowledge that they have previously provided the Underwriter with an acknowledgement of receipt of the required Underwriter disclosure under Rule G-17 of the Municipal Securities Rulemaking Board (the "MSRB").

**4. Delivery of Official Statement.** The Authority shall deliver to the Underwriter two (2) copies of the Official Statement manually executed on behalf of the Authority and the City by authorized representatives. The Authority shall also deliver copies of the Official Statement in such quantities as the Underwriter may reasonably request in order to enable the Underwriter to distribute a single copy of each Official Statement to any potential customer of the Underwriter requesting an Official Statement during the time period beginning when the Official Statement becomes available and ending on the End Date (defined below). The Authority shall deliver these copies to the Underwriter within seven (7) business days after the execution of this Bond Purchase Agreement and in sufficient time to accompany or precede any sales confirmation that requests payment from any customer of the Underwriter. The Underwriter shall inform the Authority in writing of the End Date, and covenants to file the Official Statement with the MSRB on a timely basis.

"End Date" as used herein is that date which is the earlier of:

(a) twenty-five (25) days after the end of the underwriting period, as defined in SEC Rule 15c2-12 originally adopted by the Securities and Exchange Commission on June 28, 1989, as amended ("Rule 15c2-12"); or

(b) the time when the Official Statement becomes available from the MSRB, but in no event less than twenty-five (25) days after the underwriting period (as defined in Rule 15c2-12) ends.

The Authority and the City have authorized the use of the Official Statement in connection with the public offering of the Bonds. The Authority and the City also have consented to the use by the Underwriter prior to the date hereof of the Preliminary Official Statement dated November 29, 2012, relating to the Bonds in connection with the public offering of the Bonds (which, together with all appendices thereto, is collectively herein called the "Preliminary Official Statement"). Authorized officers of the City and the Authority have certified to the Underwriter that such Preliminary Official Statement was deemed to be final as of its date for purposes of Rule 15c2-12, with the exception of certain final pricing and related information referred to in Rule 15c2-12. The Underwriter has distributed a copy of each Preliminary Official Statement to potential customers on request.

**5. The Closing.** At 9:00 A.M., California time, on December 19, 2012, or at such other time or on such earlier or later business day as shall have been mutually agreed upon by the Authority, the City and the Underwriter, the Authority will deliver (i) the Bonds in book-entry form through the facilities of The Depository Trust Company ("DTC") in New York, New York, and (ii) the closing documents hereinafter mentioned at the offices of Stradling Yocca Carlson &

Rauth, a Professional Corporation, Newport Beach, California, or another place to be mutually agreed upon by the Authority, the City and the Underwriter. The Underwriter will accept such delivery from the Authority. The Underwriter will pay the purchase price of the Bonds as set forth in Section 1 hereof by wire transfer of immediately available funds. This payment and delivery, together with the delivery of the aforementioned documents, is herein called the "Closing."

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

(a) The City is a municipal corporation and general law city, duly organized and validly existing pursuant to the Constitution and laws of the State of California (the "State") and has all necessary power and authority to enter into and perform its duties under the Indenture, the Lease Agreement, the Continuing Disclosure Certificate, dated as of December 1, 2012 (the "Continuing Disclosure Certificate"), the Ground Lease, the Escrow Agreement, dated as of December 1, 2012 (the "Escrow Agreement"), between the City and the Trustee, as escrow agent, the Termination of Lease Agreement, dated as of December 1, 2012 (the "Lease Termination Agreement") between the City and the City of Rancho Santa Margarita Nonprofit Corporation (the "Corporation"), the Termination of Ground Lease, dated as of December 1, 2012 (the "Ground Lease Termination Agreement") between the City and the Corporation, the Official Statement and this Bond Purchase Agreement (collectively, the "City Documents").

(b) To the best knowledge of the City, neither the approval, execution and delivery of the City Documents, and compliance with the provisions on the City's part contained therein, nor the consummation of any other of the transactions herein and therein contemplated, nor the fulfillment of the terms hereof and thereof, materially conflicts with or constitutes a material breach of or default under nor materially contravenes any law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the City is a party or is otherwise subject, nor does any such execution, delivery, adoption or compliance result in the security interest or encumbrance of any nature whatsoever upon any of the properties or assets of the City under the terms of any such law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument, except as provided by the City Documents.

(c) The City Documents have been duly authorized, executed and delivered by the City, and, assuming due authorization, execution and delivery by the other parties thereto, constitute legal, valid and binding agreements of the City enforceable in accordance with their respective terms, except as the enforcement thereof may be limited by bankruptcy, insolvency, moratorium, reorganization, fraudulent conveyance or other laws affecting the enforcement of creditors' rights generally and by the application of equitable principles if sought and by the limitations on legal remedies imposed on actions against counties in the State.

(d) Except as may be required under blue sky or other securities laws of any state, there is no consent, approval, authorization or other order of, or filing with, or certification by, any regulatory agency having jurisdiction over the City required for the execution and



delivery of the Bonds or the consummation by the City of the other transactions contemplated by the Official Statement and this Bond Purchase Agreement.

(e) To the best of the knowledge of the City, there is, and on the Closing there will be, no action, suit, proceeding or investigation at law or in equity before or by any court or governmental agency or body pending (notice of which has been received by the City) or threatened against the City to restrain or enjoin the delivery of any of the Bonds, or the payments to be made pursuant to the Lease Agreement, or in any way contesting or affecting the validity of the City Documents or the Bonds or the authority of the City to approve this Bond Purchase Agreement, or enter into the City Documents or contesting the powers of the City to enter into or perform its obligations under any of the foregoing or in any way contesting the powers of the City in connection with any action contemplated by this Bond Purchase Agreement or to restrain or enjoin the execution, sale and delivery of the Bonds or, except as described in the Preliminary Official Statement and the Official Statement, the payment of Base Rental payments, nor is there any basis for any such action, suit, proceeding or investigation.

(f) The Preliminary Official Statement provided to the Underwriter has been deemed final by the City, as required by Rule 15c2-12. As of the date thereof and at all times subsequent thereto up to and including the End Date, the information relating to the City, the Bonds, the Property and the City Documents contained in the Official Statement was and will be materially complete for its intended purposes. The information relating to the City, the Bonds, the Property and the City Documents contained in the Official Statement is true and correct in all material respects and such information does not contain any untrue or misleading statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading in any material respect.

(g) The City agrees to cooperate with the Underwriter in endeavoring to qualify the Bonds for offering and sale under the securities or blue sky laws of such jurisdictions of the United States as the Underwriter may request; provided, however, that the City will not be required to execute a special or general consent to service of process in any jurisdiction in which it is not now so subject or to qualify to do business as a foreign corporation in any jurisdiction where it is not so qualified.

(h) By official action of the City prior to or concurrently with the execution hereof, the City has duly approved the distribution of the Official Statement, and has duly authorized and approved the execution and delivery of, and the performance by the City of the obligations on its part contained in the City Documents and the consummation by it of all other transactions contemplated by the Official Statement and this Bond Purchase Agreement.

(i) To the best knowledge of the City, it is not in breach of or default under any material applicable law or administrative regulation of the State or the United States or any material applicable judgment or decree or any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the City is a party or is otherwise subject and in connection with which the City is obligated to make payments from its own funds, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both,

would constitute a default or an event of default under any such instrument the consequence of which could materially and adversely affect the performance of the City under the City Documents.

(j) If between the date of this Bond Purchase Agreement and the End Date an event occurs, of which the City has knowledge, which might or would cause the information relating to the City, the Property, or the City's functions, duties and responsibilities contained in the Official Statement, as then supplemented or amended, to contain an untrue statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make such information therein, in the light of the circumstances under which it was presented, not misleading in any material respect, the City will notify the Underwriter, and if, in the opinion of the Underwriter, such event requires the preparation and publication of a supplement or amendment to the Official Statement, the City will cooperate with the Underwriter in the preparation of an amendment or supplement to the Official Statement in a form and in a manner approved by the Underwriter, provided all expenses thereby incurred will be paid for by the City.

(k) If the information relating to the Property, the City, its functions, duties and responsibilities contained in the Official Statement is amended or supplemented pursuant to the immediately preceding subparagraph, at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such subparagraph) at all times subsequent thereto up to and including the date of the Closing, the portions of the Official Statement so supplemented or amended (including any financial and statistical data contained therein) will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make such information therein, in the light of the circumstances under which it was presented, not misleading in any material respect.

(l) The City covenants that it will comply with all tax covenants relating to it in the City Documents, the Tax Certificate of the City and this Bond Purchase Agreement.

(m) The written information supplied by the City to Disclosure Counsel (as defined herein) or the Underwriter with respect to the financial information relating to the City and the Property is true, correct and complete in all material respects for the purposes for which it was supplied.

(n) Any certificate of the City delivered to the Underwriter shall be deemed a representation and warranty by the City to the Underwriter as to the statements made therein.

(o) As of the time of acceptance hereof and as of the Closing the City does not and will not have outstanding any indebtedness which is payable from the City's general fund except as disclosed in the Official Statement.

(p) Between the date of this Bond Purchase Agreement and the date of Closing, the City will not, without the prior written consent of the Underwriter, and except as disclosed in the Official Statement, offer or issue any certificates, notes or other obligations for

borrowed money, or incur any material liabilities, direct or contingent, secured payable from the City's general fund.

(q) The City has not been notified of any listing or proposed listing by the Internal Revenue Service to the effect that either the City or the Authority is a bond issuer whose arbitrage certifications may not be relied upon.

(r) The City, on behalf of itself and the Authority, will undertake, pursuant to the Continuing Disclosure Certificate, to provide or cause to be provided annual financial reports and notices of certain events; a description of this undertaking is set forth in the Official Statement. Except as disclosed in the Official Statement, the City has not failed to comply in all material respects with a continuing undertaking under Rule 15c2-12 during the previous five years.

(s) The financial statements of, and other financial information regarding the City in the Official Statement fairly present the financial position and results of the operations of the City as of the dates and for the periods therein set forth and the audited financial statements have been prepared in accordance with generally accepted accounting principles consistently applied.

**7. Authority Representations, Warranties and Covenants.** The Authority represents, warrants and covenants to the City and the Underwriter that:

(a) The Authority is a joint powers authority, duly organized and existing under the Constitution (the "Constitution") and laws of the State, including the JPA Act, with full right, power and authority to enter into, execute and deliver the Authority Documents (defined below) and to perform its obligations hereunder.

(b) By all necessary official action, the Authority has duly authorized and approved the execution and delivery of, and the performance by the Authority of the obligations on its part contained in the Bond Purchase Agreement, the Bonds, the Indenture, the Ground Lease, the Lease Agreement, the Ground Lease Termination Agreement, the Lease Termination Agreement, and the Assignment Agreement, dated as of December 1, 2012 (the "Assignment Agreement"), between the Trustee and the Authority (collectively, the "Authority Documents") and has approved the use by the Underwriter of the Preliminary Official Statement, and the Official Statement and, as of the date hereof, such authorizations and approvals are in full force and effect and have not been amended, modified or rescinded. When executed and delivered by the parties hereto, the Authority Documents will constitute the legally valid and binding obligations of the Authority enforceable upon the Authority in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or affecting creditors rights generally. The Authority has complied, and will at the Closing be in compliance in all respects, with the terms of the Authority Documents.

(c) The Bonds, when issued in accordance with the Indenture, will be legally valid and binding special obligations of the Authority, entitled to the benefits of the Indenture

and enforceable in accordance with their terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally.

(d) As of the time of acceptance hereof and as of the time of the Closing, except as otherwise disclosed in the Official Statement, the Authority is not and will not be in breach of or in default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States, or any applicable judgment or decree or any trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the Authority is a party or is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute a default or event of default under any such instrument which breach, default or event could have an adverse effect on the Authority's ability to perform its obligations under the Authority Documents; and, as of such times, except as disclosed in the Official Statement, the authorization, execution and delivery of the Authority Documents and compliance by the Authority with the provisions thereof do not and will not conflict with or constitute a breach of or default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States or any applicable judgment, decree, license, permit, trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the Authority (or any of its officers in their respective capacities as such) is subject, or by which it or any of its properties is bound, nor will any such authorization, execution, delivery or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of its assets or properties or under the terms of any such law, regulation or instrument except as provided in the Authority Documents.

(e) As of the time of acceptance hereof and the Closing, except as disclosed in the Official Statement, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, pending (notice of which has been received by the Authority), or to the best knowledge of the Authority threatened against the Authority:

(i) in any way questioning the corporate existence of the Authority or the titles of the officers of the Authority to their respective offices;

(ii) affecting, contesting or seeking to prohibit, restrain or enjoin the issuance or delivery of any of the Bonds, or the payment or collection of any amounts pledged or to be pledged to pay the principal of and interest on the Bonds, or in any way contesting or affecting the validity of the Authority Documents or the consummation of the transactions on the part of the Authority contemplated thereby, or contesting the exclusion of the interest on the Bonds from federal or state taxation, as applicable, or contesting the powers of the Authority or its authority to enter into the Lease Agreement and to pledge the Rental Payments for repayment of the Bonds;

(iii) which may result in any material adverse change relating to the financial condition of the Authority;

(iv) contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any supplement or amendment thereto or asserting that the Preliminary Official Statement or the Official Statement contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in light of all the circumstances under which they were made, not misleading; or

(v) challenging the ability of the Authority to sell the Bonds to the Underwriter.

(f) All authorizations, approvals, licenses, permits, consents and orders of or filings with any governmental authority, legislative body, board, agency or commission having jurisdiction in the matters which are required for the due authorization of, which would constitute a condition precedent to or the absence of which would adversely affect the due performance by the Authority of its obligations in connection with, the Authority Documents have been duly obtained or made, except as may be required under the Blue Sky or securities laws of any state in connection with the offering and sale of the Bonds.

(g) Any certificate signed by any authorized officer of the Authority and delivered to the Underwriter shall be deemed to be a representation and warranty by the Authority to the Underwriter as to the statements made therein.

(h) As of the time of acceptance hereof and as of the date of Closing, except as otherwise disclosed in the Official Statement, the Authority has complied with the filing requirements of the JPA Act.

(i) The Authority has not been notified of any listing or proposed listing by the Internal Revenue Service to the effect that either the City or the Authority is a bond issuer whose arbitrage certifications may not be relied upon.

(j) The Authority will advise the Underwriter promptly of any proposal to amend or supplement the Official Statement from the delivery of the Official Statement to the End Date, and will not effect or consent to any such amendment or supplement without the consent of the Underwriter, which consent will not be unreasonably withheld. The Authority will advise the Underwriter promptly of the institution of any proceedings known to it by any governmental agency prohibiting or otherwise affecting the use of the Official Statement in connection with the offering, sale or distribution of the Bonds.

(k) For a period beginning on the date hereof and continuing until the End Date, (a) the Authority will not adopt any amendment of, or supplement to, the Official Statement to which the Underwriter shall object in writing or which shall be disapproved by the Underwriter's counsel and (b) if any event relating to or affecting the Authority shall occur as a result of which it is necessary, in the opinion of Underwriter's Counsel, to amend or supplement the Official Statement in order to make the Official Statement not misleading in the light of the

circumstances existing at the time it is delivered to a purchaser of the Bonds, the Authority will forthwith cause the Authority to prepare and furnish to the Underwriter a reasonable number of copies of an amendment of, or supplement to, the Official Statement (in form and substance satisfactory to Underwriter's Counsel) which will amend or supplement the Official Statement so that it will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances existing at the time the Official Statement is delivered to a purchaser of the Bonds, not misleading.

(l) The Authority is in compliance with all of its prior continuing disclosure undertakings, if any, entered into pursuant to Rule 15c2-12.

**8. Closing Conditions.** The Underwriter has entered into this Bond Purchase Agreement in reliance upon the representations, warranties and covenants herein and the performance by the Authority and the City of their respective obligations hereunder, both as of the date hereof and as of the date of the Closing. The Underwriter's obligations hereunder are and shall be subject to the following additional conditions:

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

(b) Executed Agreements and Performance Thereunder. At the time of the Closing:

(i) the City Documents and the Authority Documents shall be in full force and effect, and shall not have been amended, modified or supplemented except with the written consent of the Underwriter;

(ii) there shall be in full force and effect such resolutions (the "Authorizing Resolutions") as, in the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation ("Bond Counsel"), shall be necessary in connection with the transactions on the part of the Authority and the City contemplated by this Bond Purchase Agreement, the Official Statement, the City Documents and the Authority Documents;

(iii) the Authority shall perform or have performed its obligations required or specified in the Authority Documents to be performed at or prior to Closing;

(iv) the City shall perform or have performed its obligations required as specified in the City Documents to be performed at or prior to Closing; and

(v) the Official Statement shall not have been supplemented or amended, except pursuant to Paragraph 6(j) or 7(k), or as otherwise may have been agreed to in writing by the Underwriter.

(c) No Default. At the time of the Closing, no default shall have occurred or be existing under the Authority Documents or the City Documents and neither the Authority nor the City shall be in default in the payment of principal or interest on any of its bonded indebtedness or other obligations payable from the City's general fund which default shall adversely impact the ability of the Authority to make payments on the Bonds or the City to make payments pursuant to the Lease Agreement.

(d) Termination Events. The Underwriter shall have the right to terminate this Bond Purchase Agreement, without liability therefor, by written notification to the Authority and the City if at any time at or prior to the Closing the market price or marketability of the Bonds, or the ability of the Underwriter to enforce contracts for the sale of the Bonds, at the initial offering prices set forth in the Official Statement, shall have been materially adversely affected in the reasonable judgment of the Underwriter (evidenced by a written notice to the City and the Authority terminating the obligation of the Underwriter to accept delivery of and pay for the Bonds) by reason of any of the following:

(i) any event occurring, or information becoming known which, in the reasonable judgment of the Underwriter, makes untrue in any material adverse respect any statement or information contained in the Official Statement, or has the effect that the Official Statement contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading; or

(ii) an amendment to the Constitution of the United States or by any legislation in or by the Congress of the United States or by the State, or the amendment of legislation pending as of the date of the Authority Documents or the City Documents in the Congress of the United States, or the recommendation to Congress or endorsement for passage (by press release, other form of notice or otherwise) of legislation by the President of the United States, the Treasury Department of the United States, the Internal Revenue Service or the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives, or the proposal for consideration of legislation by either such Committee, or the presentment of legislation for consideration as an option by either such Committee, or by the staff of the Joint Committee on Taxation of the Congress of the United States, or the favorable reporting for passage of legislation to either House of the Congress of the United States by a Committee of such House to which such legislation has been referred for consideration, or any decision of any Federal or state court or any ruling or regulation (final, temporary or proposed) or official statement on behalf of the United States Treasury Department, the Internal Revenue Service or other Federal or State authority materially adversely affecting the Federal or State tax status of the Authority or the City, or the interest on bonds or notes or obligations of the general character of the Bonds; or

(iii) any legislation, ordinance, rule or regulation shall be introduced in, or be enacted by any governmental body, department or agency of the States or a decision by any court of competent jurisdiction within the State or any court of the United States shall be

rendered which, in the reasonable opinion of the Underwriter, materially adversely affects the market price of the Bonds; or

(iv) legislation shall be enacted by the Congress of the United States, or a decision by a court of the United States shall be rendered, or a stop order, ruling, regulation or official statement by, or on behalf of, the Securities and Exchange Commission or any other governmental agency having jurisdiction of the subject matter shall be issued or made to the effect that the issuance, offering or sale of obligations of the general character of the Bonds, or the issuance, offering or sale of the Bonds, including all underlying obligations, as contemplated hereby or by the Official Statement, is in violation or would be in violation of, or that obligations of the general character of the Bonds, or the Bonds, are not exempt from registration under, any provision of the federal securities laws, including the Securities Act of 1933, as amended and as then in effect, or that the Indenture needs to be qualified under the Trust Indenture Act of 1939, as amended and as then in effect; or

(v) additional material restrictions not in force as of the date hereof shall have been imposed upon trading in securities generally by any governmental authority or by any national securities exchange, which restrictions materially adversely affect the Underwriter's ability to market the Bonds; or

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

(vii) the United States has become engaged in hostilities which have resulted in a declaration of war or a national emergency or there has occurred any escalation of current or other outbreak or escalation of hostilities or a national or international calamity or crisis, financial or otherwise, the effect of such outbreak, escalation, calamity or crisis on the financial markets of the United States being such as, in the reasonable opinion of the Underwriter, would affect materially and adversely the ability of the Underwriter to market the Bonds or the ability of the Underwriter to enforce contracts for the sale of the Bonds; or

(viii) the commencement of any action, suit or proceeding described in Paragraphs 6(e) or 7(e) hereof; or

(ix) there shall be in force a general suspension of trading on the New York Stock Exchange; or

(x) an event described in paragraph (j) of Section 6 or paragraph (k) of Section 7 hereof shall have occurred which, in the reasonable professional judgment of the Underwriter, requires the preparation and publication of a supplement or amendment to the Official Statement; or

(xi) any rating or credit outlook of the Bonds or other obligations of the City by a national rating agency shall have been withdrawn or downgraded.



(e) Closing Documents. At or prior to the Closing, the Underwriter shall receive with respect to the Bonds (unless the context otherwise indicates) the following documents:

(1) Bond Opinion. The approving opinion of Bond Counsel dated the date of the Closing and substantially in the form included as APPENDIX C to the Official Statement, together with a letter from such counsel, dated the date of the Closing and addressed to the Underwriter to the effect that the foregoing opinion may be relied upon by the Underwriter to the same extent as if such opinion was addressed to them.

(2) Supplemental Opinion. A supplemental opinion or opinions of Bond Counsel addressed to the Underwriter, in substantially the form and to the following effect:

(a) The statements contained in the Official Statement on the cover page and under the captions "INTRODUCTION," "THE SERIES 2012 BONDS," "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 BONDS," "THE REFUNDING PLAN," and "TAX MATTERS," and in APPENDICES A, C and D, in so far as such statements expressly purport to summarize certain provisions of the Bonds, the Indenture, the Lease Agreement and the final approving opinion of Bond Counsel described in (1) above, fairly and accurately summarize the information presented therein in all material respects; provided that Bond Counsel is not required to express any opinion with respect to any financial, statistical or numerical information contained therein;

(b) The Bonds are exempt from registration under the Securities Act of 1933, as amended (the "1933 Act"), and the Indenture is exempt from qualification as an indenture pursuant to the Trust Indenture Act of 1939, as amended;

(c) The Bond Purchase Agreement has been duly authorized, executed and delivered by the City and the Authority, and, assuming due authorization, execution and delivery by the Underwriter, constitutes a legal, valid and binding agreement of the City and the Authority enforceable against each in accordance with its terms, except as the enforcement thereof may be limited by bankruptcy, insolvency, fraudulent conveyance or other laws affecting the enforcement of creditors' rights generally and equitable remedies if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and limitations on remedies against public agencies, and except as the enforceability of the indemnification or waiver provisions may be limited by applicable securities laws or public policy; and

(d) the City has taken all actions required to prepay the lease agreement relating to the Prior Obligations.

(3) City Attorney Opinion. An opinion of the City Attorney, dated as of the Closing and addressed to Bond Counsel and the Underwriter, in form and substance acceptable to Bond Counsel and counsel for the Underwriter, to the following effect:

(i) The City is a municipal corporation and general law city, duly organized and validly existing under the Constitution and the laws of the State of California.

(ii) The City Resolution approving and authorizing the execution and delivery of the City Documents and approving the Official Statement was duly adopted at a meeting of the City Council which was called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout.

(iii) Except as disclosed in the Official Statement, there is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending or threatened against or affecting the City, which would materially and adversely impact the City's ability to complete the transactions described in and contemplated by the Official Statement, to restrain or enjoin the payments under the Lease Agreement or in any way contesting or affecting the validity of the City Documents, the City Resolution or the Bonds or the transactions relating to the Property as described and defined in the Official Statement.

(iv) The execution and delivery of the City Documents, the adoption of the City Resolution and the approval of the Official Statement, and compliance with the provisions thereof and hereof, under the circumstances contemplated thereby, do not and will not in any material respect conflict with or constitute on the part of the City a breach of or default under any agreement or other instrument to which the City is a party or by which it is bound or any existing law, regulation, court order or consent decree to which the City is subject.

(v) The City Documents have been duly authorized, executed and delivered by the City, and, assuming due authorization, execution and delivery by the other parties thereto constitute legal, valid and binding obligations of the City enforceable in accordance with their respective terms, except as enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally and by the application of equitable principles if equitable remedies are sought and by the limitations on legal remedies imposed on actions against counties in the State of California.

(vi) No authorization, approval, consent, or other order of the State of California or any other governmental authority or agency within the State of California, other than the City Council, is required for the valid authorization, execution and delivery of the City Documents and the approval of the Official Statement.

(vii) Based upon examinations which he has made and his discussions in conferences with certain officials of the City and others with respect to the Official Statement and without having undertaken to determine independently the accuracy, completeness or fairness of the statements contained in the Official Statement, nothing has come to his

attention which would lead him to believe that the statements under the captions "THE PROPERTY" and "ABSENCE OF LITIGATION" in the Official Statement (other than any financial and statistical data therein and incorporated therein by reference, as to which no opinion need be expressed) contains an untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(4) Authority Counsel Opinion. An opinion of Counsel to the Authority, dated the date of the Closing and addressed to the Authority, the City and the Underwriter, in form and substance acceptable to counsel for the Underwriter substantially to the following effect:

(i) The Authority is a joint powers authority, duly created and lawfully existing under the laws and the Constitution of the State;

(ii) The Authority has full legal power and lawful authority to enter into the Authority Documents;

(iii) The resolution ("Authority Resolution") of the Authority approving and authorizing the execution and delivery of the Authority Documents has been duly adopted at a meeting of the governing board of the Authority, which was called and held pursuant to the law and with all public notice required by law and at which a quorum was present and acting throughout and the Authority Resolution is in full force and effect and has not been modified, amended or rescinded;

(iv) The Authority Documents have been duly authorized, executed and delivered by the Authority and, and, assuming due authorization, execution and delivery by the other parties thereto, constitute the valid, legal and binding agreements of the Authority enforceable in accordance with their respective terms, except as enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting enforcement of creditors rights and by the application of equitable principles if equitable remedies are sought;

(v) The Official Statement has been duly authorized by the governing body of the Authority and executed on its behalf by an authorized officer of the Authority.

(vi) Except as otherwise disclosed in the Official Statement, to the best of such counsel's knowledge, there is no litigation, action, suit, proceeding or investigation at law or in equity before or by any court, governmental agency or body, pending (notice of which has been received by the Authority) or threatened against the Authority, challenging the creation, organization or existence of the Authority, or the validity of the Authority Documents or seeking to restrain or enjoin any of the transactions referred to herein or contemplated hereby or contesting the authority of the Authority to enter into or perform its obligations under the Authority Documents, or which, in any manner, questions the right of the Authority to issue and sell the Bonds.

(5) Trustee Counsel Opinion. The opinion of counsel to the Trustee, dated the date of the Closing, addressed to Bond Counsel, the City, the Authority and the Underwriter, in form and substance acceptable to counsel for the Underwriter substantially to the following effect:

(i) The Trustee is a national banking association duly organized, validly existing and in good standing under the laws of the United States of America, with trust powers, and has the corporate power and authority to carry on its business as presently conducted.

(ii) The Trustee has full power and authority to serve as Trustee as contemplated in the Indenture.

(iii) The Indenture, the Assignment Agreement and the Escrow Agreement have been duly authorized, executed and delivered by the Trustee, and constitute the legal, valid and binding obligation of the Trustee, enforceable against it in accordance with the respective terms thereof, subject to applicable bankruptcy, insolvency, moratorium, reorganization, arrangement and other similar laws affecting the rights of creditors (including creditors of national banks) generally or by the application of general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law) and the effect of judicial decisions which have held that certain provisions are unenforceable where their enforcement would violate the implied covenant of good faith and fair dealing, or would be commercially unreasonable and the effect of judicial decisions permitting the introduction of extrinsic evidence to modify the terms or the interpretation of the Indenture.

(iv) To the knowledge of such counsel, the execution, delivery, acceptance and performance of the Indenture, the Assignment Agreement and the Escrow Agreement by the Trustee and its acceptance and performance of its duties and obligations thereunder will not violate any provisions of any law or regulation governing the banking or trust powers of the Trustee or any order of any governmental authority having jurisdiction over the Trustee.

(v) To the knowledge of such counsel, no authorization, approval, consent or other order of any governmental agency or regulatory authority having jurisdiction over the trust powers of the Trustee that has not been obtained is required for the authorization, execution and delivery by the Trustee of the Indenture, the Assignment Agreement and the Escrow Agreement or its acceptance and performance of the duties and obligations thereunder.

(vi) The execution, delivery and performance of the Indenture, the Assignment Agreement and the Escrow Agreement by the Trustee and the consummation of the transactions contemplated thereby do not and will not (a) to the knowledge of such counsel conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Trustee is a party or by which the Trustee is bound or to which any of the

property or assets of the Trustee or any of its subsidiaries is subject, (b) result in any violation of the provisions of the Articles of Association, By-laws, or applicable resolutions of the Trustee, or (c) to the knowledge of such counsel result in any violation of any statute, order, rule or regulation of any court or government agency or body having jurisdiction over the Trustee or any of its properties or assets.

(vii) To the knowledge of such counsel, there are no actions, proceedings or investigations pending or threatened against the Trustee before any court, administrative agency or tribunal (a) asserting the invalidity of the Indenture, the Assignment Agreement or the Escrow Agreement, (b) seeking to prevent the consummation of any of the transactions contemplated thereby, or (c) that might materially and adversely affect the performance by the Trustee of its obligations under, or the validity or enforceability of the Indenture, the Assignment Agreement or the Escrow Agreement.

(6) Disclosure Counsel Opinion. An opinion, dated the date of the Closing addressed to the Underwriter, of Stradling Yocca Carlson & Rauth, a Professional Corporation, disclosure counsel, to the effect that based upon their participation in the preparation of the Official Statement as Disclosure Counsel to the Authority and without having undertaken to determine independently the accuracy or completeness of the contents in the Official Statement, such counsel has no reason to believe that the Official Statement, as of its date and as of the Closing Date (except for the financial statements and the other financial and statistical data included therein and the information included therein relating to The Depository Trust Company and the book-entry system, and contained in the Appendices thereto as to all of which no opinion or belief need be expressed) contained or contains any untrue statement of a material fact or omitted or omits to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(7) Underwriter's Counsel Opinion. An opinion, dated the date of the Closing addressed to the Underwriter, of Nossaman LLP, counsel to the Underwriter, in such form as may be acceptable to the Underwriter.

(8) City Certificate. A certificate, dated the date of Closing, signed by a duly authorized official of the City satisfactory in form and substance to the Underwriter, (a) confirming as of such date the representations and warranties of the City contained in this Bond Purchase Agreement; (b) certifying that the City has complied with all agreements, covenants and conditions to be complied with by the City at or prior to the Closing under the City Documents; (c) certifying that to the best of such official's knowledge, no event affecting the City has occurred since the date of the Official Statement which either makes untrue or incorrect in any material respect as of the Closing the statements or information contained in the Official Statement or is not reflected in the Official Statement but should be reflected therein in order to make the statements and information therein not misleading in any material respect; and (d) certifying that the City has authorized and consented to the inclusion in the Official Statement of the City's financial report and accountant's opinion for the year ended June 30, 2011, and no further consent of any party is required for such inclusion.

(9) Authority Certificate. A certificate of the Authority, dated the date of the Closing, signed on behalf of the Authority by the Chairman or other duly authorized officer of the Authority to the effect that (i) the representations, warranties and covenants of the Authority contained herein and in the Authority Documents are true and correct in all material respects on and as of the date of the Closing as if made on the date of the Closing and the Authority has complied with all of the terms and conditions of the Authority Documents required to be complied with by the Authority at or prior to the date of Closing; and (ii) to the best of such official's knowledge, no event affecting the Authority has occurred since the date of the Official Statement which has not been disclosed therein or in any supplement or amendment thereto which event should be disclosed in the Official Statement in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(10) Trustee's Certificate. A Certificate of the Trustee, dated the date of Closing, in form and substance acceptable to counsel for the Underwriter to the effect that (i) the Trustee is duly organized and existing as a national banking association in good standing under the laws of the United States, having the full power and authority to accept and perform its duties under the Indenture, the Assignment Agreement and the Escrow Agreement; (ii) subject to the provisions of the Indenture, the Trustee will apply the proceeds from the Bonds to the purposes specified in the Indenture, the Assignment Agreement and the Escrow Agreement; and (iii) the Trustee has duly authorized and executed the Indenture, the Assignment Agreement and the Escrow Agreement.

(11) Title Policy. A copy of a CLTA title insurance policy in an amount equal to the principal amount of the Bonds, insuring the City's leasehold interest in the Property, subject only to Permitted Encumbrances (as defined in the Lease Agreement) or such other encumbrances approved in writing by the Underwriter.

(12) Verification Report. A copy of the verification report of Causey Demgen & Moore, P.C., concluding that the amounts on deposit under the Escrow Agreement, together with interest thereon, are sufficient to defease the Prior Obligations.

(13) Transcripts. Two transcripts of the proceedings prepared by Bond Counsel relating to the authorization and issuance of the Bonds.

(14) Official Statement. The Official Statement and each supplement or amendment, if any, thereto, executed on behalf of the City and the Authority by a duly authorized officer of each.

(15) Documents. An original executed copy of each of the Authority Documents, the City Documents and the Joint Exercise of Powers Agreement between the City and the California Municipal Finance Authority (the "CMFA").

(16) City Resolution. Two copies certified by the City Clerk, of each resolution of the City relating to the City Documents, the actions contemplated thereby, provided that such resolutions may be contained in the transcripts.

(17) Authority Resolution. Two copies certified by the Secretary or Assistant Secretary of the Authority, of each resolution of the Authority relating to the Authority Documents, the Bonds and the transactions contemplated thereby, provided that such resolutions may be contained in the transcripts.

(18) IRS Form 8038-G. Evidence that the federal tax information form 8038-G has been prepared for filing.

(19) Tax Certificate. A tax and nonarbitrage certificate in form satisfactory to Bond Counsel.

(20) Ratings. Evidence as of the Closing satisfactory to the Underwriter that the Bonds have received, at a minimum, a rating of "AA+" from Standard & Poor's Ratings Services ("S&P"), and that such rating has not been revoked or downgraded.

(21) CDIAC Statement. A copy of the Notice of Sale required to be delivered to the California Debt and Investment Advisory Commission pursuant to Section 53583 of the Government Code and Section 8855(g) of the Government Code.

(22) Additional Documents. Such additional certificates, instruments and other documents as the Underwriter and Bond Counsel may reasonably deem necessary.

If the Authority or the City shall be unable to satisfy the conditions contained in this Bond Purchase Agreement, or if the obligations of the Underwriter shall be terminated for any reason permitted by this Bond Purchase Agreement, this Bond Purchase Agreement may be terminated by the Underwriter, and none of the Underwriter, the Authority or the City shall be under further obligation hereunder.

**9. [Reserved].**

**10. Expenses.** Except as otherwise provided in this Section, the Underwriter shall be under no obligation to pay, and the Authority or the City shall pay or cause to be paid, the expenses incident to the performance of the obligations of the Authority and the City hereunder including but not limited to:

(a) the costs of the preparation and printing, or other reproduction (for distribution on or prior to the date hereof) of the City Documents and the Authority Documents and the cost of preparing, printing, issuing and delivering the Bonds;

(b) the fees and disbursements of any counsel, financial advisors, accountants or other experts or consultants retained by the Authority or the City;

(c) the fees and disbursements of Bond Counsel and Disclosure Counsel;

(d) the cost of preparation and printing the Preliminary Official Statement and any supplements and amendments thereto and the cost of preparation and printing of the Official Statement, including a reasonable number of copies thereof for distribution by the Underwriter;

(e) charges of rating agencies for the rating of the Bonds; and

(f) the expenses incurred by the Underwriter in connection with the public offering and distribution of the Bonds, including any advertising expenses.

The Underwriter shall pay all expenses incurred by the Underwriter in connection with the public offering and distribution of the Bonds including, but not limited to: (i) the fees and disbursements of Underwriter's counsel; and (ii) all out-of-pocket disbursements and expenses incurred by the Underwriter in connection with the offering and distribution of the Bonds (including other expenses, fees of the California Debt and Investment Advisory Commission, CUSIP Service Bureau fees and any other fees and expenses), except as otherwise provided in the preceding paragraph or otherwise agreed to by the Underwriter, the Authority and the City in writing.

**11. Notice.** Any notice or other communication to be given to the Underwriter may be given by delivering the same to Stifel, Nicolaus & Company, Incorporated, 515 South Figueroa Street, Suite 1800, Los Angeles CA 90071, Attn.: Mr. Jake Campos. Any notice or other communication to be given to the Authority or the City pursuant to this Bond Purchase Agreement may be given by delivering the same in writing to such entity, at the addresses set forth on the cover page hereof.

**12. Entire Agreement.** This Bond Purchase Agreement, when accepted by the Authority and the City, shall constitute the entire agreement among the Authority, the City and the Underwriter and is made solely for the benefit of the Authority, the City and the Underwriter (including the successors or assigns of any Underwriter). Except as provided in Section 16 below, no other person shall acquire or have any right hereunder by virtue hereof, except as provided herein. All the Authority's and the City's representations, warranties and agreements in this Bond Purchase Agreement shall remain operative and in full force and effect, regardless of any investigation made by or on behalf of the Underwriter, until the earlier of (a) delivery of and payment for the Bonds hereunder, and (b) any termination of this Bond Purchase Agreement.

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

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




**15. State of California Law Governs.** The validity, interpretation and performance of the Authority Documents shall be governed by the laws of the State.

**16. No Assignment.** The rights and obligations created by this Bond Purchase Agreement shall not be subject to assignment by the Underwriter, the Authority or the City without the prior written consent of the other parties hereto.

**17. Definitions.** Terms not otherwise defined herein shall have the same meaning as when used in the Indenture.

**STIFEL, NICOLAUS & COMPANY,  
INCORPORATED**

By:   
Title: VICE PRESIDENT  
12:17

Accepted as of the date first stated above:

**RANCHO SANTA MARGARITA PUBLIC  
FINANCING AUTHORITY**

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

**CITY OF RANCHO SANTA MARGARITA**

By: \_\_\_\_\_  
Title: \_\_\_\_\_  
Time of Execution: \_\_\_\_\_

**15. State of California Law Governs.** The validity, interpretation and performance of the Authority Documents shall be governed by the laws of the State.

**16. No Assignment.** The rights and obligations created by this Bond Purchase Agreement shall not be subject to assignment by the Underwriter, the Authority or the City without the prior written consent of the other parties hereto.

**17. Definitions.** Terms not otherwise defined herein shall have the same meaning as when used in the Indenture.

**STIFEL, NICOLAUS & COMPANY,  
INCORPORATED**

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

Accepted as of the date first stated above:

**RANCHO SANTA MARGARITA PUBLIC  
FINANCING AUTHORITY**

By: *Jesús Arantze*  
Title: *Executive Director*

**CITY OF RANCHO SANTA MARGARITA**

By: *Jesús Arantze*  
Title: *City Manager*  
Time of Execution: *3:05 p.m.*

**EXHIBIT A**

<u>Maturity Date</u> <u>(November 1 of)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>
2013	\$430,000	2.000%	0.400%
2014	370,000	3.000	0.600
2015	385,000	4.000	0.720
2016	405,000	4.000	0.870
2017	420,000	4.000	1.040
2018	430,000	4.000	1.210
2019	455,000	4.000	1.450
2020	470,000	4.000	1.690
2021	490,000	4.000	1.940
2022	505,000	4.000	2.180
2023	525,000	4.000	2.390*
2024	545,000	4.000	2.590*
2025	570,000	4.000	2.740*
2026	590,000	2.500	2.850
2027	610,000	2.625	2.910
2028	625,000	2.750	2.970
2029	645,000	2.750	3.030
2030	660,000	2.750	3.090
2031	680,000	3.000	3.150
2032	700,000	3.000	3.210
2033	720,000	3.000	3.270

\* Yield to first optional redemption date of November 1, 2022.

**Ratings:**  
**Standard & Poor's: "AA+"**  
 See "RATINGS" herein

**NEW ISSUE – BOOK-ENTRY ONLY**

*In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions and assuming certain representations and compliance with certain covenants and requirements described in this Official Statement, interest (and original issue discount) on the Series 2012 Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the Series 2012 Bonds is exempt from State of California personal income tax. See "TAX MATTERS."*

**\$11,000,000\***

**RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY  
 LEASE REVENUE REFUNDING BONDS, SERIES 2012A**

**Dated: Date of Delivery**

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

The Rancho Santa Margarita Public Financing Authority Lease Revenue Refunding Bonds, Series 2012A (the "Series 2012 Bonds") are payable from base rental payments (the "Base Rental Payments") to be made by the City of Rancho Santa Margarita (the "City") for the right to use certain real property consisting of the City's City Hall and Regional Community Center (the "Property") pursuant to a Lease Agreement, dated as of December 1, 2012 (the "Lease Agreement"), by and between the City, as lessee, and the Rancho Santa Margarita Public Financing Authority (the "Authority"), as lessor. See "SECURITY FOR THE SERIES 2012 BONDS." The Series 2012 Bonds are being issued to provide funds to (i) finance the cost of various public capital improvements, (ii) refinance the City's Certificates of Participation (City Hall and Regional Community Center) (the "Prepaid Certificates"), and (iii) pay the costs incurred in connection with the issuance of the Series 2012 Bonds. See "THE REFUNDING PLAN." The City has covenanted under the Lease Agreement to make all Base Rental Payments provided for therein, to include all such payments as a separate line item in its annual budgets, and to make all the necessary annual appropriations for such Base Rental Payments. The City's obligation to make Base Rental Payments is subject to abatement during any period in which, by reason of material damage to, or destruction or condemnation of, the Property, or any defects in title to the Property, there is substantial interference with the City's right to use and occupy any portion of the Property. See "RISK FACTORS—Abatement."

The Series 2012 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 on the Series 2012 Bonds is payable semiannually on May 1 and November 1 of each year, commencing May 1, 2013. Purchasers will not receive certificates representing their interest in the Series 2012 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 2012 Bonds will be paid by Wells Fargo Bank, National Association, as trustee (the "Trustee") to DTC for subsequent disbursement to DTC Participants who are obligated to remit such payments to the beneficial owners of the Series 2012 Bonds. See "THE SERIES 2012 BONDS—Book-Entry Only System" herein.

The Series 2012 Bonds will be issued pursuant to an Indenture, dated as of December 1, 2012 (the "Indenture") by and among the City, the Authority and Wells Fargo Bank, National Association, as trustee. The Series 2012 Bonds and any additional bonds issued pursuant to the Indenture ("Additional Bonds") are collectively referred to as the "Bonds."

The Series 2012 Bonds are subject to optional and extraordinary redemption prior to maturity as described herein. See "THE SERIES 2012 BONDS—Redemption" herein.

**The Series 2012 Bonds are special obligations of the Authority, payable solely from Base Rental Payments and the other assets pledged therefor under the Indenture. Neither the faith and credit nor the taxing power of the Authority, the City or the State of California, or any political subdivision thereof, is pledged to the payment of the Series 2012 Bonds.**

**The obligation of the City to make the Base Rental Payments does not constitute a debt of the City or the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the City or the State of California is obligated to levy or pledge any form of taxation or for which the City or the State of California has levied or pledged any form of taxation. The Authority has no power to tax.**

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 AN INFORMED INVESTMENT DECISION.

*The Series 2012 Bonds will be offered when, as and if issued and received by the Underwriter, subject to the approval as to their validity by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. Stradling Yocca Carlson and Rauth, a Professional Corporation, Newport Beach, California, is also acting as Disclosure Counsel to the City. Certain legal matters will be passed upon for the City and the Authority by Woodruff, Spradlin & Smart, a Professional Corporation, Costa Mesa, California, and for the Underwriter by Nossaman, LLP, Irvine, California. It is anticipated that the Series 2012 Bonds in definitive form will be available for delivery to DTC in New York, New York on or about December 19, 2012.*

**STONE & YOUNGBERG**  
 A DIVISION OF STIFEL NICOLAUS

Dated: December \_\_, 2012

\* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold, nor may offers to buy them be accepted, prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

**\$11,000,000\***  
**RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY**  
**LEASE REVENUE REFUNDING BONDS, SERIES 2012A**

**MATURITY SCHEDULE**  
**BASE CUSIP<sup>†</sup>: \_\_\_\_\_**

<b><i>Maturity Date</i></b> <b><i>(November 1)</i></b>	<b><i>Principal Amount</i></b>	<b><i>Interest Rate</i></b>	<b><i>Yield</i></b>	<b><i>CUSIP<sup>†</sup></i></b>
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\* Preliminary, subject to change.

† Copyright 2012, American Bankers Association. CUSIP® data herein in provided by Standard & Poor's, CUSIP® Service Bureau, a division of The McGraw-Hill Companies, Inc. The City, Authority and the Underwriter take no responsibility for the accuracy of such data.

No dealer, broker, salesperson or other person has been authorized by the City or the Authority to give any information or to make any representations in connection with the offer or sale of the Series 2012 Bonds other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the City or the Authority. 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 2012 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 or owners of the Series 2012 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 representations of fact.

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

This Official Statement and the information contained herein are subject to completion or amendment without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the Authority or any other parties described herein since the date hereof. These securities may not be sold nor may an offer to buy be accepted prior to the time the Official Statement is delivered in final form. This Official Statement is being submitted in connection with the sale of the Series 2012 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the City. All summaries of documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "project," "budget," "intend" or similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the caption "CITY FINANCIAL INFORMATION" and "RISK FACTORS."

**THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE CITY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT. IN EVALUATING SUCH STATEMENTS, POTENTIAL INVESTORS SHOULD SPECIFICALLY CONSIDER THE VARIOUS FACTORS WHICH COULD CAUSE ACTUAL EVENTS OR RESULTS TO DIFFER MATERIALLY FROM THOSE INDICATED BY SUCH FORWARD-LOOKING STATEMENTS.**

**IN CONNECTION WITH THE OFFERING OF THE SERIES 2012 BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2012 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 2012 BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICE STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.**

**THE SERIES 2012 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT AND HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.**

The City maintains a website; however, information presented there is not a part of this Official Statement and should not be relied upon in making an investment decision with respect to the Series 2012 Bonds.

**CITY OF RANCHO SANTA MARGARITA  
(County of Orange, California)**

***City Council***

L. Anthony Beall, Mayor

Steven Baric, Mayor *Pro Tempore*

Jerry Holloway<sup>(1)</sup>

Carol A. Gamble

Jesse Petrilla

***Rancho Santa Margarita Public Financing Authority***

L. Anthony Beall, President

Steven Baric, Vice President

Jerry Holloway<sup>(1)</sup>

Carol A. Gamble

Jesse Petrilla

***City Manager/Executive Director/Treasurer***

Jennifer M. Cervantez

***City Clerk/Secretary***

Molly McLaughlin

***Director of Administrative Services***

Paul Boyer

**PROFESSIONAL SERVICES**

***City Attorney***

Woodruff, Spradlin & Smart, a Professional Corporation  
Costa Mesa, California

***Bond Counsel and Disclosure Counsel***

Stradling Yocca Carlson & Rauth, a Professional Corporation  
Newport Beach, California

***Financial Advisor***

Fieldman Rolapp & Associates  
Irvine, California

***Trustee/Escrow Agent***

Wells Fargo Bank, National Association  
Los Angeles, California

***Verification Agent***

Causey Demgen & Moore, P.C.  
Denver, Colorado

<sup>(1)</sup> Retiring Effective December 12, 2012.

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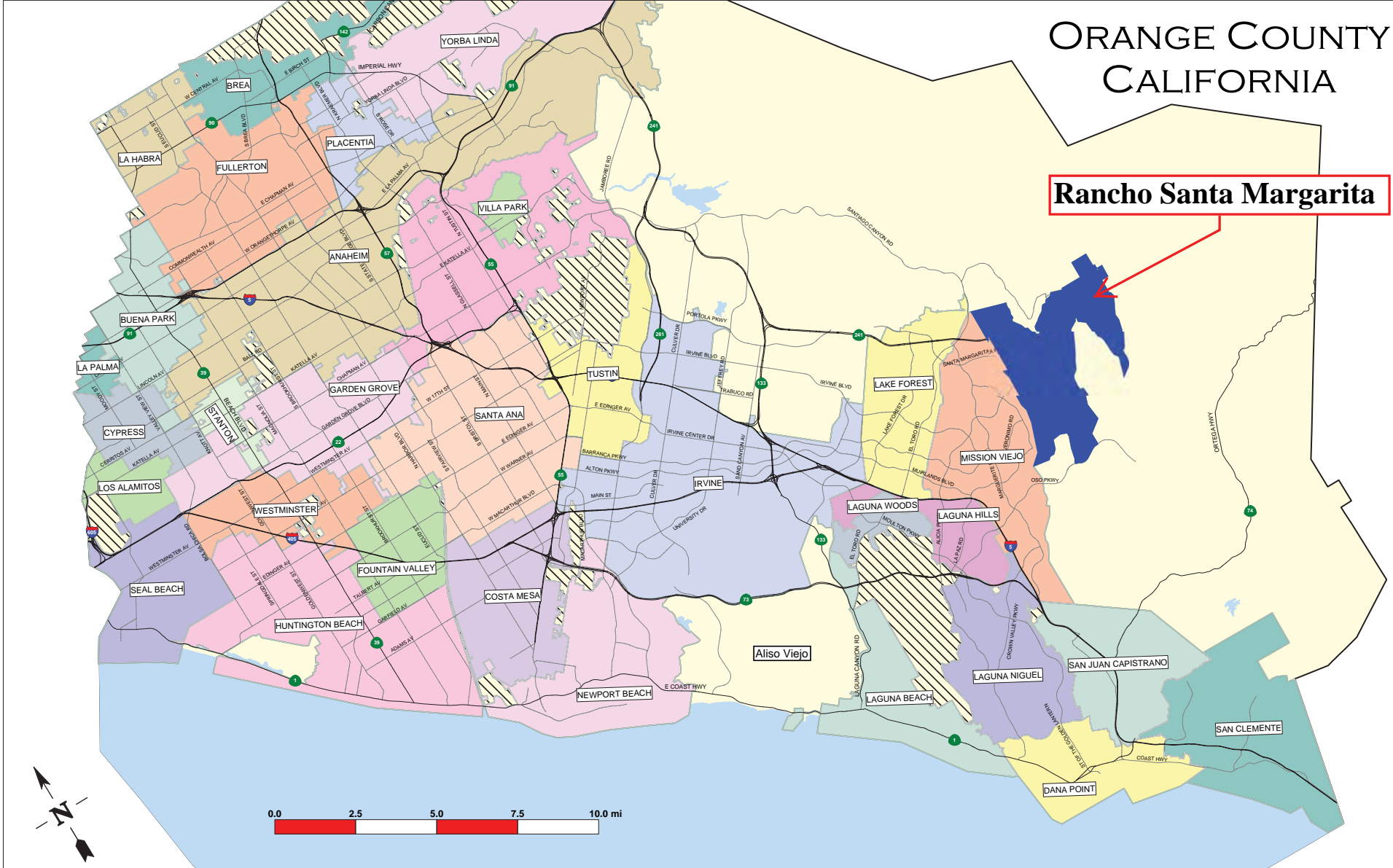
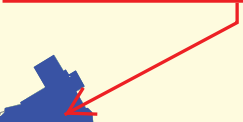
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# ORANGE COUNTY CALIFORNIA

**Rancho Santa Margarita**



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## OFFICIAL STATEMENT

**\$11,000,000\***

### **RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY LEASE REVENUE REFUNDING BONDS, SERIES 2012A**

#### INTRODUCTION

This Official Statement (which includes the cover page and Appendices hereto) (the “Official Statement”), provides certain information concerning the sale and delivery of \$11,000,000\* aggregate principal amount of Rancho Santa Margarita Public Financing Authority Lease Revenue Refunding Bonds, Series 2012A (the “Series 2012 Bonds”).

The net proceeds of the sale of the Series 2012 Bonds will be used to (i) finance the cost of various public capital improvements, (ii) refinance the outstanding City of Rancho Santa Margarita Certificates of Participation (City Hall and Regional Community Center) (the “Prepaid Certificates”) currently outstanding in the aggregate principal amount of \$11,360,000, and (iii) pay the costs incurred in connection with the issuance of the Series 2012 Bonds.

The Series 2012 Bonds are equally and ratably payable from base rental payments (the “Base Rental Payments”) to be made by the City of Rancho Santa Margarita (the “City”) for the right to use certain real property consisting of the City’s City Hall and Regional Community Center (the “Property”) pursuant to a Lease Agreement, dated as of December 1, 2012 (the “Lease Agreement”), between the City, as lessee, and the Rancho Santa Margarita Public Financing Authority (the “Authority”), as lessor.

The Series 2012 Bonds will be issued pursuant to an Indenture, dated as of December 1, 2012 (the “Indenture”), by and among the Authority, the City and the Trustee. Pursuant to the Indenture, the Authority may issue additional bonds (the “Additional Bonds”) payable from the Base Rental Payments on a parity with the Series 2012 Bonds (the Series 2012 Bonds and any such Additional Bonds being collectively referred to as the “Bonds”).

Pursuant to a Ground Lease, dated as of December 1, 2012 (the “Ground Lease”), the City has leased the Property to the Authority. The Authority has subleased the Property to the City under the Lease Agreement. The Lease Agreement obligates the City to make Base Rental Payments to the Authority.

The Trustee and the Authority have entered into an Assignment Agreement, dated as of December 1, 2012, pursuant to which the Authority has assigned to the Trustee for the benefit of the Bond Owners substantially all of the Authority’s right, title and interest in and to the Ground Lease and the Lease Agreement, including its right to receive the Base Rental Payments due under the Lease Agreement and to enforce any remedies in the event of a default by the City.

The City covenants under the Lease Agreement to take such action as may be necessary to include all Rental Payments, which are comprised of Base Rental Payments and Additional Rental Payments (which include taxes and assessments affecting the Property, administrative costs of the Authority relating to the Property, fees and expenses of the Trustee and other amounts payable under the Lease Agreement), due under the Lease Agreement as a separate line item in its annual budgets and to make the necessary annual appropriations therefor, subject to abatement as described herein.

Base Rental Payments are subject to complete or partial abatement in the event and to the extent that there is substantial interference with the City’s right to use and occupy the Property or any portion thereof.

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\* Preliminary, subject to change.

See “RISK FACTORS—Abatement.” Abatement of Base Rental Payments under the Lease Agreement, to the extent payment is not made from alternative sources as set forth below, would result in all Bond Owners receiving less than the full amount of principal of and interest on the Bonds. To the extent proceeds of insurance are available, Base Rental Payments (or a portion thereof) may be made during periods of abatement. As described under the caption “THE PROPERTY,” the Property suffered water infiltration damage during recent storm events. The Property is habitable and fully operable as is. However, the City is pursuing legal remedies against the architect, general contractor and several of the subcontractors to correct the design and/or construction defects that caused water infiltration and damage to the Property. The City expects to repair the Property at some point in the future upon resolution of any proceedings with the general contractor, architect and subcontractors. It is possible that such repairs will require the City to vacate the Property for six to nine months during construction. If the City is required to move out of all or a portion of the Property during construction, Base Rental Payments attributable to the portion of the Property not occupied by the City shall be paid from Prepaid Base Rental Payments in the amount of \$1,500,000\*, which, depending on the month in which repairs commence, represents approximately fifteen months of Base Rental Payments. Such moneys shall be deposited by the City with the Trustee at Closing and held in the Prepaid Base Rental Payment Account of the Base Rental Payment Fund and will be used during the repair period. The City’s obligation to pay Base Rental Payments during the repair period will be abated. Only funds on deposit in the Prepaid Base Rental Payment Account shall be available to pay Base Rental Payments during the repair period. Upon completion of the repairs, or in the event the City elects not to make such repairs, any funds remaining in the Prepaid Base Rental Payments Account not required to pay Base Rental Payments shall be returned to the City. See “RISK FACTORS—Abatements” and Appendix A – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

THE SERIES 2012 BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM BASE RENTAL PAYMENTS AND THE OTHER ASSETS PLEDGED THEREFOR UNDER THE INDENTURE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE AUTHORITY, THE CITY OR THE STATE OF CALIFORNIA (THE “STATE”), OR ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF THE SERIES 2012 BONDS. THE AUTHORITY HAS NO TAXING POWER.

THE OBLIGATION OF THE CITY TO MAKE THE BASE RENTAL PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE CITY OR THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, AND DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE CITY OR THE STATE IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY OR THE STATE HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

The Authority is not funding a debt service reserve for the Series 2012 Bonds.

The City has agreed to provide, or cause to be provided, to the Municipal Securities Rulemaking Board for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission certain annual financial information and operating data and, in a timely manner, notice of certain listed events. These covenants have been made in order to assist the Underwriter in complying with SEC Rule 15c2-12(b)(5). See “CONTINUING DISCLOSURE” herein for a description of the specific nature of the annual report and notices of listed events and a summary description of the terms of the disclosure agreement pursuant to which such reports are to be made.

The Series 2012 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 on the Series 2012 Bonds is payable semiannually on May 1 and November 1 of each year, commencing May 1, 2013. Purchasers will not receive certificates representing their interest in the Series

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\* Preliminary, subject to change.

2012 Bonds. Individual purchases will be in principal amounts of \$5,000 or integral multiples thereof. Principal of and interest on the Series 2012 Bonds will be paid by Wells Fargo Bank, National Association, as trustee (the “Trustee”) to DTC for subsequent disbursement to DTC Participants who are obligated to remit such payments to the beneficial owners of the Series 2012 Bonds. See “THE SERIES 2012 BONDS—Book-Entry Only System” herein. The Series 2012 Bonds are subject to redemption prior to maturity as described herein. See “THE SERIES 2012 BONDS—Redemption.”

Wells Fargo Bank, National Association, Los Angeles, California, will act as Trustee with respect to the Series 2012 Bonds. The Series 2012 Bonds will be issued subject to the approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. Certain legal matters will be passed upon for the City and the Authority by Woodruff, Spradlin & Smart, a Professional Corporation, Costa Mesa, California, City Attorney, and by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Disclosure Counsel. Certain legal matters will be passed upon for the Underwriter by Nossaman, LLP, Irvine, California. The City’s financial statements for the fiscal year ended June 30, 2012 included as Appendix B hereto have been audited by White Nelson Diehl Evans LLP, certified public accountants, Irvine, California (the “Auditor”). See APPENDIX B—“AUDITED FINANCIAL STATEMENTS OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2012” herein. The City’s financial statements are public documents and are included within this Official Statement without the prior approval of the Auditor. Accordingly, the Auditor has not performed any post-audit review of the financial condition of the City.

Certain events could affect the ability of the City to make the Base Rental Payments when due. See “RISK FACTORS” for a discussion of certain factors that should be considered, in addition to other matters set forth herein, in evaluating an investment in the Series 2012 Bonds.

The presentation of information, including tables of receipt of revenues, is intended to show recent historical information and, except for budget discussion for Fiscal Year 2012-13, is not intended to indicate future or continuing trends in the financial position or other affairs of the City. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future.

The summaries or references to the Indenture, the Lease Agreement, the Ground Lease, the Assignment Agreement and other documents, agreements and statutes referred to herein, and the description of the Series 2012 Bonds included in this Official Statement, do not purport to be comprehensive or definitive, and such summaries, references and descriptions are qualified in their entirety by reference to each such document or statute. All capitalized terms used in this Official Statement (unless otherwise defined herein) which are defined in the Indenture or the Lease Agreement shall have the meanings set forth therein, some of which are summarized in APPENDIX A—“SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS.”

## **THE SERIES 2012 BONDS**

### **General**

The Series 2012 Bonds shall be issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple thereof. The Series 2012 Bonds will be dated as of and bear interest (calculated on the basis of a 360-day year comprised of twelve 30-day months) from the dated date thereof at the rates set forth on the inside cover page hereof. Interest on the Series 2012 Bonds will be paid semiannually on May 1 and November 1 (each, an “Interest Payment Date”) of each year, commencing May 1, 2013.

Interest on the Series 2012 Bonds will be payable from the Interest Payment Date next preceding the date of authentication thereof unless (i) a Series 2012 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 will bear interest from such Interest Payment Date, (ii) a Series 2012 Bond is authenticated on or before the first Record Date, in

which event interest thereon will be payable from the dated date thereof, or (iii) interest on any Series 2012 Bond is in default as of the date of authentication thereof, in which event interest thereon will be payable from the date to which interest has been paid in full, payable on each Interest Payment Date. Interest will be paid in lawful money of the United States on each Interest Payment Date to the Persons in whose names the ownership of the Series 2012 Bonds is registered on the Registration Books at the close of business on the immediately preceding Record Date, except as provided below. Interest will be paid by check of the Trustee mailed by first class mail, postage prepaid, on each Interest Payment Date to the Series 2012 Bond Owners at their respective addresses shown on the Registration Books as of the close of business on the preceding Record Date.

The principal and premium, if any, of the Series 2012 Bonds will 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. The Series 2012 Bonds will be subject to optional, mandatory sinking fund and extraordinary redemption as set forth herein.

### **Registration, Transfers and Exchanges**

The Series 2012 Bonds will be issued as fully registered bonds, registered in the name of Cede & Co. as nominee of DTC, and will be available to actual purchasers of the Series 2012 Bonds (the “Beneficial Owners”) in the denominations set forth above, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants (as defined in Appendix E) as described herein. Beneficial Owners will not be entitled to receive physical delivery of the Series 2012 Bonds. See “THE SERIES 2012 BONDS—Book-Entry Only System.”

### **Redemption**

***Optional Redemption***\*. The Series 2012 Bonds maturing on or after November 1, 2023, shall be subject to optional redemption, in whole or in part, on any Interest Payment Date on or after November 1, 2022, in Authorized Denominations, from and to the extent of prepaid Base Rental Payments paid pursuant to the Lease Agreement, at a Redemption Price equal to the principal amount of the Series 2012 Bonds to be redeemed, plus accrued interest thereon to the date of redemption, without premium.

***Extraordinary Redemption from Condemnation Award or Insurance Proceeds***. The Series 2012 Bonds are subject to redemption, in whole or in part, on any date, in denominations of \$5,000 or any integral multiple thereof, from and to the extent of any insurance proceeds or condemnation award received with respect to all or a portion of the Property, deposited by the Trustee in the Redemption Fund pursuant to the Indenture, at a Redemption Price equal to the principal amount of the Series 2012 Bonds to be redeemed, plus accrued interest thereon to the date of redemption, without premium.

***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 Bonds not previously called for redemption (a) with respect to any optional redemption of Bonds of a Series, among maturities of Bonds of such Series as directed in a Written Request of the Authority, (b) with respect to any redemption from and to the extent of any insurance proceeds or condemnation award received with respect to all or a portion of the Property and the corresponding provision of any Supplemental Indenture pursuant to which Additional Bonds are issued, among maturities of all Series of Bonds on a pro rata basis as nearly as practicable, and (c) with respect to any other 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 of the same Series 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.

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\* Preliminary, subject to change.

***Notice of Redemption.*** So long as the Bonds are held in book-entry form, notices of redemption will be mailed by the Trustee only to DTC and not to any Beneficial Owners. The Trustee on behalf and at the expense of the Authority 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, to the Securities Depositories and to one or more Information Services, at least 20 but not more than 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 principal corporate trust 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. Such notice may state that such redemption is conditioned upon sufficient funds being on deposit on the redemption date to redeem the Bonds so called for redemption. Neither the failure to receive any notice so mailed, nor any defect in such notice, shall affect the validity 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 Authority shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the Authority, a new Bond or Bonds of the same Series in authorized denominations equal in aggregate principal amount representing the unredeemed portion of the Bonds surrendered.

***Effect of Notice of Redemption.*** Notice having been mailed as aforesaid, and moneys for the Redemption Price, and the interest to the applicable date fixed for redemption, having been set aside in the Redemption Fund, the Bonds shall become due and payable on said date, and, upon presentation and surrender thereof at the principal corporate trust office of the Trustee, said Bonds shall 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 Price 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 without liability to such Owners for interest thereon.

### **Book-Entry Only System**

***General.*** DTC will act as securities depository for the Series 2012 Bonds. The Series 2012 Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Series 2012 Bond will be issued for each maturity of the Series 2012 Bonds, each in the initial aggregate principal amount of such maturity, and will be deposited with DTC. See APPENDIX E—"BOOK-ENTRY ONLY SYSTEM."

***Transfer and Exchange of Bonds.*** The following provisions regarding the exchange and transfer of the Series 2012 Bonds apply only during any period in which the Series 2012 Bonds are not subject to DTC's book-entry system. While the Series 2012 Bonds are subject to DTC's book-entry system, their exchange and transfer will be effected through DTC and the Participants and will be subject to the procedures, rules and requirements established by DTC.

Any Bond may, in accordance with its terms, be transferred upon the books required to be kept by the Trustee pursuant to the provisions of the Indenture by the Person in whose name it is registered, in person or by his or her 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 Authority shall execute and the Trustee shall authenticate and shall



deliver a new Bond or Bonds of the same Series in 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 principal corporate trust office of the Trustee for a like aggregate principal amount of Bonds of the same Series 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.

## **SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 BONDS**

### **Pledge of Revenues**

The Series 2012 Bonds are equally and ratably payable from and secured by Base Rental Payments and certain amounts on deposit in the funds and accounts established under the Indenture. Base Rental Payments shall be paid by the City from any and all legally available funds. See, “THE CITY,” “FINANCIAL INFORMATION” and “RISK FACTORS.” The City has covenanted in the Lease Agreement to take such action as may be necessary to include all Base Rental Payments and Additional Rental Payments due under the Lease Agreement as a separate line item in its annual budgets and to make the necessary annual appropriations therefor.

The Authority, pursuant to the Assignment Agreement, will assign to the Trustee for the benefit of the Series 2012 Bond Owners all of the Authority’s right, title and interest in and to the Ground Lease and the Lease Agreement, including, without limitation, its right to receive Base Rental Payments to be paid by the City under and pursuant to the Lease Agreement; provided that, the Authority will retain the rights to indemnification and to payment of reimbursement of its reasonable costs and expenses under the Lease Agreement. The City will pay Base Rental Payments directly to the Trustee, as assignee of the Authority. See “—Base Rental Payments” below. Pursuant to the Indenture, the Authority may issue Additional Bonds payable from the Base Rental Payments on a parity with the Series 2012 Bonds. See APPENDIX A—“SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—The Indenture—Additional Bonds.”

Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, all of the Base Rental Payments and any other amounts (including proceeds of the sale of the Bonds) held in the Base Rental Payment Fund, the Interest Fund, the Principal Fund and the Redemption Fund are pledged by the Authority pursuant to the Indenture 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 constitutes a first lien on such assets.

**THE SERIES 2012 BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM BASE RENTAL PAYMENTS AND THE OTHER ASSETS PLEDGED THEREFOR UNDER THE INDENTURE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE AUTHORITY, THE CITY OR THE STATE, OR ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF THE SERIES 2012 BONDS. THE AUTHORITY HAS NO TAXING POWER.**

## **Base Rental Payments**

Rental Payments, including Base Rental Payments, shall be paid by the City to the Authority for and in consideration of the right to use and occupy the Property and in consideration of the continued right to the quiet use and enjoyment thereof during each Rental Period for which such Rental Payments are to be paid. Each Base Rental Payment shall be deposited with the Trustee no later than the 15th day of the month next preceding each Interest Payment Date (the “Base Rental Deposit Date”) on which such Base Rental Payment is due. All Base Rental Payments will be paid directly by the City to the Trustee, and if received by the Authority at any time will be transferred by the Authority to the Trustee within one Business Day after the receipt thereof. All Base Rental Payments received by the Trustee will be deposited by the Trustee in the Base Rental Payment Fund.

Pursuant to the Indenture, on the Business Day immediately preceding each Interest Payment Date and on the Business Day immediately preceding each Principal Payment Date, the Trustee will transfer amounts in the Base Rental Payment Fund as are necessary to the Interest Fund and the Principal Fund to provide for the payment of the interest on and principal of the Series 2012 Bonds.

Scheduled Base Rental Payments relating to the Series 2012 Bonds are set forth below under the heading “BASE RENTAL PAYMENT SCHEDULE.”

THE OBLIGATION OF THE CITY TO MAKE THE BASE RENTAL PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE CITY OR THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, AND DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE CITY OR THE STATE IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY OR THE STATE HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

## **Additional Rental Payments**

For the right to use and occupy the Property, the Lease Agreement requires the City to pay, as Additional Rental payments thereunder, in addition to the Base Rental Payments, such amounts as shall be required for the payment of the following:

- (i) All taxes and assessments of any type or nature charged to the Authority or the City or affecting the Property or the respective interests or estates of the Authority or the City therein.
- (ii) All reasonable administrative costs of the Authority relating to the Property including, but without limiting the generality of the foregoing, salaries, wages, fees and expenses, compensation and indemnification of the Trustee payable by the Authority under the Indenture, fees of auditors, accountants, attorneys or engineers, and all other necessary and reasonable administrative costs of the Authority or charges required to be paid by it in order to maintain its existence or to comply with the terms of the Indenture or the Lease Agreement or to defend the Authority and its members, officers, agents and employees.
- (iii) Insurance premiums for all insurance required pursuant to the Lease Agreement.
- (iv) Any amounts with respect to the Lease Agreement or the Bonds required to be rebated to the federal government in accordance with section 148(f) of the Internal Revenue Code of 1986.
- (v) All other payments required to be paid by the City under the provisions of the Lease Agreement or the Indenture.

Amounts constituting Additional Rental Payments payable under the Lease Agreement will be paid by the City directly to the person or persons to whom such amounts shall be payable. The City will pay all such amounts when due or at such later time as such amounts may be paid without penalty or, in any other case, within 60 days after notice in writing from the Trustee to the City stating the amount of Additional Rental Payments then due and payable and the purpose thereof.

### **Abatement**

Base Rental Payments and Additional Rental Payments are paid by the City in each Rental Period for and in consideration of the right to use and occupy the Property. Except as otherwise specifically provided in the Lease Agreement, during any period in which, by reason of material damage to, or destruction or condemnation of, the Property, or any defect in title to the Property, there is substantial interference with the City's right to use and occupy any portion of the Property, Rental Payments shall be subject to abatement proportionately, and the City waives the benefits of Civil Code Sections 1932(1), 1932(2) and 1933(4) and any and all other rights to terminate the Lease Agreement by virtue of any such interference, and the Lease Agreement shall continue in full force and effect. The amount of such abatement shall be agreed upon by the City and the Authority; provided, however, that the Rental Payments due for any Rental Period shall not exceed the annual fair rental value of that portion of the Property available for use and occupancy by the City during such Rental Period. Any such abatement shall continue for the period commencing with the date of interference resulting from such damage, destruction, condemnation or title defect and, with respect to damage to or destruction of the Property, ending with the substantial completion of the work of repair or replacement of the Property, or the portion thereof so damaged or destroyed; and the term of the Lease Agreement shall be extended as provided in the Lease Agreement, except that the term shall in no event be extended ten years beyond the stated termination date of the Lease Agreement. The Trustee cannot terminate the Lease Agreement in the event of such substantial interference. Abatement of Base Rental Payments and Additional Rental Payments is not an event of default under the Lease Agreement and does not permit the Trustee to take any action or avail itself of any remedy against the City. See APPENDIX A—"SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—The Lease Agreement—Rental Abatement."

Notwithstanding the foregoing, to the extent that moneys are available for the payment of Rental Payments due under the Lease Agreement in any of the funds and accounts established under the Indenture (including as a result of the availability of insurance proceeds), such Rental Payments will not be abated as provided above but, rather, will be payable by the City as a special obligation payable solely from said funds and accounts. As described under the caption "THE PROPERTY," the Property suffered damage during recent storm events. The Property is habitable and fully operable as is. However, the City is pursuing legal remedies against the architect, general contractor and several of the subcontractors to correct the design and/or construction defects that caused the water infiltration and damage. The City expects to repair the Property at some point in the future upon resolution of any proceedings with the general contractor, architect and subcontractors. It is possible that such repairs will require the City to vacate the Property for six to nine months during construction. During construction Base Rental Payments shall be paid from Prepaid Base Rental Payments in the amount of \$1,500,000\*, which, depending upon the month in which the repairs commence, represents approximately fifteen months' Base Rental Payments. Such moneys shall be deposited by the City with the Trustee at Closing and held in the Prepaid Base Rental Payment Account of the Base Rental Payment Fund and will be used during the repair period. The City's obligation to pay Base Rental Payments during the repair period will be abated. Only funds on deposit in the Prepaid Base Rental Payment Account shall be available to pay Base Rental Payments during the repair period. Upon completion of the repairs, or in the event the City elects not to make such repairs, any funds remaining in the Prepaid Base Rental Payment Account not required to pay Base Rental Payments shall be returned to the City. See "RISK FACTORS—Abatements" and Appendix A – "SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS."

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\* Preliminary, subject to change.

## **Substitution, Addition and Removal of Property**

The Authority and the City may amend the Lease Agreement to substitute alternate real property for any portion of the Property to add additional real property or to release a portion of the Property from the Lease Agreement, upon compliance with all of the conditions set forth in the Lease Agreement and described below. After a substitution or release, the portion of the Property for which the substitution or release has been effected shall be released from the leasehold encumbrance of the Lease Agreement.

The Lease Agreement provides that there shall be no reduction in or abatement of the Base Rental Payments due from the City thereunder as a result of such substitution or release. Any such substitution or release shall be subject to the following specific conditions precedent to such substitution or release:

(a) an independent certified real estate appraiser selected by the City shall have found (and shall have delivered a certificate to the City and the Trustee setting forth its findings) that the Property, as constituted after such substitution or release, (i) has an annual fair rental value at least equal to the maximum Base Rental Payments payable by the City in any Rental Period, and (ii) has a useful life in excess of the final maturity of any Outstanding Bonds.

(b) the City shall have obtained or caused to be obtained a CLTA or ALTA title insurance policy or policies with respect to any substituted property in an amount at least equal to the aggregate principal amount of any Outstanding Bonds, of the type and with the endorsements described in the Lease Agreement;

(c) the City shall have provided the Trustee with an opinion of counsel to the effect that such substitution or release will not, in and of itself, cause the interest on the Bonds to be included in gross income for federal income tax purposes;

(d) the City, the Authority and the Trustee shall have executed, and the City shall have caused to be recorded with the Orange County Recorder, any document necessary to reconvey to the City the portion of the Property being released and to include any substituted real property in the description of the Property contained in the Lease Agreement and in the Ground Lease; and

(e) the City shall have provided notice of such substitution to each rating agency then rating the Bonds.

See APPENDIX A—“SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—The Lease Agreement—Substitution or Release of the Property”

## **Action on Default**

Should the City default under the Lease Agreement, the Trustee, as assignee of the Authority under the Lease Agreement, may terminate the Lease Agreement and recover certain damages from the City, or may retain the Lease Agreement and hold the City liable for all Base Rental Payments thereunder on an annual basis, and will have the right to re-enter and re-let the Property. In the event such re-letting occurs, the City would be liable for any resulting deficiency in Base Rental Payments. Base Rental Payments may not be accelerated upon a default under the Lease Agreement. See “RISK FACTORS—Limited Recourse on Default; No Acceleration of Base Rental.”

For purposes of certain actions of Bond Owners under the Indenture and the Lease, such as certain consents and amendments and the direction of remedies following default, Series 2012 Bond Owners do not act alone and may not control such matters to the extent such matters are not supported by the requisite number of the Owners of all Bonds and Additional Bonds, if any.

For a description of the events of default and permitted remedies of the Trustee (as assignee of the Authority) contained in the Lease Agreement and the Indenture, see APPENDIX A—"SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—The Lease Agreement—Default" and "—The Indenture—Events of Default," "—Other Remedies of the Trustee," and "Limitation on Suits."

### **No Reserve Fund**

The Authority has not funded a reserve fund in connection with the issuance of the Series 2012 Bonds.

### **Insurance**

The Lease Agreement requires the City to maintain or cause to be maintained fire, lightning and special extended coverage insurance (which shall include coverage for vandalism and malicious mischief, but need not include coverage for earthquake damage) on all improvements constituting any part of the Property in an amount equal to the greater of 100% of the replacement cost of such improvements or 100% of the outstanding principal amount of the Bonds. The City has an insurance policy which provides replacement cost coverage. All insurance required to be maintained pursuant to the Lease Agreement may be subject to a deductible in an amount not to exceed \$500,000. The City's obligation to maintain the insurance described above (except for rental interruption insurance) may be satisfied by self-insurance, provided such self-insurance complies with the requirements of the Lease Agreement. See APPENDIX A—"SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—The Lease Agreement—Insurance."

The Lease Agreement requires the City to maintain rental interruption insurance to cover the Authority's loss, total or partial, of Base Rental Payments resulting from the loss, total or partial, of the use of any part of the Property as a result of any of the hazards covered by the casualty insurance described in the preceding paragraph, in an amount sufficient at all times to pay an amount not less than the product of two times the maximum amount of Base Rental Payments scheduled to be paid during any Rental Period. The City is not permitted to self-insure its obligation to maintain rental interruption insurance.

The City is also required to maintain or cause to be maintained, throughout the term of the Lease Agreement, a standard commercial general liability insurance policy or policies in protection of the City, the Authority and their respective members, officers, agents and employees, and worker's compensation insurance as described in APPENDIX A—"SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—The Lease Agreement—Insurance."

The City is required under the Lease Agreement to provide, at its own expense, one or more CLTA or ALTA title insurance policies for the Property, in the aggregate amount of not less than the initial aggregate principal amount of the Series 2012 Bonds, insuring the fee interest of the City in the Property, the Authority's leasehold estate in the Property under the Ground Lease, and the City's subleasehold estate in the Property under the Lease Agreement, subject only to Permitted Encumbrances, and providing that all proceeds thereunder are payable to the Trustee for the benefit of the Owners.

## SOURCES AND USES OF FUNDS

The sources and uses of funds with respect to the Series 2012 Bonds are shown below.

	<i>Series 2012 Bonds</i>
<i>Sources</i>	
Principal Amount of Series 2012 Bonds	\$
[Plus: Net Original Issue Premium/Less Net Original Issue Discount]	
City Prepayment of Base Rental Payments <sup>(1)</sup>	
Reserve Funds	_____
Total Sources	\$ =====
 <i>Uses</i>	
Project Fund	\$
Escrow Fund	
Prepaid Base Rental Account <sup>(1)</sup>	
Cost of Issuance Fund <sup>(2)</sup>	_____
Total Uses	\$ =====

<sup>(1)</sup> Amount estimated (depending on the month in which repairs commence) to be equal to approximately fifteen months of Base Rental. See "THE PROPERTY."

<sup>(2)</sup> Includes legal, financial advisory, rating agency, Underwriter's Discount, printing fees and other miscellaneous costs of issuance.

**BASE RENTAL PAYMENT SCHEDULE**

Following is the annual schedule of Base Rental Payments due with respect to the Series 2012 Bonds:

<i>Lease Payment Date</i>	<i>Series 2012 Principal</i>	<i>Series 2012 Interest</i>	<i>Total Series 2012 Payments</i>
2012			
2013			
2014			
2015			
2016			
2017			
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
Total			

## **THE 2012 PROJECT**

The 2012 Project consists of the construction of various public capital improvements located within the City (the “2012 Project”).

## **THE REFUNDING PLAN**

### **General**

The Series 2012 Bonds are being issued to provide a portion of the moneys, together with certain funds on deposit with Wells Fargo Bank, National Association, acting as escrow agent (the “Escrow Agent”), to pay the interest and principal due on the Prepaid Certificates through October 1, 2013 and to prepay the City’s outstanding Prepaid Certificates at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption.

Pursuant to the Indenture, the Authority will deliver a portion of the proceeds of the Series 2012 Bonds to the Trustee to transfer to the Escrow Agent for deposit in an escrow fund (the “Escrow Fund”) established under the Escrow Agreement, dated as of December 1, 2012, by and between the City and the Escrow Agent (the “Escrow Agreement”). Proceeds of the Series 2012 Bonds and other moneys held in the Escrow Fund to redeem a portion of the Prepaid Certificates will be invested in certain federal securities maturing at such times to (i) pay on April 1, 2013 interest due on the Prepaid Certificates, (ii) pay the principal and interest due on the Prepaid Certificates on October 1, 2013 and (iii) prepay the Prepaid Certificates maturing on or after October 1, 2014 on October 1, 2013 at a prepayment price equal to the principal amount of the Prepaid Certificates being prepaid, together with accrued interest to the redemption date, without premium. Amounts in the Escrow Fund will be irrevocably pledged to secure, when due, the payment of the principal of, interest and premium due with respect to the Prepaid Certificates.

### **Verification**

Upon issuance of the Series 2012 Bonds, Causey Demgen & Moore, P.C., as verification agent, will deliver a report on the mathematical accuracy of certain computations based upon certain information and assertions provided to it by the Underwriter relating to: (a) the adequacy of the maturing principal of and interest on the federal securities to pay when due all interest and principal with respect to the Prepaid Certificates on and prior to the prepayment thereof and to pay the prepayment price of the Prepaid Certificates when due; and (b) the computations of yield of the Series 2012A Bonds and the federal securities which support Bond Counsel’s opinion that the interest on the Series 2012A Bonds is excluded from gross income for federal income tax purposes.

## **THE PROPERTY**

The Property consists of the Rancho Santa Margarita City Hall and the Bell Tower Regional Community Center, which together comprise the City’s Civic Center complex. Located on a plaza at the center of the City, City Hall and the Community Center are located next to a multi acre park and across the street from one of the City’s busiest retail shopping areas. Numerous restaurants and meeting areas are located within walking distance, along with a County of Orange library branch facility, a medical clinic, and senior assisted living facilities.

Both City facilities are approximately 25,000 square foot buildings; consisting of one story steel frame and stucco construction. Incorporating energy efficient design elements including an open floor plan, centralized file storage areas, vaulted storage, and floor to ceiling windows.

Completed in 2004 on four developer donated parcels, the facilities provide multi-purpose service capabilities to residents and businesses. City Hall contains a City Council Chambers, Development Service



lobby and walk-up counter, administrative offices and an Emergency Operations Center. A wing of City Hall serves as a Police Services station with walk-up capacity and operational offices and equipment for Orange County Sheriff's Department personnel serving the community. An auxiliary diesel-supplied generator provides automatic backup power delivery to continue critical functions during emergencies. The Bell Tower Regional Community Center serves as a central meeting place for City residents and businesses. The City Hall and Community Center were completed at a cost of approximately \$16.6 million (exclusive of the value of the land).

In 2010, two separate storm events caused significant water intrusion into the Civic Center Complex. As a result, the City hired outside consultants to analyze the design and construction of the Civic Center Complex. Based on a review of reports prepared by such consultants, the City believes that the water intrusion was caused by design and/or construction defects and is pursuing legal remedies against the architect, general contractor and several of the subcontractors to correct such defects. The City expects to repair the Property at some point in the future upon resolution of any proceedings with the general contractor, architect and subcontractors. It is possible that such repairs will require the City to vacate the Property for six to nine months during construction.

The City currently estimates that the repair, design and relocation costs to be approximately \$3,850,000. The Property is habitable and fully operable as is. However, the City desires to repair the Property to correct the water intrusion issues. If the City is required to move out of all or a portion of the Property during construction, Base Rental Payments attributable to the portion of the Property not occupied by the City shall be paid from Prepaid Base Rental Payments in the amount of \$1,500,000\*, which, depending on the month in which repairs commence, represents approximately fifteen months of Base Rental Payments. Such moneys shall be deposited by the City with the Trustee at Closing and held in the Prepaid Base Rental Payment Account of the Base Rental Payment Fund and will be used during the repair period. The City's obligation to pay Base Rental Payments during the repair period will be abated. Only funds on deposit in the Prepaid Base Rental Payment Account shall be available to pay Base Rental Payments during the repair period. Upon completion of the repairs, or in the event the City elects not to make such repairs, any funds remaining in the Prepaid Base Rental Payments Account not required to pay Base Rental Payments shall be returned to the City. See "RISK FACTORS—Abatements" and Appendix A – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

The City has the right to substitute or release all or portion of the Property subject to certain conditions precedent. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 BONDS—Substitution and Removal of Property."

## **THE AUTHORITY**

### **Organization and Membership**

The Authority was formed pursuant to the provisions of Articles 1, 2 and 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the "Act") and the Joint Exercise of Powers Agreement, dated as of October 15, 2012 (the "JPA Agreement"), by and between the City and the California Municipal Finance Authority (the "CMFA"). The Authority was formed by and between the City and the CMFA to assist in the financing of public capital improvements.

The Authority functions as a public entity, separate and apart from the City and the CMFA, and is administered by a five-member governing board consisting of the members of the City Council. The City Attorney serves as counsel to the Authority. The Authority has no employees and all staff work is performed by the City or consultants.

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\* Preliminary, subject to change.

## **Powers**

Under the JPA Agreement, the Authority is empowered to assist in the financing of public capital improvements through the issuance of bonds in accordance with the Act. To exercise its powers, the Authority is authorized, in its own name, to do all necessary acts, including but not limited to making and entering into contracts; employing agents and employees; and to sue or be sued in its own name.

## **THE CITY**

### **General**

The City of Rancho Santa Margarita (the “City”) was incorporated on January 1, 2000 under the General Laws of the State. The City is located 58 miles southeast of Los Angeles and encompasses an area slightly greater than 13 square miles. The City currently has an estimated population of approximately 48,278 persons.

### **Government and Administration**

The City operates under a Council-Manager form of government. The City was first incorporated on January 1, 2000. On July 1, 2001, the City became responsible for all municipal services, including street maintenance, street sweeping, street lighting, traffic signal maintenance, animal control, engineering, public works, building and planning operations, and law enforcement.

The City Manager’s Office is responsible for making policy recommendations to the City Council and implementing them as adopted. The City Manager serves as the Chief Executive Officer of the City and is responsible for daily operations. Additional duties include: oversee operations of City Hall and services to the community; provide information to the City Council in a timely manner; act as the City Treasurer and Personnel Officer of the City; administer City employee benefits; work with other agencies in addressing regional issues; pursue economic development through business attraction and retention opportunities; represent the City in legislative actions; oversee emergency management operations; manage environmental issues; and advocate the City’s interests on regional, State and Federal issues. Police Department services are under contract with the Orange County Sheriff’s Department. Fire Department services are under contract with the Orange County Fire Authority. Library Facilities include one branch of the Orange County Public Library System.

### **Risk Management**

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The City purchases general liability, workers’ compensation, automobile liability and property insurance, as well as fidelity bond coverage, to guard against risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. Insurance premium payments are made from the City’s General Fund.

The City is a member of the Public Agency Risk Sharing Authority (“PARSAC”), a California Joint Powers Authority. There is a self-insured retention of \$10,000 per claim. PARSAC provides limits to \$1,000,000. CSAC Excess Insurance Authority, a California Joint Powers Authority, provides limits of \$4,000,000 above the PARSAC limits. PARSAC purchases reinsurance of \$20,000,000, excess the \$5,000,000 underlying layers.

The City is a member of PARSAC for workers’ compensation insurance. There is no deductible and the policy provides statutory limits.

The City purchases commercial property insurance and commercial inland marine insurance from Alliant Insurance Services through PARSAC. Public Entity Property Insurance Program provides all risk coverage including business interruption, rental income interruption and extra expense. Currently, there is a \$5,000 deductible.

All claims are investigated, valued, reserved, defended and/or settled in accordance with generally accepted insurance industry practices. There are no known existing claims that would exceed the City's applicable coverage.

## **CITY FINANCIAL INFORMATION**

### **General**

The City was incorporated on January 1, 2000 and is beginning its thirteenth full fiscal year of operations. Over the past three years, sales taxes, motor vehicle license fees, property taxes and in-lieu taxes make up approximately seventy-three percent of the City's general revenues.

### **Accounting and Financial Reporting**

The City maintains its accounting records in accordance with Generally Accepted Accounting Principles (GAAP) and the standards established by the Governmental Accounting Standards Board (GASB). On a semi-annual basis, a report is prepared for the City Council and City Staff which reviews fiscal performance to date against the budget. Combined financial statements are produced following the close of each Fiscal Year.

The City Council employs an independent certified public accountant, who, at such time or times as specified by the City Council, at least annually, and at such other times as they determine, examines the financial statements of the City in accordance with generally accepted auditing standards, including tests of the accounting records and other auditing procedures as such accountant considers necessary. As soon as practicable, after the end of the Fiscal Year, a final audit and report is submitted by the independent accountant to the City Council.

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various governmental funds are grouped, in the City's annual financial statements, into generic fund types, which include the General Fund, Special Revenue Funds, Debt Service Funds and Capital Project Funds.

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. It is expected that the Lease Payments will be paid for from amounts in the General Fund. Tables 1 through 4 below set forth certain historical and current fiscal year budget information for the General Fund. Information on the remaining governmental funds of the City as of June 30, 2012 is set forth in Appendix B.

### **Budget Procedure, Current Budget and Historical Budget Information**

The City currently uses a one-year budget cycle. At such time as the City Manager determines, each department head must furnish to the City Manager an estimate of revenues and expenditures for the department for the ensuing Fiscal Year, detailed in such manner as may be prescribed by the City Manager. In preparing the proposed budget, the City Manager reviews the estimates, holds conferences thereon with the respective

department heads, and revises the estimates as he or she deems advisable. The budget for Fiscal Year 2013 was approved on June 13, 2012.

Prior to the beginning of the Fiscal Year of the budget cycle, the City Manager submits to the City Council the proposed budget. The City Council determines the time for the holding of a public hearing and causes a notice of public hearing to be published. Not less than ten days prior to the date of the public hearing, copies of the proposed budget are available for inspection by the public in the office of the City Clerk. During the public hearing and after its conclusion, the City Council further considers the proposed budget and makes any revisions thereto that it deems advisable. On or before June 30, of the year prior to the Fiscal Year of the budget cycle, the City Council adopts the budget with revisions, if any, by the affirmative vote of at least a majority of the total members.

From the effective date of the budget, the amounts stated as proposed expenditures become appropriated to the several departments, offices and agencies for the objects and purposes named, provided that the City Manager may transfer appropriations of a fund from one object or purpose to another within the same fund as appropriate. Any revisions or transfers that alter the total appropriations between funds require City Council approval. All appropriations lapse at the end of the Fiscal Year to the extent that they have not been expended, lawfully encumbered or affirmatively reappropriated by the City Council during the adoption of the next year's budget. At a public meeting after the adoption of the budget the City Council may amend or supplement the budget by motion adopted by three votes of the City Council.

Set forth in Table 1 is the General Fund budgets for Fiscal Years 2011, 2012 and 2013, the audited results for Fiscal Years 2011 and 2012. During the course of each Fiscal Year, the budgets are amended and revised as necessary by the City Council.

**TABLE 1  
CITY OF RANCHO SANTA MARGARITA  
GENERAL FUND BUDGETS**

	<i>Final Fiscal Year 2011 Budget</i>	<i>Fiscal Year 2011 Results</i>	<i>Adopted Fiscal Year 2012 Budget</i>	<i>Fiscal Year 2012 Results</i>	<i>Adopted Fiscal Year 2013 Budget</i>
<b>Revenues</b>					
Taxes	\$ 6,697,197	\$ 7,440,125	\$ 7,370,319	\$ 7,578,069	\$ 7,633,108
Fees and permits	1,621,422	1,793,566	1,727,883	2,072,595	1,911,095
Intergovernmental	3,907,274	4,034,800	4,357,584	4,209,382	3,903,949
Charges for services	646,807	755,808	673,886	657,598	660,192
Investment income	109,114	65,688	64,543	91,243	59,527
Fines, forfeits and penalties	266,229	248,803	252,200	277,866	242,388
Other	32,708	541,090	95,073	571,964	24,000
<b>Total Revenues</b>	<u>\$ 13,280,751</u>	<u>\$ 14,879,880</u>	<u>\$ 14,541,488</u>	<u>\$ 15,458,717</u>	<u>\$ 14,434,259</u>
<b>Expenditures</b>					
Current					
General government	\$ 3,882,336	\$ 3,739,202	\$ 4,047,881	\$ 3,856,873	\$ 3,930,243
Building and planning	1,067,761	1,142,245	1,189,632	954,291	981,103
Public safety	7,410,889	7,355,052	7,517,011	7,501,236	7,623,299
Public works	1,842,127	1,962,128	1,911,373	1,908,481	1,880,650
Capital outlay	76,300	38,239	--	24,471	--
Debt service:					
Principal Retirement	--	--	--	--	--
Interest	--	--	--	--	--
<b>Total Expenditures</b>	<u>\$ 14,279,413</u>	<u>\$ 14,236,866</u>	<u>\$ 14,665,897</u>	<u>\$ 14,245,352</u>	<u>\$ 14,415,295</u>

Source: Adopted Budgets of the City for Fiscal Years 2011, 2012 and 2013, Audited Financial Statements for Fiscal Years 2011 and 2012.

## Comparative Change in Fund Balance of the City General Fund

Table 2 below presents the City's audited General Fund Statement of Revenues, Expenditures and Change in Fund Balance for Fiscal Years 2008-2012.

**TABLE 2**  
**CITY OF RANCHO SANTA MARGARITA GENERAL FUND STATEMENT OF**  
**REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE**  
**FIVE YEAR COMPARISON**

	<i>Fiscal Year Ending June 30,</i>				
	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>
<b>Revenues:</b>					
Taxes	\$ 8,855,321	\$ 7,550,906	\$ 6,763,911	\$ 7,440,125	\$ 7,578,069
Fees and permits	1,835,160	1,736,087	1,655,184	1,793,566	2,072,595
Intergovernmental	4,304,322	4,187,783	4,026,928	4,034,800	4,209,382
Charges for services	327,128	607,036	638,448	755,808	657,598
Investment income	651,986	291,574	76,670	65,688	91,243
Fines, forfeits and penalties	320,097	274,251	269,325	248,803	277,866
Other	<u>271,486</u>	<u>266,475</u>	<u>145,595</u>	<u>541,090</u>	<u>571,964</u>
Total Revenues	<u>\$ 16,565,500</u>	<u>\$ 14,914,112</u>	<u>\$ 13,576,061</u>	<u>\$ 14,879,880</u>	<u>\$ 15,458,717</u>
<b>Expenditures:</b>					
<b>Current:</b>					
General government	\$ 4,740,844	\$ 4,496,860	\$ 4,097,146	\$ 3,739,202	\$ 3,856,873
Building and planning	1,134,310	1,059,697	1,066,318	1,142,245	954,291
Public safety	7,483,440	7,900,118	7,689,510	7,355,052	7,501,236
Public works	2,243,774	2,158,260	1,660,633	1,962,128	1,908,481
Capital outlay	<u>53,065</u>	<u>2,573,517</u>	<u>66,539</u>	<u>38,239</u>	<u>24,471</u>
Total Expenditures	<u>\$ 15,655,433</u>	<u>\$ 18,188,452</u>	<u>\$ 14,580,146</u>	<u>\$ 14,236,866</u>	<u>\$ 14,245,352</u>
Excess (deficiency of revenues over (under) expenditures	<u>\$ 910,067</u>	<u>\$ (3,274,340)</u>	<u>\$ (1,004,085)</u>	<u>\$ 643,014</u>	<u>\$ 1,213,365</u>
<b>Other Financing Sources (Uses):</b>					
Transfers in	\$ 856,199	\$ 1,005,983	\$ 1,362,836	\$ 1,465,410	\$ 719,211
Transfers out	<u>(793,776)</u>	<u>(800,090)</u>	<u>(829,115)</u>	<u>(825,581)</u>	<u>(827,587)</u>
Total Financing Sources (Uses)	<u>\$ 62,423</u>	<u>\$ 205,893</u>	<u>\$ 533,721</u>	<u>\$ 639,829</u>	<u>\$ (108,376)</u>
Net change in fund balances	\$ 972,490	\$ (3,068,447)	\$ (470,364)	\$ 1,282,843	\$ 1,104,989
Fund balances, beginning of year	<u>\$ 16,088,881</u>	<u>\$ 17,061,371</u>	<u>\$ 13,992,924</u>	<u>\$ 13,522,560</u>	<u>\$ 14,805,403</u>
Fund balances, end of year	<u>\$ 17,061,371</u>	<u>\$ 13,992,924</u>	<u>\$ 13,522,560</u>	<u>\$ 14,805,403</u>	<u>\$ 15,910,392</u>

Source: Audited Financial Statements for Fiscal Years 2008-2012.

## Comparative General Fund Balance Sheets of the City

Table 3 below presents the City's audited General Fund Balance Sheets for Fiscal Years 2008-2012.

**TABLE 3**  
**CITY OF RANCHO SANTA MARGARITA**  
**GENERAL FUND BALANCE SHEETS**  
**FIVE YEAR COMPARISON**

	<i>Fiscal Year Ending June 30,</i>				
	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>
<b>Assets</b>					
Cash and investments	\$ 17,157,137	\$ 14,242,157	\$ 13,549,646	\$ 14,767,647	\$ 15,477,962
Cash with fiscal agent	--	--	--	--	--
Receivables:					
Due from other governments	947,739	708,490	658,225	791,466	1,557,277
Accrued interest	98,999	36,787	13,325	12,072	9,763
Accounts, net	289,828	281,735	531,500	523,270	377,864
Prepaid Items	--	--	--	--	183,016
Total Assets	<u>\$ 18,493,703</u>	<u>\$ 15,269,169</u>	<u>\$ 14,752,696</u>	<u>\$ 16,094,455</u>	<u>\$ 17,539,893</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 405,044	\$ 561,308	\$ 496,411	\$ 585,720	\$ 652,441
Accrued liabilities	2,555	3,355	4,474	32	312
Wages payable	649,493	3,053	82,510	94,072	87,112
Deferred revenue	54,181	633,051	628,925	563,586	786,261
Retentions payable	321,059	75,478	--	--	--
Deposits	--	--	17,816	45,642	103,375
Total Liabilities	<u>\$ 1,431,332</u>	<u>\$ 1,276,245</u>	<u>\$ 1,230,136</u>	<u>\$ 1,289,052</u>	<u>\$ 1,627,501</u>
<b>Fund Balance:</b>					
Nonspendable Prepaid Items	\$ --	\$ --	\$ --	\$ --	\$ 183,016
Restricted for debt service	--	--	--	--	--
Restricted for roads, grants and parks	--	--	--	--	58,982
Committed for encumbrances	127,204	7,810	29,085	25,892	142,428
Committed for self-insurance	30,000	30,000	30,000	30,000	30,000
Assigned:					
General fund	16,000,000	13,955,114	13,463,475	7,421,985	7,877,157
Unassigned:					
General fund	904,167	--	--	7,327,526	7,618,809
Capital project funds	--	--	--	--	--
Total Fund Balance	<u>\$ 17,061,371</u>	<u>\$ 13,992,924</u>	<u>\$ 13,522,560</u>	<u>\$ 14,805,403</u>	<u>\$ 15,910,392</u>
Total Liabilities and Fund Balance	<u>\$ 18,493,703</u>	<u>\$ 15,269,169</u>	<u>\$ 14,752,696</u>	<u>\$ 16,094,455</u>	<u>\$ 16,870,013</u>

Source: Audited Financial Statements for Fiscal Years 2008-2012.

## Property Taxes

Property tax receipts of \$1,999,106 provided the third largest tax revenue source of the City, contributing approximately 26.4% of General Fund tax revenues and approximately 12.9% of total General Fund revenues during Fiscal Year 2012. In California, property which is subject to *ad valorem* taxes is classified as "secured" or "unsecured." The secured classification includes property on which any property tax levied by a county becomes a lien on that property. A tax levied on unsecured property does not become a lien against the taxed unsecured property, but may become a lien on certain other property owned by the taxpayer. Every tax which becomes a lien on secured property has priority over all other liens, arising pursuant to State Law, on the secured property, regardless of the time of the creation of other liens. The valuation of property is determined as of January 1 each year, and installments of taxes levied upon secured property become

delinquent on the following December 10th and April 10th of the subsequent calendar year. Taxes on unsecured property are due July 1, and become delinquent August 31.

Secured and unsecured properties are entered separately on the assessment roll maintained by the county assessor. The method of collecting delinquent taxes is substantially different for the two classifications of property. The exclusive means of forcing the payment of delinquent taxes with respect to property on the secured roll is the sale of the property securing the taxes of the State for the amount of taxes that are delinquent. The taxing authority has four methods of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the County Recorder's Office in order to obtain a lien on certain property of the taxpayer, and (4) seizure and sale of personal property, improvement or possessory interest belonging or taxable to the assessee.

A ten percent penalty is added to delinquent taxes which have been levied with respect to property on the secured roll. In addition, beginning on the July 1 following a delinquency, interest begins accruing at the rate of 1 1/2% per month on the amount delinquent. Such property may thereafter be redeemed by the payment of the delinquent taxes and the ten percent penalty, plus interest at the rate of 1 1/2% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is deeded to the State and then is subject to sale by the county tax collector. A ten percent penalty also applies to the delinquent taxes or property on the unsecured roll, and further, an additional penalty of 1 1/2% per month accrues with respect to such taxes beginning on the varying dates related to the tax billing date.

Legislation enacted in 1984 (Section 25 *et seq.* of the Revenue and Taxation Code of the State of California), provides for the supplemental assignment and taxation of property as of the occurrence of a change in ownership or completion of new construction. Previously, statutes enabled the assessment of such changes only as of the next tax lien date following the change and thus delayed the realization of increased property taxes from the new assessment for up to 14 months. Collection of taxes based on supplemental assessments occurs throughout the year. Taxes due are prorated according to the amount of time remaining in the tax year, with the exception of tax bills dated January 1 through May 31, which are calculated on the basis of the remainder of the current fiscal year and the full 12 months of the next fiscal year.

For a number of years, the State Legislature has shifted property taxes from cities, counties and special districts to the Educational Revenue Augmentation Fund. The term "ERAF" is often used as a shorthand reference for this shift of property taxes. In 1992-93 and 1993-94, in response to serious budgetary shortfalls, the State Legislature and administration permanently redirected over \$3 billion of property taxes from cities, counties, and special districts to schools and community college districts. The 2004-05 California State Budget included an additional \$1.3 billion shift of property taxes from certain local agencies, including the City, to occur in Fiscal Years 2004-05 and 2005-06.

On November 2, 2004, California voters approved Proposition 1A, which amended the State Constitution to significantly reduce the State's authority over major local government revenue sources. Under Proposition 1A, the State may not (i) reduce local sales tax rates or alter the method of allocating the revenue generated by such taxes, (ii) shift property taxes from local governments to schools or community colleges, (iii) change how property tax revenues are shared among local governments without two-third approval of both houses of the State Legislature, or (iv) decrease Vehicle License Fees revenues without providing local governments with equal replacement funding. Beginning in Fiscal Year 2008-09, the State may shift to schools and community colleges a limited amount of local government property tax revenue if certain conditions are met, including (a) a proclamation by the Governor that the shift is needed due to a severe financial hardship of the State, and (b) approval of the shift by the State Legislature with a two-thirds vote of both houses. Under such a shift, the State must repay local governments for their property tax losses, with interest, within three years. Proposition 1A does allow the State to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. See "STATE BUDGET

INFORMATION” for information related to the Proposition 1A shift approved by the State for Fiscal Year 2010 and its impact on the City’s General Fund.

Table 4 below sets forth the property tax rates for the City for the Fiscal Years 2008 through 2012. The information in Table 4 has been provided by California Municipal Statistics, Inc. Neither the City nor the Underwriter has independently verified the information in Table 4 and do not guarantee its accuracy.

**TABLE 4**  
**CITY OF RANCHO SANTA MARGARITA**  
**PROPERTY TAX RATES**  
**FISCAL YEARS 2008 THROUGH 2012**  
**Typical Total Tax Rate per \$100 of Assessed Valuation (TRA 33-049)**

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>
General	1.00000	1.00000	1.00000	1.00000
Metropolitan Water District	0.00430	0.00430	0.00370	0.00370
Saddleback Valley Unified School District	<u>0.02834</u>	<u>0.03043</u>	<u>0.03194</u>	<u>0.03163</u>
Total All Property Tax Rate	1.03264	1.03473	1.03564	1.03533
Santa Margarita Water District I.D. No. 4	0.06270	0.14020	0.13620	0.13380
Santa Margarita Water District I.D. No. 4A	<u>0.21560</u>	<u>0.26820</u>	<u>0.25650</u>	<u>0.25620</u>
Total Land Only Tax Rate	0.27830	0.40840	0.39270	0.39000

Source: California Municipal Statistics, Inc.

Table 5 below sets forth the secured and unsecured assessed valuations for property in the City for the Fiscal Years 2009 through 2013. The information in Table 5 with respect to Fiscal Years 2009 through 2012 has been provided by California Municipal Statistics, Inc. and the information with respect to Fiscal Year 2013 has been obtained directly from the County of Orange. Neither the City nor the Underwriter has independently verified the information in Table 5 and do not guarantee its accuracy.

**TABLE 5**  
**CITY OF RANCHO SANTA MARGARITA**  
**ASSESSED VALUATION**  
**FISCAL YEARS 2009 TO 2013**

<i>Fiscal Year</i>	<i>Local Secured</i>	<i>Utility</i>	<i>Unsecured</i>	<i>Total</i>
2009	\$6,668,374,726	\$0	\$253,490,450	\$6,921,865,176
2010	6,386,080,904	0	231,821,987	6,617,902,891
2011	6,393,048,882	0	212,348,410	6,605,397,292
2012	6,417,215,785	0	206,603,665	6,623,819,450
2013	6,441,046,014	0	234,514,756	6,675,560,770

Source: California Municipal Statistics, Inc. for Fiscal Years 2009 through 2012, County of Orange for Fiscal Year 2013.



Table 6 below sets forth property tax collections and delinquencies in the City as of June 30 for Fiscal Years 2008 through 2012. The County of Orange (the “County”) operates under a statutory program entitled Alternate Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”). Under the Teeter Plan local taxing entities receive 100% of their tax levies net of delinquencies, but do not receive interest or penalties on delinquent taxes collected by the County. The City elected not to enroll in the Teeter Plan; accordingly, the City’s receipt of its property tax revenues is impacted by delinquencies in payment, as well as by the collection of interest and penalties on past delinquencies.

**TABLE 6  
CITY OF RANCHO SANTA MARGARITA  
PROPERTY TAX LEVIES AND COLLECTIONS  
FISCAL YEARS 2008 THROUGH 2012**

<i>Fiscal Year</i>	<i>Total Tax Levy</i>	<i>Current Tax Collections as of June 30</i>	<i>Percent of Levy Collected as of June 30</i>	<i>Outstanding Delinquent Taxes as of June 30</i>
2008	\$2,076,577	\$1,990,956	95.9%	\$85,621
2009	2,017,957	1,942,908	96.3	75,049
2010	1,903,201	1,858,344	97.6	44,857
2011	1,903,355	1,871,867	98.3	31,488
2012	1,905,447	1,877,231	98.5	28,216

Source: California Municipal Statistics, Inc.

The 20 largest taxpayers in the City as shown on the Fiscal Year 2011-12 secured tax roll, the land use, the assessed valuation and the percentage of the City’s total property tax revenues attributable to each are shown on Table 7 below. The information in Table 7 has been provided by California Municipal Statistics, Inc. Neither the City nor the Underwriter has independently verified the information in Table 7 and do not guarantee its accuracy.

**TABLE 7**  
**CITY OF RANCHO SANTA MARGARITA**  
**TWENTY PRINCIPAL TAXPAYERS**

<i>Property Owner</i>	<i>Land Use</i>	<i>2012-13 Assessed Valuation</i>	<i>% of Total<sup>(1)</sup></i>
1. 22751 El Prado LLC	Apartments	\$ 71,614,568	1.11%
2. Applied Medical Resources Corp.	Industrial	51,293,981	0.80
3. BRE Properties Inc.	Apartments	46,339,687	0.72
4. Villa La Paz Partners LP	Apartments	37,690,263	0.59
5. Coxcom, Inc.	Industrial	33,128,483	0.51
6. KRC Santa Margarita	Commercial	25,323,195	0.39
7. Crescent LP	Apartments	24,846,858	0.39
8. FG Rancho Santa Margarita Sr. Apt. LP	Apartments	24,480,000	0.38
9. Sanyo Foods Corporation of America	Commercial	23,225,380	0.36
10. Bay Apartment Communities Inc.	Apartments	22,968,871	0.36
11. CLPF-Buena Vida at Town Center LP	Apartments	21,756,400	0.34
12. CP Empressa RSM LLC	Industrial	21,055,323	0.33
13. Antonio Acquisition Co. LLC	Commercial	20,649,991	0.32
14. ERP Operating LP	Apartments	19,795,693	0.31
15. TIS Equities XII & IX LLC	Commercial	19,210,161	0.30
16. Villas Aliento Partners LP	Apartments	18,363,435	0.29
17. RSM Mercado Opco LLC	Commercial	17,640,726	0.27
18. Control Components Inc.	Industrial	15,665,478	0.24
19. Lowes HIW	Commercial	15,265,317	0.24
20. Mission Camino Investors LP	Commercial	<u>14,798,872</u>	<u>0.23</u>
		<u>\$545,112,682</u>	<u>8.46%</u>

<sup>(1)</sup> 2012-13 Local Secured Assessed Valuation: \$6,441,046,014.  
Source: California Municipal Statistics, Inc.

### Sales Taxes

Sales tax receipts of \$4,045,681 provide the largest tax revenue source for the City, contributing approximately 53.4% of General Fund tax revenues and approximately 26.2% of total General Fund revenues during Fiscal Year 2012. A sales tax is imposed on retail sales or consumption of personal property. The basic sales tax rate is established by the State Legislature, and local overrides may be approved by voters. The current sales tax rate in the City is 7.75%.

On March 2, 2004, voters approved a bond initiative formally known as the “California Economic Recovery Act.” This act authorized the issuance of \$15 billion of Economic Recovery Bonds to finance ongoing State budget deficits, which are payable from a fund established by the redirection of tax revenues known as the “Triple Flip.” The State issued \$11.3 billion of Economic Recovery Bonds prior to June 30, 2004. Under the “Triple Flip,” one-quarter of local governments’ one percent share of the sales tax imposed on taxable transactions within their jurisdiction is being redirected to the State. In an effort to eliminate the adverse impact of the sales tax revenue redirection on local government, State legislation provides for certain property taxes to be redirected to local government. Because these property tax monies were previously earmarked for schools, the legislation provides for schools to receive other State general fund revenues. It is expected that the swap of sales taxes for property taxes will terminate once the Economic Recovery Bonds are repaid, which is currently expected to occur in approximately 9 to 13 years. See “RISK FACTORS—State Budget Information” herein.

## Services

Fees of \$2,072,595 collected for services provided by the City, including, but not limited to, fees for plan checks, issuing of building permits, public works projects and for parks and recreations programs, provided approximately 13.4% of General Fund revenues during Fiscal Year 2012.

## State of California Motor Vehicle In-Lieu Payments

The State imposes a vehicle license fee (“VLF”), which is the portion of the fees paid in lieu of personal property taxes on a vehicle. The vehicle license fee is based on vehicle value and declines as the vehicle ages. Prior to the adoption of the Fiscal Year 2004-05 State Budget, the fee was 2 percent of the value of a vehicle. Through legislation in prior fiscal years, the State enacted vehicle license fee reductions under which the State was required to “backfill” local governments for their revenue losses resulting from the lowered fee. The Fiscal Year 2004-05 State Budget permanently reduced the vehicle license fee from 2 percent to 0.65 percent and deleted the requirement for backfill payments, providing, instead, that the amount of the backfill requirement will be met by an increase in the property tax allocation to cities and counties. See “RISK FACTORS—State Budget Information.”

As set forth in Table 8 below, for Fiscal Year 2012, the City received \$3,807,220 in total VLF, of which \$3,677,509 was distributed from property tax receipts.

**TABLE 8**  
**CITY OF RANCHO SANTA MARGARITA**  
**STATE OF CALIFORNIA MOTOR VEHICLE IN-LIEU PAYMENTS**  
**FISCAL YEARS 2008-2012**

<i>Source</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>
Motor Vehicle In-Lieu	\$3,905,855	\$3,842,963	\$3,674,206	\$3,667,263	\$3,677,509

Source: The City of Rancho Santa Margarita.

## Indebtedness

**General Obligation Debt.** The City currently has no general obligation debt outstanding.

**Long Term Debt.** As of June 30, 2011, the City has the following long term debts other than compensated absences in the amount of approximately \$279,000 and obligations with respect to other post-employment benefits in the amount of approximately \$63,000.

**Lease Revenue Obligations.** The City issued the Prepaid Certificates in 2003. As of June 30, 2011, the Prepaid Certificates were outstanding in the amount of approximately \$11,660,000. Following the issuance of the Bonds, the Prepaid Certificates will no longer be outstanding. The Bonds are being issued in the aggregate principal amount of \$11,000,000.\*

**Short-Term Debt.** The City currently has no short-term debt outstanding.

**Estimated Direct and Overlapping Bonded Debt.** The estimated direct and overlapping bonded debt of the City as of October 1, 2012 is shown in Table 9 below. The information in Table 9 has been derived from data assembled and reported to the City by California Municipal Statistics, Inc. Neither the City nor the Underwriter has independently verified the information in Table 9 and do not guarantee its accuracy.

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\* Preliminary, subject to change.

**TABLE 9**  
**CITY OF RANCHO SANTA MARGARITA**  
**ESTIMATED DIRECT AND OVERLAPPING BONDED DEBT**  
**AS OF OCTOBER 1, 2012**

2012-13 Assessed Valuation: \$6,675,560,770

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 10/1/12</u>
Metropolitan Water District	0.318%	\$ 625,013
Capistrano Unified School District School Facilities Improvement District No. 1	1.533	648,994
Saddleback Valley Unified School District	14.446	18,581,890
Santa Margarita Water District Improvement Districts	0.495-100.	82,694,715
Capistrano Unified School District Community Facilities District No. 88-1	100.	2,570,000
Saddleback Valley Unified School District Community Facilities Districts	100.	27,160,320
Trabuco Canyon Water District Community Facilities Districts	100.	3,280,000
Orange County Community Facilities Districts	100.	<u>42,803,689</u>
<b>TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$178,364,621</b>
<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
Orange County General Fund Obligations	1.563%	\$ 3,356,167
Orange County Pension Obligations	1.563	3,185,507
Orange County Board of Education Certificates of Participation	1.563	250,080
Municipal Water District of Orange County Water Facilities Corporation	1.877	188,357
Capistrano Unified School District Certificates of Participation	3.521	774,796
<b>City of Rancho Santa Margarita Certificates of Participation</b>	<b>100.</b>	<b><u>11,045,000</u></b> <sup>(1)</sup>
<b>TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>		<b>\$18,799,907</b>
Less: MWDOC Water Facilities Corporation (100% supported)		<u>188,357</u>
<b>TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>		<b>\$18,611,550</b>
<b>GROSS COMBINED TOTAL DEBT</b>		<b>\$197,164,528</b> <sup>(2)</sup>
<b>NET COMBINED TOTAL DEBT</b>		<b>\$196,976,171</b>

(1) Excludes issue to be sold.

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

Ratios to 2012-13 Assessed Valuation:

<b>Combined Direct Debt (\$11,045,000)</b> .....	<b>0.17%</b>
Total Direct and Overlapping Tax and Assessment Debt.....	2.67%
Gross Combined Total Debt.....	2.95%
Net Combined Total Debt	2.95%

Source: California Municipal Statistics, Inc.

**Retirement Contributions**

The City contributes to the California Public Employees' Retirement System ("CalPERS"), an agent multiple-employer public employee defined benefit plan that acts as a common investment and administrative agent for participating public entities in the State. CalPERS provides retirement, disability and death benefits to plan members and their beneficiaries. All full-time City employees are eligible to participate in the City's plan, with benefits vesting after five years of service.

CalPERS issues a publicly available financial report that includes the applicable financial statements and required supplementary information for CalPERS. The report may be obtained by writing to CalPERS at 400 Q Street, Sacramento, California 95814.

Required employer and employee contributions are determined from rates established by CalPERS based upon various actuarial assumptions which are revised annually. Participants hired by the City prior to February 27, 2011 are subject to pension benefits based on the 2.5% at 55 formula, and are required by State statute to contribute 8% of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account.

Effective February 27, 2011, the City added a second tier pension formula to the PERS contract. All employees hired after this date are enrolled in the new formula, 2% at 60, and pay their full employee contribution of 7%.

In addition to the City's contribution on behalf of employees, the City currently funds the normal pension costs, which are determined by CalPERS using the Entry Age Normal Actuarial Cost Method, as well as an amortization of the City's unfunded actuarial liability. For Fiscal Year 2012, the City's CalPERS contribution was approximately \$389,233, which was equal to the annual required contribution (the "ARC") described below. The employer contribution rate for Fiscal Year 2013 for the Tier 1 pension formula has been established at 17.106% of annual covered payroll. The contribution rate for Fiscal Year 2013 for the Tier 2 pension formula has not been established at this time. The Tier 2 rate for Fiscal Year 2012 was 8.70%.

The City participates in a risk pool. Therefore, no individual unfunded actual accrued liability is calculated for the City.

Under Governmental Accounting Standards Board Statement No. 27, an employer reports an annual pension cost equal to the ARC plus an adjustment for the cumulative difference between the annual pension cost and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation and may be positive or negative. The ARC for Fiscal Year 2012 was determined by an actuarial valuation of the City's plan as of June 30, 2009 and the ARC for Fiscal Year 2013 has been determined by an actuarial valuation of the City's plan as of June 30, 2010.

The staff actuaries at CalPERS annually prepare an actuarial valuation which covers a Fiscal Year ending approximately 15 months before the actuarial valuation is delivered (thus, the actuarial valuation delivered to the City in October 2011 covered the City's Fiscal Year ended June 30, 2010). The actuarial valuations express the City's required contribution rates in percentages of covered payroll, which percentages the City must contribute in the Fiscal Year immediately following the Fiscal Year in which the actuarial valuation is prepared (thus, the City contribution rate derived from the actuarial valuation as of June 30, 2010, which was delivered in October 2011, affects the City Fiscal Year 2013 required contribution rate). CalPERS rules require the City to implement the actuary's recommended rates.

In calculating the annual actuarially recommended contribution rates, the CalPERS actuary calculates on the basis of certain assumptions the actuarial present value of benefits that CalPERS will fund under the CalPERS plans, which includes two components, the normal cost and the unfunded actuarial accrued liability (the "UAAL"). The normal cost represents the actuarial present value of benefits that CalPERS will fund under the CalPERS plans that are attributed to the current year, and the actuarial accrued liability represents the actuarial present value of benefits that CalPERS will fund that are attributed to past years. The UAAL represents an estimate of the actuarial shortfall between actuarial value of assets on deposit at CalPERS and the present value of the benefits that CalPERS will pay under the CalPERS plans to retirees and active employees upon their retirement. The UAAL is based on several assumptions such as, among others, the rate of investment return, average life expectancy, average age of retirement, inflation, salary increases and occurrences of disabilities. In addition, the UAAL includes certain actuarial adjustments such as, among others, the actuarial practice of smoothing losses and gains over multiple years (which is described in more detail below). As a result, the UAAL may be considered an estimate of the unfunded actuarial present value of the benefits that CalPERS will fund under the CalPERS plans to retirees and active employees upon their retirement and not as a fixed expression of the liability that the City owes to CalPERS under its CalPERS plan.

In each actuarial valuation, the CalPERS actuary estimates the actuarial value of the assets (the "Actuarial Value") of the CalPERS plans at the end of the Fiscal Year (which assumes, among other things, that the rate of return during that Fiscal Year equaled the assumed rate of return, currently 7.5%). The CalPERS actuary uses a smoothing technique to determine Actuarial Value that is calculated based on certain policies.

The following table summarizes the City's annual required contributions for its CalPERS plan for Fiscal Years 2007 through 2012:

<i>Fiscal Year</i>	<i>Employer Contribution</i>	<i>City-Funded Employee Contribution</i>	<i>Employer Contribution</i>	<i>Net Pension Obligation</i>	<i>Percentage of Annual Pension Cost Contributed</i>
2007	12.83%	\$ 127,976	\$ 168,637	--	100%
2008	12.26	130,241	199,594	--	100
2009	12.26	139,267	213,413	--	100
2010	13.08	144,641	236,020	--	100
2011	13.34	147,815	248,521	--	100
Tier 1 - 2012	16.50	126,310	260,467	--	100
Tier 2 - 2012	8.70	--	2,456	--	100

The following table sets forth the schedule of funding progress for the City's CalPERS plan as of June 30, 2011. The employer contribution rate for Fiscal Years 2013 and 2014 is estimated at 17.106% and 17.3, respectively. Based on recent assumption changes adapted by CalPERS related to the rate of investment returns, CalPERS estimates that contribution rates could increase by 1% to 2%.

For additional information relating to the City's CalPERS Plan, see Note 7 to the City's Financial Statements set forth in Appendix A.

CalPERS reported significant investment losses in 2009. CalPERS earnings reports for Fiscal Years 2010 and 2011 report an investment gain in excess of 13.0 and 21.7%, respectively. Future earnings performance and adjustments of assumptions may increase or decrease future contribution rates for plan participants, including the City.

### **Other Post-Employment Benefits**

The City contracts with CalPERS for health benefits of its current employees, retirees and their respective dependents. CalPERS requires that participating agencies provide health benefits for retirees if employees are covered under CalPERS for their health insurance. Government Code Section 22892 requires a minimum City contribution for all vested employees of \$28.40 a month, subject to annual consumer price index adjustments. All employees hired prior to December 1, 2005 are automatically vested, with the City required to contribute 35% of the medical premium escalating 5% annually for each year of service up to 100%. Employees hired after December 1, 2005 vest at 50% after 10 years of state service (5 of which must be at the City) and each additional service credit year after 10 years increases the City's contribution by 5%. For the calendar year 2012 the City paid \$112 per month for each retiree's health benefits.

The Governmental Accounting Standards Board recently published Statement No. 45, requiring governmental agencies that fund post-employment benefits on a pay-as-you-go basis, such as the City, to account for and report the outstanding obligations and commitments related to such post-employment benefits in essentially the same manner as for pensions. In a report dated July 1, 2009 (the "Report"), it was determined that as of June 30, 2011, the City's unfunded actuarial accrued liability for post-employment benefits based upon a 5.0% discount rate was \$141,927. The Report also concluded that the annual required contribution ("ARC") for the year ending June 30, 2010 was \$34,157. The ARC is the annual amount that

would be necessary to fund the OPEB in accordance with the Governmental Accounting Standards Board's Statement No. 43.

The following table sets forth the schedule of funding progress for the City's CalPERS plan as of June 30, 2012:

<i>Valuation Date (June 30)</i>	<i>Entry Age Actuarial Accrued Liability</i>	<i>Actuarial Value of Assets</i>	<i>UAAL</i>	<i>Funded Ratio<sup>(1)</sup></i>	<i>Annual Covered Payroll</i>	<i>UAAL as a % of Covered Payroll</i>
2010	\$141,927	--	\$141,927	0%	\$1,808,008	7.85%
2011	141,927	--	141,927	0	1,847,685	7.68
2012	141,927	--	141,927	0	1,607,088	8.83

<sup>(1)</sup> Based on the actuarial value of assets.

### California State Pension Reform Legislation

In September 2012, the Governor signed a comprehensive pension reform package affecting state and local government employees. AB 340 (the "Legislation") implements lower defined-benefit formulas with higher retirement ages for new employees hired on or after January 1, 2013, and includes provisions to increase current employee contributions. Though the Legislation covers most public employees in state government, cities, counties, special districts, school district, and community colleges, the following discussion relates only to the Legislation's impact on City employee retirement.

Key changes to retirement plans affecting the City include:

- New defined-benefit formulas that increase retirement ages for new public employees hired on or after January 1, 2013;
- For new employees, a cap on pensionable income of \$110,100 or \$132,120 (for employees not in social security). Annual increases on the cap would be limited to the Consumer Price Index for All Urban Consumers.
- A standard that employees pay at least 50 percent of normal costs.
- Establishes increases for current City civil service and related excluded employees who are not contributing at least half of normal costs.

Other provisions reduce the risk of the City incurring additional unfunded liabilities, including prohibiting retroactive benefits increases, generally prohibiting contribution holidays, and prohibiting purchases of additional non-qualified service credit ("air time").

If the Legislation is implemented fully, PERS estimates savings for local agency plans of approximately \$1.653 billion to \$2.355 billion over the next 30 years due primarily to increased employee contributions and, as the workforce turns over, lower benefit formulas that will gradually reduce normal costs. Savings specific to the City have not been quantified. OPEB costs are not addressed in the Legislation.

Provisions in the Legislation will not likely have a material effect on City contributions in the short term. However, additional employee contributions, limits on pensionable compensation, and higher retirement ages for new members will reduce the City's UAAL and potentially City contribution levels in the long term.

## **City Investment Policy**

The City's statement of Investment Policy rendered to the City Council by the City Treasurer pursuant to Section 53646 of the California Government Code (the "Investment Policy") states that the basic premise underlying the City's investment philosophy is to minimize credit and market risks while maintaining a competitive yield on its portfolio. Hence, safety of principal is the foremost objective of the City, followed by liquidity and yield. Under provisions of the Investment Policy, the City may invest in time deposits, bankers acceptances, U.S. Treasury Bills and notes, governmental agency securities, repurchase agreements, reverse repurchase agreements, commercial paper, medium term notes of corporations operating within the United States rated "A" or better by Standard and Poor's Rating Group or by Moody's Investors Services, and State Local Agency Investment Fund ("LAIF"), which is under the oversight of the State Treasurer. As of June 30, 2011, the City had invested its entire investment portfolio in LAIF. LAIF has not been rated by any nationally recognized statistical rating organization. See also APPENDIX B—"AUDITED FINANCIAL STATEMENTS OF THE CITY FOR THE YEAR ENDED JUNE 30, 2012" herein.

## **RISK FACTORS**

The following factors, along with the other information in this Official Statement, should be considered by potential investors in evaluating the purchase of the Series 2012 Bonds. However, they do not purport to be an exhaustive listing of risks and other considerations which may be relevant to an investment in the Series 2012 Bonds. In addition, the order in which the following factors are presented is not intended to reflect the relative importance of any such risks.

### **General Considerations – Security for the Series 2012 Bonds**

The Series 2012 Bonds are special obligations of the Authority, payable solely from Base Rental Payments and the other assets pledged under the Indenture. Neither the faith and credit nor the taxing power of the Authority, the City or the State, or any political subdivision thereof, is pledged to the payment of the Series 2012 Bonds. The Authority has not taxing power.

The obligation of the City to make the Base Rental Payments does not constitute a debt of the City or the State or of any political subdivision thereof within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the City or the State is obligated to levy or pledge any form of taxation or for which the City or the State has levied or pledged any form of taxation.

Although the Lease Agreement does not create a pledge, lien or encumbrance upon the funds of the City, the City is obligated under the Lease Agreement to pay the Base Rental Payments and Additional Rental Payments from any source of legally available funds and the City has covenanted in the Lease Agreement that it will take such action as may be necessary to include all Base Rental Payments and Additional Rental Payments due under the Lease Agreement as a separate line item in its annual budgets and to make necessary annual appropriations for all such Rental Payments, subject to abatement. The City is currently liable and may become liable on other obligations payable from general revenues.

The City has the capacity to enter into other obligations which may constitute additional charges against its revenues. To the extent that additional obligations are incurred by the City, the funds available to make Base Rental Payments may be decreased. In the event the City's revenue sources are less than its total obligations, the City could choose to fund other activities before making Base Rental Payments and other payments due under the Lease Agreement. The same result could occur if, because of California Constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues. However, the City's appropriations have never exceeded the limitation on appropriations under Article XIII B of the California Constitution. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS—Article XIII B of the California Constitution."



## **Abatements**

In the event of substantial interference with the City's right to use and occupy any portion of the Property by reason of damage to, or destruction or condemnation of the Property, or any defects in title to the Property, Base Rental Payments will be subject to abatement. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 BONDS—Abatement." In the event that such portion of the Property, if damaged or destroyed by an insured casualty, could not be replaced during the period of time in which proceeds of the City's rental interruption insurance will be available in lieu of Base Rental Payments, plus the period for which funds are available from the funds and accounts established under the Indenture, or in the event that casualty insurance proceeds are insufficient to provide for complete repair or replacement of such portion of the Property or redemption of the Series 2012 Bonds, there could be insufficient funds to make payments to Owners in full. The Authority has not funded a reserve fund for the Series 2012 Bonds.

As described under the caption "THE PROPERTY," the City anticipates conducting extensive repairs of the Property that may require it to move out of the Property for approximately six to nine months. During such period, Base Rental Payments will be abated pursuant to the Lease Agreement. However, the City has deposited \$1,500,000\* into the Prepaid Base Rental Account of the Base Rental Payment Fund as a prepayment of Base Rental. The Trustee will use such prepaid Base Rental Payments to pay debt service on the Series 2012 Bonds during the repair period. At this time, the City is uncertain when it will commence such repairs and if it will have to move out of the Property. Should the repairs take longer than the period of Prepaid Base Rental, it is likely that the Trustee will not have sufficient funds to pay debt service on the Series 2012 Bonds until the City reoccupies the Property and recommences making Base Rental Payments.

It is not always possible to predict the circumstances under which abatement of rental may occur. In addition, there is no statute, case or other law specifying how such an abatement of rental should be measured. For example, it is not clear whether fair rental value is established as of commencement of the lease or at the time of the abatement. If the latter, it may be that the value of the Property is substantially higher or lower than its value at the time of the execution and delivery of the Series 2012 Bonds. Abatement, therefore, could have an uncertain and material adverse effect on the security for and payment of the Series 2012 Bonds.

If damage, destruction, title defect or eminent domain proceedings with respect to the Property results in abatement of the Base Rental Payments related to such Property and if such abated Base Rental Payments, if any, together with moneys from rental interruption or use and occupancy insurance (in the event of any insured loss due to damage or destruction), and eminent domain proceeds, if any, are insufficient to make all payments of principal and interest with respect to the Series 2012 Bonds during the period that the Property is being replaced, repaired or reconstructed, then all or a portion of such payments of principal and interest may not be made. Under the Lease Agreement and the Indenture, no remedy is available to the Series 2012 Bond Owners for nonpayment under such circumstances.

## **No Reserve Fund**

The Authority has not funded a reserve fund for the Series 2012 Bonds.

## **Seismic Activity**

All jurisdictions in California are subject to the effects of damaging earthquakes. Earthquakes are considered a threat to the City due to the highly active seismic region and the proximity of fault zones, which could influence the entire southern coastal portion of the State. However, no major earthquake has caused substantial damage to the community.

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\* Preliminary, subject to change.

An earthquake along one of the faults in the vicinity, either known or unknown, could cause a number of casualties and extensive property damage. The effects of such a quake could be aggravated by aftershocks and secondary effects such as fires, landslides, dam failure, liquefaction and other threats to public health, safety and welfare. The potential direct and indirect consequences of a major earthquake can easily exceed the resources of the City and would require a high level of self-help, coordination and cooperation.

No active faults are known to pass through the City. The closest active faults are the Elsinore-Glen Ivy fault (10.1 miles away), the Chino fault (11.1 miles away), and the Newport Inglewood fault (14.4 miles away). The occurrence of surface rupture on these segments would not be expected to produce fault surface rupture within the City. The two known local faults, Aliso and the Cristianitos, are thought to be inactive. An earthquake on either of these two faults would be particularly damaging to residential buildings, especially to those of older wooden or unreinforced masonry construction, or to mobile homes, although the City currently has no mobile homes.

### **Hazardous Substances**

An additional environmental condition that may result in the reduction in the assessed value of property, and therefor property tax revenue available to make Base Rental Payments, would be the discovery of a hazardous substance that would limit the beneficial use of taxable property within the City. In general, the owners and operators of a property may be required by law to remedy conditions of the property relating to releases or threatened releases of hazardous substances. The owner or operator may be required to remedy a hazardous substance condition of property whether or not the owner or operator has anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the property within the City be affected by a hazardous substance, could be to reduce the marketability and value of the property by the costs of remedying the condition. The City is not aware of any hazardous substances located on the Property.

### **Other Financial Matters**

Due to weakness in the economy of the State and the United States, it is possible that the general revenues of the City will decline. Such financial matters may have a detrimental impact on the City's General Fund, and, accordingly, may reduce the City's ability to make Base Rental Payments. See "CITY FINANCIAL INFORMATION."

### **Substitution, Addition and Removal of Property; Additional Bonds**

The Authority and the City may amend the Lease Agreement to substitute alternate real property for any portion of or add additional real property to the Property or to release a portion of the Property from the Lease Agreement, upon compliance with all of the conditions set forth in the Lease Agreement and summarized below. After a substitution or release, the portion of the Property for which the substitution or release has been effected shall be released from the leasehold encumbrance of the Lease Agreement. See "SECURITY FOR AND SOURCES OF PAYMENT FOR THE SERIES 2012 BONDS—Substitution, Addition and Removal of Property." Moreover, the Authority may issue Additional Bonds secured by Base Rental Payments which are increased from current levels.

Although the Lease Agreement requires, among other things, that the Property, as constituted after such substitution or release, have an annual fair rental value at least equal to the maximum Base Rental Payments payable by the City in any Rental Period, it does not require that such Property have an annual fair rental value equal to the annual fair rental value of the Property at the time of substitution or release. Thus, a portion of the Property could be replaced with less valuable real property, or could be released altogether. Such a replacement or release could have an adverse impact on the security for the Series 2012 Bonds, particularly if an event requiring abatement of Base Rental Payments were to occur subsequent to such substitution or release. See APPENDIX A—"SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—The Lease Agreement—Substitution or Release of the Property."

The Indenture requires, among other things, that upon the issuance of Additional Bonds, the Ground Lease and the Lease Agreement shall have been amended, to the extent necessary, so as to increase the Base Rental Payments payable by the City thereunder by an aggregate amount equal to the principal of and interest on such Additional Bonds; provided, however, that no such amendment shall be made such that the sum of Base Rental Payments, including any increase in the Base Rental Payments as a result of such amendment, plus Additional Rental Payments, in any Rental Period shall be in excess of the annual fair rental value of the Property after taking into account the use of the proceeds of any Additional Bonds issued in connection therewith.

### **Limited Recourse on Default; No Acceleration of Base Rental**

Failure by the City to make Base Rental Payments or other payments required to be made under the Lease Agreement, or failure to observe and perform any other terms, covenants or conditions contained in the Lease Agreement or in the Indenture for a period of 30 days after written notice of such failure and request that it be remedied has been given to the City by the Authority or the Trustee, constitute events of default under the Lease Agreement and permit the Trustee or the Authority to pursue any and all remedies available. In the event of a default, notwithstanding anything in the Lease Agreement or in the Indenture to the contrary, there shall be no right under any circumstances to accelerate the Base Rental Payments or otherwise declare any Base Rental Payments not then in default to be immediately due and payable, nor shall the Authority or the Trustee have any right to re-enter or re-let the Property except as described in the Lease Agreement.

The enforcement of any remedies provided in the Lease Agreement and the Indenture could prove both expensive and time consuming. If the City defaults on its obligation to make Base Rental Payments with respect to the Property, the Trustee, as assignee of the Authority, may retain the Lease Agreement and hold the City liable for all Base Rental Payments thereunder on an annual basis and enforce any other terms or provisions of the Lease Agreement to be kept or performed by the City.

Alternatively, the Authority or the Trustee may terminate the Lease Agreement, retake possession of the Property and proceed against the City to recover damages pursuant to the Lease Agreement. Due to the specialized nature of the Property or any property substituted therefor pursuant to the Lease Agreement and the restrictions on its use, no assurance can be given that the Trustee will be able to re-let the Property so as to provide rental income sufficient to make all payments of principal of, interest and premium, if any, on the Series 2012 Bonds when due, and the Trustee is not empowered to sell the Property for the benefit of the Owners of the Series 2012 Bonds. Any suit for money damages would be subject to limitations on legal remedies against cities in California, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 BONDS” and APPENDIX A—“SUMMARY OF PRINCIPAL LEGAL DOCUMENTS The Lease Agreement—Default.”

### **Possible Insufficiency of Insurance Proceeds**

The Lease Agreement obligates the City to keep in force various forms of insurance, subject to deductibles, for repair or replacement of the Property in the event of damage, destruction or title defects, subject to certain exceptions. The Authority and the City make no representation as to the ability of any insurer to fulfill its obligations under any insurance policy obtained pursuant to the Lease Agreement and no assurance can be given as to the adequacy of any such insurance to fund necessary repair or replacement or to pay principal of and interest on the Series 2012 Bonds when due. In addition, certain risks, such as earthquakes and floods, are not required under the Lease Agreement, and therefore, are not carried by the City. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 BONDS—Insurance.”

## **Limitations on Remedies**

The rights of the Owners of the Series 2012 Bonds are subject to the limitations on legal remedies against cities in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest. Additionally, enforceability of the rights and remedies of the Owners of the Series 2012 Bonds, and the obligations incurred by the City, may become subject to the federal bankruptcy code (Title 11, United States Code) (the “Bankruptcy Code”) and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors’ rights generally, now or hereafter in effect, 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 U.S. 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 cities 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 2012 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. Under Chapter 9 of the Bankruptcy Code, which governs the bankruptcy proceedings for public agencies such as the City, there are no involuntary petitions in bankruptcy. If the City were to file a petition under Chapter 9 of the Bankruptcy Code, the Owners of the Series 2012 Bonds, the Trustee and the Authority could be prohibited from taking any steps to enforce their rights under the Lease Agreement, and from taking any steps to collect amounts due from the City under the Lease Agreement.

## **Loss of Tax Exemption**

As discussed under the heading “TAX MATTERS,” the interest on the Series 2012 Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of delivery of the Series 2012 Bonds, as a result of acts or omissions of the Authority or the City in violation of its covenants in the Indenture and the Lease Agreement. Should such an event of taxability occur, the Series 2012 Bonds would not be subject to a special redemption and would remain Outstanding until maturity or until redeemed under the redemption provisions contained in the Indenture.

## **No Liability of Authority to the Owners**

Except as expressly provided in the Indenture, the Authority will not have any obligation or liability to the Owners of the Series 2012 Bonds with respect to the payment when due of the Base Rental Payments by the City, or with respect to the performance by the City of other agreements and covenants required to be performed by it contained in the Lease Agreement or the Indenture, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Indenture.

## **STATE OF CALIFORNIA BUDGET INFORMATION**

### **State Budget**

Information about the State budget is regularly available at various State-maintained websites. Text of proposed and adopted budgets may be found at the website of the Department of Finance, [www.dof.ca.gov](http://www.dof.ca.gov), under the heading “California Budget.” An impartial analysis of the budget is posted by the Office of the Legislative Analyst at [www.lao.ca.gov](http://www.lao.ca.gov). In addition, various State of California official statements, many of which contain a summary of the current and past State budgets and the impact of those budgets on cities in the State, may be found at the website of the State Treasurer, [www.treasurer.ca.gov](http://www.treasurer.ca.gov). The information referred to is prepared by the respective State agency maintaining each website and not by the City, and the City can take no responsibility for the continued accuracy of these internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

## **State Budget for Fiscal Year 2012-13**

According to the State Constitution, the Governor of the State (the “Governor”) is required to propose a budget to the State Legislature (the “Legislature”) no later than January 10 of each year, and a final budget must be adopted by the vote of each house of the Legislature no later than June 15, although this deadline has been routinely breached in the past. The State budget becomes law upon the signature of the Governor, who may veto specific items of expenditure.

Prior to Fiscal Year 2010-11, the State budget had to be adopted by a two-thirds vote of each house of the Legislature. However, in November 2010, the voters of the State passed Proposition 25, which reduced the vote required to adopt a budget to a majority vote of each house and which provided that there would be no appropriation from the current budget or future budget to pay any salary or reimbursement for travel or living expenses for members of the Legislature for the period during which the budget was presented late to the Governor.

On June 27, 2012, the State’s budget for Fiscal Year 2012-13 (the “2012 Budget Act”) was enacted. The 2012 Budget Act projects State General Fund revenues and transfers for Fiscal Year 2012-13 at \$95.9 billion, an increase of \$9.1 billion compared with Fiscal Year 2011-12. General Fund expenditures for Fiscal Year 2012-13 are projected at \$91.3 billion—an increase of \$4.3 billion compared to the prior year.

The 2012 Budget Act closes a \$15.7 billion budget gap and rebuilds a nearly \$1 billion reserve. In closing the \$15.7 billion gap, the 2012 Budget Act relies on deep spending reductions combined with temporary taxes and other actions.

The 2012 Budget Act includes The Schools and Local Public Safety Protection Act (the “Governor’s Tax Initiative”), which was approved by a majority of voters at the November 2012 election. The Governor’s Tax Initiative temporarily increases the personal income tax on the state’s wealthiest taxpayers for seven years, increases the sales tax by one-quarter percent for four years, and guarantees most of these new revenues to schools. The Governor estimates that the Governor’s Tax Initiative will generate an estimated \$8.5 billion through 2012-13 and will enable the State to meet the minimum funding guarantee for school districts, community college districts and other state agencies that provide direct elementary and secondary instructional programs for kindergarten through grade 14 (K-14) under Proposition 98, which was passed in 1988, and to increase funding for schools and community colleges by an additional \$2.9 billion. The Governor’s Tax Initiative will provide a net benefit to the State General Fund of \$5.6 billion. In addition, the measure constitutionally guarantees certain funds for local public safety.

## **Potential Impact of State of California Financial Condition on the City**

There can be no assurances that, as a result of the current State financial stress, it will not significantly reduce revenues to local governments (including the City) or shift financial responsibility for programs to local governments as part of its efforts to address the State financial difficulties. No prediction can be made by the City as to what measures the State will adopt to respond to the current or potential future financial difficulties. Current and future State budgets will be affected by national and State economic conditions and other factors, including the current economic downturn, over which the City has no control. There can be no assurances that State actions to respond to State financial difficulties will not adversely affect the financial condition of the City.

## **Future State Budgets**

No prediction can be made by the City as to whether the State will continue to encounter budgetary problems in future fiscal years, and if it were to do so, it is not clear what measures would be taken by the State to balance its budget, as required by law. In addition, the City cannot predict the final outcome of future State budget negotiations, the impact that such budgets will have on City finances and operations or what actions

will be taken in the future by the State Legislature and Governor to deal with changing State revenues and expenditures. There can be no assurances that actions taken by the State to address its financial condition will not materially adversely affect the financial condition of the City. Current and future State budgets will be affected by national and State economic conditions and other factors, including the current economic downturn, over which the City has no control.

## **CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS**

There are a number of provisions in the State Constitution that limit the ability of the City to raise and expend tax revenues.

### **Article XIII A of the California Constitution**

On June 6, 1978, California voters approved an amendment (commonly known as both Proposition 13 and the Jarvis-Gann Initiative) to the California Constitution. This amendment, which added Article XIII A to the California Constitution, among other things affects the valuation of real property for the purpose of taxation in that it defines the full cash property value to mean “the county assessor’s valuation of real property as shown on the 1975/76 tax bill under ‘full cash value’, or thereafter, the appraised value of real property newly constructed, or when a change in ownership has occurred after the 1975 assessment.” The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or a reduction in the consumer price index or comparable local data at a rate not to exceed 2% per year, or reduced in the event of declining property value caused by damage, destruction or other factors including a general economic downturn. The amendment further limits the amount of any *ad valorem* tax on real property to one percent of the full cash value except that additional taxes may be levied to pay debt service on indebtedness approved by the voters prior to December 1, 1978, and bonded indebtedness for the acquisition or improvement of real property approved on or after December 1, 1978 by two-thirds of the votes cast by the voters voting on the proposition (55% in the case of certain school facilities). Property taxes subject to Proposition 13 are a significant source of revenues to the City’s General Fund. See “CITY FINANCIAL INFORMATION.”

Legislation enacted by the California Legislature to implement Article XIII A provides that all taxable property is shown at full assessed value as described above. Tax rates for voter approved bonded indebtedness and pension liability are also applied to 100% of assessed value.

Future assessed valuation growth allowed under Article XIII A (new construction, change of ownership, 2% annual value growth) is allocated on the basis of “situs” among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and school districts share the growth of “base” revenue from the tax rate area. Each year’s growth allocation becomes part of each agency’s allocation the following year. Article XIII A effectively prohibits the levying of any other *ad valorem* property tax above the 1% limit except for taxes to support indebtedness approved by the voters as described above.

Article XIII A has subsequently been amended to permit reduction of the “full cash value” base in the event of declining property values caused by damage, destruction or other factors, and to provide that there would be no increase in the “full cash value” base in the event of reconstruction of property damaged or destroyed in a disaster and in certain other limited circumstances.

### **Article XIII B of the California Constitution**

At the statewide special election on November 6, 1979, the voters approved an initiative entitled “Limitation on Government Appropriations” which added Article XIII B to the California Constitution. Under Article XIII B, state and local government entities have an annual “appropriations limit” which limits the ability to spend certain moneys which are called “appropriations subject to limitation” (consisting of tax revenues and certain state subventions together called “proceeds of taxes” and certain other funds) in an amount higher than the “appropriations limit.” Article XIII B does not affect the appropriation of monies

which are excluded from the definition of “appropriations limit” including debt service on indebtedness existing or authorized as of October 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the “appropriations limit” is to be based on certain 1978-79 expenditures, and is to be adjusted annually to reflect changes in the consumer price index, population and services provided by these entities. Among other provisions of Article XIII B, if those entities’ revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

The City’s appropriations have never exceeded the limitation on appropriations under Article XIII B of the California Constitution.

### **Proposition 62**

A statutory initiative (“Proposition 62”) was adopted by the voters of the State at the November 4, 1986 General Election which (a) requires that any tax for general governmental purposes imposed by local governmental entities be approved by resolution or ordinance adopted by two-thirds vote of the governmental agency’s legislative body and by a majority of the electorate of the governmental entity, (b) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters within the jurisdiction, (c) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax is imposed, (d) prohibits the imposition of ad valorem taxes on real property by local governmental entities except as permitted by Article XIII A, (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 August 1, 1985 be ratified by a majority vote of the electorate within two years of the adoption of the initiative or be terminated by November 15, 1988. The requirements imposed by Proposition 62 were upheld by the California Supreme Court in *Santa Clara County Local Transportation Authority v. Guardino*, 11 Cal.4th 220; 45 Cal.Rptr.2d 207 (1995).

Proposition 62 applies to the imposition of any taxes or the effecting of any tax increases after its enactment in 1986, but the requirements of Proposition 62 are largely subsumed by the requirements of Proposition 218 for the imposition of any taxes or the effecting of any tax increases after November 5, 1996. See “—Proposition 218” below.

### **Proposition 218**

On November 5, 1996, California voters approved Proposition 218—Voter Approval for Local Government Taxes—Limitation on Fees, Assessments, and Charges—Initiative Constitutional Amendment. Proposition 218 added Articles XIII C and XIII D to the California Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges. Proposition 218 states that all taxes imposed by local governments are deemed to be either general taxes or special taxes. Special purpose districts, including school districts, have no power to levy general taxes. No local government may impose, extend or increase any general tax unless and until such tax is submitted to the electorate and approved by a majority vote. No local government may impose, extend or increase any special tax unless and until such tax is submitted to the electorate and approved by a two-thirds vote.

Proposition 218 also provides that no tax, assessment, fee or charge may be assessed by any agency upon any parcel of property or upon any person as an incident of property ownership except: (i) the ad valorem property tax imposed pursuant to Article XIII and Article XIII A of the California Constitution, (ii) any special tax receiving a two-thirds vote pursuant to the California Constitution, and (iii) assessments, fees and charges for property related services as provided in Proposition 218. Proposition 218 then goes on to add voter requirements for assessments and fees and charges imposed as an incident of property ownership, other than fees and charges for sewer, water, and refuse collection services. In addition, all assessments and

fees and charges imposed as an incident of property ownership, including sewer, water, and refuse collection services, are subjected to various additional procedures, such as hearings and stricter and more individualized benefit requirements and findings. The effect of such new provisions will presumably be to increase the difficulty a local agency will have in imposing, increasing or extending such assessments, fees and charges.

Proposition 218 also extended the initiative power to reducing or repealing any local taxes, assessments, fees and charges. This extension of the initiative power is not limited to taxes imposed on or after November 6, 1996, the effective date of Proposition 218, and could result in retroactive repeal or reduction in any existing taxes, assessments, fees and charges, subject to overriding federal constitutional principles relating to the impairments of contracts. Legislation implementing Proposition 218 provides that the initiative power provided for in Proposition 218 “shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after (the effective date of Proposition 218) assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights” protected by the United States Constitution. However, no assurance can be given that the voters of the City will not, in the future, approve an initiative which reduces or repeals local taxes, assessments, fees or charges that currently are deposited into the City’s General Fund.

Although a portion of the City’s General Fund revenues are derived from general taxes purported to be governed by Proposition 218, all of such taxes were imposed in accordance with the requirements of Proposition 218. No assurance can be given that the voters of the City will not, in the future, approve an initiative or initiatives which reduce or repeal local taxes, assessments, fees or charges which support the City’s General Fund.

### **Unitary Property**

Some amount of property tax revenue of the City is derived from utility property which is considered part of a utility system with components located in many taxing jurisdictions (“unitary property”). Under the State Constitution, such property is assessed by the State Board of Equalization (“SBE”) as part of a “going concern” rather than as individual pieces of real or personal property. State-assessed unitary and certain other property is allocated to the counties by SBE, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the City) according to statutory formula generally based on the distribution of taxes in the prior year.

### **Proposition 22**

On November 2, 2010, voters in the State approved Proposition 22, which eliminates the State’s ability to borrow or shift local revenues and certain State revenues that fund transportation programs. It restricts the State’s authority over a broad range of tax revenues, including property taxes allocated to cities (including the City), counties, special districts and redevelopment agencies, the Vehicle License Fee, State excise taxes on gasoline and diesel fuel, the State sales tax on diesel fuel, and the former State sales tax on gasoline. It also makes a number of significant other changes, including restricting the State’s ability to use motor vehicle fuel tax revenues to pay debt service on voter-approved transportation bonds. The application of Proposition 22 to AB1X 26 and AB1X 27 is currently under review by the California Supreme Court. See “RISK FACTORS—State Budget; Redevelopment Legislation and Litigation.”

### **Proposition 1A**

As part of Governor Schwarzenegger’s agreement with local jurisdictions, Senate Constitutional Amendment No. 4 was enacted by the Legislature and subsequently approved by the voters as Proposition 1A (“Proposition 1A”) at the November 2004 election. Proposition 1A amended the State Constitution to, among other things, reduce the Legislature’s authority over local government revenue sources by placing restrictions on the State’s access to local governments’ property, sales, and vehicle license fee revenues as of November 3, 2004. Beginning with Fiscal Year 2008–09, the State may borrow up to 8 percent of local property tax



revenues, but only if the Governor proclaims such action is necessary due to a severe State fiscal hardship and two-thirds of both houses of the Legislature approves the borrowing. The amount borrowed is required to be paid back within three years. The State also will not be able to borrow from local property tax revenues for more than 2 fiscal years within a period of 10 fiscal years. In addition, the State cannot reduce the local sales tax rate or restrict the authority of local governments to impose or change the distribution of the statewide local sales tax.

The 2009-10 State budget included a Proposition 1A diversion of \$1.935 billion in local property tax revenues from cities, counties, and special districts to the State to offset State general fund spending. Such diverted revenues must be repaid, with interest, no later than June 30, 2013. The amount of the Proposition 1A diversion from the City was \$ 598,935. The City participated in a State-sponsored program financing the Proposition 1A diversion and, accordingly, received its full share of property tax revenues.

### **Proposition 26**

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIII C of the State Constitution to expand the definition of “tax” to include “any levy, charge, or exaction of any kind imposed by a local government” except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) A fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIII D. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor’s burdens on, or benefits received from, the governmental activity. The City does not believe that Proposition 26 will adversely affect its General Fund Revenues.

### **Future Initiatives**

Article XIII A, Article XIII B and Propositions 62, 218, 1A, 22 and 26 were each adopted as measures that qualified for the ballot pursuant to the State’s initiative process. From time to time other initiative measures could be adopted, further affecting the City’s current revenues or its ability to raise and expend revenues.

## **TAX MATTERS**

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest on the Series 2012 Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on Series 2012 Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest on the Series 2012 Bonds may be included as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of such corporations.

The difference between the issue price of a Series 2012 Bond (the first price at which a substantial amount of the Bonds of the same series and maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Series 2012 Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to the owner of the Series 2012 Bond before receipt of cash attributable to such excludable income (with respect to the Series 2012 Bonds). The amount of original issue discount deemed received by the owner of a Series 2012 Bond will increase the owner's basis in the Series 2012 Bond. In the opinion of Bond Counsel original issue discount that accrues to the owner of a Series 2012 Bond is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of the portion of each Base Rental Payment constituting interest (and original issue discount) on the Series 2012 Bonds is based upon certain representations of fact and certifications made by the City and others and is subject to the condition that the City and the Authority comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to issuance of the Series 2012 Bonds to assure that the portion of each Base Rental Payment constituting interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the Series 2012 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2012 Bonds. The City and the Authority have covenanted to comply with all such requirements applicable to each, respectively.

The amount by which a Series 2012 Bond Owner's original basis for determining loss on sale or exchange in the applicable Series 2012 Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Series 2012 Bond premium, which must be amortized under Section 171 of the Code; such amortizable Series 2012 Bond premium reduces the Series 2012 Bond Owner's basis in the applicable Series 2012 Bond (and the amount of tax-exempt interest received with respect to the Series 2012 Bonds), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Series 2012 Bond premium may result in a Series 2012 Bond Owner realizing a taxable gain when a Series 2012 Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Series 2012 Bond to the Owner. Purchasers of the Series 2012 Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable Series 2012 Bond premium.

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Indenture, the Lease Agreement, and the Tax Certificate permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income for federal income tax purposes of interest (and original issue discount) due with respect to any Series 2012 Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Series 2012 Bonds will be selected for audit by the IRS. It is also possible that the market value of the Series 2012 Bonds might be affected as a result of such an audit of the Series 2012 Bonds (or by an audit of similar securities). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the Series 2012 Bonds to the extent that it adversely affects the exclusion from gross income of interest on the Series 2012 Bonds or their market value.

It is possible that, subsequent to the issuance of the Series 2012 Bonds, there might be federal, state or local statutory changes (or judicial or regulatory interpretations of federal, state or local law) that affect the federal, state or local tax treatment of the Series 2012 Bonds or the market value of the Series 2012 Bonds. Recently, proposed legislative changes have been introduced in Congress, which, if enacted, could result in additional federal income or state tax being imposed on owners of tax-exempt state or local obligations, such as the Series 2012 Bonds. The introduction or enactment of any of such changes could adversely affect the market value or liquidity of the Series 2012 Bonds. No assurance can be given that, subsequent to the issuance of the Series 2012 Bonds, such changes (or other changes) will not be introduced or enacted or interpretations will not occur. Before purchasing any of the Series 2012 Bonds, all potential purchasers should consult their tax advisors regarding possible statutory changes or judicial or regulatory changes or interpretations, and their collateral tax consequences relating to the Series 2012 Bonds.

Although Bond Counsel has rendered an opinion that the interest (and original issue discount) on the Series 2012 Bonds is excluded from gross income for federal income tax purposes provided that the City and the Authority continue to comply with certain requirements of the Code, the ownership of the Series 2012 Bonds and the accrual or receipt of interest (and original issue discount) with respect to the Series 2012 Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the Series 2012 Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences with respect to the Series 2012 Bonds.

The form of Bond Counsel's proposed opinion with respect to the Series 2012 Bonds is attached hereto in Appendix C.

#### **CERTAIN LEGAL MATTERS**

The validity of the Series 2012 Bonds and certain other legal matters are subject to the approving opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel. Stradling Yocca Carlson & Rauth, a Professional Corporation, is also acting as Disclosure Counsel for the City. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix C hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Bond Counsel and Disclosure Counsel will receive compensation from the City contingent upon the sale and delivery of the Series 2012 Bonds. From time to time, Bond Counsel represents the Underwriter on matters unrelated to the Series 2012 Bonds. Certain legal matters will be passed upon for the City and the Authority by Woodruff, Spradlin & Smart, a Professional Corporation, Costa Mesa, California and for the Underwriter by Nossaman, LLP, Irvine, California. Counsel to the Underwriter will receive compensation contingent upon that issuance of the Series 2012 Bonds.

#### **ABSENCE OF LITIGATION**

To the best knowledge of the City and the Authority, there is no action, suit or proceeding pending or threatened either restraining or enjoining the execution or delivery of the Series 2012 Bonds, the Lease Agreement or the Indenture, or in any way contesting or affecting the validity of the foregoing or any proceedings of the Authority or the City taken with respect to any of the foregoing. As described under the caption "THE PROPERTY," the City is currently pursuing legal remedies against the architect, general contractor and certain subcontractors related to design and/or construction defects to the Property. Additionally, there are a number of lawsuits and claims from time to time pending against the City. In the opinion of the City, and taking into account likely insurance coverage and litigation reserves, there are no lawsuits or claims pending against the City which will materially affect the City's finances so as to impair its ability to pay Base Rental Payments when due.

## **UNDERWRITING**

The Series 2012 Bonds are being purchased by Stifel, Nicolaus & Company, Incorporated dba Stone & Youngberg, a Division of Stifel Nicolaus (the “Underwriter”). The Underwriter will purchase the Series 2012 Bonds from the Authority at an aggregate purchase price representing the principal amount of the Series 2012 Bonds, [plus \$\_\_\_\_\_ of net original issue premium] and less \$\_\_\_\_\_ of Underwriter’s discount.

The Series 2012 Bonds are offered for sale at the initial prices stated on the inside cover page of this Official Statement, which may be changed from time to time by the Underwriter. The Series 2012 Bonds may be offered and sold to certain dealers at prices lower than the public offering prices.

## **RATINGS**

Standard & Poor’s Ratings Services has assigned the Series 2012 Bonds the rating of “AA+.” Such rating reflects only the views of such rating agency, and an explanation of the significance of the rating may be obtained by contacting it at: Standard & Poor’s Ratings Services, 55 Water Street, New York, New York 10041. Such rating is not a recommendation to buy, sell or hold the Series 2012 Bonds. There is no assurance that such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2012 Bonds.

## **FINANCIAL ADVISOR**

Fieldman Rolapp & Associates, Irvine, California, served as financial advisor to the Authority and the City with respect to the sale of the Series 2012 Bonds. Fieldman Rolapp & Associates will receive compensation contingent upon the sale and delivery of the Series 2012 Bonds.

## **CONTINUING DISCLOSURE**

The City has covenanted for the benefit of the Owners of the Series 2012 Bonds to provide annually certain financial information and operating data relating to the Series 2012 Bonds and the City (the “Annual Report”), and to provide notices of the occurrence of certain enumerated events. For a complete listing of items of information which will be provided in each Annual Report and further description of the City’s undertaking with respect to the Annual Report and certain enumerated events, see APPENDIX E—“FORM OF CONTINUING DISCLOSURE CERTIFICATE.” The Annual Report is to be provided by the City not later than nine (9) months after the end of the City’s fiscal year (which currently would be April 1), commencing with the report for the 2011-12 Fiscal Year. The Annual Report will be filed by the City with the Municipal Securities Rulemaking Board. These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission 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.

## **FINANCIAL STATEMENTS OF THE CITY**

Included herein as Appendix B are the audited financial statements of the City as of and for the year ended June 30, 2012, together with the report thereon dated November 28, 2012 of White Nelson Diehl Evans LLP, Irvine, California, certified public accountants (the “Auditor”). Such audited financial statements have been included herein in reliance upon the report of the Auditor. The Auditor has not undertaken to update the audited financial statements of the City or its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by the Auditor with respect to any event subsequent to its report dated November 28, 2012.

**MISCELLANEOUS**

References are made herein to certain documents and reports which are brief summaries thereof which do not purport to be complete or definitive and reference is made to such documents and reports for full and complete statements of the contents thereof. Copies of the Indenture, the Lease Agreement, the Ground Lease and other documents are available, upon request, and upon payment to the City of a charge for copying, mailing and handling, from the City Clerk at the City of Rancho Santa Margarita, 22112 El Paseo, Rancho Santa margarita, California 92688.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Authority or the City and the purchasers or Owners of any of the Series 2012 Bonds.

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

**RANCHO SANTA MARGARITA PUBLIC  
FINANCING AUTHORITY**

By: \_\_\_\_\_  
Executive Director

**CITY OF RANCHO SANTA MARGARITA**

By: \_\_\_\_\_  
City Manager

## APPENDIX A

### SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS

The following statements are summaries of the Ground Lease (“the Ground Lease”), the Lease Agreement (the “Lease Agreement”), the Indenture (the “Indenture”) and the Assignment Agreement (the “Assignment Agreement”). **These statements are qualified in their entirety by reference to the full terms of the Ground Lease, the Lease Agreement, the Indenture and the Assignment Agreement, copies of which may be obtained from the City.**

#### DEFINITIONS OF CERTAIN TERMS

The following sets forth the definitions of certain words and terms used in this Summary of the Principal Legal Documents.

“**Act**” means the Marks-Roos Local Bond Pooling Act of 1985, commencing with Section 6584 of the California Government Code.

“**Additional Bonds**” means Bonds other than the Series 2012 Bonds issued under the Indenture in accordance with the provisions thereof.

“**Additional Rental Payments**” means all amounts payable by the City as Additional Rental Payments pursuant to the Lease Agreement.

“**Assignment Agreement**” means the Assignment Agreement, by and between the Authority and the Trustee, dated as of December 1, 2012, as the same may be amended or supplemented pursuant to the provisions thereof.

“**Authority**” means the Rancho Santa Margarita Public Financing Authority, a joint exercise of powers entity organized and existing under and by virtue of the laws of the State of California.

“**Authorized Authority Representative**” means the Chairman, the Executive Director or the Director of Administrative Services of the Authority, or any other person authorized by the Board of Directors of the Authority to act on behalf of the Authority under or with respect to the Indenture.

“**Authorized City Representative**” means the Mayor of the City, the City Manager of the City, or the Director of Administrative Services of the City, or any other person authorized by the City Council of the City to act on behalf of the City under or with respect to the Indenture.

“**Base Rental Payment Fund**” means the fund by that name established in accordance with the Indenture.

“**Base Rental Payments**” means all amounts payable to the Authority by the City as Base Rental Payments pursuant to the Lease Agreement.

“**Base Rental Payment Schedule**” means the schedule of Base Rental Payments payable to the Authority from the City pursuant to the Lease Agreement and attached thereto as Exhibit C.

“**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 or the records of such Participant or such person’s subrogee.

“**Bonds**” means the Series 2012 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 pursuant to the terms and provisions of the Indenture.

“**Business Day**” means a day which is not (a) a Saturday, Sunday or legal holiday, (b) a day on which banking institutions in the State of California, or in any state in which the principal corporate trust office of the Trustee is located, are required or authorized by law (including executive order) to close, or (c) a day on which the New York Stock Exchange is closed.

“**Certificate of the City**” means an instrument in writing signed by an Authorized City Representative. If and to the extent required by the provisions of the Indenture, each Certificate of the City will include the statements provided for in the Indenture.

“**City**” means the City of Rancho Santa Margarita, a municipal corporation and general law city duly organized and existing under and by virtue of the Constitution and laws of the State of California.

“**Closing Date**” means December 19, 2012.

“**Code**” means the Internal Revenue Code of 1986.

“**Construction Fund**” means the fund by that name established in accordance with the Indenture.

“**Continuing Disclosure Certificate**” means the Continuing Disclosure Certificate, dated as of December 1, 2012, executed by the City, as originally executed and as it may from time to time be amended in accordance with the terms thereof.

“**Costs of Issuance**” means all the costs of issuing and delivering the Bonds, including, but not limited to, all printing and document preparation expenses in connection with the Indenture, the Lease Agreement, the Ground Lease, the Assignment Agreement, the Bonds and the preliminary official statement and final official statement pertaining to the Bonds, rating agency fees, CUSIP Service Bureau charges, market study fees, legal fees and expenses of counsel with the issuance and delivery of the Bonds, any computer and other expenses incurred in connection with the execution and delivery of the Bonds, the initial fees and expenses of the Trustee and other fees and expenses incurred in connection with the issuance and delivery of the Bonds, to the extent such fees and expenses are approved by the City.

“**Costs of Issuance Fund**” means the fund by that name established in accordance with the Indenture.

“**Delivery Date**” means December 19, 2012.

“**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 pursuant to the Indenture.

“**Escrow Agent**” means Wells Fargo Bank, National Association, as escrow agent pursuant to the Escrow Agreement.

“**Escrow Fund**” means the fund established and held by the Escrow Agent pursuant to the Escrow Agreement.

“**Escrow Agreement**” means the escrow agreement dated as of December 1, 2012 by and between the Authority and the Escrow Agent relating to the defeasance of the 2003 COPs.

**“Federal Securities”** means (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.

**“Forward Purchase and Sale Agreement”** means an agreement entered into by the Trustee and/or the Authority and/or the City and a bank or financial institution (the “Provider”) rated “A2” or higher by Moody’s and “A” or higher by S&P providing for the Provider to tender, and for the Trustee to purchase, certain eligible securities on one or more dates occurring at least thirty (30) business days after the date of such agreement; provided that (1) securities tendered by the Provider are purchased on a delivery versus payment basis, (2) securities purchased constitute Permitted Investments at the time they are tendered, and (3) the Authority and the City receive an opinion of counsel acceptable to the Authority, to the City and to the Trustee which states that the agreement constitutes a legally valid, binding, and enforceable obligation of the Provider and that in the event of a bankruptcy of the Provider, securities sold by the Provider to the Trustee pursuant to the agreement do not constitute property of the estate of the Provider within the applicable bankruptcy or insolvency laws.

**“Ground Lease”** means the Ground Lease, dated as of December 1, 2012, by and between the City and the Authority, as originally executed and as it may from time to time be amended in accordance with the provisions thereof and of the Lease Agreement.

**“Indenture”** means the Indenture, dated as of December 1, 2012, by and among the Authority, the City and the Trustee, as originally executed and as it may from time to time be amended or supplemented in accordance with the provisions thereof.

**“Interest Fund”** means the fund by that name established in accordance with the Indenture.

**“Interest Payment Date”** means May 1 and November 1 of each year, commencing on May 1, 2013.

**“Lease Agreement”** means the Lease Agreement, dated as of December 1, 2012, by and between the City and the Authority, as originally executed and as it may be from time to time amended in accordance with the provisions thereof.

**“Moody’s”** means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, except that if such corporation will no longer perform the function of a securities rating agency for any reason, the term “Moody’s” will be deemed to refer to any other nationally recognized securities rating agency selected by the Authority and approved by the Trustee.

**“Net Insurance Proceeds”** means any insurance proceeds or condemnation award in excess of \$50,000, paid with respect to any of the Property, remaining after payment therefrom of all reasonable expenses incurred in the collection thereof.

**“Opinion of Counsel”** means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, appointed and paid by the Authority or the City and satisfactory to and approved by the Trustee.

**“Outstanding,”** when used as of any particular time with reference to Bonds, means (subject to the provisions of 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 Authority will 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 will 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 Certificate.

“**Permitted Encumbrances**” means, with respect to the Property, as of any particular time, (a) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the City may, pursuant to provisions of the Lease Agreement, permit to remain unpaid, (b) the Assignment Agreement, (c) the Lease Agreement, (d) the Ground Lease, (e) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law as normally exist with respect to properties similar to the Property for the purposes for which it was acquired or is held by the City, (f) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the Delivery Date which the City certifies in writing will not affect the intended use of the Property or impair the security granted to the Trustee for the benefit of the Owners of the Bonds by the Indenture and the Assignment Agreement and to which the Authority and the City consent in writing, and (g) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions established following the Delivery Date which the City certifies in writing do not affect the intended use of the Property or impair the security granted to the Trustee for the benefit of the Owners of the Bonds by the Indenture and the Assignment Agreement and to which the Authority and the City consent in writing.

“**Permitted Investments**” means any of the following to the extent then permitted by the general laws of the State of California:

(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 180 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 and "P-I" or better by Moody's.

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

(6) Commercial paper (having original maturities of not more than 270 days) rated "A-1+" by S&P and "Prime-1" by Moody's, including funds for which the Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Trustee provide investment advisory or other management services.

(7) Money market funds rated “AAm” or “AAM-G” or better by S&P and “AA” or better by Moody’s.

(8) Repurchase agreements:

(a) With any domestic bank the long term debt of which is rated “AA” or better by S&P and 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), or any foreign bank rated at least “AA” by S&P and “Aaa” by Moody’s or “AAA” by S & P and at least “Aa” by Moody’s; provided the term of such repurchase agreement is for one year or less.

(b) With (i) any broker-dealer with “retail customers” which has, or the parent company of which has, long-term debt rated at least “AA” by S&P and “Aa” by Moody’s, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corp. (SIPC); provided that:

A. The market value of the collateral is maintained for United States Treasury Obligations, at the levels shown below under “Collateral Levels for United States Treasury Obligations”;

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. An opinion is rendered that the repurchase agreement is a “repurchase agreement” as defined in the United States Bankruptcy Code;

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

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

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

(9) State Obligations

(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 “A” 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) Local Agency Investment Fund.

(11) Investment agreements with a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt of the guarantor, or in the case of a monoline financial guaranty insurance company the claims paying ability of the guarantor, is rated at least “AA” by S&P and “Aa” by Moody’s; provided, that prior written notice of an investment in the investment agreement is provided to S&P and, provided, further, 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 construction fund, construction draws) on the Bonds;

(b) the invested funds are available for withdrawal without penalty or premium, at any time for purposes identified in the Indenture other than acquisition of alternative investment property 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 will 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 will be addressed to the City) 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);

(f) the investment agreement will provide that if during its term (A) the provider’s or the guarantor’s rating by either Moody’s or S&P is withdrawn or suspended or falls below “AA” or “Aa”, respectively, or, with respect to a foreign bank, below the ratings of such provider at the delivery date of the investment agreement, the provider must, at the direction of the City or the Trustee within 10 days of receipt of such direction, either (1) 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 at the Collateral Levels set forth below; or (2) repay the principal of and accrued but unpaid interest on the investment (the choice of (1) or (2) above will be that of the City or Trustee, as appropriate), and (B) the provider’s or the guarantor’s rating by either Moody’s or S&P is withdrawn or suspended or falls below “A”, or, with respect to a foreign bank, below “AA” or “Aa” by S&P or Moody’s, as appropriate, the provider must, at the direction of the City or the Trustee, 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 will state, and an opinion of counsel will 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 (A) the provider will default in its payment obligations, the provider’s obligation under the investment agreement will, at the direction of the City or the Trustee, be accelerated and amounts invested and accrued but unpaid interest thereon will be repaid to the City or Trustee, as appropriate, and (B) the provider will 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 will automatically be accelerated and amounts invested and accrued but unpaid interest thereon will be repaid to the City or Trustee, as appropriate.

(12) 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; and

(e) no substitution of a United States Treasury Obligation will 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.

**Collateral Levels For United States Treasury Obligations**

Remaining Maturity

<i>Frequency of Valuation</i>	<i>1 year or less</i>	<i>5 years or less</i>	<i>10 years or less</i>	<i>15 years or less</i>	<i>30 years or less</i>
Daily	102	105	106	108	114
Weekly	103	111	112	114	120
Monthly	105	117	120	125	133
Quarterly	107	120	130	133	140

Further Requirements: (a) On each valuation date the City, the Trustee, or the custodian who will confirm to the City and the Trustee, will value the market value (exclusive of accrued interest) of the collateral,

which market value will be an amount equal to the requisite collateral percentage times the principal amount of the investment (including unpaid accrued interest thereon) that is being secured, (b) in the event the collateral level is below its collateral percentage on a valuation date, such percentage will be restored within the following restoration periods: one Business Day for daily valuations, two Business Days for weekly and monthly valuations, and one month for quarterly valuations (the use of different restoration periods affect the requisite collateral percentage), (c) the City or the Trustee will terminate the repurchase agreement or the investment agreement, as the case may be, upon a failure to maintain the requisite collateral percentage after the restoration period and, if not paid by the counterparty in federal funds against transfer of the collateral, liquidate the collateral.

**“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.

**“Principal Fund”** means the fund by that name established in accordance with the Indenture.

**“Project”** means the improvements, facilities and equipment described in Exhibit B to the Lease Agreement.

**“Project Costs”** means all costs of acquiring, constructing and installing the 2012 Project, including but not limited to:

(a) all costs which the Authority or the City will be required to pay to a seller or any other person under the terms of any contract or contracts for the purchase of the 2012 Project;

(b) all costs which the Authority or the City will be required to pay a contractor or any other person for the acquisition, construction and installation of the 2012 Project;

(c) obligations of the Authority or the City incurred for services (including obligations payable to the Authority or the City for actual out-of-pocket expenses of the Authority or the City) in connection with the acquisition, construction and installation of the 2012 Project, including reimbursement to the Authority or the City for all advances and payments made in connection with the 2012 Project prior to or after delivery of the Bonds;

(d) the actual out-of-pocket costs of the Authority or the City for test borings, surveys, estimates and preliminary investigations therefor, as well as for the performance of all other duties required by or consequent to the proper acquisition, construction and installation of the 2012 Project, including administrative expenses under the Lease Agreement and under the Indenture relating to the acquisition, construction and installation of the 2012 Project; and

(e) any sums required to reimburse the Authority or the City for advances made by the Authority or the City for any of the above items or for any other costs incurred and for work done by the Authority or the City which are properly chargeable to the 2012 Project.

**“Property”** means the real property described in Exhibit A to the Lease Agreement and the improvements located thereon.

**“Rebate Fund”** means the fund by that name established in accordance with the Indenture.

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

**“Redemption Fund”** means the fund by that name established 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 hereto.

**“Registration Books”** means the records maintained by the Trustee for the registration of ownership and registration of transfer of the Bonds pursuant to the Indenture.

**“Rental Payments”** means, collectively, the Base Rental Payments and the Additional Rental Payments.

**“Rental Period”** means the period from the Closing Date through October 31, 2013 and, thereafter, the twelve-month period commencing on November 1 of each year during the term of the Lease Agreement.

**“S&P”** means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns, except that if such entity will no longer perform the functions of a securities rating agency for any reason, the term “S&P” will be deemed to refer to any other nationally recognized securities rating agency selected by the Authority and approved by the Trustee.

**“Series”** means the Series 2012 Bonds executed, authenticated and delivered on the Closing Date and identified pursuant to this Indenture and any Additional Bonds issued pursuant to a Supplemental Indenture and identified as a separate Series of Bonds.

**“Series 2012 Bonds”** means the Rancho Santa Margarita Public Financing Authority Lease Revenue Refunding Bonds, Series 2012A” issued under 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 Authority and the City at the time of issuance of the Series 2012 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.

**“Termination Date”** means November 1, 2033, unless extended or sooner terminated as provided in the Lease Agreement.

**“Trustee”** means the Wells Fargo Bank, National Association, a national banking association organized and existing under the laws of the United States, or any successor thereto as Trustee under the Indenture, appointed as provided in the Indenture.

**“2003 COPs”** means the City of Rancho Santa Margarita Certificates of Participation (City Hall and Regional Community Center).

**“Written Request of the Authority”** means a written request signed in the name of the Authority by an Authorized Authority Representative.

**“Written Request of the City”** means a written request signed in the name of the City by an Authorized City Representative.

## **THE GROUND LEASE**

The City leases to the Authority, and the Authority leases from the City, for the benefit of the Owners of the Bonds, the Property, subject only to Permitted Encumbrances for the term of the Ground Lease. The parties intend that the Property will be leased back to the City pursuant to the Lease Agreement. The parties further intend that, to the extent provided in the (Ground Lease and the Lease Agreement, if an event of default occurs under the Lease Agreement, the Authority, or its assignee, will have the right for the then remaining term of the Ground Lease to (a) take possession of the Property, (b) if it deems it appropriate, cause an appraisal of the Property and a study of the then reasonable use thereof to be undertaken, and (c) relet the Property. The Ground Lease may be sold or assigned, and the Property may be subleased, as a whole or in part, by the Authority without the necessity of obtaining the consent of the City, if an event of default occurs under the lease Agreement. The Authority will, within 30 days after such an assignment, sale or sublease, furnish or cause to be furnished to the City a true and correct copy of such assignment, sale or sublease, as the case may be. The City agrees that, except with respect to Permitted Encumbrances, it will not mortgage, sell, encumber, assign, transfer or convey the Property or any portion thereof during the term of the Ground Lease.

The term of the Ground Lease commences on the Delivery Date, and will remain in full force and effect from such date to and including November 1, 2033, unless such term is sooner extended or terminated as provided in the Ground Lease. If, on November 1, 2033, the Bonds will not have been fully paid, or provision therefor made in accordance with the Indenture, or the Indenture will not be discharged by its terms, or if the Rental Payments payable under the Lease Agreement will have been abated at any time, then the term of the Ground Lease will be automatically extended until the date upon which all Bonds will be fully paid, or provision therefor made in accordance with the Indenture, and the Indenture will be discharged by its terms, except that the term of the Ground Lease will in no event be extended more than ten years. If prior to November 1, 2033, all Bonds will be fully paid, or provisions therefor made in accordance with the Indenture, and the Indenture will be discharged by its terms, the term of the Ground Lease will end simultaneously therewith.

## **THE LEASE AGREEMENT**

### **Lease of Property**

The Authority leases to the City, and the City leases from the Authority the Property, on the terms and conditions set forth in the Lease Agreement, and subject to all Permitted Encumbrances.

### **Assignment and Subleasing**

Neither the Lease Agreement nor any interest of the City thereunder will be sold, mortgaged, pledged, assigned, or transferred by the City by voluntary act or by operation of law or otherwise. The Property may not be subleased in whole or in part by the City without the prior written consent of the Authority. Any such sublease will be subject to all of the following conditions:

- (a) the Lease Agreement and the obligation of the City to make all Rental Payments thereunder will remain the primary obligation of the City;
- (b) the City will, within 30 days after the delivery thereof, furnish or cause to be furnished to the Authority and the Trustee a true and complete copy of such sublease;
- (c) no such sublease by the City will cause the Property to be used for a purpose other than a governmental or proprietary function authorized under the provisions of the Constitution and laws of the State of California;



(d) any sublease of the Property by the City will explicitly provide that such sublease is subject to all rights of the Authority under the Lease Agreement, including, the right to re-enter and re-let the Property or terminate the Lease Agreement upon a default by the City; and

(e) the City will furnish the Authority and the Trustee with an Opinion of Counsel to the effect that such sublease will not, in and of itself, cause the interest on the Bonds to be included in gross income for federal income tax purposes.

### **Liens**

In the event the City will at any time during the term of the Lease Agreement cause any changes, alterations, additions, improvements, or other work to be done or performed or materials to be supplied, in or upon the Property, the City will pay, when due, all sums of money that may become due for, or purporting to be due for, any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to or for the City in, upon, or about the Property and which may be secured by a mechanics', materialmen's or other lien against the Property or the Authority's interest therein, and will cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due, except that, if the City desires to contest any such lien, it may do so as long as such contestment is in good faith. If any such lien will be reduced to final judgment and such judgment or such process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and said stay thereafter expires, the City will forthwith pay and discharge said judgment.

### **Additions to Property**

Subject to the Lease Agreement, the City and any sublessee will, at its own expense, have the right to make additions, modifications and improvements to the Property. To the extent that the removal of such additions, modifications or improvements would not cause material damage to the Property, such additions, modifications and improvements will remain the sole property of the City or such sublessee, and neither the Authority nor the Trustee will have any interest therein. Such additions, modifications and improvements will not in any way damage the Property or cause it to be used for purposes other than those authorized under the provisions of state and federal law; and the Property, upon completion of any additions, modifications and improvements made pursuant to the Lease Agreement, will be of a value which is at least equal to the value of the Property immediately prior to the making of such additions, modifications and improvements.

### **Term of the Lease Agreement**

The term of the Lease Agreement will commence on the Delivery Date and will end on the Termination Date, unless such term is extended or sooner terminated as provided in the Lease Agreement. If on the Termination Date the Bonds will not be fully paid, or provision therefor made in accordance with the Indenture, or the Indenture will not be discharged by its terms, or if the Rental Payments will remain due and payable or will have been abated at any time and for any reason, then the term of the Lease Agreement will be extended until the date upon which (i) all Bonds will be fully paid, or provision therefor made in accordance with the Indenture, or (ii) the Indenture will be discharged by its terms and all Rental Payments will have been paid in full. Notwithstanding the foregoing, the term of the Lease Agreement will in no event be extended more than ten years beyond such Termination Date. Such extended date being the "Maximum Lease Term." If prior to the Termination Date, all Bonds will be fully paid, or provision therefor made in accordance with the Indenture, the Indenture will be discharged by its terms and all Rental Payments will have been paid in full, the term of the Lease Agreement will end simultaneously therewith.

## **Rental Payments**

Subject to the provisions of the Lease Agreement relating to a revision of the Base Rental Schedule, the City will pay to the Authority as Base Rental Payments (subject to the provisions of the Lease Agreement) the amount at the times specified in the Base Rental Payment Schedule, a portion of which Base Rental Payments will constitute principal and a portion of which will constitute interest. If the term of the Lease Agreement is extended pursuant to the Lease Agreement, the obligation of the City to pay Rental Payments will continue to and including the Base Rental deposit Date preceding the date of termination of the Lease Agreement. Upon such extension, the Base Rental Payments will be established so that they will be sufficient to pay all extended and unpaid Base Rental Payments; provided, however, that the Rental Payments payable in any Rental Period will not exceed the annual fair rental value of the Property.

The City will also pay, as Additional Rental Payments, such amounts as will be required for the payment of the following: all taxes and assessments of any type or nature charged to the Authority or the City or affecting the Property or the respective interests or estates of the Authority or the City therein; all reasonable administrative costs of the Authority relating to the Property including, but without limiting the generality of the foregoing, salaries, wages, fees and expenses, compensation and indemnification of the Trustee payable by the Authority under the Indenture, fees of auditors, accountants, attorneys or engineers, and all other reasonable and necessary administrative costs of the Authority or charges required to be paid by it in order to maintain its existence or to comply with the terms of the Indenture or the Lease Agreement or to defend the Authority and its members, officers, agents and employees; insurance premiums for all insurance required pursuant to the Lease Agreement; any amounts with respect to the Lease Agreement or the Bonds required to be rebated to the federal government in accordance with section 148(f) of the Code; and all other payments required to be paid by the City under the provisions of the Lease Agreement or the Indenture. Amounts constituting Additional Rental Payments payable under the Lease Agreement will be paid by the City directly to the person or persons to whom such amounts will be payable. The City will pay all such amounts when due or at such later time as such amounts may be paid without penalty or, in any other case, within sixty (60) days after notice in writing from the Trustee to the City stating the amount of Additional Rental Payments then due and payable and the purpose thereof.

Payments of the Rental Payments for the Property during each rental period will constitute the total rental for said rental period.

Each installment of Base Rental Payments payable under the Lease Agreement will be paid in lawful money of the United States of America to or upon the order of the Authority at the principal corporate trust office of the Trustee, or such other place or entity as the Authority will designate. Each Base Rental Payment will be deposited with the Trustee no later than the Base Rental Deposit Date preceding the Interest Payment Date on which such Base Rental Payment is due. Any Base Rental Payment which will not be paid by the City when due and payable under the terms of the Lease Agreement will bear interest from the date when the same is due thereunder until the same will be paid at the rate equal to the highest rate of interest on any of the Outstanding Bonds. Notwithstanding any dispute between the Authority and the City, the City will make all Rental Payments when due without deduction or offset of any kind and will not withhold any Rental Payments pending the final resolution of any such dispute. In the event of a determination that the City was not liable for said Rental Payments or any portion thereof, said payments or excess of payments, as the case may be, will be credited against subsequent Rental Payments due under the Lease Agreement or refunded at the time of such determination. Amounts required to be deposited by the City with the Trustee pursuant to this paragraph on any date will be reduced to the extent of available amounts on deposit in the Base Rental Payment Fund, the Interest Fund or the Principal Fund.

## **Rental Abatement**

Except as otherwise specifically provided in the Lease Agreement, during any period in which, by reason of material damage to, or destruction or condemnation of, the Property, or any defect in title to the Property, there is substantial interference with the City's right to use and occupy any portion of the Property, Rental Payments will be abated proportionately, and the City waives the benefits of California Civil Code Sections 1932(1), 1932(2) and 1933(4) and any and all other rights to terminate the Lease Agreement by virtue of any such interference, and the Lease Agreement will continue in full force and effect. The amount of such abatement will be agreed upon by the City and the Authority; provided, however, that the Rental Payments due for any Rental Period will not exceed the annual fair rental value of that portion of the Property available for use and occupancy by the City during such Rental Period. The City and the Authority will calculate such abatement and will provide the Trustee with a certificate setting forth such calculation and the basis therefor. Such abatement will continue for the period commencing with the date of interference resulting from such damage, destruction, condemnation or title defect and, with respect to damage to or destruction of the Property, ending with the substantial completion of the work of repair or replacement of the Property, or the portion thereof so damaged or destroyed; and the term of the Lease Agreement will be extended as provided in the Lease Agreement, except that the term will in no event be extended beyond the Maximum Lease Term.

Notwithstanding the foregoing, to the extent that moneys are available for the payment of Rental Payments in any of the funds and accounts established under the Indenture, Rental Payments will not be abated as provided above but, rather, will be payable by the City as a special obligation payable solely from said funds and accounts.

The City and the Authority acknowledge and agree that, during the term of the Lease Agreement, it is likely that the City will have to undertake extensive repairs of the Property. Accordingly, on the Delivery Date, the City has prepaid Base Rental Payments in the amount of \$1,500,000<sup>1</sup>. Such funds have been deposited with the Trustee and will be held by the Trustee in the Prepaid Base Rental Account of the Base Rental Payment Fund. Five Business Days prior to the commencement of such repairs, the City will provide a Written Certificate of the City to the Trustee and the Authority notifying such parties of the commencement of such repairs and that Base Rental Payments shall be payable from amounts on deposit in the Prepaid Base Rental Account. Upon completion of such repairs, the City shall provide the Trustee and the Authority with a Written Certificate of the City notifying such parties of the completion of the repairs and the amount of prorated Base Rental Payments to be paid from the Prepaid Base Rental Account on the next Interest Payment Date and requesting the return of all other funds on deposit in the Prepaid Base Rental Account. In the event the City elects to not make such repairs, the City shall certify to the Trustee that the Property is habitable and that no abatement of Base Rental Payments shall occur if the repairs are not completed, and may request the return of all funds on deposit in the Prepaid Base Rental Account or direct the Trustee to apply all or a portion of such funds on deposit in the Prepaid base Rental Account to pay Base Rental as specified in such request.

## **Prepayment of Rental Payments**

(a) The City may prepay all or a portion of the Base Rental Payments attributable to the Series 2012 Bonds which are payable on or after November 1, \_\_\_\_\_, from any source of available funds, on any date on or after November 1, \_\_\_\_\_, by paying (i) all or a portion, as selected by the City, of the principal components of such Base Rental Payments, and (ii) the accrued but unpaid interest component of such Base Rental Payments to be prepaid to the date of such prepayment, without premium.

(b) The City may prepay, from any source of available funds, all or any portion of the Base Rental Payments attributable to the Series 2012 Bonds by depositing with the Trustee moneys or securities as provided, and subject to the terms and conditions set forth, in the Indenture sufficient to make such Base Rental Payments when due or to make such Base Rental Payments through a specified date on which the City

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<sup>1</sup> Preliminary; subject to change.

has a right to prepay such Base Rental Payments as described above, and to prepay such Base Rental Payments on such prepayment date, at a prepayment price determined in accordance with subsection (a) above.

The City may prepay, from any source of available funds, all or any portion of the Base Rental Payments attributable to the Series 2012 Bonds by depositing with the Trustee moneys or securities as provided, and subject to the terms and conditions set forth, in the Indenture sufficient to make such Base Rental Payments when due or to make such Base Rental Payments through a specified date on which the City has a right to prepay such Base Rental Payments.

(c) If less than all of the Base Rental Payments attributable to the Series 2012 Bonds are prepaid pursuant to the Lease Agreement then, as of the date of such prepayment pursuant to subsection (a) above, or the date of a deposit pursuant to subsection (b) above, the principal and interest components of such Base Rental Payments will be recalculated in order to take such prepayment into account. The City agrees that if, following a partial prepayment of such Base Rental Payments, the Property is damaged or destroyed or taken by eminent domain, or a defect in title to the Property is discovered, the City will not be entitled to, and by such prepayment waives the right of, abatement of such prepaid Base Rental Payments and the City will not be entitled to any reimbursement of such Base Rental Payments.

(d) If all of the Base Rental Payments are prepaid in accordance with the provisions of the Lease Agreement, then, as of the date of such prepayment as described in (a) above and, if applicable, the corresponding provisions of the Lease Agreement relating to the prepayment of Base Rental Payments attributable to Additional Bonds, or the date of deposit pursuant to (b) above and, if applicable, such corresponding provisions, and payment of all other amounts owed under the Lease Agreement, the term of the Lease Agreement will be terminated.

(e) Prepayments of Base Rental Payments attributable to the Series 2012 Bonds made pursuant to the Lease Agreement will be applied to the redemption of Series 2012 Bonds as provided in the Indenture.

(f) Before making any prepayment pursuant to the Lease Agreement, the City will give written notice to the Authority specifying the date on which the prepayment will be made, which date will be not less than forty-five (45) nor more than sixty (60) days from the date such notice is given to the Authority.

### **Substitution or Release of the Property**

The City will have the right to substitute alternate real property for any portion of the Property or to release a portion of the Property from the Lease Agreement. All costs and expenses incurred in connection with such substitution or release will be borne by the City. Notwithstanding any such substitution or release, there will be no reduction in or abatement of the Base Rental Payments due from the City under the Lease Agreement as a result of such substitution or release. Any such substitution or release of any portion of the Property will be subject to the following specific conditions, which are made conditions precedent to such substitution or release:

(i) an independent certified real estate appraiser selected by the City will have found (and will have delivered a certificate to the City and the Trustee setting forth its findings) that the Property, as constituted after such substitution or release, (A) has an annual fair rental value at least equal to the maximum Base Rental Payments payable by the City in any Rental Period, and (ii) has a useful life in excess of the final maturity of any Outstanding Bonds;

(ii) the City will have obtained or caused to be obtained a CLTA or ALTA title insurance policy or policies with respect to any substituted property in the amount at least equal to the aggregate principal amount of any Outstanding Bonds of the type and with the endorsements described in the Lease Agreement;

(iii) the City will have provided the Trustee with an Opinion of Counsel to the effect that such substitution or release will not, in and of itself cause the interest on the Bonds to be included in gross income for federal income tax purposes;

(iv) the City, the Authority and the Trustee will have executed, and the City will have caused to be recorded with the Orange County Recorder, any document necessary to reconvey to the City the portion of the Property being released and to include any substituted real property in the description of the Property contained in the Lease Agreement and in the Ground Lease; and

(v) the City will have provided notice of such substitution to each rating agency then rating the Bonds.

### **Insurance**

The City will maintain or cause to be maintained, throughout the term of the Lease Agreement, a standard commercial general liability insurance policy or policies in protection of the City, the Authority and their respective members, officers, agents and employees. Said policy or policies will provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the use or ownership of the Property. Said policy or policies will provide coverage in the minimum liability limits of \$1,000,000 for personal injury or death of each person and \$3,000,000 for personal injury or deaths of two or more persons in a single accident or event, and in a minimum amount of \$500,000 for damage to property (subject to a deductible clause of not to exceed \$100,000) resulting from a single event. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried or required to be carried by the City, and may be maintained in whole or in part in the form of self-insurance by the City, provided that such self-insurance complies with the provisions of the Lease Agreement.

The City will maintain or cause to be maintained, throughout the term of the Lease Agreement, workers' compensation insurance issued by a responsible carrier authorized under the laws of the State of California to insure employers against liability for compensation under the California Labor Code, or any act enacted as an amendment or supplement thereto or in lieu thereof, such workers' compensation insurance to cover all persons employed by the City in connection with the Property and to cover full liability for compensation under any such act; provided, however, that the City's obligations under this paragraph may be satisfied by self-insurance, provided that such self-insurance complies with the provisions of the Lease Agreement.

The City will maintain or cause to be maintained, fire, lightning and special extended coverage insurance (which will include coverage for vandalism and malicious mischief, but need not include coverage for earthquake damage) on all improvements constituting any part of the Property in an amount equal to the greater of 100% of the replacement cost of such improvements or 100% of the outstanding principal amount of the Bonds. Each such policy of insurance will contain a standard replacement cost endorsement providing for no deduction for depreciation and a stipulated amount endorsement. All insurance required to be maintained pursuant to this paragraph may be subject to a deductible in an amount not to exceed \$500,000. The City's obligations under this paragraph may be satisfied by self-insurance, provided such self-insurance complies with the provisions of the Lease Agreement.

The City will maintain rental interruption insurance to cover the Authority's loss, total or partial, of Base Rental Payments resulting from the loss, total or partial, of the use of any part of the Property as a result of any of the hazards required to be covered by the insurance described in the preceding paragraph in an amount sufficient at all times to pay an amount not less than the product of two times the maximum amount of Base Rental Payments scheduled to be paid during any Rental Period. The City will not be permitted to self-insure this obligation under the Lease Agreement.

The City will pay or cause to be paid when due the premiums for all insurance policies required by the Lease Agreement, and will promptly furnish or cause to be furnished evidence of such payments to the Trustee. All such policies will provide that the Trustee will be given thirty (30) days notice of the expiration thereof, or any intended cancellation thereof. The Trustee will be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the Trustee.

The City will cause to be delivered to the Trustee on or before August 15 of each year, commencing August 15, 2013, a schedule of the insurance policies being maintained in accordance with the Lease Agreement and a Certificate of the City stating that such policies are in full force and effect and that the City is in full compliance with the requirements of the Lease Agreement. The Trustee will be entitled to rely upon said Certificate of the City as to the City's compliance with the Lease Agreement. The Trustee will not be responsible for the sufficiency of coverage or amounts of such policies.

Insurance provided through a California joint powers authority of which the City is a member or with which the City contracts for insurance will be deemed to be self-insurance for purposes of the Lease Agreement. Any self-insurance maintained by the City pursuant to the Indenture will comply with the following terms:

(a) the self-insurance program will be approved in writing by a professionally certified risk manager or by an independent insurance consultant;

(b) the self-insurance program will include an actuarially sound claims reserve fund out of which each self-insured claim will be paid, the adequacy of each such fund will be evaluated on an annual basis by a professionally certified risk manager or by an independent insurance consultant and any deficiencies in any self-insured claims reserve fund will be remedied in accordance with the recommendation of a professionally certified risk manager or such independent insurance consultant, as applicable;

(c) in the event the self-insurance program will be discontinued, the actuarial soundness of its claims reserve fund, as determined by a professionally certified risk manager or by an independent insurance consultant, will be maintained.

The insurance required by the Lease Agreement will be provided by reputable insurance companies with claims paying abilities determined, in the reasonable opinion of a professionally certified risk manager or an independent insurance consultant, to be adequate for the purposes of the Lease Agreement.

### **Title Insurance**

The City will provide, at its own expense, one or more CLTA or ALTA title insurance policies for the Property, in the aggregate amount of not less than the initial aggregate principal amount of the Series 2012 Bonds. Said policy or policies will insure (a) the fee interest of the City in the Property, (b) the Authority's ground leasehold estate in the Property under the Ground Lease, and (c) the City's leasehold estate under the Lease Agreement in the Property, subject only to Permitted Encumbrances. All Net Insurance Proceeds received under said policy or policies will be deposited with the Trustee and applied as provided in the Indenture. So long as any of the Bonds remain Outstanding, each policy of title insurance obtained pursuant to the Indenture or the Lease or required by the Indenture or the Lease Agreement will provide that all proceeds thereunder will be payable to the Trustee for the benefit of the Bond Owners.

### **Eminent Domain**

If all of the Property (or portions thereof such that the remainder is not usable for public purposes by the City) will be taken under the power of eminent domain, the term of the Lease Agreement will cease as of the day that possession will be so taken. If less than all of the Property will be taken under the power of eminent domain and the remainder is usable for public purposes by the City at the time of such taking, then the

Lease Agreement will continue in full force and effect as to such remainder, and the parties waive the benefits of any law to the contrary, and in such event there will be a partial abatement of the Rental Payments in accordance with the provisions of the Lease Agreement. So long as any Bonds will be Outstanding, any award made in eminent domain proceedings for the taking of the Property, or any portion thereof, will be paid to the Trustee and applied to the redemption of Bonds as provided in the Indenture. Any such award made after all of the Bonds, and all other amounts due under the Indenture and under the Lease Agreement, have been fully paid, will be paid to the Authority and to the City as their respective interests may appear.

### **Assignment**

The City and the Authority acknowledge the assignment of the Lease Agreement (except for the Authority's obligation and its rights to give consents or approvals pursuant to the Lease Agreement), and the Base Rental Payments payable thereunder, to the Trustee pursuant to the Assignment Agreement.

### **Default**

(a) (i) If the City will fail (A) to pay any Rental Payment payable under the Lease Agreement when the same becomes due and payable, time being expressly declared to be of the essence in the Lease Agreement, or (B) to keep, observe or perform any other term, covenant or condition contained in the Lease Agreement or in the Indenture to be kept or performed by the City, or (ii) upon the happening of any of the events specified in paragraph (b) below, the City will be deemed to be in default under the Lease Agreement and it will be lawful for the Authority to exercise any and all remedies available pursuant to law or granted pursuant to the Lease Agreement. The City will in no event be in default in the observance or performance of any covenant, condition or agreement in the Lease Agreement on its part to be observed or performed, other than as referred to in clause (i)(A) or (ii) of the preceding sentence, unless the City will have failed, for a period of thirty (30) days or such additional time as is reasonably required to correct any such default after notice by the Authority to the City properly specifying wherein the City has failed to perform any such covenant, condition or agreement. Upon any such default, the Authority, in addition to all other rights and remedies it may have at law, will have the option to do any of the following:

(1) To terminate the Lease Agreement in the manner hereinafter described on account of default by the City, notwithstanding any re-entry or re-letting of the Property as hereinafter described in paragraph (2) below, and to re-enter the Property and remove all persons in possession thereof and all personal property whatsoever situated upon the Property and place such personal property in storage in any warehouse or other suitable place, for the account of and at the expense of the City. In the event of such termination, the City agrees to surrender immediately possession of the Property, without let or hindrance, and to pay the Authority all damages recoverable at law that the Authority may incur by reason of default by the City, including, without limitation, any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon the Property and removal and storage of such property by the Authority or its duly authorized agents in accordance with the provisions contained in the Lease Agreement. Neither notice to pay Rental Payments or to deliver up possession of the Property given pursuant to law nor any entry or re-entry by the Authority nor any proceeding in unlawful detainer, or otherwise, brought by the Authority for the purpose of effecting such re-entry or obtaining possession of the Property nor the appointment of a receiver upon initiative of the Authority to protect the Authority's interest under the Lease Agreement will of itself operate to terminate the Lease Agreement, and no termination of the Lease Agreement on account of default by the City will be or become effective by operation of law or acts of the parties thereto, or otherwise, unless and until the Authority will have given written notice to the City of the election on the part of the Authority to terminate the Lease Agreement. The City covenants and agrees that no surrender of the Property or of the remainder of the term of the Lease Agreement or any termination of the Lease Agreement will be valid in any manner or for any purpose whatsoever unless stated by the Authority by such written notice.

(2) Without terminating the Lease Agreement, (a) to collect each installment of Rental Payments as the same become due and enforce any other terms or provisions of the Lease Agreement to be

kept or performed by the City, regardless of whether or not the City has abandoned the Property, or (b) to exercise any and all rights of entry and re-entry upon the Property. In the event the Authority does not elect to terminate the Lease Agreement in the manner described in paragraph (1) above, the City will remain liable and agrees to keep or perform all covenants and conditions contained in the Lease Agreement to be kept or performed by the City and, if the Property is not re-let, to pay the full amount of the Rental Payments to the end of the term of the Lease Agreement or, in the event that the Property is re-let, to pay any deficiency in Rental Payments that results therefrom; and further agrees to pay said Rental Payments and/or Rental Payment deficiency punctually at the same time and in the same manner as described above for the payment of Rental Payments under the Lease Agreement, notwithstanding the fact that the Authority may have received in previous years or may receive thereafter in subsequent years Rental Payments in excess of the Rental Payments specified in the Lease Agreement, and notwithstanding any entry or re-entry by the Authority or suit in unlawful detainer, or otherwise, brought by the Authority for the purpose of effecting such re-entry or obtaining possession of the Property. Should the Authority elect to re-enter as provided in the Lease Agreement, the City irrevocably appoints the Authority as the agent and attorney-in-fact of the City to re-let the Property, or any part thereof, from time to time, either in the Authority's name or otherwise, upon such terms and conditions and for such use and period as the Authority may deem advisable and to remove all persons in possession thereof and all personal property whatsoever situated upon the Property and to place such personal property in storage in any warehouse or other suitable place, for the account of and at the expense of the City, and the City indemnifies and agrees to save harmless the Authority from any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon and re-letting of the Property and removal and storage of such property by the Authority or its duly authorized agents in accordance with the provisions contained in the Lease Agreement. The City agrees that the terms of the Lease Agreement constitute full and sufficient notice of the right of the Authority to re-let the Property in the event of such re-letting without effecting a surrender of the Lease Agreement, and further agrees that no acts of the Authority in effecting such re-letting will constitute a surrender or termination of the Lease Agreement irrespective of the use or the term for which such re-letting is made or the terms and conditions of such re-letting, or otherwise, but that, on the contrary, in the event of such default by the City the right to terminate the Lease Agreement will vest in the Authority to be effected in the sole and exclusive manner provided for in paragraph (1) above. The City further agrees to pay the Authority the cost of any alterations or additions to the Property necessary to place the Property in condition for re-letting immediately upon notice to the City of the completion and installation of such additions or alterations.

The City waives any and all claims for damages caused or which may be caused by the Authority in re-entering and taking possession of the Property as provided in the Lease Agreement and all claims for damages that may result from the destruction of or injury to the Property and all claims for damages to or loss of any property belonging to the City, or any other person, that may be in or upon the Property.

(b) If (i) the City's interest in the Lease Agreement or any part thereof be assigned or transferred, either voluntarily or by operation of law or otherwise, without the written consent of the Authority, and as hereinafter described, or (ii) the City or any assignee will file any petition or institute any proceeding under any act or acts, state or federal, dealing with or relating to the subject or subjects of bankruptcy or insolvency, or under any amendment of such act or acts, either as a bankrupt or as an insolvent, or as a debtor, or in any similar capacity, wherein or whereby the City asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of the City's debts or obligations, or offers to the City's creditors to effect a composition or extension of time to pay the City's debts or asks, seeks or prays for reorganization or to elect a plan of reorganization, or for a readjustment of the City's debts, or for any other similar relief, or if any such petition or any such proceedings of the same or similar kind or character be filed or be instituted or taken against the City, or if a receiver of the business or of the property or assets of the City will be appointed by any court, except a receiver appointed at the instance or request of the Authority, or if the City will make a general assignment for the benefit of the City's creditors, or (iii) the City will abandon or vacate the Property, then the City will be deemed to be in default under the Lease Agreement.



(c) In addition to the other remedies set forth in the Lease Agreement, upon the occurrence of an event of default, the Authority and its assignee will be entitled to proceed to protect and enforce the rights vested in the Authority and its assignee by the Lease Agreement or by law. The provisions of the Lease Agreement and the duties of the City and of its city council, officers or employees will be enforceable by the Authority or its assignee by mandamus or other appropriate suit, action or proceeding in any court of competent jurisdiction. Without limiting the generality of the foregoing, the Authority and its assignee will have the right to bring the following actions:

(i) *Accounting*. By action or suit in equity to require the City and its city council, officers and employees and its assigns to account as the trustee of an express trust.

(ii) *Injunction*. By action or suit in equity to enjoin any acts or things which may be unlawful or in violation of the rights of the Authority or its assignee.

(iii) *Mandamus*. By mandamus or other suit, action or proceeding at law or in equity to enforce the Authority's or its assignee's rights against the City (and its city council, officers and employees) and to compel the City to perform and carry out its duties and obligations under the law and its covenants and agreements with the City as provided in the Lease Agreement.

In the event the Authority will prevail in any action brought to enforce any of the terms and provisions of the Lease Agreement, the City agrees to pay a reasonable amount as and for attorney's fees incurred by the Authority in attempting to enforce any of the remedies available to the Authority under the Lease Agreement.

Notwithstanding anything to the contrary contained in the Lease Agreement, the Authority will have no right upon a default thereunder by the City to accelerate Rental Payments.

(d) Notwithstanding anything to the contrary contained in the Lease Agreement, the termination of the Lease Agreement by the Authority and its assignees on account of a default by the City thereunder will not effect or result in a termination of the Ground Lease.

Failure of the Authority to take advantage of any default on the part of the City will not be, or be construed as, a waiver thereof, nor will any custom or practice which may grow up between the parties in the course of administering the Lease Agreement be construed to waive or to lessen the right of the Authority to insist upon performance by the City of any term, covenant or condition of the Lease Agreement, or to exercise any rights given the Authority on account of such default. A waiver of a particular default will not be deemed to be a waiver of any other default or of the same default subsequently occurring. The acceptance of Rental Payments under the Lease Agreement will not be, or be construed to be, a waiver of any term, covenant or condition of the Lease Agreement.

## **Amendments**

The Lease Agreement and the Ground Lease may be amended and the rights and obligations of the Authority and the City thereunder may be amended at any time by an amendment thereto which will become binding upon execution and delivery by the Authority and the City but only with the prior written consent of the Owners of a majority of the principal amount of the Bonds then Outstanding pursuant to the Indenture, provided that no such amendment will (i) extend the payment date of any Base Rental Payments, reduce the interest component or principal component of any Base Rental Payments or change the prepayment terms and provisions, without the prior written consent of the Owner of each Bond so affected, or (ii) reduce the percentage of the principal amount of the Bonds the consent of the Owners of which is required for the execution of any amendment of the Lease Agreement or the Ground Lease.

The Lease Agreement and the Ground Lease and the rights and obligations of the Authority and the City thereunder may also be amended at any time by an amendment thereto which will become binding upon

execution by the Authority and the City, but without the written consents of any Owners, but only to the extent permitted by law and only for any one or more of the following purposes:

(a) to add to the agreements, conditions, covenants and terms required by the Authority or the City to be observed or performed in the Lease Agreement or other agreements, conditions, covenants and terms thereafter to be observed or performed by the Authority or the City, or to surrender any right or power reserved therein to or conferred therein on the Authority or the City, and which in either case will not materially adversely affect the interests of the Owners, as evidenced by an Opinion of Bond Counsel;

(b) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained therein or in regard to questions arising thereunder which the Authority or the City may deem desirable or necessary and not inconsistent therewith, and which will not materially adversely affect the interests of the Owners, as evidenced by an Opinion of Bond Counsel;

(c) to make such additions, deletions or modifications as may be necessary or appropriate to assure the exclusion from gross income for federal income tax purposes of the interest on the Bonds;

(d) to provide for the substitution or release of a portion of the Property in accordance with the provisions of the Lease Agreement;

(e) to provide for the issuance of Additional Bonds in accordance with the Indenture; or

(f) to make such other changes therein or modifications thereto as the Authority or the City may deem desirable or necessary, and which will not materially adversely affect the interests of the Owners as evidenced by an Opinion of Bond Counsel.

## **THE INDENTURE**

### **Costs of Issuance Fund**

The Trustee will establish and maintain a separate special fund designated the "Costs of Issuance Fund." On the Closing Date, there will be deposited in the Costs of Issuance Fund the amount specified in the Indenture. There will be additionally be deposited in the Costs of Issuance Fund the portion, if any, of the proceeds of the sale of any Additional Bonds required to be deposited therein under the Supplemental Indenture pursuant to which such Additional Bonds are issued.

The moneys in the Costs of Issuance Fund will 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 Authority 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 thereunder. On March 1, 2013, and on such later date as may be specified in a supplemental Indenture, the Trustee will transfer any amounts then remaining in the Costs of Issuance Fund to the Interest Fund.

### **Construction Fund**

The Trustee will establish and maintain a separate fund designated the "Construction Fund." On the Closing Date there will be deposited in the Construction Fund the amount specified in the Indenture.

The moneys in the Construction Fund will be used and withdrawn by the Trustee from time to time to pay the Project Costs upon submission of a Written Request of the City stating (i) the Person to whom payment is to be made, (ii) the amount to be paid, (iii) the purpose for which the obligation was incurred,

(iv) that such payment constitutes a Project Cost and is a proper charge against the Construction Fund, and (v) that such amounts have not been the subject of a prior disbursement from the Construction Fund, in each case together with a statement or invoice for each amount requested thereunder.

Upon the filing of a Written Certificate of the City stating that the 2012 Project has been completed and that all Project Costs have been paid, the Trustee will transfer and apply the amount, if any, remaining in the Construction Fund (x) if such amount is equal to or greater than \$50,000, to the Redemption Fund to be used to optionally redeem Bonds, provided that the amount so transferred will not exceed the amount required to provide for the redemption of all Outstanding Bonds and (y) if such amount is less than \$50,000, to the Base Rental Payment Fund to be used for the purposes thereof.

### **Additional Bonds**

Conditions for the Issuance of Additional Bonds. The Authority may at any time issue one or more Series of Additional Bonds (in addition to the Series 2012 Bonds) payable from Base Rental Payments as provided in the Indenture on a parity with all other Bonds theretofore issued under the Indenture, but only subject to the following conditions, which are conditions precedent to the issuance of such Additional Bonds:

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

(1) The application of the proceeds of the sale of such Additional Bonds;

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

(3) The date, the maturity date or dates, the interest payment dates and the dates on which mandatory sinking fund redemptions, if any, are to be made for such Additional Bonds; provided, however, that (i) the serial Bonds of such Series of Additional Bonds will be payable as to principal annually on November 1 of each year in which principal falls due, and the term Bonds of such Series of Additional Bonds will have annual mandatory sinking fund redemptions on November 1, (ii) the Additional Bonds will be payable as to Interest semiannually on May 1 and November 1 of each year, except that the first installment of interest may be payable on either May 1 or November 1 and will be for a period of not longer than twelve months and the interest will be payable thereafter semiannually on May 1 and November 1, (iii) all Additional Bonds of a Series of like maturity will 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, will be established to provide for the redemption or payment of such Additional Bonds on or before their respective maturity dates;

(4) The redemption premiums and terms, if any, for such Additional Bonds;

(5) The form of such Additional Bonds;

(6) Such other provisions that are appropriate or necessary and are not inconsistent with the provisions hereof;

(b) The Authority will be in compliance with all agreements, conditions, covenants and terms contained in the Indenture, in the Lease Agreement and in the Ground Lease required to be observed or performed by it;

(c) The Authority will be in compliance with all agreements, conditions, covenants and terms contained in the Indenture, in the Lease Agreement and in the Ground Lease required to be observed or performed by it; and

(d) The Ground Lease will have been amended, to the extent necessary, and the Lease Agreement will have been amended so as to increase the Base Rental Payments payable by the City thereunder by an aggregate amount equal to the principal of and interest on such Additional Bonds, payable at such times and in such manner as may be necessary to provide for the payment of the principal of and interest on such Additional Bonds; provided, however, that no such amendment will be made such that the sum of Base Rental Payments, including any increase in the Base Rental Payments as a result of such amendment, plus Additional Rental Payments, in any Rental Period will be in excess of the annual fair rental value of the Property after taking into account the use of the proceeds of any Additional Bonds issued in connection therewith (evidence of the satisfaction of such condition will be made by a Written Certificate of the City).

Nothing contained in the Indenture will limit the issuance of any bonds or other obligations payable from Base Rental Payments if, after the issuance and delivery of such bonds or other obligations, 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 will be executed by the Authority for issuance under the Indenture and will be delivered to the Trustee and thereupon will be authenticated and delivered by the Trustee, but only upon receipt by the Trustee of the following:

(a) Certified copies of the Supplemental Indenture authorizing the issuance of such Additional Bonds, the amendment to the Lease Agreement required by the Indenture and the amendment to the Ground Lease, if any, required by the Indenture, together with satisfactory evidence that such amendment to the Lease Agreement and such amendment to the Ground Lease, if any, have been duly recorded;

(b) A Written Request of the Authority as to the delivery of such Additional Bonds;

(c) An opinion of Bond Counsel substantially to the effect that (i) the Indenture (including all Supplemental Indentures), the Lease Agreement (including the amendment thereto required by the Indenture) and the Ground Lease (including any amendment thereto required by the Indenture) have been duly authorized, executed and delivered by, and constitute the valid and binding obligations of, the Authority and 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 Authority payable solely from Base Rental Payments as provided in 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;

(d) a Written Certificate of the Authority that the requirements of the Indenture have been met;

(e) a Written Certificate of the City that the requirements of the Indenture have been met, and a Written Certificate of the City as to the fair rental value of the Property, after giving effect to the execution and delivery of the Additional Bonds, and to the use of proceeds received therefrom; and

(f) Such further documents as are required by the provisions hereof or by the provisions of the Supplemental Indenture authorizing the issuance of such Additional Bonds.

So long as any of the Bonds remain Outstanding, the Authority will not issue any Additional Bonds or obligations payable from the Base Rental Payments, except pursuant to the Indenture.

### **Pledge of Base Rental Payments and Additional Rental; Base Rental Payment Fund**

Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, all of the Base Rental Payments and any other amounts (including proceeds of the sale of the Bonds) held in the Base Rental Payment Fund, the Interest Fund, the Principal Fund and the Redemption Fund are 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 will constitute a first lien on such assets.

All obligations of the Authority under the Indenture will be special obligations of the Authority, payable solely from Rental Payments and the other assets pledged therefor thereunder; provided, however, that all obligations of the Authority under the Bonds will be special obligations of the Authority, payable solely from Base Rental Payments and the other assets pledged therefor under the Indenture. Neither the faith and credit nor the taxing power of the Authority, the City or the State of California, or any political subdivision thereof, is pledged to the payment of the Bonds.

All Base Rental Payments will be paid directly by the City to the Trustee, and if received by the Authority at any time will be transferred by the Authority with the Trustee within one Business Day after the receipt thereof. All Base Rental Payments paid by the City will be deposited by the Trustee in the Base Rental Payment Fund.

### **Deposit of Base Rental Payments**

The Trustee will transfer the amounts on deposit in the Base Rental Payment Fund, at the times and in the manner provided in the Indenture, to the following respective funds.

Interest Fund. On the Business Day immediately preceding each Interest Payment Date, the Trustee will transfer from the Base Rental Fund to the Interest Fund the amount, if any, necessary to cause the amount on deposit in the Interest Fund to be equal to the interest due on the Bonds on such Interest Payment Date.

Principal Fund. On the Business Day immediately preceding each May 1 and November 1, commencing May 1, 2013, the Trustee will transfer from the Base Rental Fund to the Principal Fund the amount, if any, necessary to cause the amount on deposit in the Principal Fund to be equal to the principal amount of the Bonds due on such May 1 or November 1, either as a result of the maturity thereof or mandatory sinking fund redemption payments required to be made with respect thereto. Moneys in the Principal Fund will be used by the Trustee for the purpose of paying the principal of the Bonds when due and payable at their maturity dates or upon earlier mandatory sinking fund redemption.

Redemption Fund. The Trustee, on the redemption date specified in the Written Request of the City filed with the Trustee at the time that any prepaid Base Rental Payment is paid to the Trustee pursuant to the Lease Agreement, will deposit in the Redemption Fund that amount of moneys representing the portion of the Base Rental Payments designated as prepaid Base Rental Payments. Additionally, the Trustee will deposit in the Redemption Fund any amounts required to be deposited therein pursuant to the Indenture. Moneys in the Redemption Fund will be used by the Trustee for the purpose of paying the principal of and interest and premium, if any, on Additional Bonds redeemed pursuant to the corresponding provisions of the Supplemental Indenture pursuant to which such Additional Bonds are issued.

Upon receipt of a Written Certificate of the City pursuant to the Lease Agreement that the City has commenced repairs of the Property, the Trustee will transfer moneys from the Prepaid Base Rental Account at the times and in the manner required by the Indenture if and to the extent there are insufficient funds in the

Base Rental Payment Fund to make such transfers. Upon receipt of a Written Certificate of the City pursuant to the Lease Agreement that the City has completed repairs of the Property and will recommence to make Base Rental Payments or that the City has determined not to make such repairs and made the certifications required pursuant to the Lease Agreement, the Trustee will transfer any funds remaining on deposit in the Prepaid Base Rental Account to the City for any lawful use.

### **Application of Net Insurance Proceeds**

If the Property or any portion thereof will be damaged or destroyed, subject to the further requirements of the Indenture, the City will, as expeditiously as possible, continuously and diligently prosecute or cause to be prosecuted the repair or replacement thereof, unless the City elects not to repair or replace the Property or the affected portion thereof in accordance with the provisions of the Indenture.

The Net Insurance Proceeds (other than Net Insurance Proceeds of rental interruption insurance), including the proceeds of any self-insurance, received on account of any damage or destruction of the Property or a portion thereof will as soon as possible be deposited with the Trustee and be held by the Trustee in a special account and made available for and, to the extent necessary, will be applied to the cost of repair or replacement of the Property or the affected portion thereof upon receipt of a Written Request of the City, together with invoices therefor. Pending such application, such proceeds may be invested by the Trustee as directed by the City in Permitted Investments that mature not later than such times as moneys are expected to be needed to pay such costs of repair or replacement.

Notwithstanding the foregoing, the City will, within sixty (60) days of the occurrence of the event of damage or destruction, notify the Trustee in writing as to whether the City intends to replace or repair the Property or the portions of the Property which were damaged or destroyed. If the City does intend to replace or repair the Property or portions thereof, the City will deposit with the Trustee the full amount of any insurance deductible to be credited to the special account.

If the damage, destruction or loss was such that there resulted a substantial interference with the City's right to the use or occupancy of the Property and an abatement of Rental Payments results from such damage or destruction pursuant to the Lease Agreement, then the City will be required either to (a) apply sufficient funds from the insurance proceeds and other legally available funds to the replacement or repair of the Property or the portions thereof which have been damaged to the condition which existed prior to such damage or destruction, or (b) apply sufficient funds from the insurance proceeds and other legally available funds to the redemption, as set forth in the Indenture and the corresponding provisions of any Supplemental Indenture pursuant to which Additional Bonds are issued, in full of all the Outstanding Bonds or all of those Outstanding Bonds which would have been payable from that portion of the Base Rental Payments which are abated as a result of the damage or destruction. Funds to be applied to the redemption of Bonds in accordance with clause (b) above will be deposited in the Redemption Fund. If the City is not required to replace or repair the Property, or the affected portion thereof, as set forth in clause (a) above or to use such amounts to redeem Bonds as set forth in clause (b) above, then such proceeds will, if there is first delivered to the Trustee a Written Certificate of the City to the effect that the annual fair rental value of the Property after such damage or destruction, and after any repairs or replacements made as a result of such damage or destruction, is at least equal to 100% of the maximum amount of Base Rental Payments becoming due under the Lease Agreement in the then current rental period or any subsequent rental period and the fair replacement value of the Property after such damage or destruction is at least equal to the principal amount of the Outstanding Bonds, be paid to the City to be used for any lawful purpose.

The proceeds of any award in eminent domain received in respect to the Property will be deposited by the Trustee in the Redemption Fund and applied to the redemption of Bonds pursuant to the Indenture and the corresponding provisions of any Supplemental Indenture pursuant to which Additional Bonds are issued.

## **Title Insurance**

Proceeds of any policy of title insurance received by the Trustee in respect of the Property will be applied and disbursed by the Trustee as follows:

(a) if the City determines that the title defect giving rise to such proceeds has not substantially interfered with its use and occupancy of the Property and will not result in an abatement of Rental Payments payable by the City under the Lease Agreement, such proceeds will be remitted to the City and used for any lawful purpose thereof, or

(b) if the City determines that the title defect giving rise to such proceeds has substantially interfered with its use and occupancy of the Property and will result in an abatement in whole or in part of Rental Payments payable by the City under the Lease Agreement, then the Trustee will immediately deposit such proceeds in the Redemption Fund and such proceeds will be applied to the redemption of Bonds in the manner provided in the Indenture and the corresponding provisions of any Supplemental Indenture pursuant to which Additional Bonds are issued.

## **Investment of Moneys**

Except as otherwise provided in the Indenture, all moneys in any of the funds or accounts established pursuant to the Indenture and held by the Trustee will be invested by the Trustee solely in Permitted Investments, as directed in writing by the Authority. Moneys in all funds and accounts held by the Trustee will 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 such Permitted Investments may be redeemed at par so as to be available on each Interest Payment Date. Absent timely written direction from the Authority, the Trustee will hold any funds held by it uninvested.

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 will be retained therein.

Permitted Investments acquired as an investment of moneys in any fund established under the Indenture will be credited to such fund. For the purpose of determining the amount in any fund, all Permitted Investments credited to such fund will be valued by the Trustee at the fair market value cost thereof, such valuation to be performed not less frequently than semiannually on or before each March 15 and September 15. In determining the fair market value, the Trustee may use and rely conclusively on any generally recognized securities pricing service available to it (including brokers and dealers in securities).

The Trustee may act as principal or agent in the making or disposing of any investment, Upon the Written Request of the Authority, the Trustee will sell or present for redemption any Permitted Investments so purchased whenever it will 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 will not be liable or responsible for any loss resulting from any investment made or sold pursuant to the Indenture. For purposes of investment, the Trustee may commingle moneys in any of the funds and accounts established under the Indenture.

## **Covenants**

Compliance with Agreements. The Trustee will not authenticate or deliver any Bonds in any matter other than accordance with the provisions of the Indenture, and the Authority and the City will not suffer or permit any default by them to occur under the Indenture, but will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms of the Indenture required to be complied with, kept, observed and performed by them.

Compliance with Ground Lease and Lease Agreement. The Authority and the City will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms contained in the Ground Lease and the lease Agreement required to be complied with, kept, observed and performed by them and, together with the Trustee, will enforce the Ground Lease and the Lease Agreement against the other party thereto in accordance with their respective terms.

Observance of Laws and Regulations. The Authority, the City and the Trustee will faithfully comply with, keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on them by contract, or prescribed by any law of the United States of America or of the State of California, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of each and every franchise, right or privilege now owned or hereafter acquired by them, including their right to exist and carry on their respective businesses, to the end that such franchises, rights and privileges will be maintained and preserved and will not become abandoned, forfeited or in any manner impaired.

Other Liens. The City will keep the Property and all parts thereof free from judgments and materialmen's and mechanics' liens and free from all claims, demands, encumbrances and other liens of whatever nature or character, and free from any claim or liability which materially impairs the City in conducting its business or utilizing the Property, and the Trustee at its option (after first giving the City ten (10) days' written notice to comply therewith and failure of the City to so comply within such ten-day period) may, but is in no event obligated to, defend against any and all actions or proceedings, or may pay or compromise any claim or demand asserted in any such actions or proceedings; provided, however, that, in defending against any such actions or proceedings or in paying or compromising any such claims or demands, the Trustee will not in any event be deemed to have waived or released the City from liability for or on account of any of its agreements and covenants contained in the Indenture, or from its liability under the Indenture and to perform such agreements and covenants.

So long as any Bonds are Outstanding, none of the Trustee, the Authority or the City will create or suffer to be created any pledge of or lien on the amounts on deposit in any of the funds or accounts created under the Indenture, other than the pledge and lien as provided for or permitted under the Indenture.

The Authority, the City and the Trustee will not encumber the Property other than in accordance with the Ground Lease, the Lease Agreement, the Indenture and the Assignment Agreement.

Prosecution and Defense of Suits. The City will promptly, upon request of the Trustee, take such action from time to time as may be necessary or proper to remedy or cure any cloud upon or defect in the title to the Property or any part thereof, whether now existing or hereafter developing, will prosecute all actions, suits or other proceedings as may be appropriate for such purpose and will indemnify and save the Trustee harmless from all cost, damage, expense or loss, including attorneys' fees, which it or the Owners may incur by reason of any such cloud, defect, action, suit or other proceeding.

Accounting Records and Statements. The Trustee will keep proper accounting records in which complete and correct entries will be made of all transactions relating to the receipt, deposit and disbursement of the Base Rental Payments, and such accounting records will be available for inspection by the Authority and the City at reasonable hours and under reasonable conditions. The Trustee will, upon written request, make copies of the foregoing available to any Owner or his agent duly authorized in writing.

Recordation and Filing. The City will record, or cause to be recorded, with the appropriate City recorder, the Lease Agreement, the Ground Lease and the Assignment Agreement, or memoranda thereof.

Tax Covenants. Neither the Authority nor the City will 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 any tax-exempt Bonds under Section 103 of the Code. Without limiting the generality of the foregoing, the



City will comply with the requirements of the Tax Certificate. This covenant will survive payment in full or defeasance of the Bonds.

Further Assurances. Whenever and so often as requested to do so by the Trustee, the Authority and the City will promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments and promptly do or cause to be done all such other and further things as may be necessary or reasonably required in order to further and more fully vest in the Trustee all advantages, benefits, interests, powers, privileges and rights conferred or intended to be conferred upon it by the Indenture, the Assignment Agreement, the Ground Lease or the Lease Agreement.

Continuing Disclosure. The City will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of the Indenture, failure of the City to comply with the Continuing Disclosure Certificate will not constitute an event of default under the Indenture; 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 Bonds, and upon being indemnified to its reasonable satisfaction therefor, will) or any holder or beneficial owner of Bonds may take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

### **Events of Default**

If an event of default (within the meaning of the Lease Agreement) will happen, then such event of default will constitute an event of default under the Indenture. The Trustee shall give notice, as assignee of the Authority, of an event of default under the Lease Agreement to the City. In each and every case during the continuance of an event of default, the Trustee may and, at the direction of the Owners of not less than a majority of the aggregate principal amount of Bonds then Outstanding, and upon being indemnified to its reasonable satisfaction therefor, will, upon notice in writing to the City and the Authority, exercise any of the remedies granted to the Authority under the Lease Agreement and, in addition, take whatever action at law or in equity may appear necessary or desirable to enforce its rights as assignee pursuant to the Assignment Agreement or to protect and enforce any of the rights vested in the Trustee or the Owners by the Indenture or by the Bonds, either at law or in equity or in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement or for the enforcement of any other legal or equitable right, including any one or more of the remedies set forth in the Indenture.

### **Other Remedies of the Trustee**

Subject to the provisions of the Indenture, the Trustee will have the right:

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the Authority or the City or any member, officer or employee thereof, and to compel the Authority or the City or any such member, officer or employee to perform or carry out its or his or her duties under law and the agreements and covenants required to be performed by it or him or her contained in the Indenture;

(b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Trustee; or

(c) by suit in equity upon the happening of any default under the Indenture to require the Authority and the City to account as the trustee of an express trust.

Nothing in the Indenture will be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Owner any plan of reorganization, arrangement, adjustment or composition affecting the Bonds or the rights of any Owner thereof, or to authorize the Trustee to vote in respect of the claim of any Owner in any such proceeding without the approval of the Owners so affected.

A waiver of any default or breach of duty or contract by the Trustee will not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Trustee to exercise any right or remedy accruing upon any default or breach of duty or contract will impair any such right or remedy or will be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Trustee by law or by the Indenture may be enforced and exercised from time to time and as often the Trustee will deem expedient.

If any action, proceeding or suit to enforce any right or to exercise any remedy is abandoned or determined adversely to the Trustee or any Owner, then subject to any adverse determination, the Trustee, such Owner, the Authority and the City will be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Subject to the provisions of the indenture, no remedy in the Indenture conferred upon or reserved to the Trustee is intended to be exclusive of any other remedy, and each such remedy will be cumulative and will be in addition to every other remedy given under the Indenture or now or hereafter existing at law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any law. The assertion or employment of any right or remedy under the Indenture, or otherwise, will not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Except as expressly provided in the Indenture, the Authority will not have any obligation or liability to the Owners with respect to the payment when due of the Base Rental Payments by the City, or with respect to the performance by the City of the other agreements and covenants required to be performed by it contained in the Lease Agreement or the Indenture, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Indenture.

Except for the payment when due of the Base Rental Payments and the performance of the other agreements and covenants required to be performed by it contained in the Lease Agreement, the Ground Lease or the Indenture, the City will not have any obligation or liability to the Owners with respect to the Indenture or the preparation, execution, delivery or transfer of the Bonds or the disbursement of the Base Rental Payments by the Trustee to the Owners, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Indenture.

Except as expressly provided in the Indenture, the Trustee will not have any obligation or liability to the Owners with respect to the payment when due of the Base Rental Payments by the City, or with respect to the performance by the Authority or the City of the other agreements and covenants required to be performed by them contained in the Lease Agreement, the Ground Lease or the Indenture.

All payments received by the Trustee with respect to the rental of the Property after a default by the City pursuant to the Lease Agreement (including, without limitation, any proceeds received in connection with the sale, assignment or sublease of the Authority's right, title and interest in the Ground Lease), and all damages or other payments received by the Trustee for the enforcement of any rights and powers of the Trustee under the Lease Agreement, will be deposited into the Base Rental Payment Fund and as soon as practicable thereafter applied, together with all other funds held under the Indenture (except funds in the Rebate Fund):

- (a) to the payment of all amounts due the Trustee under the Indenture; and
- (b) to the payment of all amounts then due for principal and interest on the Bonds, in respect of which, or for the benefit of which, money has been collected (other than Bonds which have become payable prior to such event of default and money for the payment of which is held by the Trustee), ratably without preference or priority of any kind, according to the amounts of principal and interest, respectively, on such Bonds due and payable; and

(c) to the payment of all amounts then due for principal of the Bonds, in respect of which, or for the benefit of which, money has been collected (other than Bonds which have become payable prior to such event of default and money for the payment of which is held by the Trustee), ratably without preference or priority of any kind, according to the amounts of principal of such Bonds due and payable.

All rights of action and claims under the Indenture or the Bonds 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 proceeding instituted by the Trustee will be brought in its own name as trustee of an express trust, and any recovery of judgment will, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Owners in respect of which such judgment has been recovered.

### **Limitation on Suits**

No Owner of any Bond will have any right to institute any proceeding, judicial or otherwise, with respect to the Indenture, or for the appointment of a receiver or Trustee, or for any other remedy under the Indenture, unless (a) such Owner has previously given written notice to the Trustee of a continuing event of default; (b) the Owners of not less than 25% of the aggregate principal amount of Bonds then Outstanding will have made written request to the Trustee to institute proceedings in respect of such event of default in its own name as Trustee under the Indenture; (c) such Owner or Owners will have afforded to the Trustee indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee for sixty (60) days after its receipt of such notice, request and offer of indemnity will have failed to institute any such proceedings; and (e) no direction inconsistent with such written request has been given to the Trustee during such sixty-day period by the Owners of a majority of the aggregate principal amount of Bonds then Outstanding; it being understood and intended that no one or more Owners will have any right in any manner whatever by virtue of, or by availing of, any provision of the Indenture to affect, disturb or prejudice the rights of any other Owner of Bonds, or to obtain or seek to obtain priority or preference over any other Owner or to enforce any right under the Indenture, except in the manner provided in the Indenture and for the equal and ratable benefit of all the Owners of Bonds.

### **The Trustee**

The Authority appoints and employs the Trustee to receive, deposit and disburse the Base Rental Payments, to authenticate, deliver and transfer the Bonds and to perform the other functions contained in the indenture, all in the manner provided in the Indenture and subject to the conditions and terms of the Indenture. By executing and delivering the Indenture, the Trustee accepts the appointment and employment referred to above and accepts the rights and obligations of the Trustee provided in the Indenture, subject to the conditions and terms of the Indenture. Other than when an event of default has occurred and is continuing, the Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Indenture, and no implied covenants or obligations will be read into the Indenture against the Trustee. In case an event of default has occurred and is continuing, the Trustee will 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 man would exercise or use under the circumstances in the conduct of his own affairs. The Trustee covenants and agrees that it will not encumber the Property.

The Authority may by an instrument in writing remove the Trustee initially a party to the Indenture and any successor thereto unless an event of default will have occurred and then be continuing, and will remove the Trustee initially a party to the Indenture and any successor thereto if at any time (a) requested to do so by an instrument or concurrent instruments in writing signed by the Owners of a majority in aggregate principal amount of Bonds at the time Outstanding (or their attorneys duly authorized in writing), or (b) the Trustee will cease to be eligible in accordance with the following sentence, and will appoint a successor Trustee, but the Trustee and any successor Trustee will be a bank or trust company having a combined capital (exclusive of borrowed capital) and surplus of at least fifty million dollars (\$50,000,000) and subject to

supervision or examination by federal or state authorities. 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 authority above referred to, then for the purposes of the Indenture the combined capital and surplus of such bank or trust company will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Trustee may at any time resign by giving written notice of such resignation to the Authority and the City and by giving notice, by first-class mail, postage prepaid, of such resignation to the Owners of the Bonds at their addresses appearing on the Registration Books. Upon receiving such notice of resignation, the Authority will promptly appoint a successor Trustee by an instrument in writing; provided, however, that in the event the Authority does not appoint a successor Trustee within thirty (30) days following receipt of such notice of resignation, the resigning Trustee may, at the expense of the Authority, petition the appropriate court having jurisdiction to appoint a successor Trustee. Any resignation or removal of a Trustee and appointment of a successor Trustee will become effective only upon acceptance of appointment by the successor Trustee.

### **Modification or Amendments to Indenture**

The Indenture and the rights and obligations of the Authority, 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 Authority, the City and the Trustee may enter into with the written consent of the Owners of a majority in aggregate principal amount of all Bonds then Outstanding, which will have been filed with the Trustee. No such modification or amendment will (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, or (ii) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required to effect any such modification or amendment, or (iii) permit the creation of any lien on the Base Rental Payments 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 Base Rental Payments and other assets (except as expressly provided in the Indenture), without the consent of the Owners of all of the Bonds then Outstanding. It will not be necessary for the consent of the Bond Owners to approve the particular form of any Supplemental Indenture, but it will be sufficient if such consent will approve the substance thereof.

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

(a) to add to the covenants and agreements of the Authority or 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 reserved to or conferred upon the Authority or the City under the Indenture;

(b) 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;

(c) 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 provisions of the Indenture;

(d) to modify, amend or supplement the Indenture in such manner as to permit the qualification hereof 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;

(e) 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

(f) in any other respect whatsoever as the Authority and 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 Authority, the City and the Trustee.

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

No Supplemental Indenture will modify any of the rights or obligations of the Trustee without its prior written consent.

Upon the execution of any Supplemental Indenture pursuant to the Indenture, the Indenture will be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Authority, the City, the Trustee and all Owners of Bonds Outstanding will 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 will be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Bonds delivered after the execution of any Supplemental Indenture pursuant to the Indenture may, and if the Authority so determines will, bear a notation by endorsement or otherwise in form approved by the Authority 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 principal corporate trust office of the Trustee a suitable notation will be made on such Bonds. If the Supplemental Indenture will so provide, new Bonds so modified as to conform, in the opinion of the Authority and the Trustee, to any modification or amendment contained in such Supplemental Indenture, will be prepared and executed by the Authority and authenticated by the Trustee, and upon demand of the Owners of any Bonds then Outstanding will be exchanged at the principal corporate trust 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.

The provisions of the Indenture will not prevent any Bond Owner from accepting any amendment as to the particular Bonds held by such Owner.

### **Discharge of Indenture**

If the Authority will pay or cause to be paid or there will 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 in the Indenture, then the Owners of such Bonds will cease to be entitled to the pledge of the Base Rental and the other assets as provided in the Indenture, and all agreements, covenants and other obligations of the Authority and the City to the Owners of such Bonds under the Indenture will thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee will execute and deliver to the Authority and the City all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee will pay over or deliver to the City all money or securities held by it pursuant hereto 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 will have been paid and if, at the time of such payment, the Authority and the City will 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 them on or prior to that time, then the Indenture will be considered to have been discharged in respect of such Bonds and such Bonds will cease to be entitled to the lien of the Indenture and such lien and all covenants, agreements and other obligations of the Authority and the City under the Indenture will 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, will remain in effect and will be binding upon the Trustee and the Owners of the Bonds and the Trustee will 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 and indemnity of the Trustee will remain in effect and will be binding upon the Trustee, the City, and the Authority.

If moneys will 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 will be deemed to have been paid within the meaning and with the effect provided in the Indenture. Any Outstanding Bonds will prior to the maturity date or redemption date thereof be deemed to have been paid within the meaning of and with the effect expressed in the Indenture if (a) in case any of such Bonds are to be redeemed on any date prior to their maturity date, the Authority will have given to the Trustee in form satisfactory to it irrevocable instructions to mail, on a date in accordance with the provisions of the Indenture, notice of redemption of such Bonds on said redemption date, said notice to be given in accordance with the Indenture, (b) there will have been deposited with the Trustee either (i) money in an amount which will be sufficient, or (ii) 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, will, as verified by an independent certified public accountant, 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 sixty (60) days, the Authority will 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.

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, will be repaid to the Authority free from the trusts created by this Indenture, and all liability of the Trustee with respect to such moneys will thereupon cease; provided, however, that before the repayment of such moneys to the Authority as aforesaid, the Trustee may (at the cost of the Authority) 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 Authority of the moneys held for the payment thereof.

## Series 2012 Bonds

### Terms of Series 2012 Bonds; Interest Computation.

(1) The Series 2012 Bonds will be issued in fully registered form without coupons in Authorized Denominations, so long as no Series 2012 Bond will have more than one maturity date. The Series 2012 Bonds will be dated as of the Closing Date, will be issued in the aggregate principal amount, will mature on November 1 of each year and will bear interest (calculated on the basis of a 360-day year comprised of twelve 30-day months) at the rates per annum as set forth in the Indenture.

(2) Interest on the Series 2012 Bonds will be payable from the Interest Payment Date next preceding the date of authentication thereof unless (i) a Series 2012 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 will bear interest from such Interest Payment Date, (ii) a Series 2012 Bond is authenticated on or before the first Record Date, in which event interest thereon will be payable from the dated date thereof, or (iii) interest on any Series 2012 Bond is in default as of the date of authentication thereof, in which event interest thereon will be payable from the date to which interest has been paid in full, payable on each Interest Payment Date. Interest will be paid in lawful money of the United States on each Interest Payment Date to the Persons in whose names the ownership of the Series 2012 Bonds is registered on the Registration Books at the close of business on the immediately preceding Record Date, except as provided in the Indenture. Interest will be paid by check of the Trustee mailed by first class mail, postage prepaid, on each Interest Payment Date to the Series 2012 Bond Owners at their respective addresses shown on the Registration Books as of the close of business on the preceding Record Date.

(3) The principal and premium, if any, of the Series 2012 Bonds will 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.

(4) The Series 2012 Bonds will be subject to redemption as provided in the Indenture.

Form of Series 2012 Bonds. The Series 2012 Bonds will be in substantially the form set forth in the Indenture, with appropriate or necessary insertions, omissions and variations as permitted or required thereby.

Application of Proceeds of Series 2012 Bonds. On the Closing Date, the proceeds received from the sale of the Series 2012 Bonds will be deposited by the Trustee in the following respective funds, as directed by a Written Request of the City:

- (1) The Trustee will deposit in the Costs of Issuance Fund the amount set forth in the Indenture.
- (2) The Trustee will deposit in the Escrow Fund the amount set forth in the Indenture.
- (3) The Trustee will deposit in the Construction Fund the amount set forth in the Indenture.

Application of City Funds. On the Closing Date, the moneys receive by the Trustee from the City in the amount set forth in the Indenture shall be deposited by the Trustee into the Prepaid Base Rental Account of the Base Rental Payment Fund.

### Rebate Fund.

(a) There will be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Tax Certificate. All money at any time deposited in the Rebate Fund will be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement (as defined in the Tax Certificate), for payment to the United States of America. Notwithstanding defeasance of the Series 2012 Bonds pursuant to

the Indenture or anything to the contrary contained herein, all amounts required to be deposited into or on deposit in the Rebate Fund will be governed exclusively by the Indenture and by the Tax Certificate (which is incorporated herein by reference). The Trustee will be deemed conclusively to have complied with such provisions if it follows the written directions of the Authority, and will have no liability or responsibility to enforce compliance by the Authority with the terms of the Tax Certificate.

(b) Any funds remaining in the Rebate Fund with respect to the Series 2012 Bonds after payment in full of all of the Series 2012 Bonds and after payment of any amounts described in the Indenture, will be withdrawn by the Trustee and remitted to the Authority.

#### **THE ASSIGNMENT AGREEMENT**

Pursuant to the Assignment Agreement, the Authority, for good and valuable consideration, the receipt of which is acknowledged, sells, assigns and transfers to the Trustee, irrevocably and absolutely, without recourse, for the benefit of the owners of the Bonds, all of its right, title and interest in and to the Ground Lease and the Lease Agreement, including, without limitation, its right to receive the Base Rental Payments to be paid by the City under and pursuant to the Lease Agreement. The Trustee accepts the foregoing assignment, subject to the terms and provisions of the Indenture, and all such Base Rental Payments will be applied and the rights so assigned will be exercised by the Trustee as provided in the Lease Agreement and the Indenture.



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**APPENDIX B**

**AUDITED FINANCIAL STATEMENTS OF THE CITY  
FOR THE YEAR ENDED JUNE 30, 2012**

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City of  
Rancho Santa Margarita  
California

Comprehensive Annual  
Financial Report

For the Year Ended June 30, 2012



# Comprehensive Annual Financial Report

For the Year Ended June 30, 2012

Finance Division

City of Rancho Santa Margarita, California



# City Council



**L. ANTHONY BEALL**  
*Mayor*



**STEVEN BARIC**  
*Mayor Pro Tempore*



**CAROL A. GAMBLE**  
*Council Member*



**JERRY HOLLOWAY**  
*Council Member*



**JESSE PETRILLA**  
*Council Member*

**City of Rancho Santa Margarita, California**

**CITY OF RANCHO SANTA MARGARITA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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# Introductory Section

City of Rancho Santa Margarita, California



## CITY OF RANCHO SANTA MARGARITA

**Mayor**

L. Anthony Beall

**Mayor Pro Tem**

Steven Baric

**Council Members**

Carol A. Gamble

Jerry Holloway

Jesse Petrilla

**City Manager**

Jennifer M. Cervantez

November 28, 2012

To the Honorable Mayor and City Council  
City of Rancho Santa Margarita  
Rancho Santa Margarita, California

It is with great pleasure that I present to you the City of Rancho Santa Margarita's twelfth Comprehensive Annual Financial Report. This report complies with the financial reporting model developed by the Governmental Accounting Standards Board (GASB) Statement 34. This financial reporting model is intended to improve financial reporting by adding significant information not previously available in local government financial statements.

In addition to the fund-by-fund financial information previously presented in the City's financial statements, we now include government-wide financial statements. The government-wide financial statements include a Statement of Net Assets that provides the total net equity of the City, including infrastructure, and the Statement of Activities that shows the cost of providing government services. These statements have been prepared using the accrual basis of accounting versus the modified accrual method used in the fund financial statements. A reconciliation report is provided as a key to understanding the changes between the two reporting methods. In addition, this reporting model includes an emphasis on the City's major funds as shown in the Governmental Fund Statements. These statements combined with other information are further analyzed in a narrative section called Management's Discussion and Analysis (MDA). The MDA provides "financial highlights" and interprets the financial reports by analyzing trends and by explaining changes, fluctuations and variances in the financial data. Furthermore, the MDA is intended to disclose any known significant events or decisions that affect the financial condition of the City.

The City of Rancho Santa Margarita took a leadership role in implementing GASB 34. The City's early implementation in 2001, before the 2003 deadline, enabled the City Council and residents of Rancho Santa Margarita to become more aware of the benefits and information contained in this financial reporting model.

The City added infrastructure capitalization in fiscal year 2002. In fiscal year 2003, the City implemented the modified approach for its pavement subsystem, which allows those infrastructure assets to be *non-depreciable*, while establishing a commitment from the City to maintain these infrastructure assets at a minimum acceptable level of condition.

In fiscal years 2004, 2007, 2008, 2010 and 2012, the City performed a condition assessment of the pavement subsystem, which is required every two years for Measure M transportation funding eligibility and every three years for financial reporting purposes, and affirmed that these infrastructure assets are above the condition level established by the government. On June 22, 2010, the City Council amended Resolution 09-11-08-02 for the purpose of implementing requirements of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definition*. The Comprehensive Annual Financial Report for fiscal year ended June 30, 2012, reflects the implementation of GASB No. 54. The City of Rancho Santa Margarita is proud to be on the leading edge of local governmental financial reporting.

The Comprehensive Annual Financial Report includes the financial activity for all funds of the City. The City provides a wide range of services including planning, building, public works, engineering, police and fire protection, recreation and general administrative activities. These services are delivered through a combination of City staff and contractual agreements.

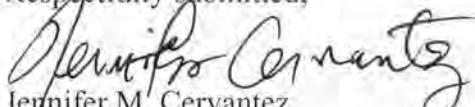
Included as a part of this letter are several attachments that provide important information regarding the operations and economic environment of the City. The attachments are summarized as follows:

**Attachment   Content**

- A            Economic Condition and Outlook
- B            Major Projects for the Year and for the Future
- C            Other Information

The Comprehensive Annual Financial Report of the City of Rancho Santa Margarita for the fiscal year ended June 30, 2012 is hereby presented. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position of the City. All disclosures necessary to enable an understanding of the City's financial activities have been included.

The preparation of the Comprehensive Annual Financial Report, in accordance with the GASB 34 financial reporting model, was made possible by the dedicated work of the Finance Division staff. Each member of the staff has my sincere appreciation for their contributions made in the preparation of this report.

Respectfully submitted,  
  
Jennifer M. Cervantez  
City Manager

## ATTACHMENT A

### *ECONOMIC CONDITION AND OUTLOOK*

Rancho Santa Margarita is located 58 miles south-east of Los Angeles. The City is distinguished by its high-end residential neighborhoods and small-town charm. In Fiscal Year 2012, sales, motor vehicle in-lieu, and property taxes make up approximately 74% of the City's general revenues.

This is the City's twelfth fiscal year since incorporation, and the tenth consecutive year that the City provided and paid the full cost of all services transitioned from the County of Orange, including contractual Police Services, which account for 50% of General Fund expenditures.

For the fiscal year ended June 30, 2012, the City continued to fight the headwind of a significant economic downturn. The City Council's adopted budget funded all services by utilizing operating revenues. At year end, actual General Fund revenues exceeded expenditures by \$1,104,989. That surplus for the City's General Fund was \$946,162, or 595%, greater than the original budgeted surplus estimate of \$158,827. General Fund operating expenditures were reduced approximately \$429,218 from budgeted amounts through cost cutting measures without affecting core City service levels to residents and businesses.

Revenues for Fiscal Year 2012 increased over budget estimates by approximately \$883,395, or 6%. Increased sales tax revenue contributed \$295,438, while property tax-related revenues decreased \$68,657. The City also recorded revenue of \$483,048 from the cable TV franchise agreement with Cox Cable, when Cox elected to join the State's cable franchise agreement, thereby preempting its agreement with the City.

Sales tax revenues were the City's largest revenue source at \$5,348,047, or 38%, of general revenue for the fiscal year ended June 30, 2012. Motor vehicle fees and in-lieu taxes of \$3,807,220, made up the City's second largest revenue source at 27% of general revenues. Property taxes of \$1,999,106 accounted for 14% of general revenues.

The City expects sales tax revenue, which increased during Fiscal Year 2012, to continue a slow-to moderate-growth trend, as consumer and business spending for goods and services recovers. The City's outlook for current year property tax revenue continues to be cautious due to declines in its property tax valuation base that will not likely recover quickly. The prolonged economic downturn has affected consumer confidence, reduced business pricing power and investment, and worsened regional and state budgets positions. However, certain data points to slowly improving general business conditions, despite continued higher than normal unemployment, are anticipated in coming months.

## **ATTACHMENT B**

### ***MAJOR PROJECTS FOR THE YEAR AND FOR THE FUTURE***

#### **Land Settlement**

The City settled a multi-year dispute with Orange County over land transfers from the City's incorporation in 2000. As part of the settlement, the City transferred to the County an environmentally significant 15 acre parcel of land it purchased in 2009. In return, along with other settlement transactions, the County conveyed 92 acres of land to the City that may be developable and economically useful. As a result of the settlement, the City will have the opportunity to develop one of the largest sports parks in South Orange County. Also, the City will take steps to restore and enhance at least 80 acres of other land to native habitat conditions. The settlement was finalized and recorded in Fiscal Year 2010, with restoration plan production and implementation activities to occur over the next one to two years.

#### **Public Safety**

Federal Bureau of Investigation (FBI) 2011 Uniform Crime Report statistics show Rancho Santa Margarita as the safest city in California, among those with a population greater than 35,000 residents. This is the eleventh consecutive year that the City has been identified as one of the safest communities in Orange County and the State.

#### **Public Works Improvements**

Major projects included a slurry seal on Alicia Parkway and Melinda Road at Santa Margarita Parkway (\$295,000) and annual residential overlays totaling \$494,723. The City also completed installation of the traffic signal battery backup system at a cost of \$202,687. Federal Community Development Block Grant (CDBG) funds were used for the crosswalk bulb-out project on Fundadores at a cost of \$194,436.

#### **Community Services Programs**

Beginning in fiscal year 2002, the City's Community Services Division has hosted an annual New Year's Eve event with great success. This event has been held each New Year's Eve since then, and is planned for December 31, 2012, which will also be the City's thirteenth anniversary. This fiscal year the city continued to provide concerts in the park during the summer months, with the sixth annual series being received with great success. Community Services staff continued adding programs and activities at the Bell Tower Regional Community Center since assuming operations of the facility from a community foundation in July 2008. The City continues to collaborate with community partner tenants who provide youth, teen and senior services programs in the City-owned Center and seeks to expand opportunities for community participation and utilization in the Center for the foreseeable future.

## ***MAJOR PROJECTS FOR THE YEAR AND FOR THE FUTURE, CONTINUED***

### **Housing Element Update**

The California Government Code requires all cities and counties to adopt a comprehensive, long-term general plan for the physical development of the county or city. The City of Rancho Santa Margarita adopted its General Plan in December 2002. The State has identified seven mandated elements for all general plans: land use, circulation, housing, conservation, open space, noise and safety. Of the required elements, only one, the housing element, must be reviewed by the State Housing and Community Development Department (HCD). In 2002, State HCD certified the City's General Plan Housing Element. State Law also requires that all housing elements be updated every five years, subject to the schedule of periodic housing needs review established by the State. The City adopted its Updated Housing Element on December 9, 2009, which the State certified on January 13, 2010.



## **ATTACHMENT C**

### ***OTHER INFORMATION***

#### **Records Management**

The City Clerk's Office, a Division of the City Manager's Office, is responsible for the care and custody of all official records and documents for the City. This division provides for the efficient, economical, and effective controls over the creation, maintenance, disposition, and retention of all City records. Staff performs an annual inventory of existing records, including contract documents, as part of the City's records management "best practices." Continued imaging and migration of City records allows for efficient retrieval and safekeeping of important City documents, which allows for enhanced customer service to its residents and the community.

#### **Economic Stimulus Program Reporting**

As a recipient of Federal, State and County financial resources, the City is also responsible for reasonably ensuring that its internal control structure is adequate to provide compliance with applicable laws and regulations related to those programs. As part of the American Recovery and Reinvestment Act of 2009, the City has qualified for grant programs that include enhanced electronic reporting and monitoring requirements. To facilitate the operation of the various grant reporting components during the past, current and future fiscal years, the City has incorporated those elements into its current internal control structure, which is subject to ongoing monitoring and periodic evaluation by the management of the City and the City's independent auditors.

#### **Independent Audit**

The annual independent audit of the City's financial statements was conducted following the June 30<sup>th</sup> end of the fiscal year. The accounting firm of White Nelson Diehl Evans LLP was contracted by the City Council to perform the annual audit. As part of the City's annual audit, detailed examinations were made of the City's financial records and reports to verify their accuracy; and procedures were performed to determine the adequacy of the internal control structure, as well as to determine that the City has complied with applicable laws and regulations. The results of the City's annual audit for the fiscal year ended June 30, 2012, revealed no instances of material weaknesses or significant deficiencies in the internal control structure, or violations of applicable laws and regulations. The auditors' report on the basic financial statements and combining and individual fund statements and schedules is included in the financial section of this report. The City received what is commonly referred to as an unqualified audit opinion.

## ***OTHER INFORMATION, CONTINUED***

### **Interim Budgetary Review**

Additionally, the City maintains budgetary controls. The objective of the budgetary controls is to reasonably ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. The annual budgets for both Fiscal Year 2012 and 2013 were adopted by the City Council at a public hearing, following several budget development study sessions. Activities of the General, Special Revenue, Debt Service and Capital Projects Funds are included in the annual appropriated budget. The City also maintains an encumbrance accounting system as one method of accomplishing budgetary control. Additionally, the City Council has requested and received interim updates of budgetary performance and variance analysis. The updates are intended to provide additional support for staff to monitor and adjust budgeted revenues and expenditures based on comparisons to current and historical activity, and to aid City Council discussions and decisions regarding the City's budget.

### **Reserves Policy**

A continuing priority of the City Council has been to exercise prudent financial management, provide long term financial planning, and strong internal control of City asset uses, by adopting a policy regarding the City's accumulated net resources called fund balance. The City Council completed an annual review of the City's Reserves Policy and adopted to designate \$7,877,157 to several categories of available fund balance. Classifications essentially reflect a government's self-imposed limitations on the use of otherwise available current financial resources. The classification categories are: Council Strategic, Technology, Facilities, Vehicles, and Infrastructure and Emergency.

### **Purchasing Policy and Contracts Administration**

The City has engaged in an ongoing assessment and enhancement of procedures and practices for procurement of goods and services as a component of its delivery of City services to residents and businesses. Revisions to the City's standardized agreements to ensure the quality and suitability of the City's desired program objectives and risk management practices were begun in the past fiscal year and will continue in the current year.

## ***OTHER INFORMATION, CONTINUED***

### **Awards**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Rancho Santa Margarita for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2011. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such Comprehensive Annual Financial Report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. This is the eleventh consecutive year that the City has received this award. We believe our current report conforms to the Certificate of Achievement program requirements, and we are submitting it to GFOA for inclusion in the award program evaluations for this fiscal year ended June 30, 2012.

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Rancho Santa Margarita  
California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



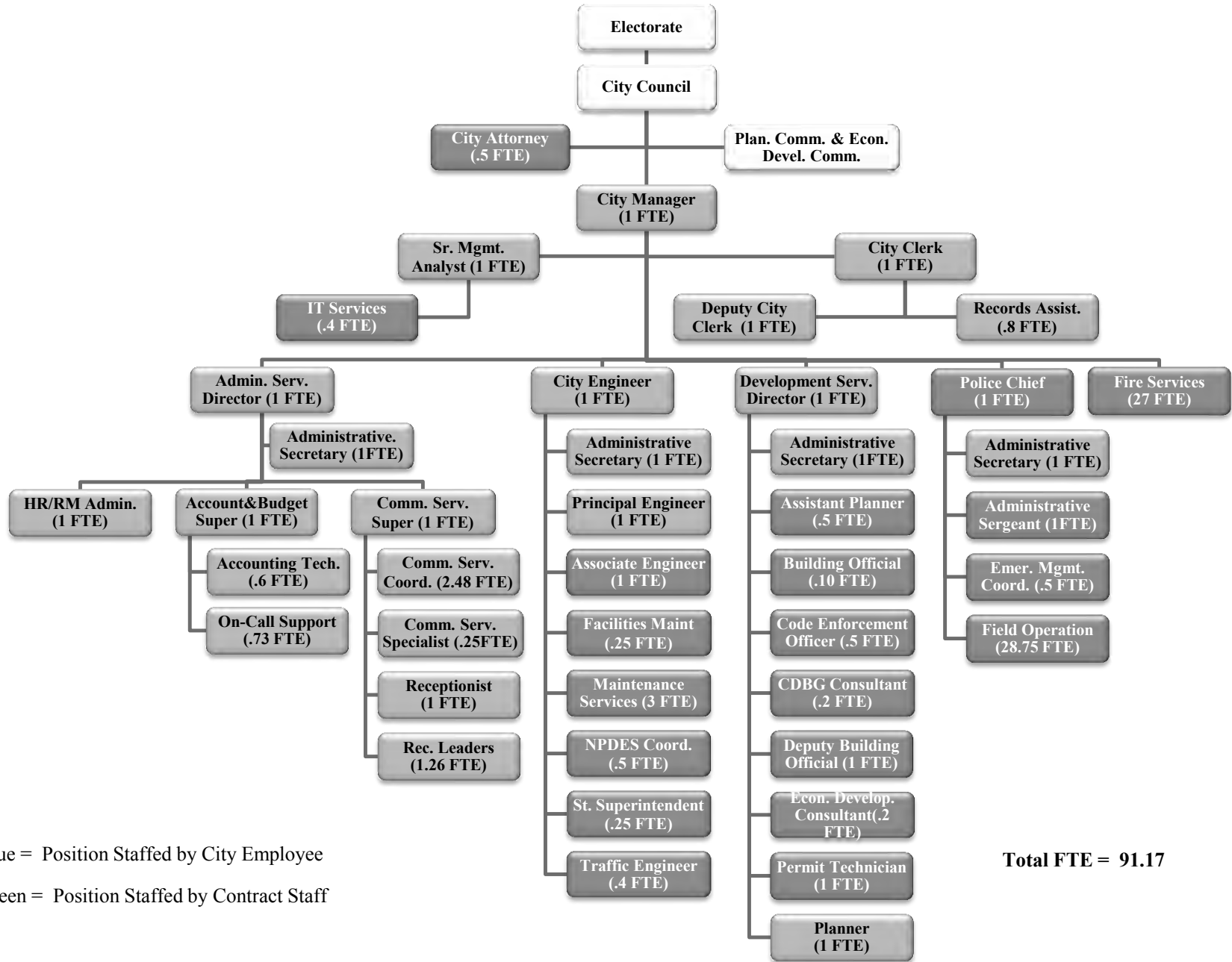
*Linda C. Davidson*

President

*Jeffrey R. Emer*

Executive Director

City of Rancho Santa Margarita  
 ORGANIZATION CHART BY CITY EMPLOYEES & CONTRACT STAFF



10

Blue = Position Staffed by City Employee  
 Green = Position Staffed by Contract Staff

**Total FTE = 91.17**

# City of Rancho Santa Margarita

## LIST OF PRINCIPAL OFFICIALS

Council – Manager Form of Government

### CITY COUNCIL

L. ANTHONY BEALL  
Mayor

STEVEN BARIC  
Mayor Pro Tempore

CAROL A. GAMBLE  
Council Member

JERRY HOLLOWAY  
Council Member

JESSE PETRILLA  
Council Member

### CITY ADMINISTRATION

JENNIFER CERVANTEZ  
City Manager/City Treasurer

Paul Boyer, Administrative Services Director/Finance Director

Kathleen Haton, Planning/Community Development Director

Greg Simonian, City Attorney

Molly McLaughlin, City Clerk

Lieutenant Brian Schmutz, Chief of Police Services

Wendi Redington, Community Services Supervisor

E. (Max) Maximous, City Engineer

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FINANCIAL SECTION

# Financial Section

City of Rancho Santa Margarita, California



## INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council  
City of Rancho Santa Margarita  
Rancho Santa Margarita, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Rancho Santa Margarita, California (the City), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Rancho Santa Margarita, California's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Rancho Santa Margarita, California, as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 28, 2012 on our consideration of the City of Rancho Santa Margarita, California's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

- 1 -

Accounting principles generally accepted in the United States of America require that the information identified in the accompanying table of contents as management's discussion and analysis and required supplementary information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the management's discussion and analysis, the schedule of funding progress and the schedule of employer contributions related to the other post-employment benefit plan in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the management's discussion and analysis, the schedule of funding progress and the schedule of employer contributions related to the other post-employment benefit plan because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison schedule has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rancho Santa Margarita, California's financial statements as a whole. The introductory section, combining fund financial statements and individual nonmajor budgetary comparison schedules and statistical tables, are presented for purposes of additional analysis and are not a required part of the financial statements. The combining fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



Irvine, California  
November 28, 2012



# Management's Discussion & Analysis

City of Rancho Santa Margarita, California

MANAGEMENT'S DISCUSSION  
& ANALYSIS

## CITY OF RANCHO SANTA MARGARITA MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Rancho Santa Margarita, California (City), we offer readers of the City of Rancho Santa Margarita's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year (FY) ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in the introductory section of this report, and with the City's financial statements which follow this discussion.

### Financial Highlights

- The assets of the City exceeded its liabilities, at June 30, 2012, by \$130.7 million (*net assets*). Of this amount, \$7.7 million (*unassigned*) may be used to meet the government's ongoing obligations to citizens and creditors. By City Council direction \$8.9 million (*assigned*) is subject to designation for specific City programs.
- The government's total net assets increased by \$0.8 million during the fiscal year ended June 30, 2012. The increase in net assets was primarily attributable to one time revenue from a cable grant agreement, which had a net increase of \$0.5 million as well as overall increase in charges for services of \$0.1 million and operating contributions of \$0.2 million. The City experienced an increase of \$0.2 million in sales tax revenue which was offset by a decrease of \$0.04 million in property tax revenue. The gains in revenue were offset by depreciation expense for fixed assets which had a net decrease of \$0.9 million.
- As of June 30, 2012, the City's governmental funds reported combined ending fund balances of \$20.4 million, an increase of \$1.2 million in comparison with the prior year. Approximately 43 percent, \$8.9 million of this total amount, has been assigned to specific use categories (*assigned fund balance*) at the direction of the Council, and 38 percent, \$7.7 million is available for spending at the government's discretion (*unassigned fund balance*).
- At June 30, 2012, the unassigned fund balance of \$7.6 million and assigned fund balance of \$7.9 million for the City's General Fund total of \$15.5 million equaled 110 percent of total General Fund expenditures for the fiscal year ended June 30, 2012. However, the City Council has classified this \$15.7 million for specific purposes as identified in the Notes to the Basic Financial Statements, Note 11.
- The City's total long-term liabilities decreased by \$321,160 (2.7 percent) during the current fiscal year. This decrease reflects payment made for principal retirement on Certificates of Participation issued for the construction of City Hall and the Bell Tower Regional Community Center.

See Independent Auditors' Report

## **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City's Basic Financial Statements. The City's Basic Financial Statements consist of three components: 1) Government-wide Financial Statements, 2) Fund Financial Statements, and 3) Notes to the Basic Financial Statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

### **Government-wide Financial Statements**

The *government wide financial statements* are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases in the net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements present information about the functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the City include general government, building and planning, public safety, and public works.

The Government-wide Financial Statements can be found immediately following this discussion and analysis.

### **Fund Financial Statements**

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The fund financial statements provide detailed information about the individual funds—not the City as a whole. Some funds are required to be established by State law. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City of Rancho Santa Margarita uses only *governmental funds* for accounting and reporting purposes.

See Independent Auditors' Report

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between *governmental funds and governmental activities*.

The City maintains various individual governmental funds. Information is presented separately in the Governmental Funds Balance Sheet, and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances, for the General Fund and the Capital Projects Fund which are considered to be major funds, and are presented in individual columns in the fund statements. Data from other non-major governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report. The governmental Fund Financial Statements can be found following the Government-wide Financial Statements.

#### **Notes to the Basic Financial Statements**

The Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Basic Financial Statements can be found immediately following the Fund Financial Statements.

#### **Other Supplementary Information**

In addition to the basic financial statements and included within the notes, this report also presents certain *required supplementary information* about the City's General Fund budgetary comparisons. The Notes to the Required Supplementary Information presents infrastructure and budget information. The Required Supplementary Information and Notes to the Required Supplementary Information can be found following the Notes to the Basic Financial Statements.

The combining statements referred to earlier in connection with non-major governmental funds are presented for all non-major Special Revenue Funds, Capital Projects Funds, and the Rancho Santa Margarita Non-Profit Debt Service Fund. The supplementary financial information also includes budgetary comparison schedules for the non-major governmental funds to demonstrate compliance with the annual budget as adopted and amended. These combining and individual fund statements and schedules can be found immediately following the Notes to the Required Supplementary Information.

See Independent Auditors' Report

The City's *blended component unit*, the Rancho Santa Margarita Non-Profit Corporation, although legally separate, functions at the discretion and direction of the City's management. Its financial position and results of operations, therefore, have been included as an integral part of the primary government, and are presented in the non-major fund financial statements and schedules.

## **Government-wide Financial Analysis**

The government-wide financial statements provide long-term and short-term information about the City's overall financial condition. This analysis addresses the financial statements of the City as a whole.

The largest portion of the City's net assets (84 percent) reflects its investment in capital assets (e.g., land, buildings, improvements other than buildings, equipment, infrastructure, and construction in progress), less any related debt used to acquire those assets, that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

See Independent Auditors' Report

**City of Rancho Santa Margarita**  
**Summary of Net Assets**  
As of June 30, 2012 and 2011  
(in thousands)

	<b>Governmental Activities</b>	
	2012	2011
<b>Assets:</b>		
Current and other assets	\$ 23,031	\$ 21,029
Capital assets	121,477	122,865
Total assets	144,508	143,894
<b>Liabilities:</b>		
Long-term liabilities	11,686	12,007
Other liabilities	2,104	1,929
Total liabilities	13,790	13,936
<b>Net Assets:</b>		
Invested in capital assets, net of related debt	110,117	111,200
Restricted	4,479	4,429
Unrestricted	16,122	14,329
Total net assets	\$ 130,718	\$ 129,958

During the fiscal year ended June 30, 2012, net assets of the City increased 0.58 percent to \$130.7 million, of which \$110.1 million is invested in capital assets such as equipment, buildings and infrastructure. Of the remaining total, \$4.5 million is either restricted or committed to specifically stipulated spending agreements originated by law, contract or other agreements with external parties. The remaining \$7.9 million assigned and \$7.7 million unassigned, an increase of 7.8 percent from the prior year total of \$14.3 million unrestricted, is subject to classifications for specific purposes as approved by the City Council, but may be used to meet the City's ongoing obligations.

See Independent Auditors' Report



**City of Rancho Santa Margarita**  
**Summary of Changes in Net Assets**  
For the Years Ended June 30, 2012 and 2011  
(in thousands)

	<b>Governmental</b>	
	<b>Activities</b>	
	<u>2012</u>	<u>2011</u>
<b>Revenues</b>		
Program revenues:		
Charges for service	\$ 1,435	\$ 1,353
Operating grants and contributions	2,965	3,169
General revenues:		
Property taxes	1,999	2,037
Sales taxes	5,348	5,167
Fees and intergovernmental	5,453	5,472
Other revenues	1,242	541
Investment revenue	120	99
Total revenues	<u>18,562</u>	<u>17,838</u>
<b>Expenses</b>		
General government	3,880	3,775
Building and planning	949	1,147
Public safety	7,564	7,527
Public works	4,432	6,462
Capital outlay	449	-
Interest expense	528	540
Total expenses	<u>17,802</u>	<u>19,451</u>
Excess (deficit) of revenues over expenses	<u>760</u>	<u>(1,613)</u>
<b>Increase (Decrease) in net assets</b>	<b>760</b>	<b>(1,613)</b>
Beginning net assets	<u>129,958</u>	<u>131,571</u>
Ending net assets	<u>\$ 130,718</u>	<u>\$ 129,958</u>

See Independent Auditors' Report

Overall, Citywide revenues for the fiscal year ended June 30, 2012 increased by \$0.72 million a 4 percent increase over the prior year. Sales tax revenue increased by \$0.18 million. Charges for other service increased \$0.08 million and other revenues increased by \$0.03 million.

- Total program revenues of \$4.4 million were 24 percent of total revenues.
- Total general revenues of \$14.2 million were 76 percent of total revenues.

Total related expenses decreased by \$1.6 million, an 8.5 percent decrease from the prior year. Public Works expenditures, which account for 25 percent of the total expenditures, were used primarily for slurry seal and overlay projects throughout the City. Public Safety expenditures accounted for 43 percent of total current expenditures. Expenditure decreases reflected the changeover in staffing which delayed the completion and expenditures for planned public works projects.

## **Financial Analysis of the Government's Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information may be useful in assessing the City's financing requirements.

As of June 30, 2012, the City's governmental funds reported total combined ending fund balances of \$20.39 million, an increase of \$1.15 million from the prior year. Approximately 43 percent of the City's governmental funds ending fund balances, or \$8.86 million, constitutes *assigned fund balance*, which have been classified by the City Council for specific uses. Approximately 38 percent of the City's governmental funds ending fund balances, or \$7.71 million, constitutes *unassigned fund balance* which is available for spending at the government's direction. *Restricted fund balance* of \$3.82 million, or 19 percent is available to: 1) pay debt service (\$0.85 million) and 2) use for specific purposes as required by special revenue funds (\$2.61 million). The remainder of fund balance, \$0.36 million, is *committed* to indicate that it is not available for new spending, because it has already been committed to: 1) liquidate contracts and purchase orders of the prior period (\$0.33 million), 2) a reserve for self-insurance deductible liability (\$0.03 million).

### **General Fund Financial Highlights**

The general fund is the chief operating fund of the City. At June 30, 2012, assigned fund balance was \$7.97 million and unassigned fund balance of the general fund was \$7.71 million, while total fund balance was \$15.68 million. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 54 percent of the total General Fund expenditures. As mentioned above, however, the City Council has classified the assigned fund balance \$7.97 million for specified purposes.

See Independent Auditors' Report

**City of Rancho Santa Margarita**  
**Summary of Changes in Fund Balances - General Fund**  
For the Year Ended June 30, 2012 and 2011  
(in thousands)

	2012	2011
<b>Revenues</b>		
Taxes	\$ 7,578	\$ 7,440
Fees and permits	2,072	1,793
Intergovernmental	4,209	4,035
Charges for service	658	756
Investment income	91	66
Fines, forfeits and penalties	278	249
Other	572	541
Total revenues	15,458	14,880
<b>Expenditures</b>		
General government	3,857	3,739
Building and planning	954	1,143
Public safety	7,501	7,355
Public works	1,908	1,962
Capital outlay	25	38
Total expenditures	14,245	14,237
(Deficit) of revenues over expenditures	1,213	643
Net transfers	(108)	640
<b>Increase in Fund Balance</b>	<b>\$ 1,105</b>	<b>\$ 1,283</b>

For the fiscal year ended June 30, 2012, the cash and investments balance in the General Fund was \$15.48 million, an increase of \$0.71 million from the prior fiscal year.

Overall, general fund revenues for the fiscal year ended June 30, 2012 increased by \$0.58 million, or 4 percent, over the prior year. Individual components of this change are summarized as follows and refer to comparisons detailed in the Summary of Changes in Net Assets presented on a prior page:

- Property tax revenues of the General Fund decreased by \$0.04 million, to \$2.00 million, due to decreases in assessed valuations.

See Independent Auditors' Report

- Sales tax revenues increased \$0.18 million, to \$5.35 million, due to the effects of increased general consumer spending and auto sales.
- Investment income revenues increased by \$0.03 million, to \$0.91 million, due to the overall changes in the economy and the calculations for fair market value on investments.

Changes in General Fund expenditures, by function, occurred as follows during the year ended June 30, 2012:

- General government expenditures increased by \$0.12 million, to \$3.86 million. This reflects a increase in professional services provided by independent contractors.
- Public safety expenditures increased by \$0.15 million to \$7.50 million, due to increased contract costs associated with police services provided by the Orange County Sheriff's Department. Public safety expenditures were 53 percent of total General Fund expenditures.
- Public works expenditures decreased by \$0.05 million, to \$1.91 million, with the primary decrease being related to staffing vacancies.
- Building and planning expenditures decreased by \$0.19 million, to \$0.95 million, reflecting a slight drop in building and development activity within the city.

#### **General Fund Budgetary Highlights**

Differences between the General Fund expenditures and the final amended budget were \$0.43 million and can be briefly summarized as follows:

- \$0.19 million in miscellaneous decreases in general government activities.
- \$0.01 million in increases allocated to public safety activities.
- \$0.25 million in decreases for building and planning activities.

These overall decreases can be attributed to the conservative spending maintained through the fiscal year as well as the conservative budgeting of anticipated revenues for the year. The original general fund budget was amended to increase general fund expenditures by \$0.13.

#### **Other Major Funds Budgetary Highlights: Capital Projects Fund**

The Capital Projects Fund accounts for street, bridge, traffic signal and other circulation related capital projects funded by grants, fees and interest revenue. Fund balance decreased by \$0.03 million due to expenditures of \$1.33 million in capital outlay for circulation capital projects. The fund balance is \$1.1 million of which \$0.9 million is assigned for future capital project expenditures.

See Independent Auditors' Report

## Capital Asset and Debt Administration

### Capital Assets

The City's investment in capital assets for its governmental activities as of June 30, 2012, amounts to \$121.48 million, net of accumulated depreciation. This investment in capital assets includes land, buildings, system improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total decrease in the City's investment in capital assets for the current fiscal year was .01 percent.

**City of Rancho Santa Margarita**  
**Summary of Changes in Capital Assets**  
(in thousands)

	<b>Balance June 30, 2011</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2012</b>
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 6,684	\$ -	\$ -	\$ 6,684
Land - right of way	43,740	-	-	43,740
Construction in Progress	87	414	449	52
Infrastructure - pavement	46,766	-	-	46,766
Total capital assets not being depreciated	<u>97,277</u>	<u>414</u>	<u>449</u>	<u>97,242</u>
Capital assets, being depreciated:				
Buildings	16,619	-	-	16,619
Parks	906	-	-	906
Machinery and equipment	483	24	-	507
Infrastructure	61,451	449	-	61,900
Total capital assets being depreciated	<u>79,459</u>	<u>473</u>	<u>-</u>	<u>79,932</u>
Less accumulated depreciation for:				
Buildings	3,878	554	-	4,432
Parks	215	36	-	251
Machinery and equipment	412	35	-	447
Infrastructure	49,365	1,202	-	50,567
Total accumulated depreciation	<u>53,870</u>	<u>1,827</u>	<u>-</u>	<u>55,697</u>
Total capital assets, being depreciated, net	<u>25,589</u>	<u>(1,354)</u>	<u>-</u>	<u>24,235</u>
Governmental activities capital assets, net	<u>\$ 122,866</u>	<u>\$ (940)</u>	<u>\$ 449</u>	<u>\$ 121,477</u>

See Independent Auditors' Report

Major capital asset transactions during the current fiscal year included the following:

- Additions to construction in progress were \$0.41 million included the included design work for projects to be completed in future years for various street, traffic, and bridge improvements.
- Infrastructure additions for the year totaled \$0.45 million related to the completion of the traffic signal battery backup and crosswalk bulb-out projects.
- Machinery and Equipment acquisitions of \$0.02 million included an addition to the City’s police service vehicles.

Additional information on the City’s capital assets can be found entitled Note 4 – Capital Assets in the Notes to the Basic Financial Statements section of this report.

The City elected to use the modified approach in reporting its pavement subsystem. Under the modified approach, infrastructure assets that are part of a network or a subsystem of a network are not required to be depreciated as long as two requirements are met. First, the government shall manage the eligible infrastructure assets using an asset management system and secondly, the government shall document that the eligible infrastructure assets are being preserved approximately at (or above) a condition level established and disclosed by the government. The condition of the pavement subsystem is measured using the Rancho Santa Margarita Pavement Condition Index. The City Council accepted the findings of the Pavement Condition Assessment Update in Fiscal Year 2012 and adopted a condition rating of 70 as the minimum acceptable Pavement Condition Index (PCI) for the entire street pavement subsystem. The assessed PCI was an average of 79.2, or very good. This average PCI was maintained since the last update in 2010. Actual expenses for pavement condition maintenance were less than budgeted amounts due to conservative cost estimates.

### Long-term Debt

At the end of the current fiscal year, the City had total bonded debt outstanding of \$11.36 million.

**City of Rancho Santa Margarita**  
**Summary of Changes in Long-Term Liabilities**  
(in thousands)

	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012	Long- Term	Due Within One Year
<b>Certificates of Participation</b>	\$ 11,665	\$ -	\$ 305	\$ 11,360	\$ 11,045	\$ 315
<b>Compensated Absences</b>	279	200	245	234	141	93
<b>OPEB Obligation</b>	63	33	5	91	91	-
<b>Long-Term Liabilities Total</b>	<u>\$ 12,007</u>	<u>\$ 233</u>	<u>\$ 555</u>	<u>\$ 11,685</u>	<u>\$ 11,277</u>	<u>\$ 408</u>

See Independent Auditors’ Report

Long-term debt-related events during the fiscal year ended June 30, 2012 included:

- Compensated absences liabilities decreased by \$0.05 million and usage by employees amounted to \$0.25 million.
- Interest accrued on the Certificates of Participation for the fiscal year ended June 30, 2012 totaled \$0.13 million.
- Other post-employment benefit obligations, (OPEB) increased by \$0.03 million.

Additional information on the City's long-term debt can be found entitled Note 1 – Reporting Entity and Summary of Significant Accounting Policies and Note 6 – Long-term Liabilities in the Notes to the Basic Financial Statements section of this report.

## **Economic Factors and Next Year's Budgets and Rates**

The City of Rancho Santa Margarita's economy is clearly linked to the national and state economy. However, because the City is still maturing, its local economy can experience departures from other local, state or national trends with resultant recurring revenue fluctuations. Additionally, because the City's revenues are obtained from a limited number of sources, further revenue fluctuations may occur from year to year. The City uses the "Orange County Economic Forecast" prepared by Chapman University's Center for Economic Research as an information source for review of economic trends, in developing its budget model. Other data sources used by the City include UCLA Anderson School of Management and California State University Fullerton – Institute for Economic and Environmental Studies. Detailed information about the economic analysis, revenue assumptions, and other budgetary process parameters utilized in annual budget preparation, can be obtained from the City's 2012-2013 citywide budget, available through the City Manager's Office.

## **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Administrative Services, at the City of Rancho Santa Margarita, 22112 El Paseo, Rancho Santa Margarita, California, 92688.

See Independent Auditors' Report



GOVERNMENT - WIDE  
FINANCIAL STATEMENTS

# Government - Wide Financial Statements

City of Rancho Santa Margarita, California



## GOVERNMENT-WIDE FINANCIAL STATEMENTS

### THE STATEMENT OF NET ASSETS AND THE STATEMENT OF ACTIVITIES

The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a manner that considers longer-term resource needs and capacities' effects on the City's overall operations. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's *net assets* and changes in them. You can think of the City's net assets—the difference between assets and liabilities—as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net assets are one indicator of whether its long term *financial health and physical upkeep and renewal* is improving or deteriorating, and at what pace. You will need to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's roads, and other infrastructure, to assess the *overall health* of the City.

The Statement of Net Assets and the Statement of Activities present information about governmental activities. All of the City's basic services are considered to be governmental activities, including general government, building and planning, public safety, and public works.

**CITY OF RANCHO SANTA MARGARITA**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2012**

	<b>Governmental Activities</b>
Assets:	
Cash and investments (note 2)	\$ 19,840,333
Cash and investments with fiscal agent (note 2)	848,392
Receivables:	
Due from other governments	1,813,674
Accrued interest	12,469
Accounts, net	516,321
Non-depreciable capital assets (note 4)	97,242,178
Depreciable capital assets (note 4)	79,931,812
Less: accumulated depreciation (note 4)	(55,697,122)
Total assets	144,508,057
Liabilities:	
Accounts payable	1,621,934
Accrued liabilities	312
Wages payable	87,112
Unearned revenue (note 10)	116,381
Retentions payable	43,130
Deposits	103,375
Interest payable	131,290
Long-term liabilities (note 5):	
Due within one year	408,690
Due in more than one year	11,277,265
Total liabilities	13,789,489
Net assets:	
Invested in capital assets, net of related debt	110,116,868
Restricted for:	
Public safety	137,441
Public works	2,468,544
Debt service	848,392
Unrestricted	17,147,323
Total net assets	\$ 130,718,568

See Independent Auditors' Report and Notes to the Basic Financial Statements.

**CITY OF RANCHO SANTA MARGARITA  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<b>Program Revenues</b>				
<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Contributions and Grants</u>	<u>Capital Contributions and Grants</u>	<u>Net Governmental Activities</u>	
Governmental activities:					
General government	\$ 3,880,315	\$ 391,960	\$ 145,224	\$ -	\$ (3,343,131)
Building and planning	948,779	535,533	194,203	-	(219,043)
Public safety	7,564,128	281,666	134,266	-	(7,148,196)
Public works	4,431,877	225,528	2,491,698	-	(1,714,651)
Capital outlay	448,843	-	-	-	(448,843)
Interest expense	528,210	-	-	-	(528,210)
 Total governmental activities	<u>\$ 17,802,152</u>	<u>\$ 1,434,687</u>	<u>\$ 2,965,391</u>	<u>\$ -</u>	<u>(13,402,074)</u>
 General revenues:					
Taxes:					
Property taxes					1,999,106
Sales taxes					5,348,047
Real property transfer taxes					230,916
Franchise fees					1,414,887
Investment income					120,130
Motor vehicle fees, in-lieu taxes, unrestricted intergovernmental					3,807,220
Other					1,241,844
 Total general revenues					14,162,150
 Change in net assets					760,076
 Net assets at beginning of year					129,958,492
 Net assets at end of year					\$ 130,718,568

See Independent Auditors' Report and Notes to the Basic Financial Statements.

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FUND FINANCIAL  
STATEMENTS

# Fund Financial Statements

City of Rancho Santa Margarita, California

## **GOVERNMENTAL FUNDS**

### **GENERAL FUND**

The General Fund has been classified as a major fund and is used to account for resources traditionally associated with government which are not required legally or by sound financial management to be accounted for in another fund.

### **CAPITAL PROJECTS FUND**

The Capital Projects fund has been classified as a major fund and is used to account for various street projects and infrastructure improvements as well as major facility construction and improvements.

### **NON-MAJOR FUNDS**

All other funds are combined into this category. Additional information about the individual funds can be found in the Supplementary Schedules Section of this document.

**CITY OF RANCHO SANTA MARGARITA  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2012**

<b>Assets</b>	<b>General</b>	<b>Capital Projects</b>	<b>Non-Major Governmental Funds</b>	<b>Totals</b>
Cash and investments	\$ 15,477,962	\$ 2,051,629	\$ 2,310,742	\$ 19,840,333
Cash and investments with fiscal agent	-	-	848,392	848,392
Receivables:				
Due from other governments	1,557,288	-	256,386	1,813,674
Accrued interest	9,763	688	2,018	12,469
Accounts, net	311,864	21,441	-	333,305
Prepaid items	183,016	-	-	183,016
Total assets	<u>\$ 17,539,893</u>	<u>\$ 2,073,758</u>	<u>\$ 3,417,538</u>	<u>\$ 23,031,189</u>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 652,441	\$ 947,350	\$ 22,143	\$ 1,621,934
Accrued liabilities	312	-	-	312
Wages payable	87,112	-	-	87,112
Deferred revenue	786,261	-	-	786,261
Retentions payable	-	43,130	-	43,130
Deposits	103,375	-	-	103,375
Total liabilities	<u>1,629,501</u>	<u>990,480</u>	<u>22,143</u>	<u>2,642,124</u>
Fund balance:				
Nonspendable: Prepaid items	183,016	-	-	183,016
Restricted for debt service	-	-	848,392	848,392
Restricted for roads, grants, parks	58,982	-	2,547,003	2,605,985
Committed for street maintenance	142,428	188,906	-	331,334
Committed for self insurance	30,000	-	-	30,000
Assigned:				
Council projects/equipment/facilities	7,877,157	-	-	7,877,157
Capital projects working capital	-	894,372	-	894,372
Unassigned:	7,618,809	-	-	7,618,809
Total fund balance	<u>15,910,392</u>	<u>1,083,278</u>	<u>3,395,395</u>	<u>20,389,065</u>
Total liabilities and fund balance	<u>\$ 17,539,893</u>	<u>\$ 2,073,758</u>	<u>\$ 3,417,538</u>	<u>\$ 23,031,189</u>

See Independent Auditors' Report and Notes to the Basic Financial Statements.

**CITY OF RANCHO SANTA MARGARITA  
GOVERNMENTAL FUNDS  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2012**

Fund balances of governmental funds	\$ 20,389,065
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets net of depreciation have not been included as financial resources in governmental funds:	121,476,868
Long term debt, accrued interest payable, compensated absences, and OPEB obligation have not been included in the governmental funds:	
Certificates of Participation Payable	(11,360,000)
Accrued Interest Payable	(131,290)
Compensated Absences Payable	(234,225)
Other Post Employment Benefits (OPEB) Obligation	(91,730)
Certain receivables will be collected after year-end, but are not available to pay for current-period expenditures, and therefore are offset by deferred revenue in the governmental funds.	669,880
Net assets of governmental activities	\$ 130,718,568

See Independent Auditors' Report and Notes to the Basic Financial Statements.



**CITY OF RANCHO SANTA MARGARITA  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>General</u>	<u>Capital Projects</u>	<u>Non-Major Governmental Funds</u>	<u>Totals</u>
Revenues:				
Taxes	\$ 7,578,069	\$ -	\$ -	\$ 7,578,069
Fees and permits	2,072,595	-	-	2,072,595
Intergovernmental	4,209,382	253,061	2,151,683	6,614,126
Charges for services	657,598	-	-	657,598
Investment income	91,243	7,221	21,666	120,130
Fines, forfeits and penalties	277,866	-	-	277,866
Other	571,964	-	-	571,964
	<u>15,458,717</u>	<u>260,282</u>	<u>2,173,349</u>	<u>17,892,348</u>
Total revenues				
Expenditures:				
Current:				
General government	3,856,873	-	-	3,856,873
Building and planning	954,291	-	-	954,291
Public safety	7,501,236	-	59,109	7,560,345
Public works	1,908,481	466,798	267,517	2,642,796
Capital outlay	24,471	862,865	-	887,336
Debt Service:				
Principal Retirement	-	-	305,000	305,000
Interest	-	-	531,260	531,260
Total expenditures	<u>14,245,352</u>	<u>1,329,663</u>	<u>1,162,886</u>	<u>16,737,901</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,213,365</u>	<u>(1,069,381)</u>	<u>1,010,463</u>	<u>1,154,447</u>
Other financing sources (uses):				
Transfers in (note 3)	719,211	1,062,254	849,028	2,630,493
Transfers out (note 3)	<u>(827,587)</u>	<u>(21,441)</u>	<u>(1,781,465)</u>	<u>(2,630,493)</u>
Total financing sources (uses)	<u>(108,376)</u>	<u>1,040,813</u>	<u>(932,437)</u>	<u>-</u>
Net change in fund balances	1,104,989	(28,568)	78,026	1,154,447
Fund balances, beginning of year	<u>14,805,403</u>	<u>1,111,846</u>	<u>3,317,369</u>	<u>19,234,618</u>
Fund balances, end of year	<u>\$ 15,910,392</u>	<u>\$ 1,083,278</u>	<u>\$ 3,395,395</u>	<u>\$ 20,389,065</u>

See Independent Auditors' Report and Notes to the Basic Financial Statements.

**CITY OF RANCHO SANTA MARGARITA  
GOVERNMENTAL FUNDS  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Net change in fund balances - total governmental funds	\$ 1,154,447
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense.	
Capital Expenditures	438,493
Depreciation of Capital Assets	(1,826,954)
Retirement of principal on long term debt, accrued interest payable, compensated absences, and OPEB obligation expenses reported in the Statement of Activities require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. The following represent the net change for the current period:	
Retired Principal on long term debt (Certificate of Participation)	305,000
Accrued Interest Payable on long term debt (Certificate of Participation)	3,050
Compensated Absences	44,848
Net OPEB Obligation	(28,688)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds. Conversely, collection of these revenues are reported in the governmental funds when received, but not in the Statement of Activities since they have been recognized previously.	669,880
Change in net assets of governmental activities	\$ 760,076

See Independent Auditors' Report and Notes to the Basic Financial Statements.

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# Notes To The Financial Statements

City of Rancho Santa Margarita, California

NOTES TO THE FINANCIAL  
STATEMENTS

**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

The basic financial statements of the City have been prepared in conformity with generally accepted accounting principles as applicable to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The City of Rancho Santa Margarita (the City) was incorporated on January 1, 2000 under the General Laws of the State of California. The City operates under a Council-Manager form of government. The City provides all municipal services, including street maintenance, street sweeping, street lighting, traffic signal maintenance, animal control, engineering, public works, building and planning operations, and law enforcement. The fiscal year ending June 30, 2012 was the tenth year that the City paid the full cost for all these services.

Generally accepted accounting principles require that these financial statements represent the City of Rancho Santa Margarita and its component units, entities for which the City is considered to be financially accountable. These basic financial statements of the City of Rancho Santa Margarita include the financial activities of the City and the City of Rancho Santa Margarita Nonprofit Corporation. Separate financial statements are not issued for the Rancho Santa Margarita Nonprofit Corporation.

City of Rancho Santa Margarita Nonprofit Corporation (RSMNP) was formed on August 21, 2003 as a non-profit California corporation in order to facilitate the financing of the City Hall and Regional Community Center construction, and future financing and refinancing projects of the City. The RSMNP is a separate legal entity from the City and is governed by a five-member Board of Directors consisting of the City Council Members. The City has entered into non-cancelable long-term leases with RSMNP which provide for lease payments in amounts sufficient to meet the annual debt service requirements on the certificates of participation issued by RSMNP to finance the construction projects. The leases are financing arrangements which transfer ownership of the constructed assets to the City at the end of the lease term. The financial data of RSMNP has been blended into various City funds as applicable and the capitalized leases have been eliminated for financial reporting purposes.

See Independent Auditors' Report

**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Basis of Accounting and Measurement Focus

The *basic financial statements* of the City are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Government-wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole. These statements include a separate column for the governmental activities of the primary government. Eliminations are required to be made in the Statement of Activities so that certain allocated expenses are recorded only once (by the function to which they were allocated). The City required no such eliminations.

In addition, general government expenses have not been allocated as indirect expenses to the various functions of the City.

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. *Basis of accounting* refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

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**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Program revenues include charges for services, special assessments, and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the Statement of Activities to present the net cost of each program.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

Fund Financial Statements

The underlying accounting system of the City is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the primary government's governmental funds are presented after the government-wide financial statements. These statements display information about major funds individually and non-major funds in the aggregate for governmental funds.

Governmental Funds

In the fund financial statements, governmental funds are presented using the *modified-accrual basis of accounting*. Their revenues are recognized when they become *measurable* and *available* as net current assets. *Measurable* means that the amounts can be estimated, or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The City has elected an availability period of 60 days notwithstanding involuntary state imposed temporary deferrals of revenues collected and regularly scheduled to be transmitted to the City.

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**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Sales taxes, property taxes, franchise fees, gas taxes, motor vehicle in lieu, grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period to the extent normally collected within the availability period.

Revenue recognition is subject to the *measurable* and *available* criteria for the governmental funds in the fund financial statements. *Exchange transactions* are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). *Locally imposed derived tax revenues* are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. *Imposed non-exchange transactions* are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. *Government-mandated and voluntary non-exchange transactions* are recognized as revenues when all applicable eligibility requirements have been met. Revenues, expenses, gains, losses, assets, and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33.

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus*. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of “available spendable resources.” Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during a period.

Non-current portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered “available spendable resources,” since they do not represent net current assets. Recognition of governmental fund-type revenue represented by non-current receivables is deferred until they become current receivables. Non-current portions of other long-term receivables, if any, that are offset by nonspendable fund balance.

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**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as *expenditures* in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as *another financing source* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

When both restricted and unrestricted resources are combined in a fund, expenses are considered to be paid first from restricted resources, and then from unrestricted resources.

(b) Major Funds

The major funds are described as follows:

General Fund

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Projects Fund

The Capital Projects Fund has been classified as a major fund and is used to account for various street projects and infrastructure improvements as well as major facility construction and improvements.

(c) Explanation of differences between governmental funds Balance Sheet and the government-wide Statement of Net Assets

“Total fund balances” of the City’s governmental funds equal to \$20,389,065 differs from “net assets” of governmental activities of \$130,718,568 reported in the statement of net assets. This difference primarily results from the long-term economic focus of the Statement of Net Assets versus the current financial resources focus of the governmental fund Balance Sheets.

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**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Capital Related Items

When capital assets (property, plant, equipment) that are to be used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in governmental funds. However, the Statement of Net Assets includes those capital assets among the assets of the City as a whole.

Cost of capital assets	\$177,173,990
Accumulated depreciation	<u>(55,697,122)</u>
Net capital assets	<u>\$121,476,868</u>

Liabilities Transactions

Payment liabilities applicable to the City’s governmental activities not due and payable in the current period are not reported as fund liabilities. Payment liabilities (both current and long-term) are reported in the Statement of Net Assets. Balances at June 30, 2012 were:

Long-term debt	\$11,360,000
Interest payable	131,290
Compensated absences	234,225
Net OPEB Obligation	<u>91,730</u>
Net long-term liabilities	<u>\$11,817,245</u>

Deferred Revenue

Certain receivables will be collected after year-end, but are not available to pay for current-period expenditures, and therefore are offset by deferred revenue in the governmental funds.

Long-term debt	\$ 669,880
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Reclassifications and Eliminations

Interfund balances must generally be eliminated in the government-wide statements, except for net residual amounts due between governmental activities. Amounts involving fiduciary funds should be reported as external transactions. Any allocations must reduce the expenses of the function from which the expenses are being allocated, so that expenses are reported only once – in the function in which they are allocated .

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**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

(d) Explanation of differences between governmental funds Balance Sheet and the government-wide Statement of Net Assets

Assets	Total Governmental Funds	Capital Related Items	Long-term Debt Transactions	Accrued Interest Payable	Deferred Revenue	Deferred Benefits *	Statement of Net Assets
Cash and investments	\$ 19,840,333	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 19,840,333
Restricted cash with fiscal agent	848,392	-	-	-	-	-	848,392
Receivables:							
Due from other governments	1,813,674	-	-	-	-	-	1,813,674
Accrued interest	12,469	-	-	-	-	-	12,469
Accounts, net	333,305	-	-	-	-	-	333,305
Prepaid items	183,016	-	-	-	-	-	183,016
Non-depreciable capital assets	-	97,242,178	-	-	-	-	97,242,178
Depreciable capital assets	-	79,931,812	-	-	-	-	79,931,812
Less: accumulated depreciation	-	(55,697,122)	-	-	-	-	(55,697,122)
<b>Total assets</b>	<b>\$ 23,031,189</b>	<b>\$ 121,476,868</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 144,508,057</b>
<b>Liabilities and Fund Balances/Net Assets</b>							
Liabilities:							
Accounts payable	\$ 1,621,934	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,621,934
Accrued liabilities	312	-	-	-	-	-	312
Wages payable	87,112	-	-	-	-	-	87,112
Deferred revenue	786,261	-	-	-	(669,880)	-	116,381
Retentions payable	43,130	-	-	-	-	-	43,130
Deposits payable	103,375	-	-	-	-	-	103,375
Long-term debt	-	-	11,360,000	-	-	325,955	11,685,955
Accrued interest payable	-	-	-	131,290	-	-	131,290
<b>Total liabilities</b>	<b>2,642,124</b>	<b>-</b>	<b>11,360,000</b>	<b>131,290</b>	<b>(669,880)</b>	<b>325,955</b>	<b>13,789,489</b>
Fund balances/net assets	20,389,065	121,476,868	(11,360,000)	(131,290)	669,880	(325,955)	130,718,568
<b>Total liabilities and fund balances / net assets</b>	<b>\$ 23,031,189</b>	<b>\$ 121,476,868</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 144,508,057</b>

\* Deferred benefits includes: Compensated Absences of \$234,225 and OPEB Obligation of \$91,730.

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**CITY OF RANCHO SANTA MARGARITA  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

- (e) Explanation of differences between governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the government-wide Statement of Activities.

The “net change in fund balances” for governmental funds \$1,154,447 differs from the “change in net assets” for governmental activities \$760,076 reported in the statement of activities. The differences arise primarily from the long-term economic focus of the Statement of Activities versus the current financial resources focus of the governmental funds.

Capital Related Items

When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of financial resources expended, whereas net assets decrease by the amount of depreciation expense charged for the year and loss on disposal of assets.

Capital outlay	\$ 438,493
Depreciation expense	<u>(1,826,954)</u>
Difference	<u>\$ (1,388,461)</u>

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**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Liabilities Transactions

Some liabilities changes applicable to the City’s governmental activities are not reported as fund liabilities. All liabilities balances (both current and long-term) are reported in the Statement of Net Assets. Differences at June 30, 2012 were:

Retired Principal on long-term debt (COP)	\$	305,000
Accrued Interest on long-term debt (COP)		<u>3,050</u>
Liabilities changes		<u>\$ 308,050</u>

Other Liabilities

Long-term liabilities changes not due and payable in the current period are not reported in the governmental funds.

Compensated Absences	\$	44,848
Net OPEB Obligation		\$ (28,688)

Deferred Revenue

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds. Conversely, collection of these revenues are reported in the governmental funds when received, but not in the Statement of Activities since they have been recognized previously.

Deferred Revenue	\$	669,880
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Reclassification and Eliminations

Interfund balances must generally be eliminated in the government-wide financial statements, except for net residual amounts due between governmental activities. Amounts involving fiduciary funds should be reported as external transactions. Any allocations must reduce the expenses of the function from which the expenses are being allocated, so that expenses are reported only once – in the function in which they are allocated.

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**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

(f) Explanation of differences between governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the government-wide Statement of Activities.

	<b>Total Governmental Funds</b>	<b>Capital Related Items</b>	<b>Long-term Debt Transactions</b>	<b>Accrued Interest Pavable</b>	<b>Deferred Revenue</b>	<b>Reclassifications and Eliminations</b>	<b>Deferred Benefits *</b>	<b>Statement of Activities</b>
Revenues:								
Taxes	\$ 7,578,069	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,578,069
Fees and permits	2,072,595	-	-	-	-	-	-	2,072,595
Intergovernmental	6,614,126	-	-	-	-	-	-	6,614,126
Charges for services	657,598	-	-	-	-	-	-	657,598
Investment income	120,130	-	-	-	-	-	-	120,130
Fines, forfeits and penal	277,866	-	-	-	-	-	-	277,866
Capital contribution	-	-	-	-	-	-	-	-
Other	571,964	-	-	-	669,880	-	-	1,241,844
Total revenues	<u>17,892,348</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>669,880</u>	<u>-</u>	<u>-</u>	<u>18,562,228</u>
Expenditures:								
Current:								
General government	3,856,873	33,221	-	-	-	-	(9,779)	3,880,315
Building and planning	954,291	-	-	-	-	-	(5,512)	948,779
Public safety	7,560,345	1,524	-	-	-	-	2,259	7,564,128
Public works	2,642,796	1,792,209	-	-	-	-	(3,128)	4,431,877
Capital outlay	887,336	(438,493)	-	-	-	-	-	448,843
Debt service:								
Principal Retirement	305,000	-	(305,000)	-	-	-	-	-
Interest	531,260	-	-	(3,050)	-	-	-	528,210
Total expenses	<u>16,737,901</u>	<u>1,388,461</u>	<u>(305,000)</u>	<u>(3,050)</u>	<u>-</u>	<u>-</u>	<u>(16,160)</u>	<u>17,802,152</u>
Other financing sources (uses):								
Transfers in	2,630,493	-	-	-	-	(2,630,493)	-	-
Transfers out	(2,630,493)	-	-	-	-	2,630,493	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances/ net assets	1,154,447	(1,388,461)	305,000	3,050	669,880	-	16,160	760,076
Fund balances / net assets beginning of year	<u>19,234,618</u>	<u>122,865,329</u>	<u>(11,665,000)</u>	<u>(134,340)</u>	<u>-</u>	<u>-</u>	<u>(342,115)</u>	<u>129,958,492</u>
Fund balances / net assets, end of year	<u>\$ 20,389,065</u>	<u>\$ 121,476,868</u>	<u>\$ (11,360,000)</u>	<u>\$ (131,290)</u>	<u>\$ 669,880</u>	<u>\$ -</u>	<u>\$ (325,955)</u>	<u>\$ 130,718,568</u>

\* Deferred benefits includes: Compensated Absences of \$(44,848) and OPEB Obligation of \$28,688.

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**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

(g) Cash and Investments

Investments are reported in the accompanying Balance Sheet at fair value. Changes in fair value that occur during a fiscal year are recognized as *investment income* reported for that fiscal year. *Investment income* includes interest earnings and changes in fair value. The City pools cash and investments of all funds, except investments held by fiscal agent. Each fund's share in this pool is displayed in the accompanying financial statements as *cash and investments*.

Investment income earned by the pooled investments is allocated to the various funds based on each fund's average cash and investment balance.

(h) Capital Assets

Capital assets (including infrastructure) are recorded at cost where historical records are available and at an estimated original cost where no historical records exist. Contributed capital assets are valued at their estimated fair market value at the date of the contribution. Generally, capital asset purchases in excess of \$3,000 (including infrastructure) are capitalized if they have an expected useful life of three years or more.

Capital assets include public domain (infrastructure) capital assets consisting of certain improvements including roads, streets, curbs, gutters, sidewalks, street lights, signs and signals, medians, and storm drains.

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**CITY OF RANCHO SANTA MARGARITA  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Capital assets used in operations and infrastructure assets are depreciated over their estimated useful lives using the straight-line method in the government-wide financial statements. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective balance sheet. The range of lives used for depreciation purposes for each capital asset class is as follows:

Equipment	3-10 years
Buildings	30 years
Infrastructure	25-65 years

The City of Rancho Santa Margarita met all the criteria required by GASB Statement No. 34 to report their pavement subsystem using the modified approach, which allows those infrastructure assets to be *non-depreciable*. Hence, all expenditures made for the pavement subsystem (except for additions and improvements) are expensed in the period incurred. Additions or improvements to the pavement subsystem that increase the capacity or efficiency of those assets (rather than preserve the useful life) are capitalized. The City elected to set their minimum acceptable level of condition at 70 for all pavement based on their pavement management system scale of 1 to 100. The City plans to test/assess the condition level every two years.

(i) Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on July 1 and are payable in two equal installments due November 1 and February 1, respectively, and are delinquent if not paid by December 10 and April 10, respectively. The County of Orange bills and collects the property taxes and remits them to the City in installments during the year. All material amounts associated with the reporting period are collected soon enough to be considered to be “available” to finance the expenditures of the reporting period.

The County of Orange is permitted by State Law (Proposition 13) to levy taxes at 1% of full market value (at time of purchase) and can increase the assessed values no more than 2% each year. The City receives a share of this basic levy proportionate to what was received in the 1976 to 1978 period.

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**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

(j) Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded, is employed in the governmental funds. Encumbrances at year end are reported as restricted, committed, or assigned fund balance depending on the resources that have been identified to fund the applicable encumbrance.

(k) Interfund Transactions

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either “due to/from other funds” (short-term interfund loans) or “advances to/from other funds” (long-term interfund loans).

The portion of fund balance associated with amounts that have been disbursed to other funds in the form of long-term interfund advances have been classified as nonspendable unless the funds associated with repayment of the advance are otherwise restricted for specific purposes.

(l) Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Specifically, the City has made certain estimates and assumptions related to the collectability of its receivables, the depreciation of its capital assets and the ultimate outcome of claims and judgments. Actual results could differ from those estimates and assumptions.

(m) Fund Equity

Due to the implementation of GASB No. 54, the components of the fund balances of governmental funds now reflect the component classifications described below.

Fund balances are reported in the fund statements in the following classifications:

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**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

**Nonspendable Fund Balance**

Nonspendable Fund Balance – this includes amounts that cannot be spent because they are either not spendable in form (such as inventory) or legally or contractually required to be maintained intact (such as endowments).

**Spendable Fund Balance**

Restricted Fund Balance – this includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation. If the Council action limiting the use of funds is included in the same action (legislation) that created (enables) the funding source, then it is restricted.

Committed Fund Balance – this includes amount that can be used only for the specific purposes determined by a formal action of the Council. It includes Legislation (Council action) that can only be overturned by new legislation requiring the same type of voting consensus that created the original action. Therefore, if the Council action limiting the use of the funds is separate from the action (legislation) that created (enables) the funding source, then it is committed, not restricted. The City considers a resolution, an ordinance, or a minutes action to constitute a formal action of City Council for the purposes of establishing committed fund balance.

Assigned Fund Balance – this includes amounts that are designated or expressed by the Council, but does not require a formal action like a resolution or ordinance. The Council may delegate the ability of an employee or committee to assign uses of specific funds, for specific purposes. Such delegation of authority has been granted to the City Manager by the City Council.

Unassigned Fund Balance – this includes the remaining spendable amounts which are not included in one of the other classifications.

It is the city's policy, adopted by the City Council, that restricted resources will be applied first, followed by (in order of application) committed, assigned, and unassigned resources.

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**CITY OF RANCHO SANTA MARGARITA  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 2 – CASH AND INVESTMENTS

Cash and investments are reported as follows in the accompanying financial statements:

Statement of Net Assets:

Cash and investments	\$19,840,333
Cash and investments with fiscal agent	<u>848,392</u>
Total Cash and Investments	<u>\$20,688,725</u>

Cash and investments at June 30, 2012 consisted of the following:

Cash and Investments held by City:	
Deposits in banks	\$ 7,482,044
Local Agency Investment Fund (LAIF)	<u>12,358,289</u>
Total Cash and Investments held by City	<u>\$19,840,333</u>
Cash and Investments held by Fiscal Agent:	
Money Market Mutual Fund	<u>\$ 848,392</u>
Total Cash and Investments held by Fiscal Agent	<u>\$ 848,392</u>
Total Cash and Investments	<u>\$20,688,725</u>

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**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 2 – CASH AND INVESTMENTS, (Continued)

Investments Authorized by the California Government Code and the City’s Investment Policy

The table below identifies the investment types that are authorized for the City by the California Government Code (or the City’s investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City’s investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City’s investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio*</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Bills	5 years	60%	None
U.S. Agency Notes	5 years	40%	None
Banker's Acceptances	180 days	10%	30%
Commercial Paper	180 days	10%	10%
Certificates of Deposit	5 years	10%	None
Federal Agency Securities	5 years	20%	20%
Passbook Savings Demand Accounts	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	\$20,000,000
Local Government Investment Pool	N/A	None	\$20,000,000

\* Excluding amounts held by bond trustee that are not subject to California Government Code restrictions or the City’s investment policy.

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City’s investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee, subject to certain additional restrictions

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**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 2 – CASH AND INVESTMENTS, (Continued)

in the debt agreements. The tables also identify certain provisions of these debt agreements that address maximum maturity, interest rate risk, credit risk, and disclosures relating to custodial credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>
U.S. Treasury Obligations	None
U.S. Agency Securities	None
Municipal Obligations	None
Commercial Paper	270 days
Certificates of Deposit	360 days
Money Market Mutual Funds	N/A
Investment Contracts	Life of bonds

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City currently manages its exposure to interest rate risk by participating in short term investments such as the Local Agency Investment Fund (LAIF), which invests in a combination of investments with a relatively short term weighted average maturity and offers same day liquidity.

Information about the sensitivity of the fair values of the City’s investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the City’s investments by maturity.

<u>Investment Type</u>	<u>Remaining Maturity (in Months)</u>				
	<u>Total Amount</u>	<u>0-12 Months</u>	<u>12-23 Months</u>	<u>24-35 Months</u>	<u>Greater than 36 Months</u>
Local Agency Investment Fund (LAIF)	\$ 12,373,362	\$ 12,373,362	\$ -	\$ -	\$ -
Held by bond fiscal agent:					
Money Market Mutual Fund	848,392	848,392	-	-	-
<b>Total</b>	<u>\$ 13,221,754</u>	<u>\$ 13,221,754</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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NOTE 2 – CASH AND INVESTMENTS, (Continued)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating, as reported by Standard and Poor's, as of year-end for each investment type.

Investment Type	Total Amount	Minimum Legal Rating	Rating as of Fiscal Year End	
			AAA	Not Rated
Local Agency Investment Fund (LAIF)	\$ 12,373,362	N/A	\$ -	\$ 12,373,362
Held by bond fiscal agent: Money Market Mutual Fund	848,392	A	848,392	-
Total	<u>\$ 13,221,754</u>		<u>\$848,392</u>	<u>\$ 12,373,362</u>

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investment securities* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments securities, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool that must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a market value of at least 150% of the secured public deposits, and letters of credit drawn on the Federal Home Loan Bank may have a minimum market value of 105% of the secured public deposits. At June 30, 2012, the City deposits (bank balances) were either insured by the Federal Deposit Insurance Corporation or collateralized in accordance with the California Government Code.

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NOTE 2 – CASH AND INVESTMENTS, (Continued)

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City’s investment in this pool is reported in the accompanying financial statements at amounts based upon the City’s pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. LAIF is not rated.

NOTE 3 – TRANSFERS IN AND OUT

Transfers in and out for the year ended June 30, 2012 are as follows:

	<b>Transfers From:</b>			Total
	General Fund	Capital Projects Fund	Non-major Funds	
<b>Transfers To:</b>				
General Fund	\$ -	\$ -	\$ 719,211	\$ 719,211
Capital Projects	-	-	1,062,254	1,062,254
Non-major Funds	827,587	21,441	-	849,028
<b>Total Transfers</b>	<b>\$ 827,587</b>	<b>\$ 21,441</b>	<b>\$ 1,781,465</b>	<b>\$ 2,630,493</b>

The reasons for the significant transfers between funds are as follows:

- The transfer of \$719,211 from the Non-major Funds to the General Fund was to fund street maintenance costs and traffic engineering services—both recorded in the General Fund.
- The transfer of \$1,062,254 from the Non-major Funds to the Capital Project Fund was primarily to fund the various slurry seal and overlay road projects throughout the city (\$753,072), and traffic signal synchronization projects (\$205,568).
- The transfer of \$21,441 from Capital Projects Fund to the Non-major Funds was reimbursement for capital project expenses subsequently covered by grant funds.
- The transfer of \$827,587 from the General Fund to the Non-major Funds was transferred to the RSM Non-Profit Debt Service Fund to pay principal and interest on the Certificates of Participation.

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**CITY OF RANCHO SANTA MARGARITA  
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NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 6,683,500	\$ -	\$ -	\$ 6,683,500
Land - right of way	43,740,119	-	-	43,740,119
Construction in Progress	86,654	414,022	448,843	51,833
Infrastructure - pavement	<u>46,766,726</u>	<u>-</u>	<u>-</u>	<u>46,766,726</u>
Total capital assets not being depreciated	<u>97,276,999</u>	<u>414,022</u>	<u>448,843</u>	<u>97,242,178</u>
Capital assets being depreciated:				
Machinery & Equipment	483,141	24,471	-	507,612
Buildings	16,618,510	-	-	16,618,510
Parks	906,478	-	-	906,478
Infrastructure - all others	<u>61,450,369</u>	<u>448,843</u>	<u>-</u>	<u>61,899,212</u>
Total capital assets being depreciated	<u>79,458,498</u>	<u>473,314</u>	<u>-</u>	<u>79,931,812</u>
Less accumulated depreciation:				
Machinery & Equipment	410,620	34,745	-	445,365
Buildings	3,877,651	553,950	-	4,431,601
Parks	216,100	36,259	-	252,359
Infrastructure	<u>49,365,797</u>	<u>1,202,000</u>	<u>-</u>	<u>50,567,797</u>
Total accum. Depreciation:	<u>53,870,168</u>	<u>1,826,954</u>	<u>-</u>	<u>55,697,122</u>
Total capital assets being depreciated, net	<u>25,588,330</u>	<u>(1,353,640)</u>	<u>-</u>	<u>24,234,690</u>
Total capital assets, net	<u>\$122,865,329</u>	<u>\$ (939,618)</u>	<u>\$ 448,843</u>	<u>\$121,476,868</u>

Depreciation expense was charged in the following functions in the Statement of

Activities:	General government	\$ 33,221
	Public safety	1,524
	Public works	<u>1,792,209</u>
	Total	<u>\$1,826,954</u>

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**CITY OF RANCHO SANTA MARGARITA  
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NOTE 4 – CAPITAL ASSETS, (Continued)

Construction commitments

The City had various active, on-going and un-completed construction projects at June 30, 2012. At year-end, in the Capital Projects fund, the City’s encumbrances with contractors for work performed before June 30, 2012, but not yet paid were as follows:

	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
Pavement Rehabilitaion Coto/La Promesa	\$ 15,956	\$ 81,844
Residential Slurry Seal	\$ 17,950	\$ 1,970
Robinson Ranch Road Traffic Calming	12,630	19,475
Santa Margarita Parkway Rehabilitation	\$ 31,378	\$ 66,422
Traffic Signal Battery Back-up System	\$ 179,430	\$ 19,195
Total	<u>\$ 257,344</u>	<u>\$ 188,906</u>

NOTE 5 – LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the fiscal year ended June 30, 2012 was as follows:

	<u>Balance at June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2012</u>	<u>Due Within One Year</u>
Certificates of Participation:					
City Hall & Regional Community Center	\$ 11,665,000	\$ -	\$ 305,000	\$ 11,360,000	\$ 315,000
Compensated absences	279,073	200,614	245,462	234,225	93,690
OPEB Obligation (Note 7)	63,042	33,208	4,520	91,730	-
Total Governmental Long-Term Liabilities	<u>\$ 12,007,115</u>	<u>\$ 233,822</u>	<u>\$ 554,982</u>	<u>\$ 11,685,955</u>	<u>\$ 408,690</u>

Compensated absences and OPEB obligation liabilities have typically been paid from the City’s General Fund. There is no fixed payment schedule for the long term liabilities.

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NOTE 5 – LONG-TERM LIABILITIES, (Continued)

City of Rancho Santa Margarita Nonprofit Corporation Certificates of Participation (COP)  
Payable

On November 1, 2003, the City of Rancho Santa Margarita Nonprofit Corporation issued \$12,795,000 of Certificates of Participation. These Certificates of Participation were issued to finance a portion of the costs of the acquisition, construction and installation of a City Hall and a Regional Community Center, which is leased to the City. Term certificates are due as follows: \$1,730,000 on October 1, 2027, with an interest rate of 4.75%; \$1,995,000 on October 1, 2030, with an interest rate of 4.75%; and \$2,300,000 on October 1, 2033, with an interest rate of 5.00%. Serial certificates are due in annual installments ranging from \$265,000 to \$805,000 commencing on October 1, 2007. The serial certificates bear interest ranging from 3.25% to 4.75%, payable semi-annually on April 1 and October 1 of each year. Interest component payments were capitalized through April 1, 2005. The amount outstanding as of June 30, 2012 was \$11,360,000.

The COPs are subject to federal arbitrage regulations. In October 2008 an interim arbitrage rebate analysis was performed to determine whether the City was required to remit an arbitrage rebate payment to the United States Department of the Treasury for excess arbitrage liabilities for the previous five year period. The computational analysis showed no payment was due or required by the City, nor was the City required to file form 8038-T with the Internal Revenue Service. The next rebate installment payment computational analysis will be due not later than November 30, 2013.

The annual requirements to amortize the outstanding Certificates of Participation as of June 30, 2012, are as follows:

<u>Fiscal Year</u>	<u>Principle</u>	<u>Interest</u>
2013	\$ 315,000	\$ 518,860
2014	330,000	505,960
2015	340,000	492,560
2016	355,000	478,660
2017	375,000	463,872
2017-2021	2,115,000	2,059,985
2022-2026	2,630,000	1,515,973
2027-2031	3,330,000	810,876
2032-2033	1,570,000	79,500
Totals	<u>\$ 11,360,000</u>	<u>\$ 6,926,246</u>

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NOTE 6 – PENSION PLAN

CalPERS Defined Benefit Pension Plan for Miscellaneous Employees

Plan Description The City's employees are eligible to participate in the California Public Employees Retirement System (CalPERS), a cost sharing multiple-employer defined benefit pension plan. Initial participation was determined August 2006, at which time eligible employees conducted an election voting to withdraw from the Orange County Employees Retirement System (OCERS) and participate in the CalPERS Defined Benefit Pension Plan for Miscellaneous Employees. New employees are required to join CalPERS.

CalPERS provides retirement and disability benefits, annual cost-of living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and City ordinance. The City has authority for establishing and amending plan benefits. Copies of CalPERS' annual financial report may be obtained from its executive office: 400 "P" Street, Sacramento, California 95814.

Funding Policy Plan participants (members) for Tier 1 (2.5% @ 55 formula) are required to contribute 8% of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. Plan participants for Tier 2 (2% @ 60 formula) are required to contribute 7% of their annual covered salary. The City is also required to contribute additional amounts at an actuarially determined rate. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The contribution requirements of plan members and the City are established and may be amended by CalPERS. The City has authority for establishing and amending the funding policy.

Contributions For each of the fiscal years shown below, the City has contributed at the actuarially determined rate provided by PERS' actuaries. Under GASB 27, as amended by GASB 50, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2011 to June 30, 2012 has been determined by an actuarial valuation of the plan as of June 30, 2009. The City's covered payroll for PERS was \$1,607,088 for the year ended June 30, 2012, while the City's total payroll for all employees was \$1,894,917 during the same period. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2012, the contribution rate is multiplied by the payroll of covered employees who were actually paid during the period from July 1, 2011 to June

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NOTE 6 – PENSION PLAN, (Continued)

30, 2012. For all years of participation in this plan the actual contribution made equaled the required contribution.

Three Year Trend Information The following table provides the employer contribution rate, the required contribution amount, and the actual percentage contributed for fiscal year ended June 30, 2012 and the prior two years.

Fiscal Year	Plan	Employer Contribution Rate	Employer Contribution	Percentage Contributed
6/30/2010	Tier 1	13.08%	\$ 236,020	100%
6/30/2011	Tier 1	13.34%	\$ 248,521	100%
6/30/2012	Tier 1	16.50%	\$ 260,467	100%
	Tier 2	8.70%	\$ 2,456	100%
6/30/2012	Total		\$ 262,923	

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description The City provides a single-employer defined benefit plan as part of the City’s participation in an elective group medical insurance plan for current employees administered by CalPERS. The CalPERS medical insurance plan offers a comprehensive program of individual and family HMO and PPO coverages, and has typical deductible and co-pay requirements. The City’s contractual agreement with CalPERS to participate in the plan and offer health insurance benefits to employees, their partners and/or relatives stipulates that the City must pay a minimum monthly amount as a premium subsidy benefit; for all employees who retire from City service, continue medical coverage and pay additional amounts to retain coverage and meet other eligibility parameters.

Eligibility Employees are eligible to receive the minimum medical premium subsidy benefit amount provided by the plan if they: 1) Satisfy eligibility requirements for vesting of benefits required by CalPERS; 2) Retire from employment with the City; 3) Elect to continue medical insurance coverage through the CalPERS plan; and 4) Pay all additional premium amounts required for the coverage option selected by them to continue in the group medical insurance plan upon retirement from the City, but must pay all premiums required to retain coverage. To receive the City’s medical premium subsidy benefit,

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NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB), (Continued)

retirees must also be vested members of the CalPERS retirement system; i.e., retire on or after age 50 with 5 years of CalPERS retirement membership contributions. If the retiree discontinues coverage in the CalPERS health insurance plan, the City’s obligation to pay a premium subsidy benefit ends. Retirees may continue in the CalPERS plan for the remainder of their lives. The City is not obligated under the group medical insurance plan to pay premiums for any retirees or provide post-retirement medical or health insurance benefits for retirees, or their spouses, partners, or relatives; other than the required minimum benefit payment. Eligibility for the City plan consisted of the following at June 30, 2012:

Eligible retirees from City service	4
Active employees, both enrolled and un-enrolled in the City’s CalPERS health insurance plan	<u>18</u>
Total	<u><u>22</u></u>

City’s Funding Policy The City pays only the minimum required monthly premium subsidy benefit amount for retired City employees; an amount that can be amended by City Council action. The required premium is made (paid) monthly directly to CalPERS at the current-fiscal-year rate set by CalPERS, which is adjusted annually based on the medical cost component of the consumer price index. For Fiscal Year 2011-12, the City paid \$112 per month as the full amount required by the plan for each retiree from City service, for a total of \$4,520.

Annual OPEB Cost and Net OPEB Obligation The City’s measurement and disclosure of retiree healthcare liabilities is made pursuant to Government Accounting Standards Board (GASB) Statement No. 45, which became effective for the City in the Fiscal Year ended June 30, 2011. According to this statement, an alternative measurement method that differs from a full actuarial valuation is permitted for employers with fewer than one hundred plan members. Employers who qualify for and use the alternative measurement method should perform new calculations every three years.

The City qualifies to use, and elects to use the alternative measurement method, which allows simplification of certain actuarial assumptions, as a valid means of measuring past, present and future City OPEB costs. The total of all such costs as they are incurred in the future is expressed in current dollars as the present value of those costs. The actuarial accrued liability (AAL) is the present value of benefit costs attributed to past service only. The City has not established a trust that is administered by the City for the purpose of holding assets accumulated for plan payment obligations for current or future retirees. Because the City does not have an irrevocable trust for the pre-funding of those

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NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB), (Continued)

benefit costs as they become realized in the future, the City has an equal *unfunded* accrued liability (UAL). The service cost is the proportion of the present value of future benefit costs allocated to the current period (fiscal year) by the actuarial method used in the valuation.

The actuarial cost method used in the City’s current valuation, dated July 1, 2009, is the projected unit credit (PUC) method; one of six permitted by GASB No. 45, under which the present value of costs is apportioned into AAL and service cost. The annual required contribution (ARC) is an amount equal to the combination of service cost for the current fiscal year and amortization, or allocation of a portion of the unfunded liability to the current fiscal year. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover service costs each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years based on an open group.

The following table shows the components of the City’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City’s net OPEB obligation for these benefits:

Present value of all projected benefits	\$437,475
Actuarial accrued liability (AAL) using PUC	\$141,927
Service cost – at 6/30/2012	\$ 24,924
30 year amortization of UAL	<u>9,233</u>
Annual required contribution	\$ 34,157
Interest on net OPEB obligation	3,152
Adjustments to annual required contributions	<u>(4,101)</u>
Annual OPEB cost (expense)	\$ 33,208
Contributions made	<u>(4,520)</u>
Increase in net OPEB obligation	\$ 28,688
Net OPEB obligation-beginning of year	<u>\$ 63,042</u>
Net OPEB obligation-end of year	<u>\$ 91,730</u>

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NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB), (Continued)

The three-year trend information of GASB No. 45, the City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended June 30, 2012 were as follows:

Fiscal Year	Annual OPEB Cost	Actual Contribution Net of Adjustments	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	\$ 34,157	\$ 2,068	6.05%	\$ 32,089
6/30/2011	\$ 34,157	\$ 3,204	9.38%	\$ 63,042
6/30/2012	\$ 34,157	\$ 4,520	13.23%	\$ 91,930

Funded Status and Funding Progress The funded status of the plan as of July 1, 2009, was as follows:

Actuarial accrued liability (AAL)	\$141,927
Actuarial value of plan assets	<u>0</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$141,927</u>
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (active plan members)	\$1,607,088
UAAL as a percentage of covered payroll	8.83%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits.

Actuarial Methods and Assumptions Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each

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NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB), (Continued)

valuation and the historical pattern of sharing of benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with the long-term perspective of the calculations.

The actuarial cost method used for determining the benefit obligations is the Projected Unit Credit Actuarial Cost Method. For the actuarial valuation date of 7/1/2009, the actuarial assumptions included an annual healthcare cost trend rate of 7 percent initially, reduced by decrements of 1 percent per year to an ultimate rate of 5 percent after the third year. The annual inflation rate assumed 4 percent increases in medical costs. The UAAL is being amortized as a level dollar of projected payroll over an open 30 year period. It is assumed the City's payroll will increase 5 percent per year.

NOTE 8 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters.

General Liability

The City purchases general liability insurance from Public Agency Risk Sharing Authority of California (PARSAC). There is a self-insured retention of \$10,000 per claim. PARSAC provides limits to \$1,000,000. Excess coverage is provided through a combination of pooling and reinsurance for total coverage limits of \$34 million. The total premium for this coverage was \$104,053 for the fiscal year ending June 30, 2012.

Workers' Compensation

Effective March 1, 2004, the City purchases Workers' Compensation insurance from PARSAC. There is no deductible and the policy provides statutory limits. The premium for this coverage was \$59,433 for the fiscal year ending June 30, 2012.

Property Insurance

The City purchases commercial property insurance from PARSAC with program limits of \$1 billion for personal property with \$5,000 deductible per occurrence.

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NOTE 8 – RISK MANAGEMENT, (Continued)

Fidelity Bonds

The City purchases bond coverage through PARSAC in the amount of \$1,000,000 with a \$2,500 deductible.

Insurance premium payments to PARSAC are made from the City's General Fund. There were no significant claims or claims payments during the fiscal year, and there were no significant outstanding claims at June 30, 2012. Furthermore, there have been no claims settlements or judgments that have exceeded insurance coverage since the City's inception on January 1, 2000.

NOTE 9 – CONTINGENT LIABILITIES

Grants, awards and allocations of revenues for restricted purposes that have been received or are receivable from other agencies are subject to audit and adjustment by those grantor agencies. Any ineligible or disallowed expenditures of those funds, including amounts already collected, may constitute a liability of the City to return applicable funds, or request an extension of time to perform in compliance of specific requirements. The amount, if any, of such disallowed funds usage claims made by other agencies cannot be determined at this time. However, the City's management does not expect such amounts, if any, to materially impact the City's General Fund balance reserves.

The City of Rancho Santa Margarita is defendant and plaintiff in pending lawsuits arising out of matters incidental to the operation of the City. Although the outcome of these lawsuits cannot be determined at present, management estimates that any potential judgments against the City not covered by insurance resulting from such litigation will not materially affect the City's financial condition.

The City has a mitigation commitment with the County of Orange to make minimum payments each year, plus interest, to mitigate the effect of the reduction of excess revenues over expenditures for future fiscal years as a result of the incorporation of the City of Rancho Santa Margarita. The total commitment of \$12 million was negotiated for payment in two distinct methodologies. The first methodology comprised a series of annual \$1.1 million payments for 6 years with a \$600,000 final payment, for a total of \$7.2 million. This portion of the commitment payments was completed in Fiscal Year 2007. The remaining annual payments associated with the commitment are contingent upon future receipt of sales tax revenues by the City in a respective fiscal year prorated in excess of a indexed base amount for that year. Those payments have not occurred since

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NOTE 9 – CONTINGENT LIABILITIES, (Continued)

2009 due to sales tax revenue declines, but are open ended until the remaining balance of \$1,900,535 is repaid.

NOTE 10 – UNEARNED REVENUE

For the governmental funds, revenues are recognized for monies received when the related expenditures are measurable or incurred or eligibility requirements are satisfied. Deferred revenue reported in the General Fund represents advancements that have not been earned under the measurability criteria of GASB 34. The City has reported the same amount as “unearned revenue” on the government wide financial statements. For the Fiscal Year ended June 30, 2012, in the General Fund, \$786,261 was deferred, primarily consisting of \$669,880 of prior year capital project costs not received by year end. Additional amount of \$82,553 is revenue received in advance of planned Community Services programs or events.

Deferred revenue at July 1, 2011 included a balance of \$483,048 related to cable TV franchise agreement. A lump sum amount of \$805,080 was received in 2005 and was being amortized over fifteen years. On November 15, 2011, the City’s cable TV franchisee Cox Communications notified the City of its intention to opt into the State TV franchise, thereby pre-empting the City’s franchise agreement with Cox. The remaining balance of \$483,048 was recognized as revenue in Fiscal Year ended June 30, 2012.

NOTE 11 – GENERAL FUND BALANCE CLASSIFICATIONS

A continuing priority of the City Council is to exercise prudent financial management, provide long term financial planning, and strong internal control of City asset uses. To this end the Reserve Policy was adopted on June 25, 2008 regarding the City’s accumulated net resources, called fund balance. The Reserve Policy establishes a framework for the funding, use, and maintenance of available fund balance levels for various objectives: To protect the City’s ability to provide services to community residents during emergencies or economic downturns; provide funding for unanticipated or “one-time” expenditures, plan for the repair/replacement of City facilities, infrastructure or technology; and provide an amount for use in times of catastrophic emergencies or natural disasters.

See Independent Auditors’ Report

**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 11 – GENERAL FUND BALANCE CLASSIFICATIONS, (Continued)

The City’s fund balance classifications at June 30, 2012, are presented below and followed by explanations as to the nature and purpose of each classification.

General Fund:

Assigned:

Council Strategic	\$ 2,183,413	
Technology	1,290,920	
Facilities	2,958,949	
Vehicles	304,216	
Infrastructure	1,139,659	
Total Assigned: Council projects/equipment/facilities		\$ 7,877,157

Unassigned:

Emergency Policy	7,618,809	
Total Unassigned: Emergency Policy		\$ 7,618,809

Assigned for Council Strategic – An amount established for special projects and services to be used at the City Council’s discretion. The Council may authorize expenditure at any time during the fiscal year, up to 75% of the funding target; however, it shall require a majority vote (3/5) of City Council to access these funds.

Assigned for Technology – To be used for replacement and enhancement of technology, and shall require a majority vote (3/5) of the City Council to access these funds.

Technology is defined as computers (CPUs, servers, etc.), software, Council Chambers media, etc.

Assigned for Facilities – To be used for repair, replacement, or improvement of City facilities such as the City’s Civic Center, and other acquired facilities and mechanical systems, and shall require a majority vote (3/5) of City Council to access these funds.

Assigned for Vehicles – To be used for replacement of City vehicles and other equipment defined as rolling stock, and shall require a majority vote (3/5) of the City Council to access these funds.

Assigned for Infrastructure – To be used for repair, replacement or improvement of City property, including roads, bridges, sidewalk, and medians and shall require a majority vote (3/5) of the City Council to access these funds. The reserve amount is linked to the current City 7 year CIP plan.

See Independent Auditors’ Report

**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 11 – GENERAL FUND BALANCE CLASSIFICATIONS, (Continued)

Emergency Policy – Unassigned to be used for resumption of City services, during a natural or man-made disaster, which shall require a super majority vote (4/5) of the City Council to access these funds during non-emergencies, and majority vote (3/5) of the City Council to access these funds during emergencies.

Under GASB 54 provisions, unless earmarked for specific identifiable improvements or projects, emergency funds may not be classified as committed or assigned; and are therefore included in the unassigned classification.

NOTE 12 – COMMITMENTS

As of June 30, 2012, City commitments for outstanding encumbrances (purchase orders and contracts for goods and services not yet delivered) and self insurance for the General Fund are as follows:

General Fund:	Committed for street maintenance	\$ 142,428
	Committed for self insurance	<u>30,000</u>
		<u>\$ 172,428</u>

NOTE 13 – OPERATING LEASE

The City entered into a non-cancelable operating lease agreement with Wells Fargo Financial Leasing, Inc. in January 2008 for copy equipment at City Hall at a cost of \$139,920. The monthly cost of the 5 year lease agreement is \$2,332 and is funded by the General Fund. Future minimum payments relating to the lease are as follows:

<u>Year Ending June 30,</u>	<u>Annual Rent</u>
2013	13,992
	<u>\$ 13,992</u>

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**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 13 – OPERATING LEASE, (Continued)

The City entered into another non-cancelable operating lease agreement with Wells Fargo Financial Leasing, Inc. in October 2008 for BTRCC copy equipment at a cost of \$14,204. The monthly cost of \$268 is for a 53 month term and is funded by the General Fund. Future minimum payments relating to the lease are as follow:

<u>Year Ending June 30,</u>	<u>Annual Rent</u>
2013	<u>2,144</u>
	<u>\$ 2,144</u>

NOTE 14 – LITIGATION SETTLEMENT

A Corrected Final Judgment was entered June 23, 2010 in San Diego County Superior Court and recorded in Orange County, California on August 18, 2010 relative to on-going litigation of the City. On January 28, 2009, the City Council approved a Settlement Agreement with the County of Orange, the Endangered Habitats League, and Rancho Mission Viejo, ending litigation initiated in 2005 by the City over the ownership of 502 acres of land in and around the City. In mid-2002, the City became aware that not all of the properties that should have been transferred from the County upon the City's incorporation had actually been transferred. While there was agreement as to many of the property interests, the City and County differed in their views as to who should have ownership of 502 acres that had originally been dedicated to the County, prior to the City's incorporation, for open space, recreation and transportation purposes.

When the parties were not able to resolve their differences, the City filed a lawsuit in 2005, claiming ownership to the entire 502-acre parcel. While the lawsuit was moving forward, the County, the Fish and Wildlife Service, the Santa Margarita Water District and Rancho Mission Viejo, LLC entered into an Implementation Agreement regarding the Southern Sub-region HCP Habitat Reserve. The effect of this was to designate specific natural habitat that would be protected in perpetuity and there would be certainty as to the Habitat Reserve.

After more than a year of negotiations, the parties negotiated a settlement agreement which, in addition to finalizing the transfer of property easements that belonged to the City upon incorporation, such as open space and public access easements, included the following key terms. The specific transactions and related items were completed at the times noted and with particular actions as noted.

The City received title to the 92-acre Chiquita Ridge open space parcel from the County of Orange. The City valued that land at \$50,000 per acre, for a total of \$4,600,000, based

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**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 14 – LITIGATION SETTLEMENT, (Continued)

on recent local and regional comparable sales and appraisals. The 92-acres are not encumbered by the Habitat Reserve designation. While there are no plans for development, the agreement provides that at such time that there is development; there shall be a minimum 23-acre active sports park that will benefit the residents of the City of Rancho Santa Margarita as well as the nearby residents of the unincorporated County area. Development of the 92-acre parcel is limited to 55 acres and any of the remaining 37 acres which are disturbed during construction must be restored to natural habitat conditions.

In addition to any portion of the 37 acres which are restored, the City shall enhance and restore 80 acres of habitat to increase the environmental value of the habitat. The 80 acres will be in or close to the City and will provide a benefit to the City's residents. The County received title to the remaining 410 acres that were in dispute thereby protecting that property as natural habitat and ensuring its enrollment in the Habitat Reserve. The City is required by the Settlement Agreement to prepare a restoration plan by the end of the third year after the Chiquita Ridge parcel conveyance, and begin restoration efforts by the end of the fourth year after conveyance. A consultant has been retained to prepare a restoration plan, and City staff will negotiate with third parties, including the County and resource agencies, to determine acceptable sites and restoration programs. As of June 30, 2012 the cost and timeframe of the required restoration efforts was not reasonably determinable and therefore no estimate of those costs is disclosed here or included in the City's financial statements. Expenditures will be recorded in the City's financial statements as costs are incurred for restoration efforts in future fiscal years.

In a related transaction required in the agreement, the City transferred to the County the 15.1 acre "Wynne Parcel" it purchased for \$2,566,351 in Fiscal Year 2009, following approval of the Settlement Agreement. The County will enroll the parcel in the Habitat Preserve. This parcel is a critical link in the regional wildlife corridor and contains valuable vernal pools and protected species including the fairy shrimp. The County will also enroll approximately 100 acres of Dove Canyon Open Space into the Habitat Reserve.

NOTE 15 – SUBSEQUENT EVENTS

Community Facilities District ("CFD") Nos. 86-1 and 86-2, which encompass property that now lies within the incorporated boundaries of the City of Rancho Santa Margarita, were formed by the Orange County Board of Supervisors in 1986 to finance the construction and/or acquisition of certain public improvements and facilities necessitated by development in the area. In 2010, the County of Orange reviewed the financial

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**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 15 – SUBSEQUENT EVENTS, (Continued)

condition of its CFD 86-2 and CFD 86-1 and notified the City of the availability of CFD funds for reimbursement to the City for public traffic signal and bridge safety and lighting improvements that were constructed using City funding sources after incorporation. The City submitted six separate reimbursement requests totaling \$669,880. On August 21, 2012, the Board of Supervisors approved payment of CFD revenue in the amount of \$669,880 to be paid to the City for reimbursement of costs related to the construction of certain street, traffic signal, and bridge improvements. The recognition of the revenue is included in the government-wide statements and according to GFOA availability guidelines is recorded in the fund financials as deferred revenue at June 30, 2012.

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REQUIRED SUPPLEMENTARY  
INFORMATION



Required  
Supplementary  
Information

City of Rancho Santa Margarita, California

**CITY OF RANCHO SANTA MARGARITA  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

OTHER POST-EMPLOYMENT BENEFITS (OPEB)

The Schedule of Funding Progress below presents three-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits. For the three-fiscal-year period of implementation of GASB No. 45, the following information is presented:

**SCHEDULE OF FUNDING PROGRESS  
OTHER POST-EMPLOYMENT BENEFITS**

Fiscal Year	Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (AAL) - Unit Credit (b)	Unfunded AAL (UAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/c)
6/30/2010	7/1/2009	\$ -	\$141,927	\$141,927	0%	\$1,808,008	7.85%
6/30/2011	7/1/2009	\$ -	\$141,927	\$141,927	0%	\$1,847,685	7.68%
6/30/2012	7/1/2009	\$ -	\$141,927	\$141,927	0%	\$1,607,088	8.83%

**SCHEDULE OF EMPLOYER CONTRIBUTION  
OTHER POST-EMPLOYMENT BENEFITS**

Year Ended June 30	Amount
2010	\$2,068
2011	\$3,204
2012	\$4,520

See Independent Auditors' Report

**CITY OF RANCHO SANTA MARGARITA  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

This fund, as the primary operational fund for the City, is classified as a major fund and is used to account for resources and uses traditionally associated with overall government operations; which are not required legally or by regulation or standards to be accounted for in another fund.

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**CITY OF RANCHO SANTA MARGARITA  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2012**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>(NEGATIVE)</u>
Budgetary fund balances, July 1	\$ 14,566,182	\$ 14,566,182	\$ 14,805,403	\$ 239,221
Resources (inflows):				
Taxes	7,370,319	7,370,319	7,578,069	207,750
Fees and permits	1,727,883	1,727,883	2,072,595	344,712
Intergovernmental	4,357,584	4,357,584	4,209,382	(148,202)
Charges for service	673,886	673,886	657,598	(16,288)
Investment income	64,543	64,543	91,243	26,700
Fines, forfeits and penalties	252,200	252,200	277,866	25,666
Other	95,073	95,073	571,964	476,891
Transfers from other funds	992,266	992,266	719,211	(273,055)
Amounts available for appropriation	<u>30,099,936</u>	<u>30,099,936</u>	<u>30,983,331</u>	<u>883,395</u>
Charges to appropriations (outflows):				
General government	3,920,651	4,047,881	3,856,873	191,008
Building and planning	1,189,632	1,189,632	954,291	235,341
Public safety	7,517,011	7,517,011	7,501,236	15,775
Public works	1,911,373	1,911,373	1,908,481	2,892
Capital outlay	-	-	24,471	(24,471)
Transfers to other funds	836,260	836,260	827,587	8,673
Total charges to appropriations	<u>15,374,927</u>	<u>15,502,157</u>	<u>15,072,939</u>	<u>429,218</u>
Budgetary fund balances, June 30	<u>\$ 14,725,009</u>	<u>\$ 14,597,779</u>	<u>\$ 15,910,392</u>	<u>\$ 1,312,613</u>

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**CITY OF RANCHO SANTA MARGARITA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 1 – CAPITAL ASSETS – MODIFIED APPROACH FOR INFRASTRUCTURE

The City has elected to use the *modified approach* for the accounting and financial reporting of infrastructure assets contained in the Streets and Roads network Street Pavement subsystem.

Under the modified approach, for financial reporting purposes, infrastructure assets that are part of a network or a subsystem of a network are not required to be depreciated as long as two requirements are met. The first requirement is to manage the eligible infrastructure assets using an asset management system that has the following characteristics:

- An up-to-date inventory of eligible infrastructure assets
- Condition assessments of the eligible infrastructure assets performed at least every three years, with summarized results using a measurement scale
- Annual estimates of the amount necessary to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the government.

The second requirement is to document that the eligible infrastructure assets are being preserved approximately at (or above) a condition level established and disclosed by the government. A condition assessment must be performed every three years for financial reporting purposes. If eligible infrastructure assets meet all requirements and are not depreciated, all expenditures made for those assets (except for additions and improvements) are expensed in the period incurred. Additions and improvements to eligible infrastructure assets are capitalized. Additions or improvements increase the capacity or efficiency of infrastructure assets rather than preserve the useful life of the assets.

The condition of the pavement subsystem is measured using the Rancho Santa Margarita Pavement Condition Index. In order to establish and maintain eligibility for Measure M transportation funding provided by Orange County, California, the City must adopt and fund a local Pavement Management Plan (PMP). The local PMP is required to be updated every 2 years to maintain Measure M eligibility. The City Council accepted the findings of the PMP update performed in Fiscal Year 2012 and adopted a condition rating of 70 as the minimum acceptable Pavement Condition Index (PCI) for the entire street pavement subsystem. In accordance with the requirements for using the modified approach for this subsystem, these findings will be used until the next PCI assessment is performed for financial reporting purposes within three years of this assessment. The results of the most recent condition assessments were as follows:

See Independent Auditors' Report

**CITY OF RANCHO SANTA MARGARITA  
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 1 – CAPITAL ASSETS – MODIFIED APPROACH FOR INFRASTRUCTURE,  
 (Continued)

**Assessments performed in the fiscal years ended June 30:**

	<u>Actual Assessed Condition Level</u>	<u>Minimum Condition Level</u>
<b>2012:</b> Pavement subsystem	79.2	70
<b>2010:</b> Pavement subsystem	78.5	70
<b>2008:</b> Pavement subsystem	76.5	70
<b>2007:</b> Pavement subsystem	73.9	70
<b>2004:</b> Pavement subsystem	75.1	70

The pavement subsystem was assigned a numerical value based upon the scales as identified below. Each street segment has a total possible point value of 100. Once each segment had a total score, the City determined the condition of the street by segment, subdivision and as a whole based upon the street deficiency scale identified below.

- Excellent (85-100) – Minor to low distress, no significant distress.
- Very Good (70-84) – Little distress, with the exception of utility patches in good condition, or slight hairline cracks; may be slightly weathered.
- Good (55-69) – Slight to moderately weathered, slight distress, possible patching.
- Fair (40-54) – Severely weathered or slight to moderate levels of distress, generally limited to patches and non-load related cracking.
- Poor (25-39) – Moderate to severe distresses, including load-related types, such as alligator cracking.
- Very Poor (10-24) – Severely distressed, large quantities of distortion or alligator cracking.
- Failed (0-9) – Failure of the pavement, distress has surpassed tolerable rehabilitation limits.

Based on the pavement condition assessment update performed in FY 2012, as of June 30, 2012, the streets had an average deficiency rating or Pavement Condition Index (PCI) of 79.2, or Very Good.

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**CITY OF RANCHO SANTA MARGARITA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

**NOTE 1 – CAPITAL ASSETS – MODIFIED APPROACH FOR INFRASTRUCTURE,  
(Continued)**

During the fiscal year ending June 30, 2012, street maintenance costs were \$1,743,138 compared to the budgeted estimate of \$2,096,757. Street maintenance costs for the fiscal years ending June 30, 2011, June 30, 2010, June 30, 2009, June 30, 2008, June 30, 2007, June 30, 2006, June 30, 2005, June 30, 2004 and June 30, 2003 (the first year of implementation of the modified approach for street pavement) were \$2,857,557, \$1,210,581, \$1,042,169, \$2,132,675, \$3,812,219, \$1,818,402, \$919,528, \$783,609 and \$908,403, respectively. Budgeted street maintenance costs for the years ended June 30, 2011, June 30, 2010, June 30, 2009, June 30, 2008, June 30, 2007, June 30, 2006, June 30, 2005, June 30, 2004 and June 30, 2003 were \$3,171,799, \$3,056,000, \$1,808,700, \$3,277,392, \$5,091,446, \$2,246,154, \$1,160,000, \$943,000 and \$1,200,000. Appropriations totaling \$2,608,357 have been budgeted for the fiscal year ending June 30, 2013 for maintenance/rehabilitation to maintain the minimum PCI standard.

**NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING**

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In June, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Budget development discussions are conducted at public workshops, and City Council study sessions and regular meetings, to obtain resident and business comments.
3. Prior to July 1, the budget is adopted by Council action at a public hearing.

Formal budgetary integration is employed as a management control device during the year. After adoption, the City Manager is authorized to transfer appropriated funds between major expenditure categories within departments and between departments. However, any revisions that alter the total appropriations of any fund must be approved by the City Council. Expenditures may not legally exceed appropriations at the fund level. All appropriations lapse at the end of the fiscal year, except for capital projects. For any project which is under construction at year-end, the appropriations are allowed to carry forward with the amount being adopted for the current year budget.

See Independent Auditors' Report

**CITY OF RANCHO SANTA MARGARITA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING, (Continued)

Budgets are prepared in accordance with generally accepted accounting principles using the modified-accrual basis of accounting. Accordingly, actual revenue and expenditure amounts can be compared with related budget amounts without any significant reconciling items.

Certain City financial statements and schedules present comparisons of budgeted amounts to actual results for all governmental funds with annual budgets. Budgeted revenue amounts represent the original budget modified by Council-authorized adjustments during the year, contingent upon new or additional revenue sources. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations during the year. Budgetary comparisons in the financial statements and schedules are based on the final adjusted amounts.

For financial reporting purposes, City Council, City Manager, and Administrative Services departments are combined as General Government, but operate separately for budgetary control purposes in the General Fund. All other budgeted funds are considered single operating units for budgetary control and financial reporting purposes.

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SUPPLEMENTARY SCHEDULES

# Supplementary Schedules

City of Rancho Santa Margarita, California

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## NON-MAJOR GOVERNMENTAL FUNDS

### Special Revenue Funds

Special Revenue Funds are used to account for activities funded by dedicated or specific program revenues. The following Special Revenue Funds have been classified as non-major funds in the accompanying financial statements:

Gas Tax – This fund is used to account for the City’s share of the motor vehicle gas tax imposed under the provisions of the Street and Highway Code of the State of California under Sections 2105, 2106, 2107, 2107.5 and 2103 which are legally restricted for the acquisition, construction, improvement and maintenance of public streets.

Measure M – This fund is used to account for the City’s share of the sales tax increase authorized by Orange County’s Measure “M”, and renewed Measure M. The monies are legally restricted for the acquisition, construction and improvement of public streets.

Air Quality Management District – This fund is used to account for the City’s share of vehicle registration fees that the State of California has allocated to address air quality concerns in Southern California. These monies are to be used in air quality maintenance programs locally and/or regionally.

California Law Enforcement Equipment Program – This fund is used to account for monies received through the CLEEP grant. These monies are used by police services for the purchase of high-technology police equipment.

Traffic Congestion – This fund is used to account for revenue from Assembly Bill 2928 and the corresponding expenditures for street infrastructure.

Supplemental Law Enforcement Services – This fund is used to account for monies received through the SLESF grant. These monies are used by police services to support front line law enforcement.

### Debt Service Fund

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, the City long-term debt principal and interest.

City of Rancho Santa Margarita Non-Profit Debt Service – This fund is used to account for the payment of interest and principal of the City of Rancho Santa Margarita Non-Profit Corporation project financing activities for construction of the City’s civic center facilities.

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**CITY OF RANCHO SANTA MARGARITA  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2012**

<b>Assets</b>	<b>Special Revenue Funds</b>		
	<b><u>Gas Tax</u></b>	<b><u>Measure M</u></b>	<b><u>Air Quality Management District</u></b>
Cash and investments	\$ 1,484,717	\$ 446,890	\$ 241,784
Cash and investments with fiscal agent	-	-	-
Due from other governments	140,800	100,740	14,846
Interest receivable	1,318	417	192
Total assets	<b>\$ 1,626,835</b>	<b>\$ 548,047</b>	<b>\$ 256,822</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 22,143	\$ -	\$ -
Total liabilities	22,143	-	-
Fund balances:			
Restricted for debt service	-	-	-
Restricted for roads, grants, parks	1,604,692	548,047	256,822
Total fund balances	1,604,692	548,047	256,822
Total liabilities and fund balances	<b>\$ 1,626,835</b>	<b>\$ 548,047</b>	<b>\$ 256,822</b>

See Independent Auditors' Report

<u>California Law Enforcement Eqpt. Program</u>	<u>Special Revenue Funds</u>		<u>Debt Service Fund</u>		<u>Totals</u>
	<u>Traffic Congestion</u>	<u>Supplemental Law Enforce- ment Services</u>	<u>Rancho Santa Margarita Non-Profit</u>		
\$ 197	\$ -	\$ 137,154	\$ -	\$ 2,310,742	
-	-	-	848,392	848,392	
-	-	-	-	256,386	
-	1	90	-	2,018	
<u>\$ 197</u>	<u>\$ 1</u>	<u>\$ 137,244</u>	<u>\$ 848,392</u>	<u>\$ 3,417,538</u>	
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,143</u>	
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,143</u>	
-	-	-	848,392	848,392	
<u>197</u>	<u>1</u>	<u>137,244</u>	<u>-</u>	<u>2,547,003</u>	
<u>197</u>	<u>1</u>	<u>137,244</u>	<u>848,392</u>	<u>3,395,395</u>	
<u>\$ 197</u>	<u>\$ 1</u>	<u>\$ 137,244</u>	<u>\$ 848,392</u>	<u>\$ 3,417,538</u>	

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**CITY OF RANCHO SANTA MARGARITA  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>Special Revenue Funds</u>		
	<u>Gas Tax</u>	<u>Measure M</u>	<u>Air Quality Management District</u>
Revenues:			
Intergovernmental	\$ 1,393,329	\$ 598,212	\$ 60,142
Investment income	9,412	4,501	1,691
Total revenues	<u>1,402,741</u>	<u>602,713</u>	<u>61,833</u>
Expenditures:			
Current:			
Public safety	-	-	-
Public works	267,517	-	-
Debt service:			
Principal retirement	-	-	-
Interest	-	-	-
Total expenditures	<u>267,517</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>1,135,224</u>	<u>602,713</u>	<u>61,833</u>
Other financing sources (uses):			
Transfers in	-	21,441	-
Transfers out	(926,328)	(800,346)	(52,996)
Total financing sources (uses)	<u>(926,328)</u>	<u>(778,905)</u>	<u>(52,996)</u>
Net change in fund balances	208,896	(176,192)	8,837
Fund balances, beginning of year	<u>1,395,796</u>	<u>724,239</u>	<u>247,985</u>
Fund balances, end of year	<u>\$ 1,604,692</u>	<u>\$ 548,047</u>	<u>\$ 256,822</u>

See Independent Auditors' Report

<u>Special Revenue Funds</u>			<u>Debt Service</u>	
<u>California Law Enforcement Eqpt. Program</u>	<u>Traffic Congestion</u>	<u>Supplemental Law Enforcement Services</u>	<u>Rancho Santa Margarita Non-Profit</u>	<u>Totals</u>
\$ -	\$ -	\$ 100,000	\$ -	\$ 2,151,683
-	598	670	4,794	21,666
<u>-</u>	<u>598</u>	<u>100,670</u>	<u>4,794</u>	<u>2,173,349</u>
-	-	59,109	-	59,109
-	-	-	-	267,517
-	-	-	305,000	305,000
-	-	-	531,260	531,260
<u>-</u>	<u>-</u>	<u>59,109</u>	<u>836,260</u>	<u>1,162,886</u>
-	598	41,561	(831,466)	1,010,463
-	-	-	827,587	849,028
-	(1,795)	-	-	(1,781,465)
<u>-</u>	<u>(1,795)</u>	<u>-</u>	<u>827,587</u>	<u>(932,437)</u>
-	(1,197)	41,561	(3,879)	78,026
<u>197</u>	<u>1,198</u>	<u>95,683</u>	<u>852,271</u>	<u>3,317,369</u>
<u>\$ 197</u>	<u>\$ 1</u>	<u>\$ 137,244</u>	<u>\$ 848,392</u>	<u>\$ 3,395,395</u>

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## **SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**

The following Schedules of Revenues, Expenditures and Changes in Fund Balance are presented:

### Special Revenue Funds

- Gas Tax Measure M
- Air Quality Management District
- California Law Enforcement Equipment Program
- Traffic congestion
- Supplemental Law Enforcement Services

### Debt Service Fund

- Non-Profit Debt Service

### Capital Projects Fund

- Capital Projects

See Independent Auditors' Report

**CITY OF RANCHO SANTA MARGARITA  
GAS TAX FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>(NEGATIVE)</u>
Budgetary fund balances, July 1	\$ 928,282	\$ 928,282	\$ 1,395,796	\$ 467,514
Resources (inflows):				
Intergovernmental	1,339,950	1,339,950	1,393,329	53,379
Investment income	4,050	4,050	9,412	5,362
Transfers from other funds	-	-	-	-
Amounts available for appropriation	<u>2,272,282</u>	<u>2,272,282</u>	<u>2,798,537</u>	<u>526,255</u>
Charges to appropriations (outflows):				
Public works	316,920	316,920	267,517	49,403
Transfers to other funds	1,203,353	1,203,353	926,328	277,025
Total charges to appropriations	<u>1,520,273</u>	<u>1,520,273</u>	<u>1,193,845</u>	<u>326,428</u>
Budgetary fund balances, June 30	<u>\$ 752,009</u>	<u>\$ 752,009</u>	<u>\$ 1,604,692</u>	<u>\$ 852,683</u>

See Independent Auditors' Report

**CITY OF RANCHO SANTA MARGARITA  
MEASURE M FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>(NEGATIVE)</u>
Budgetary fund balances, July 1	\$ 926,681	\$ 926,681	\$ 724,239	\$ (202,442)
Resources (inflows):				
Intergovernmental	555,531	555,531	598,212	42,681
Investment income	4,469	4,469	4,501	32
Transfers in from other funds	-	-	21,441	21,441
Amounts available for appropriation	<u>1,486,681</u>	<u>1,486,681</u>	<u>1,348,393</u>	<u>(138,288)</u>
Charges to appropriations (outflows):				
Transfers to other funds	<u>940,357</u>	<u>940,357</u>	<u>800,346</u>	<u>140,011</u>
Total charges to appropriations	<u>940,357</u>	<u>940,357</u>	<u>800,346</u>	<u>140,011</u>
Budgetary fund balances, June 30	<u>\$ 546,324</u>	<u>\$ 546,324</u>	<u>\$ 548,047</u>	<u>\$ 1,723</u>

See Independent Auditors' Report

**CITY OF RANCHO SANTA MARGARITA  
AIR QUALITY MANAGEMENT DISTRICT FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
Budgetary fund balances, July 1	\$ 258,953	\$ 258,953	\$ 247,985	\$ (10,968)
Resources (inflows):				
Intergovernmental	59,392	59,392	60,142	750
Investment income	608	608	1,691	1,083
Amounts available for appropriation	<u>318,953</u>	<u>318,953</u>	<u>309,818</u>	<u>(9,135)</u>
Charges to appropriations (outflows):				
Transfers to other funds	<u>64,000</u>	<u>64,000</u>	<u>52,996</u>	<u>11,004</u>
Total charges to appropriations	<u>64,000</u>	<u>64,000</u>	<u>52,996</u>	<u>11,004</u>
Budgetary fund balances, June 30	<u>\$ 254,953</u>	<u>\$ 254,953</u>	<u>\$ 256,822</u>	<u>\$ 1,869</u>

See Independent Auditors' Report

**CITY OF RANCHO SANTA MARGARITA  
CALIFORNIA LAW ENFORCEMENT EQUIPMENT PROGRAM FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>(NEGATIVE)</u>
Budgetary fund balances, July 1	\$ 197	\$ 197	\$ 197	\$ -
Resources (inflows):				
Intergovernmental	-	-	-	-
Investment income	-	-	-	-
Amounts available for appropriation	<u>197</u>	<u>197</u>	<u>197</u>	<u>-</u>
Charges to appropriations (outflows):				
Public safety - capital outlay	-	-	-	-
Total charges to appropriations	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Budgetary fund balances, June 30	<u><u>197</u></u>	<u><u>197</u></u>	<u><u>197</u></u>	<u><u>-</u></u>

See Independent Auditors' Report

**CITY OF RANCHO SANTA MARGARITA  
TRAFFIC CONGESTION FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>(NEGATIVE)</u>
Budgetary fund balances, July 1	\$ 404,802	\$ 404,802	\$ 1,198	\$ (403,604)
Resources (inflows):				
Intergovernmental	-	-	-	-
Investment income	-	-	598	598
Amounts available for appropriation	<u>404,802</u>	<u>404,802</u>	<u>1,796</u>	<u>(403,006)</u>
Charges to appropriations (outflows):				
Transfers to other funds	<u>169,556</u>	<u>169,556</u>	<u>1,795</u>	<u>167,761</u>
Total charges to appropriations	<u>169,556</u>	<u>169,556</u>	<u>1,795</u>	<u>167,761</u>
Budgetary fund balances, June 30	<u>\$ 235,246</u>	<u>\$ 235,246</u>	<u>\$ 1</u>	<u>\$ (235,245)</u>

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**CITY OF RANCHO SANTA MARGARITA  
SUPPLEMENTARY LAW ENFORCEMENT SERVICES FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>(NEGATIVE)</u>
Budgetary fund balances, July 1	\$ 95,063	\$ 95,063	\$ 95,683	\$ 620
Resources (inflows):				
Intergovernmental	-	-	100,000	100,000
Investment income	-	-	670	670
Amounts available for appropriation	<u>95,063</u>	<u>95,063</u>	<u>196,353</u>	<u>101,290</u>
Charges to appropriations (outflows):				
Public safety - current	65,133	65,133	59,109	6,024
Public safety - capital outlay	-	-	-	-
Total charges to appropriations	<u>65,133</u>	<u>65,133</u>	<u>59,109</u>	<u>6,024</u>
Budgetary fund balances, June 30	<u>\$ 29,930</u>	<u>\$ 29,930</u>	<u>\$ 137,244</u>	<u>\$ 107,314</u>

See Independent Auditors' Report

**CITY OF RANCHO SANTA MARGARITA  
NON-PROFIT DEBT SERVICE FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
Budgetary fund balances, July 1	\$ 854,699	\$ 854,699	\$ 852,271	\$ (2,428)
Resources (inflows):				
Investment income	-	-	4,794	4,794
Transfers from other funds	836,260	836,260	827,587	(8,673)
Amounts available for appropriation	<u>1,690,959</u>	<u>1,690,959</u>	<u>1,684,652</u>	<u>(6,307)</u>
Charges to appropriations (outflows):				
Principal Retirement	305,000	305,000	305,000	-
Interest	531,260	531,260	531,260	-
Total charges to appropriations	<u>836,260</u>	<u>836,260</u>	<u>836,260</u>	<u>-</u>
Budgetary fund balances, June 30	<u>\$ 854,699</u>	<u>\$ 854,699</u>	<u>\$ 848,392</u>	<u>\$ (6,307)</u>

See Independent Auditors' Report



**CITY OF RANCHO SANTA MARGARITA  
CAPITAL PROJECTS FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>(NEGATIVE)</u>
Budgetary fund balances, July 1	\$ 1,042,144	\$ 1,042,144	\$ 1,111,846	\$ 69,702
Resources (inflows):				
Intergovernmental	701,000	701,000	253,061	(447,939)
Investment income	-	-	7,221	7,221
Transfers from other funds	1,385,000	1,385,000	1,062,254	(322,746)
Amounts available for appropriation	<u>3,128,144</u>	<u>3,128,144</u>	<u>2,434,382</u>	<u>(693,762)</u>
Charges to appropriations (outflows):				
Public works	1,405,000	1,405,000	466,798	938,202
Capital Outlay	1,121,000	1,121,000	862,865	258,135
Transfers to other funds	-	-	21,441	(21,441)
Total charges to appropriations	<u>2,526,000</u>	<u>2,526,000</u>	<u>1,351,104</u>	<u>1,174,896</u>
Budgetary fund balances, June 30	<u>\$ 602,144</u>	<u>\$ 602,144</u>	<u>\$ 1,083,278</u>	<u>\$ 481,134</u>

See Independent Auditors' Report



# Statistical Section

City of Rancho Santa Margarita, California

STATISTICAL SECTION

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## STATISTICAL SECTION

This section of the City of Rancho Santa Margarita's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the city's overall financial health.

Financial Trends Schedules – These schedules contain trend information to help the reader understand how the city's financial performance and well-being have changed over time.

- Net Assets by Component
- Changes in Net Assets
- Fund Balances of Governmental Funds
- Changes in Fund Balances of Governmental Funds
- Taxable Sales by Category
- Tax Revenues by Source – Governmental Funds

Revenue Capacity Schedules – These schedules contain information to help the reader assess the factors affecting the city's ability to generate its property and sales taxes.

- Assessed Value and Estimated Actual Value of Taxable Property
- Direct and Overlapping Property Tax Rates
- Principal Property Tax Payers
- Property Tax Levies and Collections

Debt Capacity Schedules – These schedules present information to help the reader assess the affordability of the city's current levels of outstanding debt and the city's ability to issue additional debt in the future.

- Ratio of Outstanding Debt by Type
- Ratio of General Bonded Debt Outstanding
- Direct and Overlapping Bonded Debt
- Legal Debt Margin

Demographic and Economic Information – These schedules offer demographic and economic indicators to help the reader understand the environment within which the city's financial activities take place and to help make comparisons over time and with other governments.

- Demographic and Economic Statistics
- Principal Employers
- Full-time and Part-time City Employees by Function

Operating Information – These schedules contain information about the city's operations and resources to help the reader understand how the city's financial information related to the services the city provides and the activities it performs.

- Capital Asset Statistics
- Operating Indicators by Function
- Miscellaneous Statistics

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Report for the relevant year.

**City of Rancho Santa Margarita**  
**Net Assets by Component**  
**Last Ten Fiscal Years**

	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>GOVERNMENTAL ACTIVITIES</b>					
Invested in Capital Assets, Net of Related Debt	\$ 110,116,868	\$ 111,200,329	\$ 112,583,691	\$ 111,994,564	\$ 110,152,663
Restricted for:					
Public Safety	137,441	95,880	128,859	138,057	178,529
Public Works	2,468,544	3,481,064	4,925,379	4,581,004	4,625,130
Debt Service	848,392	852,271	854,699	853,179	868,427
Unrestricted	17,147,323	14,328,948	13,078,887	13,623,344	16,733,118
Total Governmental Activities Net Assets	<u>\$ 130,718,568</u>	<u>\$ 129,958,492</u>	<u>\$ 131,571,515</u>	<u>\$ 131,190,148</u>	<u>\$ 132,557,867</u>
<b>PRIMARY GOVERNMENT</b>					
Invested in Capital Assets, Net of Related Debt	\$ 110,116,868	\$ 111,200,329	\$ 112,583,691	\$ 111,994,564	\$ 110,152,663
Restricted for:					
Public Safety	137,441	95,880	128,859	138,057	178,529
Public Works	2,468,544	3,481,064	4,925,379	4,581,004	4,625,130
Debt Service	848,392	852,271	854,699	853,179	868,427
Unrestricted	17,147,323	14,328,948	13,078,887	13,623,344	16,733,118
Total Primary Government Net Assets	<u>\$ 130,718,568</u>	<u>\$ 129,958,492</u>	<u>\$ 131,571,515</u>	<u>\$ 131,190,148</u>	<u>\$ 132,557,867</u>

Source: City Finance Division, Comprehensive Annual Financial Report (2003-2012)

<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
\$ 112,633,691	\$ 114,598,789	\$ 116,793,296	\$ 115,726,409	\$ 113,405,225
210,445	224,639	198,267	181,637	208,194
3,218,553	5,044,761	4,089,607	7,172,790	3,462,045
868,883	868,498	870,578	1,423,415	-
16,165,385	11,209,879	7,611,925	4,295,039	10,968,241
<b>\$ 133,096,957</b>	<b>\$ 131,946,566</b>	<b>\$ 129,563,673</b>	<b>\$ 128,799,290</b>	<b>\$ 128,043,705</b>

\$ 112,633,691	\$ 114,598,789	\$ 116,793,296	\$ 115,726,409	\$ 113,405,225
210,445	224,639	198,267	181,637	208,194
3,218,553	5,044,761	4,089,607	7,172,790	3,462,045
868,883	868,498	870,578	1,423,415	-
16,165,385	11,209,879	7,611,925	4,295,039	10,968,241
<b>\$ 133,096,957</b>	<b>\$ 131,946,566</b>	<b>\$ 129,563,673</b>	<b>\$ 128,799,290</b>	<b>\$ 128,043,705</b>

**City of Rancho Santa Margarita**  
**Changes in Net Assets**  
**Last Ten Fiscal Years**

	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>EXPENSES</b>				
<b>Governmental Activities:</b>				
General Government	\$ 3,880,315	\$ 3,774,471	\$ 4,180,760	\$ 4,542,993
Building & Planning	948,779	1,147,306	1,075,710	1,064,493
Public Safety	7,564,128	7,527,342	7,829,913	8,040,476
Public Works	4,431,877	6,462,078	4,601,904	4,786,938
Capital Outlay	448,843	-	-	-
Interest Expense	528,210	539,942	550,222	560,110
Total Governmental Activities Expenses	<u>17,802,152</u>	<u>19,451,139</u>	<u>18,238,509</u>	<u>18,995,010</u>
<b>PROGRAM REVENUES</b>				
<b>Governmental Activities:</b>				
Charges for Services:				
General Government	391,960	421,986	373,889	345,078
Building and Planning	535,533	570,911	470,654	482,309
Public Safety	281,666	253,103	269,325	274,251
Public Works	225,528	106,590	31,440	61,750
Operating Contributions and Grants	2,965,391	3,169,109	3,170,366	2,758,111
Capital Contributions and Grants	-	-	-	-
Total Governmental Activities Program Revenues	<u>4,400,078</u>	<u>4,521,699</u>	<u>4,315,674</u>	<u>3,921,499</u>
<b>Total Net Revenues (Expenses)</b>	<u>\$ (13,402,074)</u>	<u>\$ (14,929,440)</u>	<u>\$ (13,922,835)</u>	<u>\$ (15,073,511)</u>
<b>GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS</b>				
<b>Governmental Activities:</b>				
Taxes:				
Property Taxes	\$ 1,999,106	\$ 2,037,141	\$ 1,465,724	\$ 2,199,059
Sales Taxes	5,348,047	5,167,358	4,481,302	5,145,381
Real Property Transfer Taxes	230,916	235,626	217,950	206,466
Motor Vehicle License Fees	-	-	-	-
Motor Vehicle in-lieu tax, unrestricted intergovernmental	3,807,220	3,790,596	3,820,297	4,012,068
Prop 1A, unrestricted intergovernmental	-	-	598,935	-
Franchise fees	1,414,887	1,445,587	1,417,649	1,453,986
Investment Income	120,130	99,019	123,100	422,358
Contribution from other government entity - Settlement Agreement	-	-	2,033,649	-
Other	1,241,844	541,090	145,595	266,475
Total Governmental Activities	<u>14,162,150</u>	<u>13,316,417</u>	<u>14,304,201</u>	<u>13,705,793</u>
<b>Changes in Net Assets</b>	<u>\$ 760,076</u>	<u>\$ (1,613,023)</u>	<u>\$ 381,366</u>	<u>\$ (1,367,718)</u>

Source: City Finance Division, Comprehensive Annual Financial Report (2003-2012)

	2008	2007	2006	2005	2004	2003
\$	4,794,245	\$ 4,235,381	\$ 4,505,272	\$ 5,016,167	\$ 4,674,016	\$ 4,962,868
	1,148,291	1,089,509	972,352	1,139,485	1,005,053	970,918
	7,642,333	6,440,965	6,033,988	5,746,796	5,437,001	4,822,527
	6,080,878	7,342,870	5,401,937	4,694,739	4,332,835	6,365,863
	-	-	-	-	-	-
	569,088	707,434	577,548	597,540	688,289	107,250
	<u>20,234,835</u>	<u>19,816,159</u>	<u>17,491,097</u>	<u>17,194,727</u>	<u>16,137,194</u>	<u>17,229,426</u>
	31,773	19,839	26,188	40,136	67,114	38,275
	539,869	540,904	508,793	864,537	670,081	638,749
	320,097	338,571	363,045	278,978	296,973	260,897
	177,512	94,822	38,709	117,702	93,083	80,040
	3,055,388	3,582,070	3,014,400	1,039,721	1,888,519	2,299,941
	-	-	-	1,512,370	1,374,956	23,034
	<u>4,124,639</u>	<u>4,576,206</u>	<u>3,951,135</u>	<u>3,853,444</u>	<u>4,390,726</u>	<u>3,340,936</u>
\$	<u>(16,110,196)</u>	<u>(15,239,953)</u>	<u>(13,539,962)</u>	<u>(13,341,283)</u>	<u>(11,746,468)</u>	<u>(13,888,490)</u>
\$	2,261,933	\$ 2,015,510	\$ 1,449,752	\$ 1,528,596	\$ 1,563,215	\$ 1,459,741
	6,400,424	6,325,108	6,365,432	5,935,350	5,621,674	4,886,699
	192,964	294,601	476,045	476,358	493,220	410,416
	-	-	-	-	-	3,696,539
	4,126,226	4,943,750	5,275,527	4,290,512	3,498,199	-
	-	-	-	-	-	-
	1,413,134	1,407,872	1,245,702	1,012,122	1,027,076	911,547
	904,939	1,054,180	631,305	364,559	214,800	341,895
	-	-	-	-	-	-
	271,486	349,323	479,089	501,701	104,656	17,363
	<u>15,571,106</u>	<u>16,390,344</u>	<u>15,922,852</u>	<u>14,109,198</u>	<u>12,522,840</u>	<u>11,724,200</u>
\$	<u>(539,090)</u>	<u>1,150,391</u>	<u>2,382,890</u>	<u>767,915</u>	<u>776,372</u>	<u>(2,164,290)</u>



**City of Rancho Santa Margarita  
Fund Balances of Governmental Funds  
Last Ten Fiscal Years**

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>GENERAL FUND</b>				
Nonspendable	\$ 183,016	\$ -	\$ -	\$ -
Restricted	58,982	-	-	-
Committed	172,428	55,892	59,085	37,810
Assigned	7,877,157	7,421,985	13,463,475	13,955,115
Unassigned	7,618,809	7,327,526	3,192,501	2,639,821
Total General Fund	<u>\$ 15,910,392</u>	<u>\$ 14,805,403</u>	<u>\$ 13,522,560</u>	<u>\$ 13,992,925</u>
 <b>ALL OTHER GOVERNMENTAL FUNDS</b>				
Committed for encumbrances	\$ 188,906	\$ 28,839	\$ 1,113,041	\$ 87,264
Restricted for debt service	848,392	852,271	854,699	853,178
Restricted roads, grants, parks	2,547,003	2,465,098	-	-
Assigned, Reported in:				
Capital Project Funds	894,372	-	-	-
Unassigned, Reported in:				
Capital Project Funds	-	1,083,007	748,696	1,991,978
Other	-	-	-	-
Total All Other Governmental Funds	<u>\$ 4,478,673</u>	<u>\$ 4,429,215</u>	<u>\$ 2,716,436</u>	<u>\$ 2,932,420</u>

Source: City Finance Division, HdL, Coren & Cone, Comprehensive Annual Financial Report (2003-2012)

<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
157,204	46,426	-	-	-	10,231
16,904,167	16,042,455	12,778,446	9,578,780	12,660,311	11,712,397
2,708,598	2,602,150	3,877,746	3,118,222	3,943,369	3,498,174
<u>\$ 17,061,371</u>	<u>\$ 16,088,881</u>	<u>\$ 12,778,446</u>	<u>\$ 9,578,780</u>	<u>\$ 12,660,311</u>	<u>\$ 11,722,628</u>
\$ 227,552	\$ -	\$ -	\$ -	\$ 86,405	\$ 115,383
868,427	868,883	868,498	870,578	1,423,415	-
-	-	-	-	-	-
-	-	-	-	-	-
1,867,508	826,848	1,391,654	1,169,652	2,608,808	409,545
-	-	-	-	1,072,021	-
<u>\$ 2,963,487</u>	<u>\$ 1,695,731</u>	<u>\$ 2,260,152</u>	<u>\$ 2,040,230</u>	<u>\$ 5,190,649</u>	<u>\$ 524,928</u>

**City of Rancho Santa Margarita**  
**Changes in Fund Balances of Governmental Funds**  
**Last Ten Fiscal Years**

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>REVENUES</b>				
Taxes	\$ 7,578,069	\$ 7,440,125	\$ 6,763,911	\$ 7,550,906
Fees & Permits	2,072,595	1,793,566	1,655,184	1,736,087
Intergovernmental	6,614,126	6,959,705	6,990,663	6,770,179
Charges for Services	657,598	755,808	638,448	607,036
Investment Income	120,130	99,019	123,100	422,358
Fines, forfeits and penalties	277,866	248,803	269,325	274,251
Other	571,964	541,090	145,595	266,475
Total Revenues	<u>17,892,348</u>	<u>17,838,116</u>	<u>16,586,226</u>	<u>17,627,292</u>
<b>EXPENDITURES</b>				
Current:				
General Government	3,856,873	3,739,202	4,097,146	4,496,860
Building and Planning	954,291	1,142,245	1,066,318	1,059,697
Public Safety	7,560,345	7,488,564	7,823,666	8,019,896
Public Works	2,642,796	4,193,615	2,340,380	2,545,637
Capital Outlay	887,336	633,846	549,624	3,831,109
Debt Service:				
Principal Retirement	305,000	295,000	290,000	280,000
Interest	531,260	542,523	552,760	562,385
Service fees & other charges	-	-	-	-
Total Expenditures	<u>16,737,901</u>	<u>18,034,995</u>	<u>16,719,894</u>	<u>20,795,584</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,154,447</u>	<u>(196,879)</u>	<u>(133,668)</u>	<u>(3,168,292)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	2,630,493	3,495,811	2,361,221	2,592,624
Transfers Out	(2,630,493)	(3,495,811)	(2,361,221)	(2,592,624)
Issuance of Debt	-	-	-	-
Total Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>1,154,447</u>	<u>(196,879)</u>	<u>(133,668)</u>	<u>(3,168,292)</u>
Fund Balances, beginning of year	19,234,618	19,431,497	19,565,165	22,733,457
Fund Balances, end of year	<u>\$ 20,389,065</u>	<u>\$ 19,234,618</u>	<u>\$ 19,431,497</u>	<u>\$ 19,565,165</u>
<b>DEBT SERVICE AS A PERCENTAGE OF NON CAPITAL EXPENDITURES</b>	5.13%	4.81%	5.21%	4.97%

Note: Excludes infrastructure per Governmental Accounting Standards Board Statement No. 34

Source: City Finance Division, Comprehensive Annual Financial Report (2003-2012)

	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
\$	8,855,321	\$ 8,635,219	\$ 8,291,229	\$ 7,940,304	\$ 7,678,109	\$ 6,756,856
	1,835,160	1,764,706	1,546,410	1,580,822	1,507,143	1,473,745
	8,381,614	7,325,820	8,288,428	6,842,601	6,161,674	6,022,030
	327,128	298,731	274,483	453,674	350,211	191,651
	904,939	1,054,180	631,304	364,561	214,800	341,895
	320,097	338,571	363,044	278,978	296,973	260,896
	271,486	349,323	479,089	501,701	704,656	18,063
	<u>20,895,745</u>	<u>19,766,550</u>	<u>19,873,987</u>	<u>17,962,641</u>	<u>16,913,566</u>	<u>15,065,136</u>
	4,740,844	4,807,153	4,902,918	4,876,998	4,733,646	5,032,730
	1,134,310	1,088,534	973,131	1,141,458	1,003,705	970,918
	7,623,419	6,434,622	6,028,949	5,740,329	5,411,742	4,778,075
	3,865,499	5,140,138	3,204,397	2,560,259	2,774,830	4,642,292
	348,737	250,138	9,932	10,121,622	9,073,287	398,628
	265,000	-	-	-	-	-
	571,241	575,547	575,548	575,540	239,811	-
	-	-	-	-	426,478	-
	<u>18,549,050</u>	<u>18,296,132</u>	<u>15,694,875</u>	<u>25,016,206</u>	<u>23,663,499</u>	<u>15,822,643</u>
	<u>2,346,695</u>	<u>1,470,418</u>	<u>4,179,112</u>	<u>(7,053,565)</u>	<u>(6,749,933)</u>	<u>(757,507)</u>
	2,271,638	3,310,023	2,244,604	7,644,226	1,534,764	2,956,907
	(2,271,638)	(3,310,023)	(2,244,604)	(7,644,226)	(1,534,764)	(2,956,907)
	-	-	-	-	12,795,000	-
	-	-	-	-	12,795,000	-
	<u>2,346,695</u>	<u>1,470,418</u>	<u>4,179,112</u>	<u>(7,053,565)</u>	<u>6,045,067</u>	<u>(757,507)</u>
	20,386,762	18,916,344	14,737,232	21,790,797	15,745,730	16,503,237
\$	<u>22,733,457</u>	<u>\$ 20,386,762</u>	<u>\$ 18,916,344</u>	<u>\$ 14,737,232</u>	<u>\$ 21,790,797</u>	<u>\$ 15,745,730</u>
	4.59%	3.19%	3.67%	3.86%	4.57%	0.00%

**City of Rancho Santa Margarita**  
**Taxable Sales by Category**  
**Last Ten Fiscal Years**  
**(In Thousands)**

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Apparel Stores	*	\$ 9,426	\$ 9,957	\$ 9,904
General Merchandise	*	59,349	57,149	56,695
Food Stores	*	24,911	24,534	25,293
Eating & Drinking Places:	*	59,009	57,543	57,942
Building Materials	*	37,355	35,049	32,870
Auto Dealers & Supplies	*	105,688	83,057	80,635
Service Stations	*	62,197	50,757	42,020
Other Retail Stores	*	63,075	60,604	61,961
All Other Outlets	*	109,967	104,163	95,901
<b>Total</b>	*	<u>\$ 530,977</u>	<u>\$ 482,813</u>	<u>\$ 463,221</u>
<b>City Direct Sales Tax Rate</b>	0.75%	0.75%	0.75%	0.85%

\*Data for fiscal year 2011-2012 not available at this time.

Note: Data for fiscal years were estimated by dividing the respective calendar year by two and adding half of each year together.

Source: California State Board of Equalization, HdL Companies

<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
\$ 10,510	\$ 12,301	\$ 12,741	\$ 12,922	\$ 14,622	\$ 15,387
57,874	62,512	60,200	54,495	52,474	49,577
25,673	26,690	27,624	25,759	24,115	24,847
59,973	64,279	62,260	59,106	54,695	50,429
38,815	46,435	46,825	47,693	49,027	42,772
132,705	175,569	191,710	179,802	166,490	135,801
52,205	46,631	45,191	41,902	36,443	30,668
76,683	86,573	93,810	89,502	78,232	71,227
115,820	134,217	129,245	120,005	129,832	115,692
<u>\$ 570,258</u>	<u>\$ 655,207</u>	<u>\$ 669,606</u>	<u>\$ 631,186</u>	<u>\$ 605,930</u>	<u>\$ 536,400</u>
0.75%	0.75%	0.75%	0.75%	1.00%	1.00%

**City of Rancho Santa Margarita**  
**Tax Revenues by Source - Governmental Funds**  
**Last Ten Fiscal Years**

<b>Fiscal Year</b>	<b>Sales and Use Tax</b>	<b>Property Tax</b>	<b>Real Property Transfer</b>	<b>Total</b>
2012	\$ 5,348,047	\$ 1,999,106	\$ 230,916	\$ 7,578,069
2011	5,167,358	2,037,141	235,626	7,440,125
2010	4,481,302	2,064,659	217,950	6,763,911
2009	5,145,381	2,199,059	206,466	7,550,906
2008	6,400,424	2,261,933	192,964	8,855,321
2007	6,325,108	2,015,510	294,601	8,635,219
2006	6,365,432	1,449,752	476,045	8,291,229
2005	5,935,350	1,528,596	476,358	7,940,304
2004	5,621,674	1,563,215	493,220	7,678,109
2003	4,886,699	1,459,741	410,416	6,756,856

Source: City Finance Division, Comprehensive Annual Financial Report (2003-2012)

**City of Rancho Santa Margarita**  
**Assessed Value and Estimated Actual Value of Taxable Property**  
**Last Ten Fiscal Years**

<b>Fiscal Year</b>	<b>Residential Property</b>	<b>Commercial Property</b>	<b>Industrial Property</b>	<b>Miscellaneous Property</b>	<b>Less: Tax-Exempt Property</b>	<b>Total Taxable Assessed Value (1)</b>	<b>Total Direct Rate</b>
2012	\$ 5,531,375,422	\$ 471,169,396	\$ 408,247,722	\$ 214,027,762	-	\$ 6,624,820,302	0.03%
2011	5,494,764,386	477,885,672	413,512,495	216,438,704	-	6,602,601,257	0.03%
2010	5,427,807,446	492,989,116	441,113,787	254,584,859	-	6,616,495,208	0.03%
2009	5,732,867,423	380,038,052	305,419,495	479,713,183	-	6,898,038,153	0.03%
2008	5,819,200,351	373,671,244	286,424,261	497,659,141	-	6,976,954,997	0.03%
2007	5,477,649,646	370,791,656	269,361,787	453,170,650	-	6,570,973,739	0.03%
2006	4,990,738,000	353,751,230	261,808,655	383,406,176	-	5,989,704,061	0.03%
2005	4,555,259,930	342,546,269	238,993,681	365,193,604	-	5,501,993,484	0.03%
2004	4,193,972,829	308,585,993	221,362,605	324,985,962	-	5,048,907,389	0.03%
2003	3,910,985,949	259,633,179	205,372,612	321,428,759	-	4,697,420,499	0.03%

(1) Note: Estimated value of taxable property not readily available in the State of California

Source: HdL Companies



**City of Rancho Santa Margarita**  
**Direct and Overlapping Property Tax Rates**  
**Last Ten Fiscal Years**  
**(Rate per \$100 of Taxable Value)**

<u>Agency</u>	<u>2011/12</u>	<u>2010/11</u>	<u>2009/10</u>	<u>2008/09</u>
<b>Basic Levy<sup>1,5</sup></b>	1.00000	1.00000	1.00000	1.00000
Capistrano Union	0.01101	0.01105	0.01077	0.00971
Metropolitan Water District Oc Annex #15	0.00000	0.00000	0.00000	0.00000
Metropolitan Water District	0.00370	0.00370	0.00430	0.00430
Metropolitan Water District Annex	0.00370	0.19120	0.19180	0.19180
Saddleback Valley Unified	0.03163	0.03194	0.03043	0.02834
Santa Margarita Water District	4.21220	4.22640	4.98790	4.03430
<b>Total Direct &amp; Overlapping<sup>2</sup> Tax Rates</b>	<b>5.26224</b>	<b>5.46429</b>	<b>6.22520</b>	<b>5.26845</b>
<b>City's Share of 1% Levy Per Prop 13<sup>3</sup></b>	0.02978	0.02978	0.02978	0.02978
<b>Total Direct Rate<sup>4,6</sup></b>	0.02978	0.02978	0.02978	0.02978

**Notes:**

<sup>1</sup>In 1978, California voters passed Proposition 13 which set the property tax rate at a 1.00% fixed amount. This 1.00 % is shared by all taxing agencies in which the subject property resides within. In addition to the 1.00% fixed amount, property owners are charged taxes as a % of assessed property values for the payment of any voter approved bonds.

<sup>2</sup>Overlapping rates are those of local and county governments that apply to property owners within the City. Not all overlapping rates apply to all city property owners.

<sup>3</sup>City's Share of 1% Levy is based on the share of the general fund tax rate area with the largest net taxable value within the city. ERAF general fund tax shifts may not be included in tax ratio figures.

<sup>4</sup>Total Direct Rate is the weighted average of all individual direct rates applied by the City.

<sup>5</sup>Under Article IXXXXA of the California Constitution, local agencies within the State of California can only levy a tax rate for general obligation bonds. In addition, Article XIII A of the California Constitution specifies that the counties within the State of California may levy a basic tax rate, distributing the proceeds to the proper agencies.

<sup>6</sup>This tax rate does not include any Mello-Roos tax or special assessments.

Source: Orange County Assessor 2002/03 - 2011/12 Tax Rate Table

<b>2007/08</b>	<b>2006/07</b>	<b>2005/06</b>	<b>2004/05</b>	<b>2003/04</b>	<b>2002/03</b>
1.00000	1.00000	1.00000	1.00000	1.00000	1.00000
0.01019	0.00947	0.01078	0.01191	0.01292	0.01054
0.00000	0.00000	0.00000	0.00000	0.00000	0.01020
0.00450	0.00470	0.00520	0.00580	0.00610	0.00670
0.19200	0.19220	0.19270	0.19330	0.19360	0.19420
0.02668	0.03694	0.03079	0.03626	0.00000	0.00000
2.78400	2.85940	3.02670	6.53500	2.65500	2.55000
<b>4.01737</b>	<b>4.10271</b>	<b>4.26617</b>	<b>7.78227</b>	<b>3.86762</b>	<b>3.77164</b>
0.02978	0.02978	0.02978	0.02978	0.02978	0.02978
0.02978	0.02978	0.02978	0.02978	0.02978	0.02985

**City of Rancho Santa Margarita  
Principal Property Tax Payers  
Current Year and Nine Years Ago**

<u>Taxpayer</u>	<u>2012</u>			<u>2003</u>		
	<u>Total Assessed Value</u>	<u>Percentage of Total City Taxable Assessed Value</u>	<u>Rank</u>	<u>Total Assessed Value</u>	<u>Percentage of Total City Taxable Assessed Value</u>	<u>Rank</u>
Applied Medical Resources Corporation	\$ 120,509,458	1.82%	1			
El Prado LLC	70,414,643	1.06%	2			
BRE Properties Inc.	45,397,328	0.69%	3	\$ 40,443,315	0.86%	3
Villa La Paz Partners LP	36,951,239	0.56%	4	32,045,502	0.68%	4
Antonio Acquisition Co. LLC	34,530,987	0.52%	5	26,834,494	0.57%	7
CoxCom Inc	32,478,905	0.49%	6			
Cox Com Inc (Orange)	26,887,605	0.41%	7	65,258,424	1.39%	1
KRC Santa Margarita	25,505,519	0.38%	8	21,549,847	0.46%	9
Crescent Limited Partnership	24,359,667	0.37%	9	21,125,640	0.45%	10
FG RSM Senior Apartment	24,072,418	0.36%	10			
Northwestern Mutual Life				41,758,361	0.89%	2
ERP Operating LP				28,410,047	0.60%	5
Sanyo Foods Corporation				26,876,266	0.57%	6
Pacific Mutual Life				24,539,509	0.52%	8
Totals	<u>\$ 441,107,769</u>	<u>6.66%</u>		<u>\$ 328,841,405</u>	<u>7.00%</u>	

Source: County Tax Assessor's Office and County Tax Roll, The HdL Companies

**City of Rancho Santa Margarita  
Property Tax Levies and Collections  
Last Ten Fiscal Years**

<b>Fiscal Year</b>	<b>Total Tax Levy for Fiscal Year</b>	<b>Collected within the Fiscal Year of the Levy</b>		<b>Collections in Subsequent Years</b>	<b>Total Collections to Date</b>	
		<b>Amount</b>	<b>Percentage of Levy</b>		<b>Total Tax Collections</b>	<b>Percentage of Levy</b>
2012	\$ 1,898,324	\$ 1,778,174	93.67%	\$ 6,180	\$ 1,872,561	98.64%
2011	1,885,068	1,857,054	98.51%	62,096	1,857,053	98.51%
2010	1,886,013	1,234,269	65.44%	91,579	1,845,196	97.84%
2009	1,981,063	1,906,112	96.22%	93,040	1,912,628	96.55%
2008	1,986,995	1,910,346	96.14%	57,180	1,913,808	96.32%
2007	1,862,630	1,801,581	96.72%	33,987	1,813,177	97.34%
2006	1,445,537	1,419,756	98.20%	25,804	1,499,752	100.00%
2005	1,534,511	1,506,541	98.20%	22,087	1,528,596	99.61%
2004	1,575,818	1,549,698	98.30%	*	1,537,095	97.54%
2003	1,459,678	1,426,632	97.70%	*	1,459,741	100.00%
2002	1,467,648	1,430,843	97.50%	*	1,454,780	99.12%

\*Data prior to FY 04/05 not available.

Source: O.C. Auditor-controller, City Finance Division, Comprehensive Annual Financial Report (2003-2012)

**City of Rancho Santa Margarita  
Ratio of Outstanding Debt by Type  
Last Ten Fiscal Years**

<b>Fiscal Year</b>	<b>General Obligation Bonds</b>	<b>Lease Revenue Bonds</b>	<b>Certificates of Participation</b>	<b>Mitigation Obligation <sup>(3)</sup></b>	<b>Total Governmental Activities</b>	<b>As % of Personal Income <sup>(1)</sup></b>	<b>Per Capita <sup>(2)</sup></b>
2012	\$ -	\$ -	\$ 11,360,000	\$ -	11,360,000	0.59%	235
2011	-	-	11,665,000	-	11,665,000	0.58%	234
2010	-	-	11,960,000	-	11,960,000	0.55%	241
2009	-	-	12,250,000	-	12,250,000	0.60%	247
2008	-	-	12,530,000	-	12,530,000	0.80%	254
2007	-	-	12,795,000	600,000	13,395,000	0.83%	274
2006	-	-	12,795,000	1,000,000	13,795,000	0.85%	281
2005	-	-	12,795,000	1,000,000	13,795,000	*	282
2004	-	-	12,795,000	1,000,000	13,795,000	*	283
2003	-	-	12,795,000	1,000,000	13,795,000	*	284

<sup>(1)</sup> Assessed value used because actual value of taxable property not readily available in the State of California.

<sup>(2)</sup> See the Schedule of Demographic and Economic Statistics for personal income and population data.

<sup>(3)</sup> Pursuant to revenue neutrality agreements, upon incorporation in 2000, the City became obligated to make payments to Orange County to mitigate loss of County property and sales tax.

\*Data prior to fiscal year 2005-06 is not available.

Source: City Finance Division, Employment Development Department, State Department of Finance, U.S. Bureau of Census, and HdL Companies

**City of Rancho Santa Margarita  
Ratio of General Bonded Debt Outstanding  
Last Ten Fiscal Years**

<b>Fiscal Year</b>	<b>Population</b>	<b>Total General Obligation Bonds</b>	<b>Less Debt Service Fund <sup>(1)</sup></b>	<b>Net Bonded Debt</b>	<b>Percent of Debt to Assessed Value <sup>(2)</sup></b>	<b>Debt per Capita</b>
2012	48,079	\$ -	\$ -	\$ -	0.00%	\$ -
2011	48,278	-	-	-	0.00%	-
2010	49,945	-	-	-	0.00%	-
2009	49,643	-	-	-	0.00%	-
2008	49,501	-	-	-	0.00%	-
2007	49,306	-	-	-	0.00%	-
2006	48,969	-	-	-	0.00%	-
2005	49,006	-	-	-	0.00%	-
2004	48,988	-	-	-	0.00%	-
2003	48,809	-	-	-	0.00%	-
2002	48,507	-	-	-	0.00%	-

<sup>(1)</sup> Amounts available for repayment of general obligation bonds.

<sup>(2)</sup> Assessed value used because estimated value of taxable property not readily available in State of California.

Source: City Finance Division, Department of Finance, Bureau of Economic Analysis (U. S. Census Bureau)

**City of Rancho Santa Margarita  
Direct & Overlapping Bonded Debt  
June 30, 2012**

	<b>Rate Applies to</b>	<b>Gross Bonded Debt Balance</b>	<b>Percent Applicable to City</b>	<b>Net Bonded Debt</b>
<b>Direct Debt</b>				
A65.01 City of RSM Nonprofit Corp. COP		\$ 11,360,000	100%	\$ 11,360,000
<b>Total Direct Debt</b>				<u>11,360,000</u>
<b>Overlapping Debt</b>				
628.01 Capistrano Unified SFID#1 1999 Bond#2002C		14,990,000	1.55%	231,770
629.01 Capistrano Unified SFID#1 1999 Bond#2001B		16,429,930	1.55%	254,034
640.02 Capistrano Unified SFID#1 1999 Bond#2000A		14,090,000	1.55%	217,854
6AB.01 Saddleback Valley USD 2004 Bond#2004A		84,500,000	14.53%	12,273,421
6AW.01 Saddleback Valley USD 2004 Series B		47,425,000	14.53%	6,888,367
*C55.14 Metro Water Dist-MWDOC-1205999		39,848,053	1.76%	700,640
C76.56 Santa Margarita Water ID#4-Bond	Land	136,420,000	44.16%	60,241,353
C76.58 Santa Margarita Water ID#3-Bond	Land	20,370,000	99.83%	20,334,349
<b>Total Overlapping Debt</b>				<u>101,141,788</u>
<b>Total Direct and Overlapping Debt</b>				<b>\$ 112,501,788</b>

2011/12 Assessed Valuation: \$6,624,820,302.

Debt To assessed Valuation Ratios:	Direct Debt	0.17%
	Overlapping Debt	1.53%
	Total Debt	1.70%

\*This fund is a portion of a larger agency and is responsible for debt in areas outside the city.

\*\*This report reflects debt which is being repaid through voter-approved property tax indebtedness. It excludes mortgage revenue, tax allocation bonds, interim financing obligations, non-bonded capital lease obligations, and certificates of participation, unless provided by the city.

Source: HdL Companies

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**City of Rancho Santa Margarita  
Legal Debt Margin  
Last Ten Fiscal Years**

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Assessed Valuation	\$ 6,624,820,302	\$ 6,602,601,257	\$ 6,616,495,208	\$ 6,898,038,153
Conversion Percentage	25%	25%	25%	25%
Adjusted Assessed Valuation	\$ 1,656,205,076	\$ 1,650,650,314	\$ 1,654,123,802	\$ 1,724,509,538
Debit Limit Percentage	15%	15%	15%	15%
Debt Limit	\$ 248,430,761	\$ 247,597,547	\$ 248,118,570	\$ 258,676,431
Total Net Debt Applicable to Limit: General Obligation Bonds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Legal Debt Margin	<u>\$ 248,430,761</u>	<u>\$ 247,597,547</u>	<u>\$ 248,118,570</u>	<u>\$ 258,676,431</u>
Total Net Debt Applicable to the Limit as a Percentage of Debt Limit	0.00%	0.00%	0.00%	0.00%

**Note:**

The Government Code of the State of California provides for a legal debt limit of 15% of gross assessed valuation. However, this provision was enacted when assessed valuation was based upon 25% of market value. Effective with the 1981-82 fiscal year, each parcel is now assessed at 100% of market value (as of the most recent change in ownership for that parcel). The computations shown above reflect a conversion of assessed valuation data for each fiscal year from the current full valuation perspective to the 25% level that was in effect at the time that the legal debt margin was enacted by the State of California for local governments located within the state.

Source: City Finance Division, HdL Companies; Orange County Auditor-Controller

<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
\$ 6,979,954,997	\$ 6,570,973,739	\$ 5,989,704,151	\$ 5,501,993,484	\$ 5,048,907,389	\$ 4,697,420,499
25%	25%	25%	25%	25%	25%
\$ 1,744,988,749	\$ 1,642,743,435	\$ 1,497,426,038	\$ 1,375,498,371	\$ 1,262,226,847	\$ 1,174,355,125
15%	15%	15%	15%	15%	15%
\$ 261,748,312	\$ 246,411,515	\$ 224,613,906	\$ 206,324,756	\$ 189,334,027	\$ 176,153,269
-	-	-	-	-	-
<u>\$ 261,748,312</u>	<u>\$ 246,411,515</u>	<u>\$ 224,613,906</u>	<u>\$ 206,324,756</u>	<u>\$ 189,334,027</u>	<u>\$ 176,153,269</u>
0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

**City of Rancho Santa Margarita  
Demographic and Economic Statistics  
Last Ten Fiscal Years**

<b>Fiscal Year</b>	<b>Population</b>	<b>Personal Income <sup>(1)</sup> (in thousands)</b>	<b>Per Capita Personal Income</b>	<b>Income per Median Household</b>	<b>Median Age</b>	<b>School Enrollment</b>	<b>Unemployment Rate</b>
2012	48,079	\$ 1,914,458	\$ 39,819	\$ 96,503	34.1	6255	5.60%
2011	48,278	1,933,727	40,054	96,503	33.5	6143	6.20%
2010	49,945	2,174,555	43,539	100,166	32.7	5965	5.80%
2009	49,643	2,048,221	41,259	97,744	31.9	5842	5.50%
2008	49,501	1,566,261	31,641	106,222	31.9	5488	3.80%
2007	49,306	1,535,550	31,143	103,028	31.9	5454	2.60%
2006	48,969	1,505,441	30,743	99,967	31.9	5420	1.80%
2005	49,006	*	*	*	*	*	*
2004	48,988	*	*	*	*	*	*
2003	48,809	*	*	*	*	*	*

\*Data prior to fiscal year 2005-06 is not available.

(1) Estimated for 2012

Source: U.S. Bureau of Census, Employment Development Department, California Department of Finance, Saddleback Valley and Capistrano Unified School District

**City of Rancho Santa Margarita  
Principal Employers  
Current Year and Six Years Ago**

<u>Employer</u>	<u>2012</u>		<u>2006</u>	
	Number of Employees	Percentage of Employment	Number of Employees	Percentage of Employment
Applied Medical	1,698	10.49%	1,100	3.77%
Cox Communications	783	4.84%	750	2.57%
O'Connell Landscape	1,033	6.38%	450	1.54%
Saddleback Valley School District	344	2.13%	572	1.96%
Lucas & Mercier Construction	300	1.85%	567	1.94%
Control Components Inc. (CCI)	268	1.66%	400	1.37%
Target Corporation	200	1.24%	300	1.03%
Car Sound Exhaust System, Inc.	207	1.28%	*	*
Capistrano Unified School District	154	0.95%	200	0.68%
PADI	200	1.24%	200	0.68%
Santa Margarita Catholic H.S.	207	1.28%	200	0.68%
Kohl's	110	0.68%	*	*

Note: Data prior to Fiscal Year 2005-2006 is not available.

\* Data not available

Source: City Finance Division, Development Services

**City of Rancho Santa Margarita**  
**Full-Time and Part-Time City Employees by Function**  
**Last Ten Fiscal Years**

FUNCTION	Full-Time and Part-Time Employees as of June 30									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
City Manager Full-Time	2.00	2.00	3.00	3.00	3.00	5.00	8.50	8.75	8.25	7.25
City Clerk Full-Time	2.80	2.80	2.60	2.60	2.60	2.38	2.38	2.50	2.40	2.00
Finance Full-Time	-	-	-	-	-	2.35	2.00	2.00	2.20	3.20
Police Services Full-Time	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Bldg./Planning Full-time	3.00	3.75	3.60	3.50	3.50	7.00	4.75	4.75	3.75	3.75
Engr./Pub. Works Full-Time	3.00	3.00	3.00	3.00	3.00	4.55	4.55	4.50	4.50	4.50
Comm. Services Full-Time	-	-	-	-	-	2.25	2.25	2.50	2.00	2.50
Admin. Services Full-Time	11.32	11.07	14.10	8.60	8.35	-	-	-	-	-
<b>Total</b>	<b>23.12</b>	<b>23.62</b>	<b>27.30</b>	<b>21.70</b>	<b>21.45</b>	<b>24.53</b>	<b>25.43</b>	<b>26.00</b>	<b>24.10</b>	<b>24.20</b>

Note: Part-Time Employees are expressed as Full-Time equivalents.

Finance and Community Services Department and Human Resources Division of the City Manager department were reorganized into Divisions of the Administrative Services Department.

Source: City Finance Division, City Human Resources, Adopted Operating Budget and Capital Improvement Plan FY 2012-2013

**City of Rancho Santa Margarita  
Capital Asset Statistics  
Last Ten Fiscal Years**

<b>FUNCTION</b>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
General Government										
Civic Center/City Hall Building	1	1	1	1	1	1	1	1	-	-
Police Services										
Support Vehicles	1	1	1	1	1	1	1	1	1	1
Motorcycles	2	2	2	3	3	3	3	3	3	3
Public Works										
Streets (Miles)	99	99	99	99	99	99	99	99	*	*
Traffic Signals	159	159	159	159	159	158	156	156	*	*
Community Services										
Dog Parks	1	1	1	1	1	1	1	1	-	-
Skate Parks	1	1	1	1	1	1	1	1	-	-

\*Data is not available.

Source: City Public Works Department, Police Services, Community Services

**City of Rancho Santa Margarita  
Operating Indicators by Function  
Last Ten Fiscal Years**

<b>FUNCTION</b>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>General Government</b>				
Financial Reports & Audits Completed	49	15	12	12
Checks/Wire Transfers	1,759	1,645	2,502	1,664
<b>Police Services</b>				
Physical Arrests	*	1,317	1,054	1,226
Parking Citations	*	1,613	2,168	2,308
Traffic Citations	*	3,184	2,627	3,928
<b>Public Works</b>				
Street Paving (miles)	8	13	30	6
Sidewalks replaced (sq. ft.)	1,025	3,973	8,585	4,000
Curb refurbished (linear feet)	15,500	19	1,614	23,000
Traffic signs replaced/installed	600	56	458	536
Pavement Condition Index (70 = min. acceptable)	79.2	77.9	76.5	76.5
<b>Building and Planning</b>				
Building Permits Issued	1,026	782	764	807
Building Inspections Completed	2,387	2,127	1,801	1,953
Plan Checks Performed	194	223	185	126
<b>Community Services</b>				
Recreational & Instructional Classes Offered	725	712	460	134
Senior Mobility Ride Vouchers	665	609	623	422
Community Events Attendance	17,500	15,000	17,000	30,500
Community Magazine Publications	3	3	3	3

\* Data not readily available.

Source: City Finance Division, Public Safety Department, Public Works Department, Development Services and Community Services Division

<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
12	7	6	7	6	5
2,355	2,152	2,389	2,401	*	*
986	770	737	643	493	376
2,090	3,544	3,467	2,142	2,570	2,284
3,814	3,384	3,886	5,163	4,571	4,491
25	15	51	15	25	46
2,975	1,443	3,118	2,300	*	*
19,769	12,726	14,526	11,200	*	*
559	432	304	438	*	*
76	73	70	78	75	78
786	751	742	903	722	*
3,460	3,613	4,042	3,271	2,074	*
355	327	355	618	461	*
102	121	106	122	757	563
440	145	688	585	516	*
30,000	19,300	17,900	2,500	8,000	12,000
3	3	3	3	3	3



**City of Rancho Santa Margarita  
Miscellaneous Statistics  
June 30, 2012**

Geographic Location:	The City of Rancho Santa Margarita is located 58 miles south east of Los Angeles and 450 miles south of San Francisco.
Population:	48,079
Area in square miles:	13
Form of Government:	Council-Manager
Date of Incorporation:	January 1, 2000
Number of Full Time Employees:	18
Public Safety:	
Police Department	Under contract with the Orange County Sheriff's Department
Fire Department	Under contract with the Orange County Fire Authority
Library	One branch, Orange County Public Library System
Recreation:	21 Privately owned and operated parks 1 County owned and operated park 2 Privately owned golf courses
Schools:	
Elementary Schools	11
Middle Schools	2
High Schools	1
Master Home Owners' Associations	7
Miles of Streets	99.5 miles
Number of Streetlights	159

Source: City Finance Division

City of Rancho Santa Margarita

California

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**APPENDIX C**

**PROPOSED FORM OF BOND COUNSEL OPINION**

[Date of Delivery]

Rancho Santa Margarita Public Financing Authority  
22112 El Paseo  
Rancho Santa Margarita, California 90017

Re:     \$\_\_\_\_\_ *Rancho Santa Margarita Public Financing Authority*  
          *Lease Revenue Refunding Bonds, Series 2012*

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Rancho Santa Margarita Public Financing Authority (the "Authority") of the Rancho Santa Margarita Public Financing Authority Lease Revenue Refunding Bonds, Series 2012 (the "Series 2012 Bonds") in the aggregate principal amount of \$\_\_\_\_\_. In such connection, we have reviewed the Indenture, dated as of December 1, 2012 (the "Indenture"), by and among Wells Fargo Bank, National Association, as Trustee (the "Trustee"), the Authority and the City of Rancho Santa Margarita (the "City"), the Lease Agreement, dated as of December 1, 2012 (the "Lease Agreement"), by and between the City and the Authority, the Ground Lease, dated as of December 1, 2012 (the "Ground Lease"), by and between the City and the Authority, the Assignment Agreement, dated as of December 1, 2012 (the "Assignment Agreement"), by and between the Authority and the Trustee, the Tax Certificate of the Authority and the City, dated as of the date hereof (the "Tax Certificate"), opinions of counsel to the Authority, the City and the Trustee, certificates of the Authority, the City and the Trustee and others and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

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

(1) The obligation of the City to pay Base Rental Payments in accordance with the terms of the Lease Agreement is a valid and binding obligation payable from the funds of the City lawfully available therefore, except as the same may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights, by equitable principles, by the exercise of judicial discretion in appropriate cases and by the limitations on legal remedies against municipalities in the State of California. The obligation of the City to make Base Rental Payments under the Lease does not constitute a debt of the City, the State of California or any political subdivision thereof within the meaning of any statutory or constitutional debt limitation or restriction and does not constitute a pledge of the faith and credit or taxing power of the City, the State of California or any political subdivision thereof.

(2) The Lease Agreement and the Indenture have been duly authorized, executed and delivered by the City and the Authority and constitute valid and legally binding agreements of the City and the Authority enforceable against the City and the Authority in accordance with their terms, except as the same may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights, by equitable principles, by the exercise of judicial discretion in appropriate cases and by the limitations on legal remedies against municipalities in the State of

California, except that we express no opinion as to any provisions in the Lease Agreement or the Indenture with respect to indemnification, penalty, contribution, choice of law, choice of forum or waiver.

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

(4) Interest (and original issue discount) on the Bonds is exempt from personal income taxes imposed in the State of California.

(5) The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity are to be sold to the public) and the stated redemption price at maturity with respect to such Bonds constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bond owner will increase the Bond owner's basis in the applicable Bond. Original issue discount that accrues to a Bond owner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals or corporations (as described in paragraph 3 above) and is exempt from State of California personal income tax.

(6) The amount by which a Bond owner's original basis for determining loss on sale or exchange in a Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium, which must be amortized under Section 171 of the Code; such amortizable Bond premium reduces the Bond owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bond owner realizing a taxable gain when a Bond is sold by the owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the owner.

The opinions expressed in paragraphs (3) and (5) are subject to the condition that the City and the Authority comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the delivery of the Bonds to assure that such interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) with respect to the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The City and the Authority have covenanted to comply with all such requirements.

Except as expressly set forth in paragraphs (3), (4), (5) and (6) we express no opinion regarding any tax consequences with respect to the Bonds.

Certain agreements, requirements and procedures contained or referred to in the Indenture, the Tax Certificate executed by the City and the Authority and other documents related to the Bonds may be changed and certain actions may be taken or omitted, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. We express no opinion as to the effect on the exclusion from gross income for federal income tax purposes of interest (and original issue discount) due with respect to any Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

We have not made or undertaken to make an investigation of the state of title to any of the real property described in the Lease Agreement, the Ground Lease and the Assignment Agreement or of the accuracy or sufficiency of the description of such property contained therein, and we express no opinion with respect to such matters.

We are admitted to the practice of law only in the State of California and our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

The opinions expressed herein are based upon our analysis and interpretation of existing statutes, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Our engagement with respect to the Bonds terminates on the date of their execution and delivery.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds and expressly disclaim any duty to advise the owners of the Bonds with respect to matters contained in the Official Statement.

Respectfully submitted,

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## APPENDIX D

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate, dated as of December 1, 2012 (the “Disclosure Certificate”) is executed and delivered by the City of Rancho Santa Margarita (the “City”) in connection with the execution and delivery of the Rancho Santa Margarita Public Financing Authority’s (the “Authority”) \$\_\_\_\_\_ Lease Revenue Refunding Bonds, Series 2012A (the “Bonds”).

WHEREAS, the Bonds are being issued pursuant to an Indenture, dated as of December 1, 2012 (the “Indenture”), by and among the Authority, the City and Wells Fargo Bank, National Association, as trustee (the “Trustee”).

WHEREAS, the Bonds are payable from the base rental payments to be made by the City under the Lease Agreement, dated as of December 1, 2012 (the “Lease Agreement”), between the City, as lessee, and the Authority, as lessor; and

WHEREAS, this Disclosure Certificate is being executed and delivered by the City for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Underwriter in complying with the Rule (defined below).

**NOW, THEREFORE**, the City covenants as follows:

SECTION 1. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Comprehensive Annual Financial Report provided by the City pursuant to, and as described in, Sections 2 and 3 of this Disclosure Certificate.

“Beneficial Owner” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“Disclosure Representative” shall mean the City Manager of the City, the Administrative Services Director of the City or their designee, or such other officer or employee as the City shall designate in writing from time to time.

“Dissemination Agent” shall mean the City, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

“Listed Events” shall mean any of the events listed in Section 4(a) and (b) of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

“Official Statement” shall mean the Official Statement relating to the Bonds, dated \_\_\_\_\_, 2012.



“Repository” shall mean the Municipal Securities Rulemaking Board, which can be found at <http://emma.msrb.org>.

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

“State” shall mean the State of California.

“Underwriter” shall mean the original Underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

## SECTION 2. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing April 1, 2013, with the report for the 2011-12 fiscal year, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate, with a copy to the Trustee provided that the report for April 1, 2013 shall consist solely of the Official Statement. Not later than five (5) Business Days prior to the Annual Report Date, the City shall provide the Annual Report to the Dissemination Agent, if other than the City. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate. If the City’s fiscal year changes, the City, upon becoming aware of such change, shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the City and shall have no duty or obligation to review such Annual Report.

(b) If by five (5) Business Days prior to the Annual Report Date, the Dissemination Agent (if other than the City) has not received a copy of the Annual Report, the Dissemination Agent shall notify the City of such non-receipt.

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the MSRB by the Annual Report Date, the Dissemination Agent shall provide to the MSRB (with a copy to the Trustee and the Participating Underwriters) a notice, in substantially the form attached as Exhibit A.

(d) Unless the City has done so pursuant to Section 3(a) above, the Dissemination Agent (if other than the City) shall:

(i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) if the Dissemination Agent is other than the City, file a certificate with the City to the effect that the Annual Report has been provided pursuant to this Disclosure Certificate, stating, to the extent it can confirm such filing of the Annual Report, the date it was provided.

SECTION 3. Content of Annual Reports. The City’s Annual Report shall contain or include by reference the following:

(a) The City’s audited financial statements, prepared in accordance with generally accepted auditing standards for municipalities in the State of California. 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 the financial statements contained in the

final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) To the extent not contained in the audited financial statements filed pursuant to the preceding subsection (a) by the date required by Section 2 hereof, updates of Tables 1, 2, 3, 6 and 8 in substantially the form set forth in the Official Statement.

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 4, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not more than ten (10) days after the event, if material:

1. Principal and interest payment delinquencies;
2. Unscheduled draws on debt service reserves reflecting financial difficulties;
3. Unscheduled draws on credit enhancements reflecting financial difficulties;
4. Substitution of credit or liquidity providers, or their failure to perform;
5. Issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposal Issue (IRS Form 5701-TEB);
6. Tender Offers;
7. Defeasances;
8. Rating changes; and
9. Bankruptcy, insolvency, receivership or similar proceedings.

Note: For the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) Pursuant to the provisions of this Section 4, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material in a timely manner not more than ten (10) days after occurrence:

1. unless described in Section 4(a)(5), adverse tax opinions or other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
2. modifications to the rights of Bondholders;
3. optional, unscheduled or contingent Bond calls;
4. release, substitution or sale of property securing repayment of the Bonds;

5. non-payment related defaults;

6. the consummation of a merger, consolidation, or acquisition involving the City or the Authority or the sale of all or substantially all of the assets of the City or the Authority, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; and

7. appointment of a successor or additional trustee or the change of the name of a trustee.

(c) If the City determines that knowledge of the occurrence of a Listed Event under subsection (b) would be material under applicable federal securities laws, and if the Dissemination Agent is other than the City, the City shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to file a notice of such occurrence with the MSRB in an electronic format as prescribed by the MSRB in a timely manner not more than ten (10) Business Days after the event.

(d) If the City determines that the Listed Event under subsection (b) would not be material under applicable federal securities laws and if the Dissemination Agent is other than the City, the City shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence.

(e) The City hereby agrees that the undertaking set forth in this Disclosure Agreement is the responsibility of the City and, if the Dissemination Agent is other than the City, the Dissemination Agent shall not be responsible for determining whether the City's instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

SECTION 5. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under this Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 6. Termination of Reporting Obligation. The obligations of the City, the Trustee and the Dissemination Agent under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 4(c).

SECTION 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing thirty days written notice to the City and the Trustee. The Dissemination Agent shall not be responsible for the content of any report or notice prepared by the City and shall have no duty to review any information provided to it by the City. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the City in a timely manner and in a form suitable for filing.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the City may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule; provided, the Dissemination Agent shall have first consented to any amendment that modifies or increases its duties or obligations hereunder. In the event of any amendment or waiver of a provision of this Disclosure Agreement, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the

accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 4(c), and (ii) the Annual Report for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. 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 10. Default. In the event of a failure of the City to comply with any provision of this Disclosure Agreement, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure 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 to comply with this Disclosure Agreement shall be an action to compel performance.

No Bond holder or Beneficial Owner may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the City satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the City shall have refused to comply therewith within a reasonable time.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees, to the extent permitted by law, 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 attorney's fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. In performing its duties hereunder, the Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the City, the Bond holders, or any other party. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, if any, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

**CITY OF RANCHO SANTA MARGARITA**

By: \_\_\_\_\_  
City Manager

ATTEST:

\_\_\_\_\_  
City Clerk

**EXHIBIT A**

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

Name of Issuer: Rancho Santa Margarita Public Financing Authority

Name of Issue: Rancho Santa Margarita Public Financing Authority Lease Revenue Refunding  
Bonds, Series 2012A

Date of Issuance: \_\_\_\_\_, 2012

**NOTICE IS HEREBY GIVEN** that the City of Rancho Santa Margarita (the “City”) has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate, dated as of \_\_\_\_\_ 1, 2012, executed by the City. [The City anticipates that the Annual Report will be filed by \_\_\_\_\_.]

Dated: \_\_\_\_\_

**CITY OF RANCHO SANTA MARGARITA**

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

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## APPENDIX E

### BOOK-ENTRY ONLY SYSTEM

*The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Series 2012 Bonds, payment of principal, premium, if any, accreted value and interest on the Series 2012 Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Series 2012 Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.*

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Series 2012 Bonds (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each maturity of the Securities in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial



Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; 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 Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Principal, redemption price and interest payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption price and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. If applicable, a Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to tender/remarketing agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to tender/remarketing agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to tender/remarketing agent's DTC account.

10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the Authority or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

11. The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

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**NEW ISSUE – BOOK-ENTRY ONLY**

*In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions and assuming certain representations and compliance with certain covenants and requirements described in this Official Statement, interest (and original issue discount) on the Series 2012 Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the Series 2012 Bonds is exempt from State of California personal income tax. See "TAX MATTERS."*

**\$11,230,000**

**RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY  
LEASE REVENUE REFUNDING BONDS, SERIES 2012A**

**Dated: Date of Delivery**

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

The Rancho Santa Margarita Public Financing Authority Lease Revenue Refunding Bonds, Series 2012A (the "Series 2012 Bonds") are payable from base rental payments (the "Base Rental Payments") to be made by the City of Rancho Santa Margarita (the "City") for the right to use certain real property consisting of the City's City Hall and Regional Community Center (the "Property") pursuant to a Lease Agreement, dated as of December 1, 2012 (the "Lease Agreement"), by and between the City, as lessee, and the Rancho Santa Margarita Public Financing Authority (the "Authority"), as lessor. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 BONDS." The Series 2012 Bonds are being issued to provide funds to (i) finance the cost of various public capital improvements, (ii) refinance the City's Certificates of Participation (City Hall and Regional Community Center) (the "Prepaid Certificates"), and (iii) pay the costs incurred in connection with the issuance of the Series 2012 Bonds. See "THE REFUNDING PLAN." The City has covenanted under the Lease Agreement to make all Base Rental Payments provided for therein, to include all such payments as a separate line item in its annual budgets, and to make all the necessary annual appropriations for such Base Rental Payments. The City's obligation to make Base Rental Payments is subject to abatement during any period in which, by reason of material damage to, or destruction or condemnation of, the Property, or any defects in title to the Property, there is substantial interference with the City's right to use and occupy any portion of the Property. See "RISK FACTORS—Abatements."

The Series 2012 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 on the Series 2012 Bonds is payable semiannually on May 1 and November 1 of each year, commencing May 1, 2013. Purchasers will not receive certificates representing their interest in the Series 2012 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 2012 Bonds will be paid by Wells Fargo Bank, National Association, as trustee (the "Trustee") to DTC for subsequent disbursement to DTC Participants who are obligated to remit such payments to the Beneficial Owners of the Series 2012 Bonds. See "THE SERIES 2012 BONDS—Book-Entry Only System" herein.

The Series 2012 Bonds will be issued pursuant to an Indenture, dated as of December 1, 2012 (the "Indenture") by and among the City, the Authority and Wells Fargo Bank, National Association, as trustee. The Series 2012 Bonds and any additional bonds issued pursuant to the Indenture ("Additional Bonds") are collectively referred to as the "Bonds."

The Series 2012 Bonds are subject to optional and extraordinary redemption prior to maturity as described herein. See "THE SERIES 2012 BONDS—Redemption" herein.

**The Series 2012 Bonds are special obligations of the Authority, payable solely from Base Rental Payments and the other assets pledged therefor under the Indenture. Neither the faith and credit nor the taxing power of the Authority, the City or the State of California, or any political subdivision thereof, is pledged to the payment of the Series 2012 Bonds.**

**The obligation of the City to make the Base Rental Payments does not constitute a debt of the City or the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the City or the State of California is obligated to levy or pledge any form of taxation or for which the City or the State of California has levied or pledged any form of taxation. The Authority has no power to tax.**

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 AN INFORMED INVESTMENT DECISION.

*The Series 2012 Bonds will be offered when, as and if issued and received by the Underwriter, subject to the approval as to their validity by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. Stradling Yocca Carlson and Rauth, a Professional Corporation, Newport Beach, California, is also acting as Disclosure Counsel to the City. Certain legal matters will be passed upon for the City and the Authority by Woodruff, Spradlin & Smart, a Professional Corporation, Costa Mesa, California, and for the Underwriter by Nossaman, LLP, Irvine, California. It is anticipated that the Series 2012 Bonds in definitive form will be available for delivery to DTC in New York, New York on or about December 19, 2012.*



**\$11,230,000**  
**RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY**  
**LEASE REVENUE REFUNDING BONDS, SERIES 2012A**

**MATURITY SCHEDULE**  
**BASE CUSIP<sup>†</sup>: 75214T**

<b><i>Maturity Date</i></b> <b><i>(November 1)</i></b>	<b><i>Principal</i></b> <b><i>Amount</i></b>	<b><i>Interest</i></b> <b><i>Rate</i></b>	<b><i>Yield</i></b>	<b><i>CUSIP<sup>†</sup></i></b>
2013	\$430,000	2.000%	0.400%	AA8
2014	370,000	3.000	0.600	AB6
2015	385,000	4.000	0.720	AC4
2016	405,000	4.000	0.870	AD2
2017	420,000	4.000	1.040	AE0
2018	430,000	4.000	1.210	AF7
2019	455,000	4.000	1.450	AG5
2020	470,000	4.000	1.690	AH3
2021	490,000	4.000	1.940	AJ9
2022	505,000	4.000	2.180	AK6
2023	525,000	4.000	2.390 C	AL4
2024	545,000	4.000	2.590 C	AM2
2025	570,000	4.000	2.740 C	AN0
2026	590,000	2.500	2.850	AP5
2027	610,000	2.625	2.910	AQ3
2028	625,000	2.750	2.970	AR1
2029	645,000	2.750	3.030	AS9
2030	660,000	2.750	3.090	AT7
2031	680,000	3.000	3.150	AU4
2032	700,000	3.000	3.210	AV2
2033	720,000	3.000	3.270	AW0

<sup>†</sup> Copyright 2012, American Bankers Association. CUSIP<sup>®</sup> data herein is provided by Standard & Poor's, CUSIP<sup>®</sup> Service Bureau, a division of The McGraw-Hill Companies, Inc. The City, Authority and the Underwriter take no responsibility for the accuracy of such data.

C Yield to optional redemption date of November 1, 2022.

No dealer, broker, salesperson or other person has been authorized by the City or the Authority to give any information or to make any representations in connection with the offer or sale of the Series 2012 Bonds other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the City or the Authority. 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 2012 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 or Owners of the Series 2012 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 representations of fact.

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

This Official Statement and the information contained herein are subject to completion or amendment without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the Authority or any other parties described herein since the date hereof. These securities may not be sold nor may an offer to buy be accepted prior to the time the Official Statement is delivered in final form. This Official Statement is being submitted in connection with the sale of the Series 2012 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the City. All summaries of documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "project," "budget," "intend" or similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the caption "CITY FINANCIAL INFORMATION" and "RISK FACTORS."

**THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE CITY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT. IN EVALUATING SUCH STATEMENTS, POTENTIAL INVESTORS SHOULD SPECIFICALLY CONSIDER THE VARIOUS FACTORS WHICH COULD CAUSE ACTUAL EVENTS OR RESULTS TO DIFFER MATERIALLY FROM THOSE INDICATED BY SUCH FORWARD-LOOKING STATEMENTS.**

**IN CONNECTION WITH THE OFFERING OF THE SERIES 2012 BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2012 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 2012 BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICE STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.**

**THE SERIES 2012 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT AND HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.**

The City maintains a website; however, information presented there is not a part of this Official Statement and should not be relied upon in making an investment decision with respect to the Series 2012 Bonds.

**CITY OF RANCHO SANTA MARGARITA  
(County of Orange, California)**

***City Council***

L. Anthony Beall, Mayor

Steven Baric, Mayor *Pro Tempore*

Jerry Holloway<sup>(1)</sup>

Carol A. Gamble

Jesse Petrilla

***Rancho Santa Margarita Public Financing Authority***

L. Anthony Beall, President

Steven Baric, Vice President

Jerry Holloway<sup>(1)</sup>

Carol A. Gamble

Jesse Petrilla

***City Manager/Executive Director/Treasurer***

Jennifer M. Cervantez

***City Clerk/Secretary***

Molly McLaughlin

***Director of Administrative Services***

Paul Boyer

**PROFESSIONAL SERVICES**

***City Attorney***

Woodruff, Spradlin & Smart, a Professional Corporation  
Costa Mesa, California

***Bond Counsel and Disclosure Counsel***

Stradling Yocca Carlson & Rauth, a Professional Corporation  
Newport Beach, California

***Financial Advisor***

Fieldman Rolapp & Associates  
Irvine, California

***Trustee/Escrow Agent***

Wells Fargo Bank, National Association  
Los Angeles, California

***Verification Agent***

Causey Demgen & Moore, P.C.  
Denver, Colorado

<sup>(1)</sup> Retiring Effective December 12, 2012. Will be succeeded by Bradley J. McGirr, who will assume office immediately.

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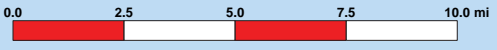
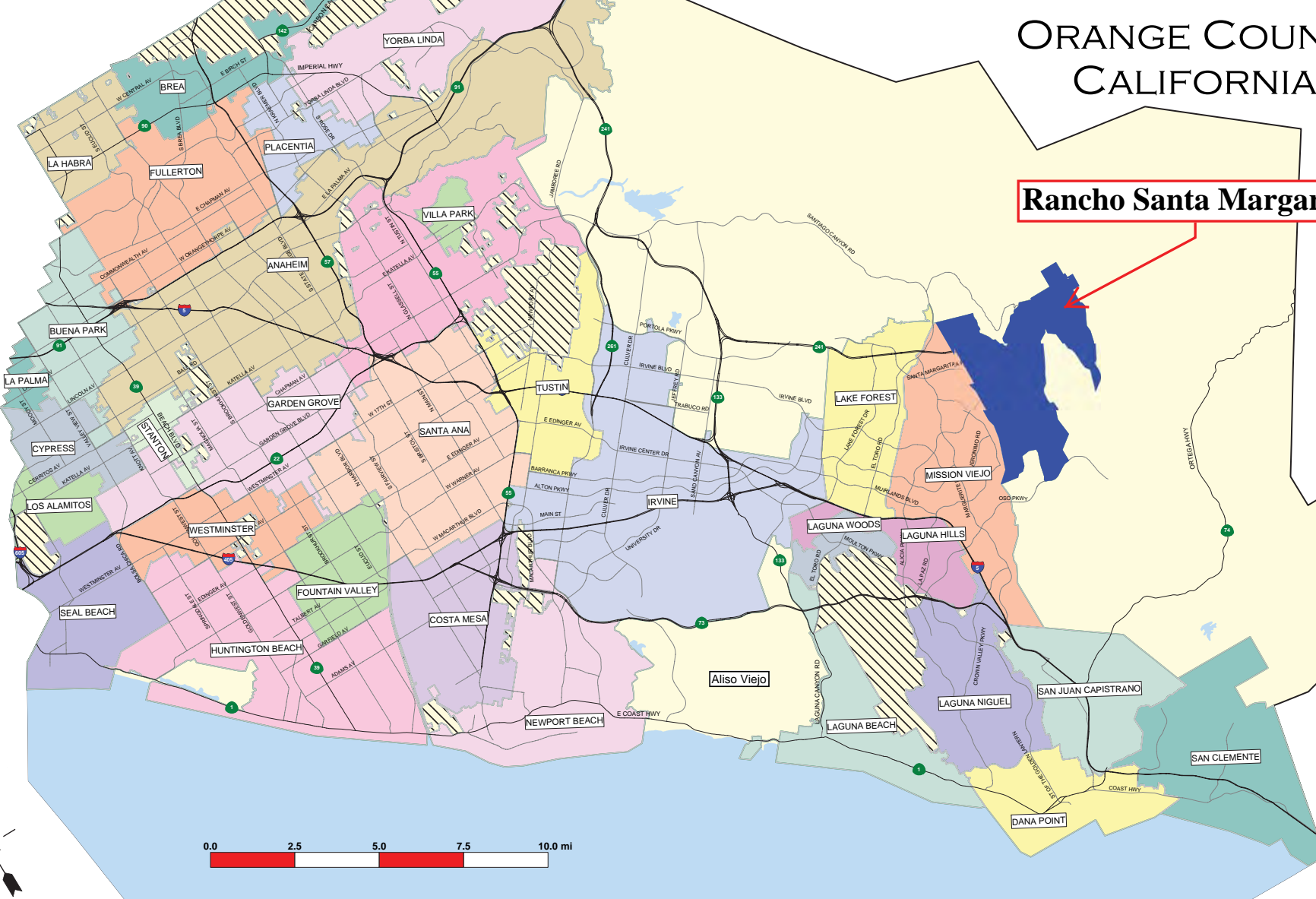
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# ORANGE COUNTY CALIFORNIA

**Rancho Santa Margarita**



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## OFFICIAL STATEMENT

**\$11,230,000**

### **RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY LEASE REVENUE REFUNDING BONDS, SERIES 2012A**

#### INTRODUCTION

This Official Statement (which includes the cover page and the appendices hereto) (the “Official Statement”), provides certain information concerning the sale and delivery of \$11,230,000 aggregate principal amount of Rancho Santa Margarita Public Financing Authority Lease Revenue Refunding Bonds, Series 2012A (the “Series 2012 Bonds”).

The net proceeds of the sale of the Series 2012 Bonds will be used to (i) finance the cost of various public capital improvements, (ii) refinance the outstanding City of Rancho Santa Margarita Certificates of Participation (City Hall and Regional Community Center) (the “Prepaid Certificates”) currently outstanding in the aggregate principal amount of \$11,360,000, and (iii) pay the costs incurred in connection with the issuance of the Series 2012 Bonds.

The Series 2012 Bonds are equally and ratably payable from base rental payments (the “Base Rental Payments”) to be made by the City of Rancho Santa Margarita (the “City”) for the right to use certain real property consisting of the City’s City Hall and Regional Community Center (the “Property”) pursuant to a Lease Agreement, dated as of December 1, 2012 (the “Lease Agreement”), between the City, as lessee, and the Rancho Santa Margarita Public Financing Authority (the “Authority”), as lessor.

The Series 2012 Bonds will be issued pursuant to an Indenture, dated as of December 1, 2012 (the “Indenture”), by and among the Authority, the City and the Trustee. Pursuant to the Indenture, the Authority may issue additional bonds (the “Additional Bonds”) payable from the Base Rental Payments on a parity with the Series 2012 Bonds (the Series 2012 Bonds and any such Additional Bonds being collectively referred to as the “Bonds”).

Pursuant to a Ground Lease, dated as of December 1, 2012 (the “Ground Lease”), by and between the City and the Authority, the City has leased the Property to the Authority. The Authority has subleased the Property to the City under the Lease Agreement. The Lease Agreement obligates the City to make Base Rental Payments to the Authority.

The Trustee and the Authority have entered into an Assignment Agreement, dated as of December 1, 2012, pursuant to which the Authority has assigned to the Trustee for the benefit of the Bond Owners substantially all of the Authority’s right, title and interest in and to the Ground Lease and the Lease Agreement, including its right to receive the Base Rental Payments due under the Lease Agreement and to enforce any remedies in the event of a default by the City.

The City will covenant under the Lease Agreement to take such action as may be necessary to include all Rental Payments, which are comprised of Base Rental Payments and Additional Rental Payments (which include taxes and assessments affecting the Property, administrative costs of the Authority relating to the Property, fees and expenses of the Trustee and other amounts payable under the Lease Agreement), due under the Lease Agreement as a separate line item in its annual budgets and to make the necessary annual appropriations therefor, subject to abatement as described herein.

Base Rental Payments are subject to complete or partial abatement in the event and to the extent that there is substantial interference with the City’s right to use and occupy the Property or any portion thereof. See “RISK FACTORS—Abatements.” Abatement of Base Rental Payments under the Lease Agreement, to



the extent that payment is not made from alternative sources as set forth below, would result in all Bond Owners receiving less than the full amount of principal of and interest on the Bonds. To the extent that proceeds of insurance are available, Base Rental Payments (or a portion thereof) may be made during periods of abatement. As described under the caption “THE PROPERTY,” the Property suffered water infiltration damage during recent storm events. The Property is habitable and fully operable as is. However, the City is pursuing legal remedies against the architect, general contractor and several of the subcontractors to correct the design and/or construction defects that caused water infiltration and damage to the Property. The City expects to repair the Property at some point in the future upon resolution of any proceedings with the general contractor, architect and subcontractors. It is possible that such repairs will require the City to vacate the Property for six to nine months during construction. If the City is required to move out of all or a portion of the Property during construction, Base Rental Payments attributable to the portion of the Property not occupied by the City shall be paid from Prepaid Base Rental Payments in the amount of \$1,500,000, which, depending on the month in which repairs commence, represents approximately fifteen months of Base Rental Payments. Such moneys shall be deposited by the City with the Trustee at Closing and held in the Prepaid Base Rental Payment Account of the Base Rental Payment Fund and will be used during the repair period. The City’s obligation to pay Base Rental Payments during the repair period will be abated. Only funds on deposit in the Prepaid Base Rental Payment Account shall be available to pay Base Rental Payments during the repair period. Upon completion of the repairs, or in the event the City elects not to make such repairs or such repairs do not require the City to vacate the Property, any funds remaining in the Prepaid Base Rental Payments Account not required to pay Base Rental Payments shall be returned to the City. See “RISK FACTORS—Abatements” and Appendix A – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

THE SERIES 2012 BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM BASE RENTAL PAYMENTS AND THE OTHER ASSETS PLEDGED THEREFOR UNDER THE INDENTURE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE AUTHORITY, THE CITY OR THE STATE OF CALIFORNIA (THE “STATE”), OR ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF THE SERIES 2012 BONDS. THE AUTHORITY HAS NO TAXING POWER.

THE OBLIGATION OF THE CITY TO MAKE THE BASE RENTAL PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, AND DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE CITY OR THE STATE IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY OR THE STATE HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

The Authority is not funding a debt service reserve for the Series 2012 Bonds.

The City has agreed to provide, or cause to be provided, to the Municipal Securities Rulemaking Board for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission certain annual financial information and operating data and, in a timely manner, notice of certain listed events. These covenants have been made in order to assist the Underwriter in complying with SEC Rule 15c2-12(b)(5). See “CONTINUING DISCLOSURE” herein for a description of the specific nature of the annual report and notices of listed events and a summary description of the terms of the disclosure agreement pursuant to which such reports are to be made.

The Series 2012 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 on the Series 2012 Bonds is payable semiannually on May 1 and November 1 of each year, commencing May 1, 2013. Purchasers will not receive certificates representing their interest in the Series 2012 Bonds. Individual purchases will be in principal amounts of \$5,000 or integral multiples thereof. Principal of and interest on the Series 2012 Bonds will be paid by Wells Fargo Bank, National Association, as trustee (the “Trustee”) to DTC for subsequent disbursement to DTC Participants which are obligated to remit

such payments to the Beneficial Owners of the Series 2012 Bonds. See “THE SERIES 2012 BONDS—Book-Entry Only System” herein. The Series 2012 Bonds are subject to redemption prior to maturity as described herein. See “THE SERIES 2012 BONDS—Redemption.”

Wells Fargo Bank, National Association, Los Angeles, California, will act as Trustee with respect to the Series 2012 Bonds. The Series 2012 Bonds will be issued subject to the approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. Certain legal matters will be passed upon for the City and the Authority by Woodruff, Spradlin & Smart, a Professional Corporation, Costa Mesa, California, City Attorney, and by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Disclosure Counsel. Certain legal matters will be passed upon for the Underwriter by Nossaman, LLP, Irvine, California. The City’s financial statements for the fiscal year ended June 30, 2012 included as Appendix B hereto have been audited by White Nelson Diehl Evans LLP, certified public accountants, Irvine, California (the “Auditor”). See APPENDIX B—“AUDITED FINANCIAL STATEMENTS OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2012” herein. The City’s financial statements are public documents and are included within this Official Statement without the prior approval of the Auditor. Accordingly, the Auditor has not performed any post-audit review of the financial condition of the City.

Certain events could affect the ability of the City to make the Base Rental Payments when due. See “RISK FACTORS” for a discussion of certain factors that should be considered, in addition to other matters set forth herein, in evaluating an investment in the Series 2012 Bonds.

The presentation of information, including tables of receipt of revenues, is intended to show recent historical information and, except for a budget discussion for Fiscal Year 2012-13, is not intended to indicate future or continuing trends in the financial position or other affairs of the City. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future.

The summaries or references to the Indenture, the Lease Agreement, the Ground Lease, the Assignment Agreement and other documents, agreements and statutes referred to herein, and the description of the Series 2012 Bonds included in this Official Statement, do not purport to be comprehensive or definitive, and such summaries, references and descriptions are qualified in their entireties by reference to each such document or statute. All capitalized terms used in this Official Statement (unless otherwise defined herein) which are defined in the Indenture or the Lease Agreement shall have the meanings set forth therein, some of which are summarized in APPENDIX A—“SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS.”

## **THE SERIES 2012 BONDS**

### **General**

The Series 2012 Bonds shall be issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple thereof. The Series 2012 Bonds will be dated as of and bear interest (calculated on the basis of a 360-day year comprised of twelve 30-day months) from the dated date thereof at the rates set forth on the inside cover page hereof. Interest on the Series 2012 Bonds will be paid semiannually on May 1 and November 1 (each, an “Interest Payment Date”) of each year, commencing May 1, 2013.

Interest on the Series 2012 Bonds will be payable from the Interest Payment Date next preceding the date of authentication thereof unless (i) a Series 2012 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 will bear interest from such Interest Payment Date, (ii) a Series 2012 Bond is authenticated on or before the first Record Date, in which event interest thereon will be payable from the dated date thereof, or (iii) interest on any Series 2012 Bond is in default as of the date of authentication thereof, in which event interest thereon will be payable from the date to which interest has been paid in full, payable on each Interest Payment Date. Interest will be paid in

lawful money of the United States on each Interest Payment Date to the Persons in whose names the ownership of the Series 2012 Bonds is registered on the Registration Books at the close of business on the immediately preceding Record Date, except as provided below. Interest will be paid by check of the Trustee mailed by first class mail, postage prepaid, on each Interest Payment Date to the Series 2012 Bond Owners at their respective addresses shown on the Registration Books as of the close of business on the preceding Record Date.

The principal and premium, if any, of the Series 2012 Bonds will 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. The Series 2012 Bonds will be subject to optional, mandatory sinking fund and extraordinary redemption as set forth herein.

### **Registration, Transfers and Exchanges**

The Series 2012 Bonds will be issued as fully registered bonds, registered in the name of Cede & Co. as nominee of DTC, and will be available to actual purchasers of the Series 2012 Bonds (the “Beneficial Owners”) in the denominations set forth above, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants (as defined in Appendix E) as described herein. Beneficial Owners will not be entitled to receive physical delivery of the Series 2012 Bonds. See “THE SERIES 2012 BONDS—Book-Entry Only System.”

### **Redemption**

***Optional Redemption.*** The Series 2012 Bonds maturing on or after November 1, 2023, shall be subject to optional redemption, in whole or in part, on any Interest Payment Date on or after November 1, 2022, in Authorized Denominations, from and to the extent of prepaid Base Rental Payments paid pursuant to the Lease Agreement, at a Redemption Price equal to the principal amount of the Series 2012 Bonds to be redeemed, plus accrued interest thereon to the date of redemption, without premium.

***Extraordinary Redemption from Condemnation Award or Insurance Proceeds.*** The Series 2012 Bonds are subject to redemption, in whole or in part, on any date, in denominations of \$5,000 or any integral multiple thereof, from and to the extent of any insurance proceeds or condemnation award received with respect to all or a portion of the Property, deposited by the Trustee in the Redemption Fund pursuant to the Indenture, at a Redemption Price equal to the principal amount of the Series 2012 Bonds to be redeemed, plus accrued interest thereon to the date of redemption, without premium.

***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 Bonds not previously called for redemption (a) with respect to any optional redemption of Bonds of a Series, among maturities of Bonds of such Series as directed in a Written Request of the Authority, (b) with respect to any redemption from and to the extent of any insurance proceeds or condemnation award received with respect to all or a portion of the Property and the corresponding provision of any Supplemental Indenture pursuant to which Additional Bonds are issued, among maturities of all Series of Bonds on a pro rata basis as nearly as practicable, and (c) with respect to any other 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 of the same Series with the same maturity in any manner which the Trustee in its sole discretion deems appropriate and fair. For purposes of such selection, all Bonds will be deemed to be comprised of separate \$5,000 denominations and such separate denominations will be treated as separate Bonds which may be separately redeemed.

***Notice of Redemption.*** So long as the Bonds are held in book-entry form, notices of redemption will be mailed by the Trustee only to DTC and not to any Beneficial Owners. The Trustee on behalf and at the expense of the Authority will 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, to the

Securities Depositories and to one or more Information Services, at least 20 but not more than 60 days prior to the date fixed for redemption. Such notice will 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 will require that such Bonds be then surrendered at the principal corporate trust 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. Such notice may state that such redemption is conditioned upon sufficient funds being on deposit on the redemption date to redeem the Bonds so called for redemption. Neither the failure to receive any notice so mailed, nor any defect in such notice, will affect the validity 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 Authority will execute and the Trustee will authenticate and deliver to the Owner thereof, at the expense of the Authority, a new Bond or Bonds of the same Series in authorized denominations equal in aggregate principal amount representing the unredeemed portion of the Bonds surrendered.

***Effect of Notice of Redemption.*** Notice having been mailed as aforesaid, and moneys for the Redemption Price, and the interest to the applicable date fixed for redemption, 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 principal corporate trust 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 Price of all the Bonds to be redeemed, together with interest to said date, will be held by the Trustee so as to be available therefor on such date, and, if notice of redemption thereof has been mailed as aforesaid and not canceled, then, from and after said date, interest on said Bonds will cease to accrue and become payable. All moneys held by or on behalf of the Trustee for the redemption of Bonds will be held in trust for the account of the Owners of the Bonds so to be redeemed without liability to such Owners for interest thereon. All Bonds paid at maturity or redeemed prior to maturity pursuant to the provisions of the Indenture will be canceled upon surrender thereof and destroyed.

### **Book-Entry Only System**

***General.*** DTC will act as securities depository for the Series 2012 Bonds. The Series 2012 Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Series 2012 Bond will be issued for each maturity of the Series 2012 Bonds, each in the initial aggregate principal amount of such maturity, and will be deposited with DTC. See APPENDIX E—"BOOK-ENTRY ONLY SYSTEM."

***Transfer and Exchange of Bonds.*** The following provisions regarding the exchange and transfer of the Series 2012 Bonds apply only during any period in which the Series 2012 Bonds are not subject to DTC's book-entry system. While the Series 2012 Bonds are subject to DTC's book-entry system, their exchange and transfer will be effected through DTC and the Participants and will be subject to the procedures, rules and requirements established by DTC.

Any Bond may, in accordance with its terms, be transferred upon the books required to be kept by the Trustee pursuant to the provisions of the Indenture by the Person in whose name it is registered, in person or by his or her 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 will be surrendered for transfer, the Authority will execute and the Trustee will authenticate and will deliver a new Bond or Bonds of the same Series in a like aggregate principal amount, in any Authorized

Denomination. The Trustee will 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 principal corporate trust office of the Trustee for a like aggregate principal amount of Bonds of the same Series of other authorized denominations. The Trustee will 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 is not 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.

## **SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 BONDS**

### **Pledge of Revenues**

The Series 2012 Bonds are equally and ratably payable from and secured by Base Rental Payments and certain amounts on deposit in the funds and accounts established under the Indenture. Base Rental Payments will be paid by the City from any and all legally available funds. See, “THE CITY,” “FINANCIAL INFORMATION” and “RISK FACTORS.” The City has covenanted in the Lease Agreement to take such action as may be necessary to include all Base Rental Payments and Additional Rental Payments due under the Lease Agreement as a separate line item in its annual budgets and to make the necessary annual appropriations therefor.

The Authority, pursuant to the Assignment Agreement, will assign to the Trustee for the benefit of the Series 2012 Bond Owners all of the Authority’s right, title and interest in and to the Ground Lease and the Lease Agreement, including, without limitation, its right to receive Base Rental Payments to be paid by the City under and pursuant to the Lease Agreement; provided that, the Authority will retain the rights to indemnification and to payment of reimbursement of its reasonable costs and expenses under the Lease Agreement. The City will pay Base Rental Payments directly to the Trustee, as assignee of the Authority. See “—Base Rental Payments” below. Pursuant to the Indenture, the Authority may issue Additional Bonds payable from the Base Rental Payments on a parity with the Series 2012 Bonds. See APPENDIX A—“SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—The Indenture—Additional Bonds.”

Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, all of the Base Rental Payments and any other amounts (including proceeds of the sale of the Bonds) held in the Base Rental Payment Fund, the Interest Fund, the Principal Fund and the Redemption Fund are pledged by the Authority pursuant to the Indenture 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 constitutes a first lien on such assets.

**THE SERIES 2012 BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM BASE RENTAL PAYMENTS AND THE OTHER ASSETS PLEDGED THEREFOR UNDER THE INDENTURE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE AUTHORITY, THE CITY OR THE STATE, OR ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF THE SERIES 2012 BONDS. THE AUTHORITY HAS NO TAXING POWER.**

## **Base Rental Payments**

Rental Payments, including Base Rental Payments, will be paid by the City to the Authority for and in consideration of the right to use and occupy the Property and in consideration of the continued right to the quiet use and enjoyment thereof during each Rental Period for which such Rental Payments are to be paid. Each Base Rental Payment will be deposited with the Trustee no later than the 15th day of the month next preceding each Interest Payment Date (the “Base Rental Deposit Date”) on which such Base Rental Payment is due. All Base Rental Payments will be paid directly by the City to the Trustee, and if received by the Authority at any time will be transferred by the Authority to the Trustee within one Business Day after the receipt thereof. All Base Rental Payments received by the Trustee will be deposited by the Trustee in the Base Rental Payment Fund.

Pursuant to the Indenture, on the Business Day immediately preceding each Interest Payment Date and on the Business Day immediately preceding each Principal Payment Date, the Trustee will transfer amounts in the Base Rental Payment Fund as are necessary to the Interest Fund and the Principal Fund to provide for the payment of the interest on and principal of the Series 2012 Bonds.

Scheduled Base Rental Payments relating to the Series 2012 Bonds are set forth below under the heading “BASE RENTAL PAYMENT SCHEDULE.”

THE OBLIGATION OF THE CITY TO MAKE THE BASE RENTAL PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE CITY OR THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, AND DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE CITY OR THE STATE IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY OR THE STATE HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

## **Additional Rental Payments**

For the right to use and occupy the Property, the Lease Agreement requires the City to pay, as Additional Rental payments thereunder, in addition to the Base Rental Payments, such amounts as shall be required for the payment of the following:

- (i) All taxes and assessments of any type or nature charged to the Authority or the City or affecting the Property or the respective interests or estates of the Authority or the City therein.
- (ii) All reasonable administrative costs of the Authority relating to the Property including, but without limiting the generality of the foregoing, salaries, wages, fees and expenses, compensation and indemnification of the Trustee payable by the Authority under the Indenture, fees of auditors, accountants, attorneys or engineers, and all other necessary and reasonable administrative costs of the Authority or charges required to be paid by it in order to maintain its existence or to comply with the terms of the Indenture or the Lease Agreement or to defend the Authority and its members, officers, agents and employees.
- (iii) Insurance premiums for all insurance required pursuant to the Lease Agreement.
- (iv) Any amounts with respect to the Lease Agreement or the Bonds required to be rebated to the federal government in accordance with section 148(f) of the Internal Revenue Code of 1986.
- (v) All other payments required to be paid by the City under the provisions of the Lease Agreement or the Indenture.

Amounts constituting Additional Rental Payments payable under the Lease Agreement will be paid by the City directly to the person or persons to whom such amounts are payable. The City will pay all such amounts when due or at such later time as such amounts may be paid without penalty or, in any other case, within 60 days after notice in writing from the Trustee to the City stating the amount of Additional Rental Payments then due and payable and the purpose thereof.

### **Abatement**

Base Rental Payments and Additional Rental Payments are paid by the City in each Rental Period for and in consideration of the right to use and occupy the Property. Except as otherwise specifically provided in the Lease Agreement, during any period in which, by reason of material damage to, or destruction or condemnation of, the Property, or any defect in title to the Property, there is substantial interference with the City's right to use and occupy any portion of the Property, Rental Payments are subject to abatement proportionately, and the City waives the benefits of Civil Code Sections 1932(1), 1932(2) and 1933(4) and any and all other rights to terminate the Lease Agreement by virtue of any such interference, and the Lease Agreement will continue in full force and effect. The amount of such abatement will be agreed upon by the City and the Authority; provided, however, that the Rental Payments due for any Rental Period may not exceed the annual fair rental value of that portion of the Property available for use and occupancy by the City during such Rental Period. Any such abatement will continue for the period commencing with the date of interference resulting from such damage, destruction, condemnation or title defect and, with respect to damage to or destruction of the Property, ending with the substantial completion of the work of repair or replacement of the Property, or the portion thereof so damaged or destroyed; and the term of the Lease Agreement will be extended as provided in the Lease Agreement, except that the term will in no event be extended ten years beyond the stated termination date of the Lease Agreement. The Trustee cannot terminate the Lease Agreement in the event of such substantial interference. Abatement of Base Rental Payments and Additional Rental Payments is not an event of default under the Lease Agreement and does not permit the Trustee to take any action or avail itself of any remedy against the City. See APPENDIX A—"SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—The Lease Agreement—Rental Abatement."

Notwithstanding the foregoing, to the extent that moneys are available for the payment of Rental Payments due under the Lease Agreement in any of the funds and accounts established under the Indenture (including as a result of the availability of insurance proceeds), such Rental Payments will not be abated as provided above but, rather, will be payable by the City as a special obligation payable solely from said funds and accounts. As described under the caption "THE PROPERTY," the Property suffered damage during recent storm events. The Property is habitable and fully operable as is. However, the City is pursuing legal remedies against the architect, general contractor and several of the subcontractors to correct the design and/or construction defects that caused the water infiltration and damage. The City expects to repair the Property at some point in the future upon resolution of any proceedings with the general contractor, architect and subcontractors. It is possible that such repairs will require the City to vacate the Property for six to nine months during construction. During construction Base Rental Payments will be paid from Prepaid Base Rental Payments in the amount of \$1,500,000, which, depending upon the month in which the repairs commence, represents approximately fifteen months' Base Rental Payments. Such moneys will be deposited by the City with the Trustee at Closing and held in the Prepaid Base Rental Payment Account of the Base Rental Payment Fund and will be used during the repair period. The City's obligation to pay Base Rental Payments during the repair period will be abated. Only funds on deposit in the Prepaid Base Rental Payment Account will be available to pay Base Rental Payments during the repair period. Upon completion of the repairs, or in the event that the City elects not to make such repairs or such repairs do not require the City to vacate the Property, any funds remaining in the Prepaid Base Rental Payment Account not required to pay Base Rental Payments will be returned to the City. See "RISK FACTORS—Abatements" and Appendix A – "SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS."

## **Substitution, Addition and Removal of Property**

The Authority and the City may amend the Lease Agreement to substitute alternate real property for any portion of the Property to add additional real property or to release a portion of the Property from the Lease Agreement, upon compliance with all of the conditions set forth in the Lease Agreement and described below. After a substitution or release, the portion of the Property for which the substitution or release has been effected will be released from the leasehold encumbrance of the Lease Agreement.

The Lease Agreement provides that there will be no reduction in or abatement of the Base Rental Payments due from the City thereunder as a result of such substitution or release. Any such substitution or release is subject to the following specific conditions precedent to such substitution or release:

(a) an independent certified real estate appraiser selected by the City finds (and delivers a certificate to the City and the Trustee setting forth its findings) that the Property, as constituted after such substitution or release, (i) has an annual fair rental value at least equal to the maximum Base Rental Payments payable by the City in any Rental Period, and (ii) has a useful life in excess of the final maturity of any Outstanding Bonds.

(b) the City obtains or causes to be obtained a CLTA or ALTA title insurance policy or policies with respect to any substituted property in an amount at least equal to the aggregate principal amount of any Outstanding Bonds, of the type and with the endorsements described in the Lease Agreement;

(c) the City provides the Trustee with an opinion of counsel to the effect that such substitution or release will not, in and of itself, cause the interest on the Bonds to be included in gross income for federal income tax purposes;

(d) the City, the Authority and the Trustee execute, and the City causes to be recorded with the Orange County Recorder, any document necessary to reconvey to the City the portion of the Property being released and to include any substituted real property in the description of the Property contained in the Lease Agreement and in the Ground Lease; and

(e) the City provides notice of such substitution to each rating agency then rating the Bonds.

See APPENDIX A—“SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—The Lease Agreement—Substitution or Release of the Property”

## **Action on Default**

Should the City default under the Lease Agreement, the Trustee, as assignee of the Authority under the Lease Agreement, may terminate the Lease Agreement and recover certain damages from the City, or may retain the Lease Agreement and hold the City liable for all Base Rental Payments thereunder on an annual basis, and will have the right to re-enter and re-let the Property. In the event such re-letting occurs, the City would be liable for any resulting deficiency in Base Rental Payments. Base Rental Payments may not be accelerated upon a default under the Lease Agreement. See “RISK FACTORS—Limited Recourse on Default; No Acceleration of Base Rental.”

For purposes of certain actions of Bond Owners under the Indenture and the Lease, such as certain consents and amendments and the direction of remedies following default, Series 2012 Bond Owners do not act alone and may not control such matters to the extent such matters are not supported by the requisite number of the Owners of all Bonds and Additional Bonds, if any.

For a description of the events of default and permitted remedies of the Trustee (as assignee of the Authority) contained in the Lease Agreement and the Indenture, see APPENDIX A—“SUMMARY OF THE



PRINCIPAL LEGAL DOCUMENTS—The Lease Agreement—Default” and “—The Indenture—Events of Default,” “—Other Remedies of the Trustee,” and “Limitation on Suits.”

### **No Reserve Fund**

The Authority has not funded a reserve fund in connection with the issuance of the Series 2012 Bonds.

### **Insurance**

The Lease Agreement requires the City to maintain or cause to be maintained fire, lightning and special extended coverage insurance (which includes coverage for vandalism and malicious mischief, but need not include coverage for earthquake damage) on all improvements constituting any part of the Property in an amount equal to the greater of 100% of the replacement cost of such improvements or 100% of the outstanding principal amount of the Bonds. The City has an insurance policy which provides replacement cost coverage. All insurance required to be maintained pursuant to the Lease Agreement may be subject to a deductible in an amount not to exceed \$500,000. The City’s obligation to maintain the insurance described above (except for rental interruption insurance) may be satisfied by self-insurance, provided such self-insurance complies with the requirements of the Lease Agreement. See APPENDIX A—”SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—The Lease Agreement—Insurance.”

The Lease Agreement requires the City to maintain rental interruption insurance to cover the Authority’s loss, total or partial, of Base Rental Payments resulting from the loss, total or partial, of the use of any part of the Property as a result of any of the hazards covered by the casualty insurance described in the preceding paragraph, in an amount sufficient at all times to pay an amount not less than the product of two times the maximum amount of Base Rental Payments scheduled to be paid during any Rental Period. The City is not permitted to self-insure its obligation to maintain rental interruption insurance.

The City is also required to maintain or cause to be maintained, throughout the term of the Lease Agreement, a standard commercial general liability insurance policy or policies in protection of the City, the Authority and their respective members, officers, agents and employees, and worker’s compensation insurance as described in APPENDIX A—“SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—The Lease Agreement—Insurance.”

The City is required under the Lease Agreement to provide, at its own expense, one or more CLTA or ALTA title insurance policies for the Property, in the aggregate amount of not less than the initial aggregate principal amount of the Series 2012 Bonds, insuring the fee interest of the City in the Property, the Authority’s leasehold estate in the Property under the Ground Lease, and the City’s subleasehold estate in the Property under the Lease Agreement, subject only to Permitted Encumbrances, and providing that all proceeds thereunder are payable to the Trustee for the benefit of the Owners.

## SOURCES AND USES OF FUNDS

The sources and uses of funds with respect to the Series 2012 Bonds are shown below.

	<i>Series 2012 Bonds</i>
<i>Sources</i>	
Principal Amount of Series 2012 Bonds	\$ 11,230,000.00
Net Original Issue Premium	571,904.80
City Prepayment of Base Rental Payments <sup>(1)</sup>	1,500,000.00
Reserve Funds	<u>847,605.09</u>
Total Sources	<u>\$ 14,149,509.89</u>
<i>Uses</i>	
Project Fund	\$ 850,000.00
Escrow Fund	11,544,227.65
Prepaid Base Rental Account <sup>(1)</sup>	1,500,000.00
Cost of Issuance Fund <sup>(2)</sup>	<u>255,282.24</u>
Total Uses	<u>\$ 14,149,509.89</u>

<sup>(1)</sup> Amount estimated (depending on the month in which repairs commence) to be equal to approximately fifteen months of Base Rental. See "THE PROPERTY."

<sup>(2)</sup> Includes legal, financial advisory, rating agency, Underwriter's Discount, printing fees and other miscellaneous costs of issuance.

## BASE RENTAL PAYMENT SCHEDULE

Following is the annual schedule of Base Rental Payments due with respect to the Series 2012 Bonds:

<i>Lease Payment Date</i>	<i>Series 2012 Bond Principal</i>	<i>Series 2012 Bond Interest</i>	<i>Total Series 2012 Bond Payments</i>
2013	\$ 430,000	\$ 324,599.17	\$ 754,599.17
2014	370,000	365,937.50	735,937.50
2015	385,000	354,837.50	739,837.50
2016	405,000	339,437.50	744,437.50
2017	420,000	323,237.50	743,237.50
2018	430,000	306,437.50	736,437.50
2019	455,000	289,237.50	744,237.50
2020	470,000	271,037.50	741,037.50
2021	490,000	252,237.50	742,237.50
2022	505,000	232,637.50	737,637.50
2023	525,000	212,437.50	737,437.50
2024	545,000	191,437.50	736,437.50
2025	570,000	169,637.50	739,637.50
2026	590,000	146,837.50	736,837.50
2027	610,000	132,087.50	742,087.50
2028	625,000	116,075.00	741,075.00
2029	645,000	98,887.50	743,887.50
2030	660,000	81,150.00	741,150.00
2031	680,000	63,000.00	743,000.00
2032	700,000	42,600.00	742,600.00
2033	720,000	21,600.00	741,600.00
Total	<u>\$11,230,000</u>	<u>\$4,335,386.67</u>	<u>\$15,565,386.67</u>

## **THE 2012 PROJECT**

The 2012 Project consists of the construction of various public capital improvements located within the City (the “2012 Project”).

## **THE REFUNDING PLAN**

### **General**

The Series 2012 Bonds are being issued to provide a portion of the moneys, together with certain funds on deposit with Wells Fargo Bank, National Association, acting as escrow agent (the “Escrow Agent”), to pay the interest and principal due on the Prepaid Certificates through October 1, 2013 and to prepay the City’s outstanding Prepaid Certificates at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption.

Pursuant to the Indenture, the Authority will deliver a portion of the proceeds of the Series 2012 Bonds to the Trustee to transfer to the Escrow Agent for deposit in an escrow fund (the “Escrow Fund”) established under the Escrow Agreement, dated as of December 1, 2012, by and between the City and the Escrow Agent (the “Escrow Agreement”). Proceeds of the Series 2012 Bonds and other moneys held in the Escrow Fund to redeem a portion of the Prepaid Certificates will be invested in certain federal securities maturing at such times to (i) pay on April 1, 2013 interest due on the Prepaid Certificates, (ii) pay the principal and interest due on the Prepaid Certificates on October 1, 2013 and (iii) prepay the Prepaid Certificates maturing on or after October 1, 2014 on October 1, 2013 at a prepayment price equal to the principal amount of the Prepaid Certificates being prepaid, together with accrued interest to the redemption date, without premium. Amounts in the Escrow Fund will be irrevocably pledged to secure, when due, the payment of the principal of, interest and premium due with respect to the Prepaid Certificates.

### **Verification**

Upon issuance of the Series 2012 Bonds, Causey Demgen & Moore, P.C., as verification agent, will deliver a report on the mathematical accuracy of certain computations based upon certain information and assertions provided to it by the Underwriter relating to: (a) the adequacy of the maturing principal of and interest on the federal securities to pay when due all interest and principal with respect to the Prepaid Certificates on and prior to the prepayment thereof and to pay the prepayment price of the Prepaid Certificates when due; and (b) the computations of yield of the Series 2012A Bonds and the federal securities which support Bond Counsel’s opinion that the interest on the Series 2012A Bonds is excluded from gross income for federal income tax purposes.

## **THE PROPERTY**

The Property consists of the Rancho Santa Margarita City Hall and the Bell Tower Regional Community Center, which together comprise the City’s Civic Center complex. Located on a plaza at the center of the City, City Hall and the Community Center are located next to a multi acre park and across the street from one of the City’s busiest retail shopping areas. Numerous restaurants and meeting areas are located within walking distance, along with a County of Orange library branch facility, a medical clinic, and senior assisted living facilities.

Both City facilities are approximately 25,000 square foot buildings; consisting of one story steel frame and stucco construction. Incorporating energy efficient design elements including an open floor plan, centralized file storage areas, vaulted storage, and floor to ceiling windows.

Completed in 2004 on four developer donated parcels, the facilities provide multi-purpose service capabilities to residents and businesses. City Hall contains a City Council Chambers, Development Service

lobby and walk-up counter, administrative offices and an Emergency Operations Center. A wing of City Hall serves as a Police Services station with walk-up capacity and operational offices and equipment for Orange County Sheriff's Department personnel serving the community. An auxiliary diesel-supplied generator provides automatic backup power delivery to continue critical functions during emergencies. The Bell Tower Regional Community Center serves as a central meeting place for City residents and businesses. The City Hall and Community Center were completed at a cost of approximately \$16.6 million (exclusive of the value of the land).

In 2010, two separate storm events caused significant water intrusion into the Civic Center Complex. As a result, the City hired outside consultants to analyze the design and construction of the Civic Center Complex. Based on a review of reports prepared by such consultants, the City believes that the water intrusion was caused by design and/or construction defects and is pursuing legal remedies against the architect, general contractor and several of the subcontractors to correct such defects. The City expects to repair the Property at some point in the future upon resolution of any proceedings with the general contractor, architect and subcontractors. It is possible that such repairs will require the City to vacate the Property for six to nine months during construction.

The City currently estimates that the repair, design and relocation costs to be approximately \$3,850,000. The Property is habitable and fully operable as is. However, the City desires to repair the Property to correct the water intrusion issues. If the City is required to move out of all or a portion of the Property during construction, Base Rental Payments attributable to the portion of the Property not occupied by the City shall be paid from Prepaid Base Rental Payments in the amount of \$1,500,000, which, depending on the month in which repairs commence, represents approximately fifteen months of Base Rental Payments. Such moneys shall be deposited by the City with the Trustee at Closing and held in the Prepaid Base Rental Payment Account of the Base Rental Payment Fund and will be used during the repair period. The City's obligation to pay Base Rental Payments during the repair period will be abated. Only funds on deposit in the Prepaid Base Rental Payment Account shall be available to pay Base Rental Payments during the repair period. Upon completion of the repairs, or in the event the City elects not to make such repairs or such repairs do not require the City to vacate the Property, any funds remaining in the Prepaid Base Rental Payments Account not required to pay Base Rental Payments shall be returned to the City. See "RISK FACTORS—Abatements" and Appendix A – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

The City has the right to substitute or release all or portion of the Property subject to certain conditions precedent. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 BONDS—Substitution and Removal of Property."

## **THE AUTHORITY**

### **Organization and Membership**

The Authority was formed pursuant to the provisions of Articles 1, 2 and 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the "Act") and the Joint Exercise of Powers Agreement, dated as of October 15, 2012 (the "JPA Agreement"), by and between the City and the California Municipal Finance Authority (the "CMFA"). The Authority was formed by and between the City and the CMFA to assist in the financing of public capital improvements.

The Authority functions as a public entity, separate and apart from the City and the CMFA, and is administered by a five-member governing board consisting of the members of the City Council. The City Attorney serves as counsel to the Authority. The Authority has no employees and all staff work is performed by the City or consultants.

## **Powers**

Under the JPA Agreement, the Authority is empowered to assist in the financing of public capital improvements through the issuance of bonds in accordance with the Act. To exercise its powers, the Authority is authorized, in its own name, to do all necessary acts, including but not limited to making and entering into contracts; employing agents and employees; and to sue or be sued in its own name.

## **THE CITY**

### **General**

The City of Rancho Santa Margarita (the “City”) was incorporated on January 1, 2000 under the General Laws of the State. The City is located 58 miles southeast of Los Angeles and encompasses an area slightly greater than 13 square miles. The City currently has an estimated population of approximately 48,278 persons.

### **Government and Administration**

The City operates under a Council-Manager form of government. The City was first incorporated on January 1, 2000. On July 1, 2001, the City became responsible for all municipal services, including street maintenance, street sweeping, street lighting, traffic signal maintenance, animal control, engineering, public works, building and planning operations, and law enforcement.

The City Manager’s Office is responsible for making policy recommendations to the City Council and implementing them as adopted. The City Manager serves as the Chief Executive Officer of the City and is responsible for daily operations. Additional duties include: oversee operations of City Hall and services to the community; provide information to the City Council in a timely manner; act as the City Treasurer and Personnel Officer of the City; administer City employee benefits; work with other agencies in addressing regional issues; pursue economic development through business attraction and retention opportunities; represent the City in legislative actions; oversee emergency management operations; manage environmental issues; and advocate the City’s interests on regional, State and Federal issues. Police Department services are under contract with the Orange County Sheriff’s Department. Fire Department services are under contract with the Orange County Fire Authority. Library Facilities include one branch of the Orange County Public Library System.

### **Risk Management**

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The City purchases general liability, workers’ compensation, automobile liability and property insurance, as well as fidelity bond coverage, to guard against risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. Insurance premium payments are made from the City’s General Fund.

The City is a member of the Public Agency Risk Sharing Authority (“PARSAC”), a California Joint Powers Authority. There is a self-insured retention of \$10,000 per claim. PARSAC provides limits to \$1,000,000. CSAC Excess Insurance Authority, a California Joint Powers Authority, provides limits of \$4,000,000 above the PARSAC limits. PARSAC purchases reinsurance of \$20,000,000, excess the \$5,000,000 underlying layers.

The City is a member of PARSAC for workers’ compensation insurance. There is no deductible and the policy provides statutory limits.

The City purchases commercial property insurance and commercial inland marine insurance from Alliant Insurance Services through PARSAC. Public Entity Property Insurance Program provides all risk coverage including business interruption, rental income interruption and extra expense. Currently, there is a \$5,000 deductible.

All claims are investigated, valued, reserved, defended and/or settled in accordance with generally accepted insurance industry practices. There are no known existing claims that would exceed the City's applicable coverage.

## **CITY FINANCIAL INFORMATION**

### **General**

The City was incorporated on January 1, 2000 and is beginning its thirteenth full fiscal year of operations. Over the past three years, sales taxes, motor vehicle license fees, property taxes and in-lieu taxes make up approximately seventy-three percent of the City's general revenues.

### **Accounting and Financial Reporting**

The City maintains its accounting records in accordance with Generally Accepted Accounting Principles (GAAP) and the standards established by the Governmental Accounting Standards Board (GASB). On a semi-annual basis, a report is prepared for the City Council and City Staff which reviews fiscal performance to date against the budget. Combined financial statements are produced following the close of each Fiscal Year.

The City Council employs an independent certified public accountant, who, at such time or times as specified by the City Council, at least annually, and at such other times as they determine, examines the financial statements of the City in accordance with generally accepted auditing standards, including tests of the accounting records and other auditing procedures as such accountant considers necessary. As soon as practicable, after the end of the Fiscal Year, a final audit and report is submitted by the independent accountant to the City Council.

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various governmental funds are grouped, in the City's annual financial statements, into generic fund types, which include the General Fund, Special Revenue Funds, Debt Service Funds and Capital Project Funds.

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. It is expected that the Lease Payments will be paid for from amounts in the General Fund. Tables 1 through 4 below set forth certain historical and current fiscal year budget information for the General Fund. Information on the remaining governmental funds of the City as of June 30, 2012 is set forth in Appendix B.

### **Budget Procedure, Current Budget and Historical Budget Information**

The City currently uses a one-year budget cycle. At such time as the City Manager determines, each department head must furnish to the City Manager an estimate of revenues and expenditures for the department for the ensuing Fiscal Year, detailed in such manner as may be prescribed by the City Manager. In preparing the proposed budget, the City Manager reviews the estimates, holds conferences thereon with the respective

department heads, and revises the estimates as he or she deems advisable. The budget for Fiscal Year 2013 was approved on June 13, 2012.

Prior to the beginning of the Fiscal Year of the budget cycle, the City Manager submits to the City Council the proposed budget. The City Council determines the time for the holding of a public hearing and causes a notice of public hearing to be published. Not less than ten days prior to the date of the public hearing, copies of the proposed budget are available for inspection by the public in the office of the City Clerk. During the public hearing and after its conclusion, the City Council further considers the proposed budget and makes any revisions thereto that it deems advisable. On or before June 30, of the year prior to the Fiscal Year of the budget cycle, the City Council adopts the budget with revisions, if any, by the affirmative vote of at least a majority of the total members.

From the effective date of the budget, the amounts stated as proposed expenditures become appropriated to the several departments, offices and agencies for the objects and purposes named, provided that the City Manager may transfer appropriations of a fund from one object or purpose to another within the same fund as appropriate. Any revisions or transfers that alter the total appropriations between funds require City Council approval. All appropriations lapse at the end of the Fiscal Year to the extent that they have not been expended, lawfully encumbered or affirmatively reappropriated by the City Council during the adoption of the next year's budget. At a public meeting after the adoption of the budget the City Council may amend or supplement the budget by motion adopted by three votes of the City Council.

Set forth in Table 1 is the General Fund budgets for Fiscal Years 2011, 2012 and 2013, the audited results for Fiscal Years 2011 and 2012. During the course of each Fiscal Year, the budgets are amended and revised as necessary by the City Council.

**TABLE 1  
CITY OF RANCHO SANTA MARGARITA  
GENERAL FUND BUDGETS**

	<i>Final Fiscal Year 2011 Budget</i>	<i>Fiscal Year 2011 Results</i>	<i>Adopted Fiscal Year 2012 Budget</i>	<i>Fiscal Year 2012 Results</i>	<i>Adopted Fiscal Year 2013 Budget</i>
<b>Revenues</b>					
Taxes	\$ 6,697,197	\$ 7,440,125	\$ 7,370,319	\$ 7,578,069	\$ 7,633,108
Fees and permits	1,621,422	1,793,566	1,727,883	2,072,595	1,911,095
Intergovernmental	3,907,274	4,034,800	4,357,584	4,209,382	3,903,949
Charges for services	646,807	755,808	673,886	657,598	660,192
Investment income	109,114	65,688	64,543	91,243	59,527
Fines, forfeits and penalties	266,229	248,803	252,200	277,866	242,388
Other	32,708	541,090	95,073	571,964	24,000
<b>Total Revenues</b>	<u>\$ 13,280,751</u>	<u>\$ 14,879,880</u>	<u>\$ 14,541,488</u>	<u>\$ 15,458,717</u>	<u>\$ 14,434,259</u>
<b>Expenditures</b>					
Current					
General government	\$ 3,882,336	\$ 3,739,202	\$ 4,047,881	\$ 3,856,873	\$ 3,930,243
Building and planning	1,067,761	1,142,245	1,189,632	954,291	981,103
Public safety	7,410,889	7,355,052	7,517,011	7,501,236	7,623,299
Public works	1,842,127	1,962,128	1,911,373	1,908,481	1,880,650
Capital outlay	76,300	38,239	--	24,471	--
Debt service:					
Principal Retirement	--	--	--	--	--
Interest	--	--	--	--	--
<b>Total Expenditures</b>	<u>\$ 14,279,413</u>	<u>\$ 14,236,866</u>	<u>\$ 14,665,897</u>	<u>\$ 14,245,352</u>	<u>\$ 14,415,295</u>

Source: Adopted Budgets of the City for Fiscal Years 2011, 2012 and 2013, Audited Financial Statements for Fiscal Years 2011 and 2012.



## Comparative Change in Fund Balance of the City General Fund

Table 2 below presents the City's audited General Fund Statement of Revenues, Expenditures and Change in Fund Balance for Fiscal Years 2008-2012.

**TABLE 2**  
**CITY OF RANCHO SANTA MARGARITA GENERAL FUND STATEMENT OF**  
**REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE**  
**FIVE YEAR COMPARISON**

	<i>Fiscal Year Ending June 30,</i>				
	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>
<b>Revenues:</b>					
Taxes	\$ 8,855,321	\$ 7,550,906	\$ 6,763,911	\$ 7,440,125	\$ 7,578,069
Fees and permits	1,835,160	1,736,087	1,655,184	1,793,566	2,072,595
Intergovernmental	4,304,322	4,187,783	4,026,928	4,034,800	4,209,382
Charges for services	327,128	607,036	638,448	755,808	657,598
Investment income	651,986	291,574	76,670	65,688	91,243
Fines, forfeits and penalties	320,097	274,251	269,325	248,803	277,866
Other	<u>271,486</u>	<u>266,475</u>	<u>145,595</u>	<u>541,090</u>	<u>571,964</u>
Total Revenues	<u>\$ 16,565,500</u>	<u>\$ 14,914,112</u>	<u>\$ 13,576,061</u>	<u>\$ 14,879,880</u>	<u>\$ 15,458,717</u>
<b>Expenditures:</b>					
<b>Current:</b>					
General government	\$ 4,740,844	\$ 4,496,860	\$ 4,097,146	\$ 3,739,202	\$ 3,856,873
Building and planning	1,134,310	1,059,697	1,066,318	1,142,245	954,291
Public safety	7,483,440	7,900,118	7,689,510	7,355,052	7,501,236
Public works	2,243,774	2,158,260	1,660,633	1,962,128	1,908,481
Capital outlay	<u>53,065</u>	<u>2,573,517</u>	<u>66,539</u>	<u>38,239</u>	<u>24,471</u>
Total Expenditures	<u>\$ 15,655,433</u>	<u>\$ 18,188,452</u>	<u>\$ 14,580,146</u>	<u>\$ 14,236,866</u>	<u>\$ 14,245,352</u>
Excess (deficiency of revenues over (under) expenditures	<u>\$ 910,067</u>	<u>\$ (3,274,340)</u>	<u>\$ (1,004,085)</u>	<u>\$ 643,014</u>	<u>\$ 1,213,365</u>
<b>Other Financing Sources (Uses):</b>					
Transfers in	\$ 856,199	\$ 1,005,983	\$ 1,362,836	\$ 1,465,410	\$ 719,211
Transfers out	<u>(793,776)</u>	<u>(800,090)</u>	<u>(829,115)</u>	<u>(825,581)</u>	<u>(827,587)</u>
Total Financing Sources (Uses)	<u>\$ 62,423</u>	<u>\$ 205,893</u>	<u>\$ 533,721</u>	<u>\$ 639,829</u>	<u>\$ (108,376)</u>
Net change in fund balances	\$ 972,490	\$ (3,068,447)	\$ (470,364)	\$ 1,282,843	\$ 1,104,989
Fund balances, beginning of year	<u>\$ 16,088,881</u>	<u>\$ 17,061,371</u>	<u>\$ 13,992,924</u>	<u>\$ 13,522,560</u>	<u>\$ 14,805,403</u>
Fund balances, end of year	<u>\$ 17,061,371</u>	<u>\$ 13,992,924</u>	<u>\$ 13,522,560</u>	<u>\$ 14,805,403</u>	<u>\$ 15,910,392</u>

Source: Audited Financial Statements for Fiscal Years 2008-2012.

## Comparative General Fund Balance Sheets of the City

Table 3 below presents the City's audited General Fund Balance Sheets for Fiscal Years 2008-2012.

**TABLE 3**  
**CITY OF RANCHO SANTA MARGARITA**  
**GENERAL FUND BALANCE SHEETS**  
**FIVE YEAR COMPARISON**

	<i>Fiscal Year Ending June 30,</i>				
	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>
<b>Assets</b>					
Cash and investments	\$ 17,157,137	\$ 14,242,157	\$ 13,549,646	\$ 14,767,647	\$ 15,477,962
Cash with fiscal agent	--	--	--	--	--
Receivables:					
Due from other governments	947,739	708,490	658,225	791,466	1,557,277
Accrued interest	98,999	36,787	13,325	12,072	9,763
Accounts, net	289,828	281,735	531,500	523,270	377,864
Prepaid Items	--	--	--	--	183,016
Total Assets	<u>\$ 18,493,703</u>	<u>\$ 15,269,169</u>	<u>\$ 14,752,696</u>	<u>\$ 16,094,455</u>	<u>\$ 17,539,893</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 405,044	\$ 561,308	\$ 496,411	\$ 585,720	\$ 652,441
Accrued liabilities	2,555	3,355	4,474	32	312
Wages payable	649,493	3,053	82,510	94,072	87,112
Deferred revenue	54,181	633,051	628,925	563,586	786,261
Retentions payable	321,059	75,478	--	--	--
Deposits	--	--	17,816	45,642	103,375
Total Liabilities	<u>\$ 1,431,332</u>	<u>\$ 1,276,245</u>	<u>\$ 1,230,136</u>	<u>\$ 1,289,052</u>	<u>\$ 1,627,501</u>
<b>Fund Balance:</b>					
Nonspendable Prepaid Items	\$ --	\$ --	\$ --	\$ --	\$ 183,016
Restricted for debt service	--	--	--	--	--
Restricted for roads, grants and parks	--	--	--	--	58,982
Committed for encumbrances	127,204	7,810	29,085	25,892	142,428
Committed for self-insurance	30,000	30,000	30,000	30,000	30,000
Assigned:					
General fund	16,000,000	13,955,114	13,463,475	7,421,985	7,877,157
Unassigned:					
General fund	904,167	--	--	7,327,526	7,618,809
Capital project funds	--	--	--	--	--
Total Fund Balance	<u>\$ 17,061,371</u>	<u>\$ 13,992,924</u>	<u>\$ 13,522,560</u>	<u>\$ 14,805,403</u>	<u>\$ 15,910,392</u>
Total Liabilities and Fund Balance	<u>\$ 18,493,703</u>	<u>\$ 15,269,169</u>	<u>\$ 14,752,696</u>	<u>\$ 16,094,455</u>	<u>\$ 16,870,013</u>

Source: Audited Financial Statements for Fiscal Years 2008-2012.

## Property Taxes

Property tax receipts of \$1,999,106 provided the third largest tax revenue source of the City, contributing approximately 26.4% of General Fund tax revenues and approximately 12.9% of total General Fund revenues during Fiscal Year 2012. In California, property which is subject to *ad valorem* taxes is classified as "secured" or "unsecured." The secured classification includes property on which any property tax levied by a county becomes a lien on that property. A tax levied on unsecured property does not become a lien against the taxed unsecured property, but may become a lien on certain other property owned by the taxpayer. Every tax which becomes a lien on secured property has priority over all other liens, arising pursuant to State Law, on the secured property, regardless of the time of the creation of other liens. The valuation of property is determined as of January 1 each year, and installments of taxes levied upon secured property become

delinquent on the following December 10th and April 10th of the subsequent calendar year. Taxes on unsecured property are due July 1, and become delinquent August 31.

Secured and unsecured properties are entered separately on the assessment roll maintained by the county assessor. The method of collecting delinquent taxes is substantially different for the two classifications of property. The exclusive means of forcing the payment of delinquent taxes with respect to property on the secured roll is the sale of the property securing the taxes of the State for the amount of taxes that are delinquent. The taxing authority has four methods of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the County Recorder's Office in order to obtain a lien on certain property of the taxpayer, and (4) seizure and sale of personal property, improvement or possessory interest belonging or taxable to the assessee.

A ten percent penalty is added to delinquent taxes which have been levied with respect to property on the secured roll. In addition, beginning on the July 1 following a delinquency, interest begins accruing at the rate of 1 1/2% per month on the amount delinquent. Such property may thereafter be redeemed by the payment of the delinquent taxes and the ten percent penalty, plus interest at the rate of 1 1/2% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is deeded to the State and then is subject to sale by the county tax collector. A ten percent penalty also applies to the delinquent taxes or property on the unsecured roll, and further, an additional penalty of 1 1/2% per month accrues with respect to such taxes beginning on the varying dates related to the tax billing date.

Legislation enacted in 1984 (Section 25 *et seq.* of the Revenue and Taxation Code of the State of California), provides for the supplemental assignment and taxation of property as of the occurrence of a change in ownership or completion of new construction. Previously, statutes enabled the assessment of such changes only as of the next tax lien date following the change and thus delayed the realization of increased property taxes from the new assessment for up to 14 months. Collection of taxes based on supplemental assessments occurs throughout the year. Taxes due are prorated according to the amount of time remaining in the tax year, with the exception of tax bills dated January 1 through May 31, which are calculated on the basis of the remainder of the current fiscal year and the full 12 months of the next fiscal year.

For a number of years, the State Legislature has shifted property taxes from cities, counties and special districts to the Educational Revenue Augmentation Fund. The term "ERAF" is often used as a shorthand reference for this shift of property taxes. In 1992-93 and 1993-94, in response to serious budgetary shortfalls, the State Legislature and administration permanently redirected over \$3 billion of property taxes from cities, counties, and special districts to schools and community college districts. The 2004-05 California State Budget included an additional \$1.3 billion shift of property taxes from certain local agencies, including the City, to occur in Fiscal Years 2004-05 and 2005-06.

On November 2, 2004, California voters approved Proposition 1A, which amended the State Constitution to significantly reduce the State's authority over major local government revenue sources. Under Proposition 1A, the State may not (i) reduce local sales tax rates or alter the method of allocating the revenue generated by such taxes, (ii) shift property taxes from local governments to schools or community colleges, (iii) change how property tax revenues are shared among local governments without two-third approval of both houses of the State Legislature, or (iv) decrease Vehicle License Fees revenues without providing local governments with equal replacement funding. Beginning in Fiscal Year 2008-09, the State may shift to schools and community colleges a limited amount of local government property tax revenue if certain conditions are met, including (a) a proclamation by the Governor that the shift is needed due to a severe financial hardship of the State, and (b) approval of the shift by the State Legislature with a two-thirds vote of both houses. Under such a shift, the State must repay local governments for their property tax losses, with interest, within three years. Proposition 1A does allow the State to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. See "STATE BUDGET

INFORMATION” for information related to the Proposition 1A shift approved by the State for Fiscal Year 2010 and its impact on the City’s General Fund.

Table 4 below sets forth the property tax rates for the City for the Fiscal Years 2008 through 2012. The information in Table 4 has been provided by California Municipal Statistics, Inc. Neither the City nor the Underwriter has independently verified the information in Table 4 and do not guarantee its accuracy.

**TABLE 4**  
**CITY OF RANCHO SANTA MARGARITA**  
**PROPERTY TAX RATES**  
**FISCAL YEARS 2008 THROUGH 2012**  
**Typical Total Tax Rate per \$100 of Assessed Valuation (TRA 33-049)**

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>
General	1.00000	1.00000	1.00000	1.00000
Metropolitan Water District	0.00430	0.00430	0.00370	0.00370
Saddleback Valley Unified School District	<u>0.02834</u>	<u>0.03043</u>	<u>0.03194</u>	<u>0.03163</u>
Total All Property Tax Rate	1.03264	1.03473	1.03564	1.03533
Santa Margarita Water District I.D. No. 4	0.06270	0.14020	0.13620	0.13380
Santa Margarita Water District I.D. No. 4A	<u>0.21560</u>	<u>0.26820</u>	<u>0.25650</u>	<u>0.25620</u>
Total Land Only Tax Rate	0.27830	0.40840	0.39270	0.39000

Source: California Municipal Statistics, Inc.

Table 5 below sets forth the secured and unsecured assessed valuations for property in the City for the Fiscal Years 2009 through 2013. The information in Table 5 with respect to Fiscal Years 2009 through 2012 has been provided by California Municipal Statistics, Inc. and the information with respect to Fiscal Year 2013 has been obtained directly from the County of Orange. Neither the City nor the Underwriter has independently verified the information in Table 5 and do not guarantee its accuracy.

**TABLE 5**  
**CITY OF RANCHO SANTA MARGARITA**  
**ASSESSED VALUATION**  
**FISCAL YEARS 2009 TO 2013**

<i>Fiscal Year</i>	<i>Local Secured</i>	<i>Utility</i>	<i>Unsecured</i>	<i>Total</i>
2009	\$6,668,374,726	\$0	\$253,490,450	\$6,921,865,176
2010	6,386,080,904	0	231,821,987	6,617,902,891
2011	6,393,048,882	0	212,348,410	6,605,397,292
2012	6,417,215,785	0	206,603,665	6,623,819,450
2013	6,441,046,014	0	234,514,756	6,675,560,770

Source: California Municipal Statistics, Inc. for Fiscal Years 2009 through 2012, County of Orange for Fiscal Year 2013.

Table 6 below sets forth property tax collections and delinquencies in the City as of June 30 for Fiscal Years 2008 through 2012. The County of Orange (the “County”) operates under a statutory program entitled Alternate Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”). Under the Teeter Plan local taxing entities receive 100% of their tax levies net of delinquencies, but do not receive interest or penalties on delinquent taxes collected by the County. The City elected not to enroll in the Teeter Plan; accordingly, the City’s receipt of its property tax revenues is impacted by delinquencies in payment, as well as by the collection of interest and penalties on past delinquencies.

**TABLE 6  
CITY OF RANCHO SANTA MARGARITA  
PROPERTY TAX LEVIES AND COLLECTIONS  
FISCAL YEARS 2008 THROUGH 2012**

<i>Fiscal Year</i>	<i>Total Tax Levy</i>	<i>Current Tax Collections as of June 30</i>	<i>Percent of Levy Collected as of June 30</i>	<i>Outstanding Delinquent Taxes as of June 30</i>
2008	\$2,076,577	\$1,990,956	95.9%	\$85,621
2009	2,017,957	1,942,908	96.3	75,049
2010	1,903,201	1,858,344	97.6	44,857
2011	1,903,355	1,871,867	98.3	31,488
2012	1,905,447	1,877,231	98.5	28,216

Source: California Municipal Statistics, Inc.

The 20 largest taxpayers in the City as shown on the Fiscal Year 2011-12 secured tax roll, the land use, the assessed valuation and the percentage of the City’s total property tax revenues attributable to each are shown on Table 7 below. The information in Table 7 has been provided by California Municipal Statistics, Inc. Neither the City nor the Underwriter has independently verified the information in Table 7 and do not guarantee its accuracy.

**TABLE 7  
CITY OF RANCHO SANTA MARGARITA  
TWENTY PRINCIPAL TAXPAYERS**

<i>Property Owner</i>	<i>Land Use</i>	<i>2012-13 Assessed Valuation</i>	<i>% of Total<sup>(1)</sup></i>
1. 22751 El Prado LLC	Apartments	\$ 71,614,568	1.11%
2. Applied Medical Resources Corp.	Industrial	51,293,981	0.80
3. BRE Properties Inc.	Apartments	46,339,687	0.72
4. Villa La Paz Partners LP	Apartments	37,690,263	0.59
5. Coxcom, Inc.	Industrial	33,128,483	0.51
6. KRC Santa Margarita	Commercial	25,323,195	0.39
7. Crescent LP	Apartments	24,846,858	0.39
8. FG Rancho Santa Margarita Sr. Apt. LP	Apartments	24,480,000	0.38
9. Sanyo Foods Corporation of America	Commercial	23,225,380	0.36
10. Bay Apartment Communities Inc.	Apartments	22,968,871	0.36
11. CLPF-Buena Vida at Town Center LP	Apartments	21,756,400	0.34
12. CP Empressa RSM LLC	Industrial	21,055,323	0.33
13. Antonio Acquisition Co. LLC	Commercial	20,649,991	0.32
14. ERP Operating LP	Apartments	19,795,693	0.31
15. TIS Equities XII & IX LLC	Commercial	19,210,161	0.30
16. Villas Aliento Partners LP	Apartments	18,363,435	0.29
17. RSM Mercado Opco LLC	Commercial	17,640,726	0.27
18. Control Components Inc.	Industrial	15,665,478	0.24
19. Lowes HIW	Commercial	15,265,317	0.24
20. Mission Camino Investors LP	Commercial	<u>14,798,872</u>	<u>0.23</u>
		<u>\$545,112,682</u>	<u>8.46%</u>

<sup>(1)</sup> 2012-13 Local Secured Assessed Valuation: \$6,441,046,014.  
Source: California Municipal Statistics, Inc.

### Sales Taxes

Sales tax receipts of \$4,045,681 provide the largest tax revenue source for the City, contributing approximately 53.4% of General Fund tax revenues and approximately 26.2% of total General Fund revenues during Fiscal Year 2012. A sales tax is imposed on retail sales or consumption of personal property. The basic sales tax rate is established by the State Legislature, and local overrides may be approved by voters. The current sales tax rate in the City is 7.75%.

On March 2, 2004, voters approved a bond initiative formally known as the “California Economic Recovery Act.” This act authorized the issuance of \$15 billion of Economic Recovery Bonds to finance ongoing State budget deficits, which are payable from a fund established by the redirection of tax revenues known as the “Triple Flip.” The State issued \$11.3 billion of Economic Recovery Bonds prior to June 30, 2004. Under the “Triple Flip,” one-quarter of local governments’ one percent share of the sales tax imposed on taxable transactions within their jurisdiction is being redirected to the State. In an effort to eliminate the adverse impact of the sales tax revenue redirection on local government, State legislation provides for certain property taxes to be redirected to local government. Because these property tax moneys were previously earmarked for schools, the legislation provides for schools to receive other State general fund revenues. It is expected that the swap of sales taxes for property taxes will terminate once the Economic Recovery Bonds are repaid, which is currently expected to occur in approximately 9 to 13 years. See “RISK FACTORS—State Budget Information” herein.

## Services

Fees of \$2,072,595 collected for services provided by the City, including, but not limited to, fees for plan checks, issuing of building permits, public works projects and for parks and recreations programs, provided approximately 13.4% of General Fund revenues during Fiscal Year 2012.

## State of California Motor Vehicle In-Lieu Payments

The State imposes a vehicle license fee (“VLF”), which is the portion of the fees paid in lieu of personal property taxes on a vehicle. The vehicle license fee is based on vehicle value and declines as the vehicle ages. Prior to the adoption of the Fiscal Year 2004-05 State Budget, the fee was 2 percent of the value of a vehicle. Through legislation in prior fiscal years, the State enacted vehicle license fee reductions under which the State was required to “backfill” local governments for their revenue losses resulting from the lowered fee. The Fiscal Year 2004-05 State Budget permanently reduced the vehicle license fee from 2 percent to 0.65 percent and deleted the requirement for backfill payments, providing, instead, that the amount of the backfill requirement will be met by an increase in the property tax allocation to cities and counties. See “RISK FACTORS—State Budget Information.”

As set forth in Table 8 below, for Fiscal Year 2012, the City received \$3,807,220 in total VLF, of which \$3,677,509 was distributed from property tax receipts.

**TABLE 8**  
**CITY OF RANCHO SANTA MARGARITA**  
**STATE OF CALIFORNIA MOTOR VEHICLE IN-LIEU PAYMENTS**  
**FISCAL YEARS 2008-2012**

<i>Source</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>
Motor Vehicle In-Lieu	\$3,905,855	\$3,842,963	\$3,674,206	\$3,667,263	\$3,677,509

Source: The City of Rancho Santa Margarita.

## Indebtedness

**General Obligation Debt.** The City currently has no general obligation debt outstanding.

**Long Term Debt.** As of June 30, 2011, the City has the following long term debts other than compensated absences in the amount of approximately \$279,000 and obligations with respect to other post-employment benefits in the amount of approximately \$63,000.

**Lease Revenue Obligations.** The City issued the Prepaid Certificates in 2003. As of June 30, 2011, the Prepaid Certificates were outstanding in the amount of approximately \$11,660,000. Following the issuance of the Bonds, the Prepaid Certificates will no longer be outstanding. The Bonds are being issued in the aggregate principal amount of \$11,230,000.

**Short-Term Debt.** The City currently has no short-term debt outstanding.

**Estimated Direct and Overlapping Bonded Debt.** The estimated direct and overlapping bonded debt of the City as of October 1, 2012 is shown in Table 9 below. The information in Table 9 has been derived from data assembled and reported to the City by California Municipal Statistics, Inc. Neither the City nor the Underwriter has independently verified the information in Table 9 and do not guarantee its accuracy.

**TABLE 9  
CITY OF RANCHO SANTA MARGARITA  
ESTIMATED DIRECT AND OVERLAPPING BONDED DEBT  
AS OF OCTOBER 1, 2012**

2012-13 Assessed Valuation: \$6,675,560,770

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 10/1/12</u>
Metropolitan Water District	0.318%	\$ 625,013
Capistrano Unified School District School Facilities Improvement District No. 1	1.533	648,994
Saddleback Valley Unified School District	14.446	18,581,890
Santa Margarita Water District Improvement Districts	0.495-100.	82,694,715
Capistrano Unified School District Community Facilities District No. 88-1	100.	2,570,000
Saddleback Valley Unified School District Community Facilities Districts	100.	27,160,320
Trabuco Canyon Water District Community Facilities Districts	100.	3,280,000
Orange County Community Facilities Districts	100.	<u>42,803,689</u>
<b>TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$178,364,621</b>
<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
Orange County General Fund Obligations	1.563%	\$ 3,356,167
Orange County Pension Obligations	1.563	3,185,507
Orange County Board of Education Certificates of Participation	1.563	250,080
Municipal Water District of Orange County Water Facilities Corporation	1.877	188,357
Capistrano Unified School District Certificates of Participation	3.521	774,796
<b>City of Rancho Santa Margarita Certificates of Participation</b>	<b>100.</b>	<b><u>11,045,000</u><sup>(1)</sup></b>
<b>TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>		<b>\$18,799,907</b>
Less: MWDOC Water Facilities Corporation (100% supported)		<u>188,357</u>
<b>TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>		<b>\$18,611,550</b>
<b>GROSS COMBINED TOTAL DEBT</b>		<b>\$197,164,528<sup>(2)</sup></b>
<b>NET COMBINED TOTAL DEBT</b>		<b>\$196,976,171</b>

(1) Excludes issue to be sold.

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

Ratios to 2012-13 Assessed Valuation:

<b>Combined Direct Debt (\$11,045,000)</b> .....	<b>0.17%</b>
Total Direct and Overlapping Tax and Assessment Debt.....	2.67%
Gross Combined Total Debt.....	2.95%
Net Combined Total Debt	2.95%

Source: California Municipal Statistics, Inc.

**Retirement Contributions**

The City contributes to the California Public Employees' Retirement System ("CalPERS"), an agent multiple-employer public employee defined benefit plan that acts as a common investment and administrative agent for participating public entities in the State. CalPERS provides retirement, disability and death benefits to plan members and their beneficiaries. All full-time City employees are eligible to participate in the City's plan, with benefits vesting after five years of service.

CalPERS issues a publicly available financial report that includes the applicable financial statements and required supplementary information for CalPERS. The report may be obtained by writing to CalPERS at 400 Q Street, Sacramento, California 95814.



Required employer and employee contributions are determined from rates established by CalPERS based upon various actuarial assumptions which are revised annually. Participants hired by the City prior to February 27, 2011 are subject to pension benefits based on the 2.5% at 55 formula, and are required by State statute to contribute 8% of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account.

Effective February 27, 2011, the City added a second tier pension formula to the PERS contract. All employees hired after this date are enrolled in the new formula, 2% at 60, and pay their full employee contribution of 7%.

In addition to the City's contribution on behalf of employees, the City currently funds the normal pension costs, which are determined by CalPERS using the Entry Age Normal Actuarial Cost Method, as well as an amortization of the City's unfunded actuarial liability. For Fiscal Year 2012, the City's CalPERS contribution was approximately \$389,233, which was equal to the annual required contribution (the "ARC") described below. The employer contribution rate for Fiscal Year 2013 for the Tier 1 pension formula has been established at 17.106% of annual covered payroll. The contribution rate for Fiscal Year 2013 for the Tier 2 pension formula has not been established at this time. The Tier 2 rate for Fiscal Year 2012 was 8.70%.

The City participates in a risk pool. Therefore, no individual unfunded actual accrued liability is calculated for the City.

Under Governmental Accounting Standards Board Statement No. 27, an employer reports an annual pension cost equal to the ARC plus an adjustment for the cumulative difference between the annual pension cost and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation and may be positive or negative. The ARC for Fiscal Year 2012 was determined by an actuarial valuation of the City's plan as of June 30, 2009 and the ARC for Fiscal Year 2013 has been determined by an actuarial valuation of the City's plan as of June 30, 2010.

The staff actuaries at CalPERS annually prepare an actuarial valuation which covers a Fiscal Year ending approximately 15 months before the actuarial valuation is delivered (thus, the actuarial valuation delivered to the City in October 2011 covered the City's Fiscal Year ended June 30, 2010). The actuarial valuations express the City's required contribution rates in percentages of covered payroll, which percentages the City must contribute in the Fiscal Year immediately following the Fiscal Year in which the actuarial valuation is prepared (thus, the City contribution rate derived from the actuarial valuation as of June 30, 2010, which was delivered in October 2011, affects the City Fiscal Year 2013 required contribution rate). CalPERS rules require the City to implement the actuary's recommended rates.

In calculating the annual actuarially recommended contribution rates, the CalPERS actuary calculates on the basis of certain assumptions the actuarial present value of benefits that CalPERS will fund under the CalPERS plans, which includes two components, the normal cost and the unfunded actuarial accrued liability (the "UAAL"). The normal cost represents the actuarial present value of benefits that CalPERS will fund under the CalPERS plans that are attributed to the current year, and the actuarial accrued liability represents the actuarial present value of benefits that CalPERS will fund that are attributed to past years. The UAAL represents an estimate of the actuarial shortfall between actuarial value of assets on deposit at CalPERS and the present value of the benefits that CalPERS will pay under the CalPERS plans to retirees and active employees upon their retirement. The UAAL is based on several assumptions such as, among others, the rate of investment return, average life expectancy, average age of retirement, inflation, salary increases and occurrences of disabilities. In addition, the UAAL includes certain actuarial adjustments such as, among others, the actuarial practice of smoothing losses and gains over multiple years (which is described in more detail below). As a result, the UAAL may be considered an estimate of the unfunded actuarial present value of the benefits that CalPERS will fund under the CalPERS plans to retirees and active employees upon their retirement and not as a fixed expression of the liability that the City owes to CalPERS under its CalPERS plan.

In each actuarial valuation, the CalPERS actuary estimates the actuarial value of the assets (the "Actuarial Value") of the CalPERS plans at the end of the Fiscal Year (which assumes, among other things, that the rate of return during that Fiscal Year equaled the assumed rate of return, currently 7.5%). The CalPERS actuary uses a smoothing technique to determine Actuarial Value that is calculated based on certain policies.

The following table summarizes the City's annual required contributions for its CalPERS plan for Fiscal Years 2007 through 2012:

<i>Fiscal Year</i>	<i>Employer Contribution</i>	<i>City-Funded Employee Contribution</i>	<i>Employer Contribution</i>	<i>Net Pension Obligation</i>	<i>Percentage of Annual Pension Cost Contributed</i>
2007	12.83%	\$ 127,976	\$ 168,637	--	100%
2008	12.26	130,241	199,594	--	100
2009	12.26	139,267	213,413	--	100
2010	13.08	144,641	236,020	--	100
2011	13.34	147,815	248,521	--	100
Tier 1 - 2012	16.50	126,310	260,467	--	100
Tier 2 - 2012	8.70	--	2,456	--	100

The following table sets forth the schedule of funding progress for the City's CalPERS plan as of June 30, 2011. The employer contribution rate for Fiscal Years 2013 and 2014 is estimated at 17.106% and 17.3, respectively. Based on recent assumption changes adapted by CalPERS related to the rate of investment returns, CalPERS estimates that contribution rates could increase by 1% to 2%.

For additional information relating to the City's CalPERS Plan, see Note 7 to the City's Financial Statements set forth in Appendix A.

CalPERS reported significant investment losses in 2009. CalPERS earnings reports for Fiscal Years 2010 and 2011 report an investment gain in excess of 13.0 and 21.7%, respectively. Future earnings performance and adjustments of assumptions may increase or decrease future contribution rates for plan participants, including the City.

### **Other Post-Employment Benefits**

The City contracts with CalPERS for health benefits of its current employees, retirees and their respective dependents. CalPERS requires that participating agencies provide health benefits for retirees if employees are covered under CalPERS for their health insurance. Government Code Section 22892 requires a minimum City contribution for all vested employees of \$28.40 a month, subject to annual consumer price index adjustments. All employees hired prior to December 1, 2005 are automatically vested, with the City required to contribute 35% of the medical premium escalating 5% annually for each year of service up to 100%. Employees hired after December 1, 2005 vest at 50% after 10 years of state service (5 of which must be at the City) and each additional service credit year after 10 years increases the City's contribution by 5%. For the calendar year 2012 the City paid \$112 per month for each retiree's health benefits.

The Governmental Accounting Standards Board recently published Statement No. 45, requiring governmental agencies that fund post-employment benefits on a pay-as-you-go basis, such as the City, to account for and report the outstanding obligations and commitments related to such post-employment benefits in essentially the same manner as for pensions. In a report dated July 1, 2009 (the "Report"), it was determined that as of June 30, 2011, the City's unfunded actuarial accrued liability for post-employment benefits based upon a 5.0% discount rate was \$141,927. The Report also concluded that the annual required contribution ("ARC") for the year ending June 30, 2010 was \$34,157. The ARC is the annual amount that

would be necessary to fund the OPEB in accordance with the Governmental Accounting Standards Board's Statement No. 43.

The following table sets forth the schedule of funding progress for the City's CalPERS plan as of June 30, 2012:

<i>Valuation Date (June 30)</i>	<i>Entry Age Actuarial Accrued Liability</i>	<i>Actuarial Value of Assets</i>	<i>UAAL</i>	<i>Funded Ratio<sup>(1)</sup></i>	<i>Annual Covered Payroll</i>	<i>UAAL as a % of Covered Payroll</i>
2010	\$141,927	--	\$141,927	0%	\$1,808,008	7.85%
2011	141,927	--	141,927	0	1,847,685	7.68
2012	141,927	--	141,927	0	1,607,088	8.83

<sup>(1)</sup> Based on the actuarial value of assets.

### California State Pension Reform Legislation

In September 2012, the Governor signed a comprehensive pension reform package affecting state and local government employees. AB 340 (the "Legislation") implements lower defined-benefit formulas with higher retirement ages for new employees hired on or after January 1, 2013, and includes provisions to increase current employee contributions. Though the Legislation covers most public employees in state government, cities, counties, special districts, school district, and community colleges, the following discussion relates only to the Legislation's impact on City employee retirement.

Key changes to retirement plans affecting the City include:

- New defined-benefit formulas that increase retirement ages for new public employees hired on or after January 1, 2013;
- For new employees, a cap on pensionable income of \$110,100 or \$132,120 (for employees not in social security). Annual increases on the cap would be limited to the Consumer Price Index for All Urban Consumers.
- A standard that employees pay at least 50 percent of normal costs.
- Establishes increases for current City civil service and related excluded employees who are not contributing at least half of normal costs.

Other provisions reduce the risk of the City incurring additional unfunded liabilities, including prohibiting retroactive benefits increases, generally prohibiting contribution holidays, and prohibiting purchases of additional non-qualified service credit ("air time").

If the Legislation is implemented fully, PERS estimates savings for local agency plans of approximately \$1.653 billion to \$2.355 billion over the next 30 years due primarily to increased employee contributions and, as the workforce turns over, lower benefit formulas that will gradually reduce normal costs. Savings specific to the City have not been quantified. OPEB costs are not addressed in the Legislation.

Provisions in the Legislation will not likely have a material effect on City contributions in the short term. However, additional employee contributions, limits on pensionable compensation, and higher retirement ages for new members will reduce the City's UAAL and potentially City contribution levels in the long term.

## **City Investment Policy**

The City's statement of Investment Policy rendered to the City Council by the City Treasurer pursuant to Section 53646 of the California Government Code (the "Investment Policy") states that the basic premise underlying the City's investment philosophy is to minimize credit and market risks while maintaining a competitive yield on its portfolio. Hence, safety of principal is the foremost objective of the City, followed by liquidity and yield. Under provisions of the Investment Policy, the City may invest in time deposits, bankers acceptances, U.S. Treasury Bills and notes, governmental agency securities, repurchase agreements, reverse repurchase agreements, commercial paper, medium term notes of corporations operating within the United States rated "A" or better by Standard and Poor's Rating Group or by Moody's Investors Services, and State Local Agency Investment Fund ("LAIF"), which is under the oversight of the State Treasurer. As of June 30, 2011, the City had invested its entire investment portfolio in LAIF. LAIF has not been rated by any nationally recognized statistical rating organization. See also APPENDIX B—"AUDITED FINANCIAL STATEMENTS OF THE CITY FOR THE YEAR ENDED JUNE 30, 2012" herein.

### **RISK FACTORS**

The following factors, along with the other information in this Official Statement, should be considered by potential investors in evaluating the purchase of the Series 2012 Bonds. However, they do not purport to be an exhaustive listing of risks and other considerations which may be relevant to an investment in the Series 2012 Bonds. In addition, the order in which the following factors are presented is not intended to reflect the relative importance of any such risks.

#### **General Considerations – Security for the Series 2012 Bonds**

The Series 2012 Bonds are special obligations of the Authority, payable solely from Base Rental Payments and the other assets pledged under the Indenture. Neither the faith and credit nor the taxing power of the Authority, the City or the State, or any political subdivision thereof, is pledged to the payment of the Series 2012 Bonds. The Authority has not taxing power.

The obligation of the City to make the Base Rental Payments does not constitute a debt of the City or the State or of any political subdivision thereof within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the City or the State is obligated to levy or pledge any form of taxation or for which the City or the State has levied or pledged any form of taxation.

Although the Lease Agreement does not create a pledge, lien or encumbrance upon the funds of the City, the City is obligated under the Lease Agreement to pay the Base Rental Payments and Additional Rental Payments from any source of legally available funds and the City has covenanted in the Lease Agreement that it will take such action as may be necessary to include all Base Rental Payments and Additional Rental Payments due under the Lease Agreement as a separate line item in its annual budgets and to make necessary annual appropriations for all such Rental Payments, subject to abatement. The City is currently liable and may become liable on other obligations payable from general revenues.

The City has the capacity to enter into other obligations which may constitute additional charges against its revenues. To the extent that additional obligations are incurred by the City, the funds available to make Base Rental Payments may be decreased. In the event the City's revenue sources are less than its total obligations, the City could choose to fund other activities before making Base Rental Payments and other payments due under the Lease Agreement. The same result could occur if, because of California Constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues. However, the City's appropriations have never exceeded the limitation on appropriations under Article XIII B of the California Constitution. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS—Article XIII B of the California Constitution."

## **Abatements**

In the event of substantial interference with the City's right to use and occupy any portion of the Property by reason of damage to, or destruction or condemnation of the Property, or any defects in title to the Property, Base Rental Payments will be subject to abatement. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 BONDS—Abatement." In the event that such portion of the Property, if damaged or destroyed by an insured casualty, could not be replaced during the period of time in which proceeds of the City's rental interruption insurance will be available in lieu of Base Rental Payments, plus the period for which funds are available from the funds and accounts established under the Indenture, or in the event that casualty insurance proceeds are insufficient to provide for complete repair or replacement of such portion of the Property or redemption of the Series 2012 Bonds, there could be insufficient funds to make payments to Owners in full. The Authority has not funded a reserve fund for the Series 2012 Bonds.

As described under the caption "THE PROPERTY," the City anticipates conducting extensive repairs of the Property that may require it to move out of the Property for approximately six to nine months. During such period, Base Rental Payments will be abated pursuant to the Lease Agreement. However, the City has deposited \$1,500,000 into the Prepaid Base Rental Account of the Base Rental Payment Fund as a prepayment of Base Rental. The Trustee will use such prepaid Base Rental Payments to pay debt service on the Series 2012 Bonds during the repair period. At this time, the City is uncertain when it will commence such repairs and if it will have to move out of the Property. Should the repairs take longer than the period of Prepaid Base Rental, it is likely that the Trustee will not have sufficient funds to pay debt service on the Series 2012 Bonds until the City reoccupies the Property and recommences making Base Rental Payments.

It is not always possible to predict the circumstances under which abatement of rental may occur. In addition, there is no statute, case or other law specifying how such an abatement of rental should be measured. For example, it is not clear whether fair rental value is established as of commencement of the lease or at the time of the abatement. If the latter, it may be that the value of the Property is substantially higher or lower than its value at the time of the execution and delivery of the Series 2012 Bonds. Abatement, therefore, could have an uncertain and material adverse effect on the security for and payment of the Series 2012 Bonds.

If damage, destruction, title defect or eminent domain proceedings with respect to the Property results in abatement of the Base Rental Payments related to such Property and if such abated Base Rental Payments, if any, together with moneys from rental interruption or use and occupancy insurance (in the event of any insured loss due to damage or destruction), and eminent domain proceeds, if any, are insufficient to make all payments of principal and interest with respect to the Series 2012 Bonds during the period that the Property is being replaced, repaired or reconstructed, then all or a portion of such payments of principal and interest may not be made. Under the Lease Agreement and the Indenture, no remedy is available to the Series 2012 Bond Owners for nonpayment under such circumstances.

## **No Reserve Fund**

The Authority has not funded a reserve fund for the Series 2012 Bonds.

## **Seismic Activity**

All jurisdictions in California are subject to the effects of damaging earthquakes. Earthquakes are considered a threat to the City due to the highly active seismic region and the proximity of fault zones, which could influence the entire southern coastal portion of the State. However, no major earthquake has caused substantial damage to the community.

An earthquake along one of the faults in the vicinity, either known or unknown, could cause a number of casualties and extensive property damage. The effects of such a quake could be aggravated by aftershocks and secondary effects such as fires, landslides, dam failure, liquefaction and other threats to public health,

safety and welfare. The potential direct and indirect consequences of a major earthquake can easily exceed the resources of the City and would require a high level of self-help, coordination and cooperation.

No active faults are known to pass through the City. The closest active faults are the Elsinore-Glen Ivy fault (10.1 miles away), the Chino fault (11.1 miles away), and the Newport Inglewood fault (14.4 miles away). The occurrence of surface rupture on these segments would not be expected to produce fault surface rupture within the City. The two known local faults, Aliso and the Cristianitos, are thought to be inactive. An earthquake on either of these two faults would be particularly damaging to residential buildings, especially to those of older wooden or unreinforced masonry construction, or to mobile homes, although the City currently has no mobile homes.

### **Hazardous Substances**

An additional environmental condition that may result in the reduction in the assessed value of property, and therefor property tax revenue available to make Base Rental Payments, would be the discovery of a hazardous substance that would limit the beneficial use of taxable property within the City. In general, the owners and operators of a property may be required by law to remedy conditions of the property relating to releases or threatened releases of hazardous substances. The owner or operator may be required to remedy a hazardous substance condition of property whether or not the owner or operator has anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the property within the City be affected by a hazardous substance, could be to reduce the marketability and value of the property by the costs of remedying the condition. The City is not aware of any hazardous substances located on the Property.

### **Other Financial Matters**

Due to weakness in the economy of the State and the United States, it is possible that the general revenues of the City will decline. Such financial matters may have a detrimental impact on the City's General Fund, and, accordingly, may reduce the City's ability to make Base Rental Payments. See "CITY FINANCIAL INFORMATION."

### **Substitution, Addition and Removal of Property; Additional Bonds**

The Authority and the City may amend the Lease Agreement to substitute alternate real property for any portion of or add additional real property to the Property or to release a portion of the Property from the Lease Agreement, upon compliance with all of the conditions set forth in the Lease Agreement and summarized below. After a substitution or release, the portion of the Property for which the substitution or release has been effected will be released from the leasehold encumbrance of the Lease Agreement. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 BONDS—Substitution, Addition and Removal of Property." Moreover, the Authority may issue Additional Bonds secured by Base Rental Payments which are increased from current levels.

Although the Lease Agreement requires, among other things, that the Property, as constituted after such substitution or release, have an annual fair rental value at least equal to the maximum Base Rental Payments payable by the City in any Rental Period, it does not require that such Property have an annual fair rental value equal to the annual fair rental value of the Property at the time of substitution or release. Thus, a portion of the Property could be replaced with less valuable real property, or could be released altogether. Such a replacement or release could have an adverse impact on the security for the Series 2012 Bonds, particularly if an event requiring abatement of Base Rental Payments were to occur subsequent to such substitution or release. See APPENDIX A—"SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—The Lease Agreement—Substitution or Release of the Property."

The Indenture requires, among other things, that upon the issuance of Additional Bonds, the Ground Lease and the Lease Agreement will be amended, to the extent necessary, so as to increase the Base Rental

Payments payable by the City thereunder by an aggregate amount equal to the principal of and interest on such Additional Bonds; provided, however, that no such amendment will be made such that the sum of Base Rental Payments, including any increase in the Base Rental Payments as a result of such amendment, plus Additional Rental Payments, in any Rental Period is in excess of the annual fair rental value of the Property after taking into account the use of the proceeds of any Additional Bonds issued in connection therewith.

### **Limited Recourse on Default; No Acceleration of Base Rental**

Failure by the City to make Base Rental Payments or other payments required to be made under the Lease Agreement, or failure to observe and perform any other terms, covenants or conditions contained in the Lease Agreement or in the Indenture for a period of 30 days after written notice of such failure and request that it be remedied has been given to the City by the Authority or the Trustee, constitute events of default under the Lease Agreement and permit the Trustee or the Authority to pursue any and all remedies available. In the event of a default, notwithstanding anything in the Lease Agreement or in the Indenture to the contrary, there is no right under any circumstances to accelerate the Base Rental Payments or otherwise declare any Base Rental Payments not then in default to be immediately due and payable, nor do the Authority or the Trustee have any right to re-enter or re-let the Property except as described in the Lease Agreement.

The enforcement of any remedies provided in the Lease Agreement and the Indenture could prove both expensive and time consuming. If the City defaults on its obligation to make Base Rental Payments with respect to the Property, the Trustee, as assignee of the Authority, may retain the Lease Agreement and hold the City liable for all Base Rental Payments thereunder on an annual basis and enforce any other terms or provisions of the Lease Agreement to be kept or performed by the City.

Alternatively, the Authority or the Trustee may terminate the Lease Agreement, retake possession of the Property and proceed against the City to recover damages pursuant to the Lease Agreement. Due to the specialized nature of the Property or any property substituted therefor pursuant to the Lease Agreement and the restrictions on its use, no assurance can be given that the Trustee will be able to re-let the Property so as to provide rental income sufficient to make all payments of principal of, interest and premium, if any, on the Series 2012 Bonds when due, and the Trustee is not empowered to sell the Property for the benefit of the Owners of the Series 2012 Bonds. Any suit for money damages would be subject to limitations on legal remedies against cities in California, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 BONDS” and APPENDIX A—“SUMMARY OF PRINCIPAL LEGAL DOCUMENTS The Lease Agreement—Default.”

### **Possible Insufficiency of Insurance Proceeds**

The Lease Agreement obligates the City to keep in force various forms of insurance, subject to deductibles, for repair or replacement of the Property in the event of damage, destruction or title defects, subject to certain exceptions. The Authority and the City make no representation as to the ability of any insurer to fulfill its obligations under any insurance policy obtained pursuant to the Lease Agreement and no assurance can be given as to the adequacy of any such insurance to fund necessary repair or replacement or to pay principal of and interest on the Series 2012 Bonds when due. In addition, certain risks, such as earthquakes and floods, are not required under the Lease Agreement, and therefore, are not carried by the City. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 BONDS—Insurance.”

### **Limitations on Remedies**

The rights of the Owners of the Series 2012 Bonds are subject to the limitations on legal remedies against cities in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest. Additionally, enforceability of the rights and remedies of the Owners of the Series 2012 Bonds, and the obligations incurred by the City, may become subject to the federal bankruptcy code

(Title 11, United States Code) (the “Bankruptcy Code”) and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors’ rights generally, now or hereafter in effect, 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 U.S. 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 cities 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 2012 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. Under Chapter 9 of the Bankruptcy Code, which governs the bankruptcy proceedings for public agencies such as the City, there are no involuntary petitions in bankruptcy. If the City were to file a petition under Chapter 9 of the Bankruptcy Code, the Owners of the Series 2012 Bonds, the Trustee and the Authority could be prohibited from taking any steps to enforce their rights under the Lease Agreement, and from taking any steps to collect amounts due from the City under the Lease Agreement.

### **Loss of Tax Exemption**

As discussed under the heading “TAX MATTERS,” the interest on the Series 2012 Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of delivery of the Series 2012 Bonds, as a result of acts or omissions of the Authority or the City in violation of its covenants in the Indenture and the Lease Agreement. Should such an event of taxability occur, the Series 2012 Bonds would not be subject to a special redemption and would remain Outstanding until maturity or until redeemed under the redemption provisions contained in the Indenture.

### **No Liability of Authority to the Owners**

Except as expressly provided in the Indenture, the Authority will not have any obligation or liability to the Owners of the Series 2012 Bonds with respect to the payment when due of the Base Rental Payments by the City, or with respect to the performance by the City of other agreements and covenants required to be performed by it contained in the Lease Agreement or the Indenture, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Indenture.

## **STATE OF CALIFORNIA BUDGET INFORMATION**

### **State Budget**

Information about the State budget is regularly available at various State-maintained websites. Text of proposed and adopted budgets may be found at the website of the Department of Finance, [www.dof.ca.gov](http://www.dof.ca.gov), under the heading “California Budget.” An impartial analysis of the budget is posted by the Office of the Legislative Analyst at [www.lao.ca.gov](http://www.lao.ca.gov). In addition, various State of California official statements, many of which contain a summary of the current and past State budgets and the impact of those budgets on cities in the State, may be found at the website of the State Treasurer, [www.treasurer.ca.gov](http://www.treasurer.ca.gov). The information referred to is prepared by the respective State agency maintaining each website and not by the City, and the City can take no responsibility for the continued accuracy of these internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

### **State Budget for Fiscal Year 2012-13**

According to the State Constitution, the Governor of the State (the “Governor”) is required to propose a budget to the State Legislature (the “Legislature”) by no later than January 10 of each year, and a final budget must be adopted by the vote of each house of the Legislature no later than June 15, although this



deadline has been routinely breached in the past. The State budget becomes law upon the signature of the Governor, who may veto specific items of expenditure.

Prior to Fiscal Year 2010-11, the State budget had to be adopted by a two-thirds vote of each house of the Legislature. However, in November 2010, the voters of the State passed Proposition 25, which reduced the vote required to adopt a budget to a majority vote of each house and which provided that there would be no appropriation from the current budget or future budget to pay any salary or reimbursement for travel or living expenses for members of the Legislature for the period during which the budget was presented late to the Governor.

On June 27, 2012, the State's budget for Fiscal Year 2012-13 (the "2012 Budget Act") was enacted. The 2012 Budget Act projects State General Fund revenues and transfers for Fiscal Year 2012-13 at \$95.9 billion, an increase of \$9.1 billion compared with Fiscal Year 2011-12. General Fund expenditures for Fiscal Year 2012-13 are projected at \$91.3 billion—an increase of \$4.3 billion compared to the prior year.

The 2012 Budget Act closes a \$15.7 billion budget gap and rebuilds a nearly \$1 billion reserve. In closing the \$15.7 billion gap, the 2012 Budget Act relies on deep spending reductions combined with temporary taxes and other actions.

The 2012 Budget Act includes The Schools and Local Public Safety Protection Act (the "Governor's Tax Initiative"), which was approved by a majority of voters at the November 2012 election. The Governor's Tax Initiative temporarily increases the personal income tax on the state's wealthiest taxpayers for seven years, increases the sales tax by one-quarter percent for four years, and guarantees most of these new revenues to schools. The Governor estimates that the Governor's Tax Initiative will generate an estimated \$8.5 billion through 2012-13 and will enable the State to meet the minimum funding guarantee for school districts, community college districts and other state agencies that provide direct elementary and secondary instructional programs for kindergarten through grade 14 (K-14) under Proposition 98, which was passed in 1988, and to increase funding for schools and community colleges by an additional \$2.9 billion. The Governor's Tax Initiative will provide a net benefit to the State General Fund of \$5.6 billion. In addition, the measure constitutionally guarantees certain funds for local public safety.

### **Potential Impact of State of California Financial Condition on the City**

There can be no assurance that, as a result of the current State financial stress, it will not significantly reduce revenues to local governments (including the City) or shift financial responsibility for programs to local governments as part of its efforts to address the State financial difficulties. No prediction can be made by the City as to what measures the State will adopt to respond to the current or potential future financial difficulties. Current and future State budgets will be affected by national and State economic conditions and other factors, including the current economic downturn, over which the City has no control. There can be no assurances that State actions to respond to State financial difficulties will not adversely affect the financial condition of the City.

### **Future State Budgets**

No prediction can be made by the City as to whether the State will continue to encounter budgetary problems in future fiscal years, and if it were to do so, it is not clear what measures would be taken by the State to balance its budget, as required by law. In addition, the City cannot predict the final outcome of future State budget negotiations, the impact that such budgets will have on City finances and operations or what actions will be taken in the future by the State Legislature and the Governor to deal with changing State revenues and expenditures. There can be no assurance that actions taken by the State to address its financial condition will not materially adversely affect the financial condition of the City. Current and future State budgets will be affected by national and State economic conditions and other factors, including the current economic downturn, over which the City has no control.

## CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

There are a number of provisions in the State Constitution that limit the ability of the City to raise and expend tax revenues.

### **Article XIII A of the California Constitution**

On June 6, 1978, California voters approved an amendment (commonly known as both Proposition 13 and the Jarvis-Gann Initiative) to the California Constitution. This amendment, which added Article XIII A to the California Constitution, among other things affects the valuation of real property for the purpose of taxation in that it defines the full cash property value to mean “the county assessor’s valuation of real property as shown on the 1975/76 tax bill under ‘full cash value’, or thereafter, the appraised value of real property newly constructed, or when a change in ownership has occurred after the 1975 assessment.” The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or a reduction in the consumer price index or comparable local data at a rate not to exceed 2% per year, or reduced in the event of declining property value caused by damage, destruction or other factors including a general economic downturn. The amendment further limits the amount of any *ad valorem* tax on real property to one percent of the full cash value except that additional taxes may be levied to pay debt service on indebtedness approved by the voters prior to December 1, 1978, and bonded indebtedness for the acquisition or improvement of real property approved on or after December 1, 1978 by two-thirds of the votes cast by the voters voting on the proposition (55% in the case of certain school facilities). Property taxes subject to Proposition 13 are a significant source of revenues to the City’s General Fund. See “CITY FINANCIAL INFORMATION.”

Legislation enacted by the California Legislature to implement Article XIII A provides that all taxable property is shown at full assessed value as described above. Tax rates for voter approved bonded indebtedness and pension liability are also applied to 100% of assessed value.

Future assessed valuation growth allowed under Article XIII A (new construction, change of ownership, 2% annual value growth) is allocated on the basis of “situs” among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and school districts share the growth of “base” revenue from the tax rate area. Each year’s growth allocation becomes part of each agency’s allocation the following year. Article XIII A effectively prohibits the levying of any other *ad valorem* property tax above the 1% limit except for taxes to support indebtedness approved by the voters as described above.

Article XIII A has subsequently been amended to permit reduction of the “full cash value” base in the event of declining property values caused by damage, destruction or other factors, and to provide that there would be no increase in the “full cash value” base in the event of reconstruction of property damaged or destroyed in a disaster and in certain other limited circumstances.

### **Article XIII B of the California Constitution**

At the statewide special election on November 6, 1979, the voters approved an initiative entitled “Limitation on Government Appropriations” which added Article XIII B to the California Constitution. Under Article XIII B, state and local government entities have an annual “appropriations limit” which limits the ability to spend certain moneys which are called “appropriations subject to limitation” (consisting of tax revenues and certain state subventions together called “proceeds of taxes” and certain other funds) in an amount higher than the “appropriations limit.” Article XIII B does not affect the appropriation of moneys which are excluded from the definition of “appropriations limit” including debt service on indebtedness existing or authorized as of October 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the “appropriations limit” is to be based on certain 1978-79 expenditures, and is to be adjusted annually to reflect changes in the consumer price index, population and services provided by these entities. Among other provisions of Article XIII B, if those entities’ revenues in any year exceed the amounts permitted

to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

The City's appropriations have never exceeded the limitation on appropriations under Article XIII B of the California Constitution.

### **Proposition 62**

A statutory initiative ("Proposition 62") was adopted by the voters of the State at the November 4, 1986 General Election which: (a) requires that any tax for general governmental purposes imposed by local governmental entities be approved by resolution or ordinance adopted by two-thirds vote of the governmental agency's legislative body and by a majority of the electorate of the governmental entity; (b) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters within the jurisdiction; (c) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax is imposed; (d) prohibits the imposition of ad valorem taxes on real property by local governmental entities except as permitted by Article XIII A; (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 August 1, 1985 be ratified by a majority vote of the electorate within two years of the adoption of the initiative or be terminated by November 15, 1988. The requirements imposed by Proposition 62 were upheld by the California State Supreme Court in *Santa Clara County Local Transportation Authority v. Guardino*, 11 Ca1.4th 220; 45 Cal.Rptr.2d 207 (1995).

Proposition 62 applies to the imposition of any taxes or the effecting of any tax increases after its enactment in 1986, but the requirements of Proposition 62 are largely subsumed by the requirements of Proposition 218 for the imposition of any taxes or the effecting of any tax increases after November 5, 1996. See "—Proposition 218" below.

### **Proposition 218**

On November 5, 1996, California voters approved Proposition 218—Voter Approval for Local Government Taxes—Limitation on Fees, Assessments, and Charges—Initiative Constitutional Amendment. Proposition 218 added Articles XIII C and XIII D to the California Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges. Proposition 218 states that all taxes imposed by local governments are deemed to be either general taxes or special taxes. Special purpose districts, including school districts, have no power to levy general taxes. No local government may impose, extend or increase any general tax unless and until such tax is submitted to the electorate and approved by a majority vote. No local government may impose, extend or increase any special tax unless and until such tax is submitted to the electorate and approved by a two-thirds vote.

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

Proposition 218 also extended the initiative power to reducing or repealing any local taxes, assessments, fees and charges. This extension of the initiative power is not limited to taxes imposed on or after November 6, 1996, the effective date of Proposition 218, and could result in retroactive repeal or reduction in any existing taxes, assessments, fees and charges, subject to overriding federal constitutional principles relating to the impairments of contracts. Legislation implementing Proposition 218 provides that the initiative power provided for in Proposition 218 “shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after (the effective date of Proposition 218) assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights” protected by the United States Constitution. However, no assurance can be given that the voters of the City will not, in the future, approve an initiative which reduces or repeals local taxes, assessments, fees or charges that currently are deposited into the City’s General Fund.

Although a portion of the City’s General Fund revenues are derived from general taxes purported to be governed by Proposition 218, all of such taxes were imposed in accordance with the requirements of Proposition 218. No assurance can be given that the voters of the City will not, in the future, approve an initiative or initiatives which reduce or repeal local taxes, assessments, fees or charges which support the City’s General Fund.

### **Unitary Property**

Some amount of property tax revenue of the City is derived from utility property which is considered part of a utility system with components located in many taxing jurisdictions (“unitary property”). Under the State Constitution, such property is assessed by the State Board of Equalization (“SBE”) as part of a “going concern” rather than as individual pieces of real or personal property. State-assessed unitary and certain other property is allocated to the counties by SBE, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the City) according to statutory formula generally based on the distribution of taxes in the prior year.

### **Proposition 22**

On November 2, 2010, voters in the State approved Proposition 22, which eliminates the State’s ability to borrow or shift local revenues and certain State revenues that fund transportation programs. It restricts the State’s authority over a broad range of tax revenues, including property taxes allocated to cities (including the City), counties, special districts and redevelopment agencies, the Vehicle License Fee, State excise taxes on gasoline and diesel fuel, the State sales tax on diesel fuel, and the former State sales tax on gasoline. It also makes a number of significant other changes, including restricting the State’s ability to use motor vehicle fuel tax revenues to pay debt service on voter-approved transportation bonds. The application of Proposition 22 to AB1X 26 and AB1X 27 is currently under review by the California Supreme Court. See “RISK FACTORS—State Budget; Redevelopment Legislation and Litigation.”

### **Proposition 1A**

As part of Governor Schwarzenegger’s agreement with local jurisdictions, Senate Constitutional Amendment No. 4 was enacted by the Legislature and subsequently approved by the voters as Proposition 1A (“Proposition 1A”) at the November 2004 election. Proposition 1A amended the State Constitution to, among other things, reduce the Legislature’s authority over local government revenue sources by placing restrictions on the State’s access to local governments’ property, sales, and vehicle license fee revenues as of November 3, 2004. Beginning with Fiscal Year 2008–09, the State may borrow up to 8 percent of local property tax revenues, but only if the Governor proclaims such action is necessary due to a severe State fiscal hardship and two-thirds of both houses of the Legislature approves the borrowing. The amount borrowed is required to be paid back within three years. The State also will not be able to borrow from local property tax revenues for more than 2 fiscal years within a period of 10 fiscal years. In addition, the State cannot reduce the local sales

tax rate or restrict the authority of local governments to impose or change the distribution of the statewide local sales tax.

The 2009-10 State budget included a Proposition 1A diversion of \$1.935 billion in local property tax revenues from cities, counties, and special districts to the State to offset State general fund spending. Such diverted revenues must be repaid, with interest, no later than June 30, 2013. The amount of the Proposition 1A diversion from the City was \$ 598,935. The City participated in a State-sponsored program financing the Proposition 1A diversion and, accordingly, received its full share of property tax revenues.

### **Proposition 26**

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIII C of the State Constitution to expand the definition of “tax” to include “any levy, charge, or exaction of any kind imposed by a local government” except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) A fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIII D. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor’s burdens on, or benefits received from, the governmental activity. The City does not believe that Proposition 26 will adversely affect its General Fund Revenues.

### **Future Initiatives**

Article XIII A, Article XIII B and Propositions 62, 218, 1A, 22 and 26 were each adopted as measures that qualified for the ballot pursuant to the State’s initiative process. From time to time other initiative measures could be adopted, further affecting the City’s current revenues or its ability to raise and expend revenues.

## **TAX MATTERS**

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest on the Series 2012 Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on Series 2012 Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest on the Series 2012 Bonds may be included as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of such corporations.

The difference between the issue price of a Series 2012 Bond (the first price at which a substantial amount of the Bonds of the same series and maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Series 2012 Bond constitutes original issue discount. Original issue discount

accrues under a constant yield method, and original issue discount will accrue to the owner of the Series 2012 Bond before receipt of cash attributable to such excludable income (with respect to the Series 2012 Bonds). The amount of original issue discount deemed received by the owner of a Series 2012 Bond will increase the owner's basis in the Series 2012 Bond. In the opinion of Bond Counsel original issue discount that accrues to the owner of a Series 2012 Bond is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of the portion of each Base Rental Payment constituting interest (and original issue discount) on the Series 2012 Bonds is based upon certain representations of fact and certifications made by the City and others and is subject to the condition that the City and the Authority comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to issuance of the Series 2012 Bonds to assure that the portion of each Base Rental Payment constituting interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the Series 2012 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2012 Bonds. The City and the Authority have covenanted to comply with all such requirements applicable to each, respectively.

The amount by which a Series 2012 Bond Owner's original basis for determining loss on sale or exchange in the applicable Series 2012 Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Series 2012 Bond premium, which must be amortized under Section 171 of the Code; such amortizable Series 2012 Bond premium reduces the Series 2012 Bond Owner's basis in the applicable Series 2012 Bond (and the amount of tax-exempt interest received with respect to the Series 2012 Bonds), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Series 2012 Bond premium may result in a Series 2012 Bond Owner realizing a taxable gain when a Series 2012 Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Series 2012 Bond to the Owner. Purchasers of the Series 2012 Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable Series 2012 Bond premium.

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Indenture, the Lease Agreement, and the Tax Certificate permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income for federal income tax purposes of interest (and original issue discount) due with respect to any Series 2012 Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Series 2012 Bonds will be selected for audit by the IRS. It is also possible that the market value of the Series 2012 Bonds might be affected as a result of such an audit of the Series 2012 Bonds (or by an audit of similar securities). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the Series 2012 Bonds to the extent that it adversely affects the exclusion from gross income of interest on the Series 2012 Bonds or their market value.

It is possible that, subsequent to the issuance of the Series 2012 Bonds, there might be federal, state or local statutory changes (or judicial or regulatory interpretations of federal, state or local law) that affect the federal, state or local tax treatment of the Series 2012 Bonds or the market value of the Series 2012 Bonds.

Recently, proposed legislative changes have been introduced in Congress, which, if enacted, could result in additional federal income or state tax being imposed on owners of tax-exempt state or local obligations, such as the Series 2012 Bonds. The introduction or enactment of any of such changes could adversely affect the market value or liquidity of the Series 2012 Bonds. No assurance can be given that, subsequent to the issuance of the Series 2012 Bonds, such changes (or other changes) will not be introduced or enacted or interpretations will not occur. Before purchasing any of the Series 2012 Bonds, all potential purchasers should consult their tax advisors regarding possible statutory changes or judicial or regulatory changes or interpretations, and their collateral tax consequences relating to the Series 2012 Bonds.

Although Bond Counsel has rendered an opinion that the interest (and original issue discount) on the Series 2012 Bonds is excluded from gross income for federal income tax purposes provided that the City and the Authority continue to comply with certain requirements of the Code, the ownership of the Series 2012 Bonds and the accrual or receipt of interest (and original issue discount) with respect to the Series 2012 Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the Series 2012 Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences with respect to the Series 2012 Bonds.

The form of Bond Counsel's proposed opinion with respect to the Series 2012 Bonds is attached hereto in Appendix C.

#### **CERTAIN LEGAL MATTERS**

The validity of the Series 2012 Bonds and certain other legal matters are subject to the approving opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel. Stradling Yocca Carlson & Rauth, a Professional Corporation, is also acting as Disclosure Counsel for the City. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix C hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Bond Counsel and Disclosure Counsel will receive compensation from the City contingent upon the sale and delivery of the Series 2012 Bonds. From time to time, Bond Counsel represents the Underwriter on matters unrelated to the Series 2012 Bonds. Certain legal matters will be passed upon for the City and the Authority by Woodruff, Spradlin & Smart, a Professional Corporation, Costa Mesa, California and for the Underwriter by Nossaman, LLP, Irvine, California. Counsel to the Underwriter will receive compensation contingent upon that issuance of the Series 2012 Bonds.

#### **ABSENCE OF LITIGATION**

To the best knowledge of the City and the Authority, there is no action, suit or proceeding pending or threatened either restraining or enjoining the execution or delivery of the Series 2012 Bonds, the Lease Agreement or the Indenture, or in any way contesting or affecting the validity of the foregoing or any proceedings of the Authority or the City taken with respect to any of the foregoing. As described under the caption "THE PROPERTY," the City is currently pursuing legal remedies against the architect, general contractor and certain subcontractors related to design and/or construction defects to the Property. Additionally, there are a number of lawsuits and claims from time to time pending against the City. In the opinion of the City, and taking into account likely insurance coverage and litigation reserves, there are no lawsuits or claims pending against the City which will materially affect the City's finances so as to impair its ability to pay Base Rental Payments when due.

## **UNDERWRITING**

The Series 2012 Bonds are being purchased by Stifel, Nicolaus & Company, Incorporated dba Stone & Youngberg, a Division of Stifel Nicolaus (the “Underwriter”). The Underwriter will purchase the Series 2012 Bonds from the Authority at an aggregate purchase price of \$11,740,883.20 (representing the principal amount of the Series 2012 Bonds, plus \$571,904.80 of net original issue premium and less \$61,021.60 of Underwriter’s discount).

The Series 2012 Bonds are offered for sale at the initial prices stated on the inside cover page of this Official Statement, which may be changed from time to time by the Underwriter. The Series 2012 Bonds may be offered and sold to certain dealers at prices lower than the public offering prices.

## **RATINGS**

Standard & Poor’s Ratings Services has assigned the Series 2012 Bonds the rating of “AA+.” Such rating reflects only the views of such rating agency, and an explanation of the significance of the rating may be obtained by contacting it at: Standard & Poor’s Ratings Services, 55 Water Street, New York, New York 10041. Such rating is not a recommendation to buy, sell or hold the Series 2012 Bonds. There is no assurance that such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2012 Bonds.

## **FINANCIAL ADVISOR**

Fieldman Rolapp & Associates, Irvine, California, served as financial advisor to the Authority and the City with respect to the sale of the Series 2012 Bonds. Fieldman Rolapp & Associates will receive compensation contingent upon the sale and delivery of the Series 2012 Bonds.

## **CONTINUING DISCLOSURE**

The City has covenanted for the benefit of the Owners of the Series 2012 Bonds to provide annually certain financial information and operating data relating to the Series 2012 Bonds and the City (the “Annual Report”), and to provide notices of the occurrence of certain enumerated events. For a complete listing of items of information which will be provided in each Annual Report and further description of the City’s undertaking with respect to the Annual Report and certain enumerated events, see APPENDIX E—“FORM OF CONTINUING DISCLOSURE CERTIFICATE.” The Annual Report is to be provided by the City not later than nine (9) months after the end of the City’s fiscal year (which currently would be April 1), commencing with the report for the 2011-12 Fiscal Year. The Annual Report will be filed by the City with the Municipal Securities Rulemaking Board. These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission 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.

## **FINANCIAL STATEMENTS OF THE CITY**

Included herein as Appendix B are the audited financial statements of the City as of and for the year ended June 30, 2012, together with the report thereon dated November 28, 2012 of White Nelson Diehl Evans LLP, Irvine, California, certified public accountants (the “Auditor”). Such audited financial statements have been included herein in reliance upon the report of the Auditor. The Auditor has not undertaken to update the audited financial statements of the City or its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by the Auditor with respect to any event subsequent to its report dated November 28, 2012.




**MISCELLANEOUS**

References are made herein to certain documents and reports which are brief summaries thereof which do not purport to be complete or definitive and reference is made to such documents and reports for full and complete statements of the contents thereof. Copies of the Indenture, the Lease Agreement, the Ground Lease and other documents are available, upon request, and upon payment to the City of a charge for copying, mailing and handling, from the City Clerk at the City of Rancho Santa Margarita, 22112 El Paseo, Rancho Santa margarita, California 92688.


Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Authority or the City and the purchasers or Owners of any of the Series 2012 Bonds.

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

**RANCHO SANTA MARGARITA PUBLIC  
FINANCING AUTHORITY**

  
By: /s/ Jennifer M. Cervantez  
Executive Director

**CITY OF RANCHO SANTA MARGARITA**

  
By: /s/ Jennifer M. Cervantez  
City Manager

## APPENDIX A

### SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS

The following statements are summaries of the Ground Lease (“the Ground Lease”), the Lease Agreement (the “Lease Agreement”), the Indenture (the “Indenture”) and the Assignment Agreement (the “Assignment Agreement”). **These statements are qualified in their entirety by reference to the full terms of the Ground Lease, the Lease Agreement, the Indenture and the Assignment Agreement, copies of which may be obtained from the City.**

#### DEFINITIONS OF CERTAIN TERMS

The following sets forth the definitions of certain words and terms used in this Summary of the Principal Legal Documents.

“**Act**” means the Marks-Roos Local Bond Pooling Act of 1985, commencing with Section 6584 of the California Government Code.

“**Additional Bonds**” means Bonds other than the Series 2012 Bonds issued under the Indenture in accordance with the provisions thereof.

“**Additional Rental Payments**” means all amounts payable by the City as Additional Rental Payments pursuant to the Lease Agreement.

“**Assignment Agreement**” means the Assignment Agreement, by and between the Authority and the Trustee, dated as of December 1, 2012, as the same may be amended or supplemented pursuant to the provisions thereof.

“**Authority**” means the Rancho Santa Margarita Public Financing Authority, a joint exercise of powers entity organized and existing under and by virtue of the laws of the State of California.

“**Authorized Authority Representative**” means the President, the Executive Director or the Director of Administrative Services of the Authority, or any other person authorized by the Board of Directors of the Authority to act on behalf of the Authority under or with respect to the Indenture.

“**Authorized City Representative**” means the Mayor of the City, the City Manager of the City, or the Director of Administrative Services of the City, or any other person authorized by the City Council of the City to act on behalf of the City under or with respect to the Indenture.

“**Base Rental Payment Fund**” means the fund by that name established in accordance with the Indenture.

“**Base Rental Payments**” means all amounts payable to the Authority by the City as Base Rental Payments pursuant to the Lease Agreement.

“**Base Rental Payment Schedule**” means the schedule of Base Rental Payments payable to the Authority from the City pursuant to the Lease Agreement and attached thereto as Exhibit C.

“**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 or the records of such Participant or such person’s subrogee.

“**Bonds**” means the Series 2012 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 pursuant to the terms and provisions of the Indenture.

“**Business Day**” means a day which is not (a) a Saturday, Sunday or legal holiday, (b) a day on which banking institutions in the State of California, or in any state in which the principal corporate trust office of the Trustee is located, are required or authorized by law (including executive order) to close, or (c) a day on which the New York Stock Exchange is closed.

“**Certificate of the City**” means an instrument in writing signed by an Authorized City Representative. If and to the extent required by the provisions of the Indenture, each Certificate of the City will include the statements provided for in the Indenture.

“**City**” means the City of Rancho Santa Margarita, a municipal corporation and general law city duly organized and existing under and by virtue of the Constitution and laws of the State of California.

“**Closing Date**” means December 19, 2012.

“**Code**” means the Internal Revenue Code of 1986.

“**Construction Fund**” means the fund by that name established in accordance with the Indenture.

“**Continuing Disclosure Certificate**” means the Continuing Disclosure Certificate, dated as of December 1, 2012, executed by the City, as originally executed and as it may from time to time be amended in accordance with the terms thereof.

“**Costs of Issuance**” means all the costs of issuing and delivering the Bonds, including, but not limited to, all printing and document preparation expenses in connection with the Indenture, the Lease Agreement, the Ground Lease, the Assignment Agreement, the Bonds and the preliminary official statement and final official statement pertaining to the Bonds, rating agency fees, CUSIP Service Bureau charges, market study fees, legal fees and expenses of counsel with the issuance and delivery of the Bonds, any computer and other expenses incurred in connection with the execution and delivery of the Bonds, the initial fees and expenses of the Trustee and other fees and expenses incurred in connection with the issuance and delivery of the Bonds, to the extent such fees and expenses are approved by the City.

“**Costs of Issuance Fund**” means the fund by that name established in accordance with the Indenture.

“**Delivery Date**” means December 19, 2012.

“**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 pursuant to the Indenture.

“**Escrow Agent**” means Wells Fargo Bank, National Association, as escrow agent pursuant to the Escrow Agreement.

“**Escrow Fund**” means the fund established and held by the Escrow Agent pursuant to the Escrow Agreement.

“**Escrow Agreement**” means the escrow agreement dated as of December 1, 2012 by and between the Authority and the Escrow Agent relating to the defeasance of the 2003 COPs.

**“Federal Securities”** means (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.

**“Forward Purchase and Sale Agreement”** means an agreement entered into by the Trustee and/or the Authority and/or the City and a bank or financial institution (the “Provider”) rated “A2” or higher by Moody’s and “A” or higher by S&P providing for the Provider to tender, and for the Trustee to purchase, certain eligible securities on one or more dates occurring at least thirty (30) business days after the date of such agreement; provided that (1) securities tendered by the Provider are purchased on a delivery versus payment basis, (2) securities purchased constitute Permitted Investments at the time they are tendered, and (3) the Authority and the City receive an opinion of counsel acceptable to the Authority, to the City and to the Trustee which states that the agreement constitutes a legally valid, binding, and enforceable obligation of the Provider and that in the event of a bankruptcy of the Provider, securities sold by the Provider to the Trustee pursuant to the agreement do not constitute property of the estate of the Provider within the applicable bankruptcy or insolvency laws.

**“Ground Lease”** means the Ground Lease, dated as of December 1, 2012, by and between the City and the Authority, as originally executed and as it may from time to time be amended in accordance with the provisions thereof and of the Lease Agreement.

**“Indenture”** means the Indenture, dated as of December 1, 2012, by and among the Authority, the City and the Trustee, as originally executed and as it may from time to time be amended or supplemented in accordance with the provisions thereof.

**“Interest Fund”** means the fund by that name established in accordance with the Indenture.

**“Interest Payment Date”** means May 1 and November 1 of each year, commencing on May 1, 2013.

**“Lease Agreement”** means the Lease Agreement, dated as of December 1, 2012, by and between the City and the Authority, as originally executed and as it may be from time to time amended in accordance with the provisions thereof.

**“Moody’s”** means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, except that if such corporation will no longer perform the function of a securities rating agency for any reason, the term “Moody’s” will be deemed to refer to any other nationally recognized securities rating agency selected by the Authority and approved by the Trustee.

**“Net Insurance Proceeds”** means any insurance proceeds or condemnation award in excess of \$50,000, paid with respect to any of the Property, remaining after payment therefrom of all reasonable expenses incurred in the collection thereof.

**“Opinion of Counsel”** means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, appointed and paid by the Authority or the City and satisfactory to and approved by the Trustee.

**“Outstanding,”** when used as of any particular time with reference to Bonds, means (subject to the provisions of 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 Authority will 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 will 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 Certificate.

“**Permitted Encumbrances**” means, with respect to the Property, as of any particular time, (a) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the City may, pursuant to provisions of the Lease Agreement, permit to remain unpaid, (b) the Assignment Agreement, (c) the Lease Agreement, (d) the Ground Lease, (e) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law as normally exist with respect to properties similar to the Property for the purposes for which it was acquired or is held by the City, (f) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the Delivery Date which the City certifies in writing will not affect the intended use of the Property or impair the security granted to the Trustee for the benefit of the Owners of the Bonds by the Indenture and the Assignment Agreement and to which the Authority and the City consent in writing, and (g) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions established following the Delivery Date which the City certifies in writing do not affect the intended use of the Property or impair the security granted to the Trustee for the benefit of the Owners of the Bonds by the Indenture and the Assignment Agreement and to which the Authority and the City consent in writing.

“**Permitted Investments**” means any of the following to the extent then permitted by the general laws of the State of California:

(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 180 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 and "P-I" or better by Moody's.

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

(6) Commercial paper (having original maturities of not more than 270 days) rated "A-1+" by S&P and "Prime-1" by Moody's, including funds for which the Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Trustee provide investment advisory or other management services.

(7) Money market funds rated “AAm” or “AAM-G” or better by S&P and “AA” or better by Moody’s.

(8) Repurchase agreements:

(a) With any domestic bank the long term debt of which is rated “AA” or better by S&P and 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), or any foreign bank rated at least “AA” by S&P and “Aaa” by Moody’s or “AAA” by S & P and at least “Aa” by Moody’s; provided the term of such repurchase agreement is for one year or less.

(b) With (i) any broker-dealer with “retail customers” which has, or the parent company of which has, long-term debt rated at least “AA” by S&P and “Aa” by Moody’s, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corp. (SIPC); provided that:

A. The market value of the collateral is maintained for United States Treasury Obligations, at the levels shown below under “Collateral Levels for United States Treasury Obligations”;

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. An opinion is rendered that the repurchase agreement is a “repurchase agreement” as defined in the United States Bankruptcy Code;

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

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

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

(9) State Obligations

(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 “A” 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) Local Agency Investment Fund.

(11) Investment agreements with a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt of the guarantor, or in the case of a monoline financial guaranty insurance company the claims paying ability of the guarantor, is rated at least “AA” by S&P and “Aa” by Moody’s; provided, that prior written notice of an investment in the investment agreement is provided to S&P and, provided, further, 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 construction fund, construction draws) on the Bonds;

(b) the invested funds are available for withdrawal without penalty or premium, at any time for purposes identified in the Indenture other than acquisition of alternative investment property 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 will 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 will be addressed to the City) 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);

(f) the investment agreement will provide that if during its term (A) the provider’s or the guarantor’s rating by either Moody’s or S&P is withdrawn or suspended or falls below “AA” or “Aa”, respectively, or, with respect to a foreign bank, below the ratings of such provider at the delivery date of the investment agreement, the provider must, at the direction of the City or the Trustee within 10 days of receipt of such direction, either (1) 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 at the Collateral Levels set forth below; or (2) repay the principal of and accrued but unpaid interest on the investment (the choice of (1) or (2) above will be that of the City or Trustee, as appropriate), and (B) the provider’s or the guarantor’s rating by either Moody’s or S&P is withdrawn or suspended or falls below “A”, or, with respect to a foreign bank, below “AA” or “Aa” by S&P or Moody’s, as appropriate, the provider must, at the direction of the City or the Trustee, 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 will state, and an opinion of counsel will 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 (A) the provider will default in its payment obligations, the provider’s obligation under the investment agreement will, at the direction of the City or the Trustee, be accelerated and amounts invested and accrued but unpaid interest thereon will be repaid to the City or Trustee, as appropriate, and (B) the provider will 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 will automatically be accelerated and amounts invested and accrued but unpaid interest thereon will be repaid to the City or Trustee, as appropriate.

(12) 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; and

(e) no substitution of a United States Treasury Obligation will 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.

**Collateral Levels For United States Treasury Obligations**

Remaining Maturity

<i>Frequency of Valuation</i>	<i>1 year or less</i>	<i>5 years or less</i>	<i>10 years or less</i>	<i>15 years or less</i>	<i>30 years or less</i>
Daily	102	105	106	108	114
Weekly	103	111	112	114	120
Monthly	105	117	120	125	133
Quarterly	107	120	130	133	140

Further Requirements: (a) On each valuation date the City, the Trustee, or the custodian who will confirm to the City and the Trustee, will value the market value (exclusive of accrued interest) of the collateral,

which market value will be an amount equal to the requisite collateral percentage times the principal amount of the investment (including unpaid accrued interest thereon) that is being secured, (b) in the event the collateral level is below its collateral percentage on a valuation date, such percentage will be restored within the following restoration periods: one Business Day for daily valuations, two Business Days for weekly and monthly valuations, and one month for quarterly valuations (the use of different restoration periods affect the requisite collateral percentage), (c) the City or the Trustee will terminate the repurchase agreement or the investment agreement, as the case may be, upon a failure to maintain the requisite collateral percentage after the restoration period and, if not paid by the counterparty in federal funds against transfer of the collateral, liquidate the collateral.

**“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.

**“Principal Fund”** means the fund by that name established in accordance with the Indenture.

**“Project”** means the improvements, facilities and equipment described in Exhibit B to the Lease Agreement.

**“Project Costs”** means all costs of acquiring, constructing and installing the 2012 Project, including but not limited to:

(a) all costs which the Authority or the City will be required to pay to a seller or any other person under the terms of any contract or contracts for the purchase of the 2012 Project;

(b) all costs which the Authority or the City will be required to pay a contractor or any other person for the acquisition, construction and installation of the 2012 Project;

(c) obligations of the Authority or the City incurred for services (including obligations payable to the Authority or the City for actual out-of-pocket expenses of the Authority or the City) in connection with the acquisition, construction and installation of the 2012 Project, including reimbursement to the Authority or the City for all advances and payments made in connection with the 2012 Project prior to or after delivery of the Bonds;

(d) the actual out-of-pocket costs of the Authority or the City for test borings, surveys, estimates and preliminary investigations therefor, as well as for the performance of all other duties required by or consequent to the proper acquisition, construction and installation of the 2012 Project, including administrative expenses under the Lease Agreement and under the Indenture relating to the acquisition, construction and installation of the 2012 Project; and

(e) any sums required to reimburse the Authority or the City for advances made by the Authority or the City for any of the above items or for any other costs incurred and for work done by the Authority or the City which are properly chargeable to the 2012 Project.

**“Property”** means the real property described in Exhibit A to the Lease Agreement and the improvements located thereon.

**“Rebate Fund”** means the fund by that name established in accordance with the Indenture.

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

**“Redemption Fund”** means the fund by that name established 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 hereto.

**“Registration Books”** means the records maintained by the Trustee for the registration of ownership and registration of transfer of the Bonds pursuant to the Indenture.

**“Rental Payments”** means, collectively, the Base Rental Payments and the Additional Rental Payments.

**“Rental Period”** means the period from the Closing Date through October 31, 2013 and, thereafter, the twelve-month period commencing on November 1 of each year during the term of the Lease Agreement.

**“S&P”** means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns, except that if such entity will no longer perform the functions of a securities rating agency for any reason, the term “S&P” will be deemed to refer to any other nationally recognized securities rating agency selected by the Authority and approved by the Trustee.

**“Series”** means the Series 2012 Bonds executed, authenticated and delivered on the Closing Date and identified pursuant to this Indenture and any Additional Bonds issued pursuant to a Supplemental Indenture and identified as a separate Series of Bonds.

**“Series 2012 Bonds”** means the Rancho Santa Margarita Public Financing Authority Lease Revenue Refunding Bonds, Series 2012A” issued under 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 Authority and the City at the time of issuance of the Series 2012 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.

**“Termination Date”** means November 1, 2033, unless extended or sooner terminated as provided in the Lease Agreement.

**“Trustee”** means the Wells Fargo Bank, National Association, a national banking association organized and existing under the laws of the United States, or any successor thereto as Trustee under the Indenture, appointed as provided in the Indenture.

**“2003 COPS”** means the City of Rancho Santa Margarita Certificates of Participation (City Hall and Regional Community Center).

**“Written Request of the Authority”** means a written request signed in the name of the Authority by an Authorized Authority Representative.

**“Written Request of the City”** means a written request signed in the name of the City by an Authorized City Representative.

## **THE GROUND LEASE**

The City leases to the Authority, and the Authority leases from the City, for the benefit of the Owners of the Bonds, the Property, subject only to Permitted Encumbrances for the term of the Ground Lease. The parties intend that the Property will be leased back to the City pursuant to the Lease Agreement. The parties further intend that, to the extent provided in the (Ground Lease and the Lease Agreement, if an event of default occurs under the Lease Agreement, the Authority, or its assignee, will have the right for the then remaining term of the Ground Lease to (a) take possession of the Property, (b) if it deems it appropriate, cause an appraisal of the Property and a study of the then reasonable use thereof to be undertaken, and (c) relet the Property. The Ground Lease may be sold or assigned, and the Property may be subleased, as a whole or in part, by the Authority without the necessity of obtaining the consent of the City, if an event of default occurs under the lease Agreement. The Authority will, within 30 days after such an assignment, sale or sublease, furnish or cause to be furnished to the City a true and correct copy of such assignment, sale or sublease, as the case may be. The City agrees that, except with respect to Permitted Encumbrances, it will not mortgage, sell, encumber, assign, transfer or convey the Property or any portion thereof during the term of the Ground Lease.

The term of the Ground Lease commences on the Delivery Date, and will remain in full force and effect from such date to and including November 1, 2033, unless such term is sooner extended or terminated as provided in the Ground Lease. If, on November 1, 2033, the Bonds will not have been fully paid, or provision therefor made in accordance with the Indenture, or the Indenture will not be discharged by its terms, or if the Rental Payments payable under the Lease Agreement will have been abated at any time, then the term of the Ground Lease will be automatically extended until the date upon which all Bonds will be fully paid, or provision therefor made in accordance with the Indenture, and the Indenture will be discharged by its terms, except that the term of the Ground Lease will in no event be extended more than ten years. If prior to November 1, 2033, all Bonds will be fully paid, or provisions therefor made in accordance with the Indenture, and the Indenture will be discharged by its terms, the term of the Ground Lease will end simultaneously therewith.

## **THE LEASE AGREEMENT**

### **Lease of Property**

The Authority leases to the City, and the City leases from the Authority the Property, on the terms and conditions set forth in the Lease Agreement, and subject to all Permitted Encumbrances.

### **Assignment and Subleasing**

Neither the Lease Agreement nor any interest of the City thereunder will be sold, mortgaged, pledged, assigned, or transferred by the City by voluntary act or by operation of law or otherwise. The Property may not be subleased in whole or in part by the City without the prior written consent of the Authority. Any such sublease will be subject to all of the following conditions:

(a) the Lease Agreement and the obligation of the City to make all Rental Payments thereunder will remain the primary obligation of the City;

(b) the City will, within 30 days after the delivery thereof, furnish or cause to be furnished to the Authority and the Trustee a true and complete copy of such sublease;

(c) no such sublease by the City will cause the Property to be used for a purpose other than a governmental or proprietary function authorized under the provisions of the Constitution and laws of the State of California;

(d) any sublease of the Property by the City will explicitly provide that such sublease is subject to all rights of the Authority under the Lease Agreement, including, the right to re-enter and re-let the Property or terminate the Lease Agreement upon a default by the City; and

(e) the City will furnish the Authority and the Trustee with an Opinion of Counsel to the effect that such sublease will not, in and of itself, cause the interest on the Bonds to be included in gross income for federal income tax purposes.

## **Liens**

In the event the City will at any time during the term of the Lease Agreement cause any changes, alterations, additions, improvements, or other work to be done or performed or materials to be supplied, in or upon the Property, the City will pay, when due, all sums of money that may become due for, or purporting to be due for, any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to or for the City in, upon, or about the Property and which may be secured by a mechanics', materialmen's or other lien against the Property or the Authority's interest therein, and will cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due, except that, if the City desires to contest any such lien, it may do so as long as such contestment is in good faith. If any such lien will be reduced to final judgment and such judgment or such process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and said stay thereafter expires, the City will forthwith pay and discharge said judgment.

## **Additions to Property**

Subject to the Lease Agreement, the City and any sublessee will, at its own expense, have the right to make additions, modifications and improvements to the Property. To the extent that the removal of such additions, modifications or improvements would not cause material damage to the Property, such additions, modifications and improvements will remain the sole property of the City or such sublessee, and neither the Authority nor the Trustee will have any interest therein. Such additions, modifications and improvements will not in any way damage the Property or cause it to be used for purposes other than those authorized under the provisions of state and federal law; and the Property, upon completion of any additions, modifications and improvements made pursuant to the Lease Agreement, will be of a value which is at least equal to the value of the Property immediately prior to the making of such additions, modifications and improvements.

## **Term of the Lease Agreement**

The term of the Lease Agreement will commence on the Delivery Date and will end on the Termination Date, unless such term is extended or sooner terminated as provided in the Lease Agreement. If on the Termination Date the Bonds will not be fully paid, or provision therefor made in accordance with the Indenture, or the Indenture will not be discharged by its terms, or if the Rental Payments will remain due and payable or will have been abated at any time and for any reason, then the term of the Lease Agreement will be extended until the date upon which (i) all Bonds will be fully paid, or provision therefor made in accordance with the Indenture, or (ii) the Indenture will be discharged by its terms and all Rental Payments will have been paid in full. Notwithstanding the foregoing, the term of the Lease Agreement will in no event be extended more than ten years beyond such Termination Date. Such extended date being the "Maximum Lease Term." If prior to the Termination Date, all Bonds will be fully paid, or provision therefor made in accordance with the Indenture, the Indenture will be discharged by its terms and all Rental Payments will have been paid in full, the term of the Lease Agreement will end simultaneously therewith.

## **Rental Payments**

Subject to the provisions of the Lease Agreement relating to a revision of the Base Rental Schedule, the City will pay to the Authority as Base Rental Payments (subject to the provisions of the Lease Agreement) the amount at the times specified in the Base Rental Payment Schedule, a portion of which Base Rental Payments will constitute principal and a portion of which will constitute interest. If the term of the Lease Agreement is extended pursuant to the Lease Agreement, the obligation of the City to pay Rental Payments will continue to and including the Base Rental deposit Date preceding the date of termination of the Lease Agreement. Upon such extension, the Base Rental Payments will be established so that they will be sufficient to pay all extended and unpaid Base Rental Payments; provided, however, that the Rental Payments payable in any Rental Period will not exceed the annual fair rental value of the Property.

The City will also pay, as Additional Rental Payments, such amounts as will be required for the payment of the following: all taxes and assessments of any type or nature charged to the Authority or the City or affecting the Property or the respective interests or estates of the Authority or the City therein; all reasonable administrative costs of the Authority relating to the Property including, but without limiting the generality of the foregoing, salaries, wages, fees and expenses, compensation and indemnification of the Trustee payable by the Authority under the Indenture, fees of auditors, accountants, attorneys or engineers, and all other reasonable and necessary administrative costs of the Authority or charges required to be paid by it in order to maintain its existence or to comply with the terms of the Indenture or the Lease Agreement or to defend the Authority and its members, officers, agents and employees; insurance premiums for all insurance required pursuant to the Lease Agreement; any amounts with respect to the Lease Agreement or the Bonds required to be rebated to the federal government in accordance with section 148(f) of the Code; and all other payments required to be paid by the City under the provisions of the Lease Agreement or the Indenture. Amounts constituting Additional Rental Payments payable under the Lease Agreement will be paid by the City directly to the person or persons to whom such amounts will be payable. The City will pay all such amounts when due or at such later time as such amounts may be paid without penalty or, in any other case, within sixty (60) days after notice in writing from the Trustee to the City stating the amount of Additional Rental Payments then due and payable and the purpose thereof.

Payments of the Rental Payments for the Property during each rental period will constitute the total rental for said rental period.

Each installment of Base Rental Payments payable under the Lease Agreement will be paid in lawful money of the United States of America to or upon the order of the Authority at the principal corporate trust office of the Trustee, or such other place or entity as the Authority will designate. Each Base Rental Payment will be deposited with the Trustee no later than the Base Rental Deposit Date preceding the Interest Payment Date on which such Base Rental Payment is due. Any Base Rental Payment which will not be paid by the City when due and payable under the terms of the Lease Agreement will bear interest from the date when the same is due thereunder until the same will be paid at the rate equal to the highest rate of interest on any of the Outstanding Bonds. Notwithstanding any dispute between the Authority and the City, the City will make all Rental Payments when due without deduction or offset of any kind and will not withhold any Rental Payments pending the final resolution of any such dispute. In the event of a determination that the City was not liable for said Rental Payments or any portion thereof, said payments or excess of payments, as the case may be, will be credited against subsequent Rental Payments due under the Lease Agreement or refunded at the time of such determination. Amounts required to be deposited by the City with the Trustee pursuant to this paragraph on any date will be reduced to the extent of available amounts on deposit in the Base Rental Payment Fund, the Interest Fund or the Principal Fund.

## **Rental Abatement**

Except as otherwise specifically provided in the Lease Agreement, during any period in which, by reason of material damage to, or destruction or condemnation of, the Property, or any defect in title to the Property, there is substantial interference with the City's right to use and occupy any portion of the Property, Rental Payments will be abated proportionately, and the City waives the benefits of California Civil Code Sections 1932(1), 1932(2) and 1933(4) and any and all other rights to terminate the Lease Agreement by virtue of any such interference, and the Lease Agreement will continue in full force and effect. The amount of such abatement will be agreed upon by the City and the Authority; provided, however, that the Rental Payments due for any Rental Period will not exceed the annual fair rental value of that portion of the Property available for use and occupancy by the City during such Rental Period. The City and the Authority will calculate such abatement and will provide the Trustee with a certificate setting forth such calculation and the basis therefor. Such abatement will continue for the period commencing with the date of interference resulting from such damage, destruction, condemnation or title defect and, with respect to damage to or destruction of the Property, ending with the substantial completion of the work of repair or replacement of the Property, or the portion thereof so damaged or destroyed; and the term of the Lease Agreement will be extended as provided in the Lease Agreement, except that the term will in no event be extended beyond the Maximum Lease Term.

Notwithstanding the foregoing, to the extent that moneys are available for the payment of Rental Payments in any of the funds and accounts established under the Indenture, Rental Payments will not be abated as provided above but, rather, will be payable by the City as a special obligation payable solely from said funds and accounts.

The City and the Authority acknowledge and agree that, during the term of the Lease Agreement, it is likely that the City will have to undertake extensive repairs of the Property. Accordingly, on the Delivery Date, the City has prepaid Base Rental Payments in the amount of \$1,500,000. Such funds have been deposited with the Trustee and will be held by the Trustee in the Prepaid Base Rental Account of the Base Rental Payment Fund. Five Business Days prior to the commencement of such repairs, the City will provide a Written Certificate of the City to the Trustee and the Authority notifying such parties of the commencement of such repairs and that Base Rental Payments shall be payable from amounts on deposit in the Prepaid Base Rental Account. Upon completion of such repairs, the City shall provide the Trustee and the Authority with a Written Certificate of the City notifying such parties of the completion of the repairs and the amount of prorated Base Rental Payments to be paid from the Prepaid Base Rental Account on the next Interest Payment Date and requesting the return of all other funds on deposit in the Prepaid Base Rental Account. In the event the City elects to not make such repairs or in the event the repairs do not require the City to vacate the Property, the City shall certify to the Trustee that the Property is habitable and that no abatement of Base Rental Payments shall occur, and may request the return of all funds on deposit in the Prepaid Base Rental Account or direct the Trustee to apply all or a portion of such funds on deposit in the Prepaid base Rental Account to pay Base Rental as specified in such request.

## **Prepayment of Rental Payments**

(a) The City may prepay all or a portion of the Base Rental Payments attributable to the Series 2012 Bonds which are payable on or after November 1, 2023, from any source of available funds, on any date on or after November 1, 2022, by paying (i) all or a portion, as selected by the City, of the principal components of such Base Rental Payments, and (ii) the accrued but unpaid interest component of such Base Rental Payments to be prepaid to the date of such prepayment, without premium.

(b) The City may prepay, from any source of available funds, all or any portion of the Base Rental Payments attributable to the Series 2012 Bonds by depositing with the Trustee moneys or securities as provided, and subject to the terms and conditions set forth, in the Indenture sufficient to make such Base Rental Payments when due or to make such Base Rental Payments through a specified date on which the City

has a right to prepay such Base Rental Payments as described above, and to prepay such Base Rental Payments on such prepayment date, at a prepayment price determined in accordance with subsection (a) above.

The City may prepay, from any source of available funds, all or any portion of the Base Rental Payments attributable to the Series 2012 Bonds by depositing with the Trustee moneys or securities as provided, and subject to the terms and conditions set forth, in the Indenture sufficient to make such Base Rental Payments when due or to make such Base Rental Payments through a specified date on which the City has a right to prepay such Base Rental Payments.

(c) If less than all of the Base Rental Payments attributable to the Series 2012 Bonds are prepaid pursuant to the Lease Agreement then, as of the date of such prepayment pursuant to subsection (a) above, or the date of a deposit pursuant to subsection (b) above, the principal and interest components of such Base Rental Payments will be recalculated in order to take such prepayment into account. The City agrees that if, following a partial prepayment of such Base Rental Payments, the Property is damaged or destroyed or taken by eminent domain, or a defect in title to the Property is discovered, the City will not be entitled to, and by such prepayment waives the right of, abatement of such prepaid Base Rental Payments and the City will not be entitled to any reimbursement of such Base Rental Payments.

(d) If all of the Base Rental Payments are prepaid in accordance with the provisions of the Lease Agreement, then, as of the date of such prepayment as described in (a) above and, if applicable, the corresponding provisions of the Lease Agreement relating to the prepayment of Base Rental Payments attributable to Additional Bonds, or the date of deposit pursuant to (b) above and, if applicable, such corresponding provisions, and payment of all other amounts owed under the Lease Agreement, the term of the Lease Agreement will be terminated.

(e) Prepayments of Base Rental Payments attributable to the Series 2012 Bonds made pursuant to the Lease Agreement will be applied to the redemption of Series 2012 Bonds as provided in the Indenture.

(f) Before making any prepayment pursuant to the Lease Agreement, the City will give written notice to the Authority specifying the date on which the prepayment will be made, which date will be not less than forty-five (45) nor more than sixty (60) days from the date such notice is given to the Authority.

### **Substitution or Release of the Property**

The City will have the right to substitute alternate real property for any portion of the Property or to release a portion of the Property from the Lease Agreement. All costs and expenses incurred in connection with such substitution or release will be borne by the City. Notwithstanding any such substitution or release, there will be no reduction in or abatement of the Base Rental Payments due from the City under the Lease Agreement as a result of such substitution or release. Any such substitution or release of any portion of the Property will be subject to the following specific conditions, which are made conditions precedent to such substitution or release:

(i) an independent certified real estate appraiser selected by the City will have found (and will have delivered a certificate to the City and the Trustee setting forth its findings) that the Property, as constituted after such substitution or release, (A) has an annual fair rental value at least equal to the maximum Base Rental Payments payable by the City in any Rental Period, and (ii) has a useful life in excess of the final maturity of any Outstanding Bonds;

(ii) the City will have obtained or caused to be obtained a CLTA or ALTA title insurance policy or policies with respect to any substituted property in the amount at least equal to the aggregate principal amount of any Outstanding Bonds of the type and with the endorsements described in the Lease Agreement;



(iii) the City will have provided the Trustee with an Opinion of Counsel to the effect that such substitution or release will not, in and of itself cause the interest on the Bonds to be included in gross income for federal income tax purposes;

(iv) the City, the Authority and the Trustee will have executed, and the City will have caused to be recorded with the Orange County Recorder, any document necessary to reconvey to the City the portion of the Property being released and to include any substituted real property in the description of the Property contained in the Lease Agreement and in the Ground Lease; and

(v) the City will have provided notice of such substitution to each rating agency then rating the Bonds.

### **Insurance**

The City will maintain or cause to be maintained, throughout the term of the Lease Agreement, a standard commercial general liability insurance policy or policies in protection of the City, the Authority and their respective members, officers, agents and employees. Said policy or policies will provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the use or ownership of the Property. Said policy or policies will provide coverage in the minimum liability limits of \$1,000,000 for personal injury or death of each person and \$3,000,000 for personal injury or deaths of two or more persons in a single accident or event, and in a minimum amount of \$500,000 for damage to property (subject to a deductible clause of not to exceed \$100,000) resulting from a single event. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried or required to be carried by the City, and may be maintained in whole or in part in the form of self-insurance by the City, provided that such self-insurance complies with the provisions of the Lease Agreement.

The City will maintain or cause to be maintained, throughout the term of the Lease Agreement, workers' compensation insurance issued by a responsible carrier authorized under the laws of the State of California to insure employers against liability for compensation under the California Labor Code, or any act enacted as an amendment or supplement thereto or in lieu thereof, such workers' compensation insurance to cover all persons employed by the City in connection with the Property and to cover full liability for compensation under any such act; provided, however, that the City's obligations under this paragraph may be satisfied by self-insurance, provided that such self-insurance complies with the provisions of the Lease Agreement.

The City will maintain or cause to be maintained, fire, lightning and special extended coverage insurance (which will include coverage for vandalism and malicious mischief, but need not include coverage for earthquake damage) on all improvements constituting any part of the Property in an amount equal to the greater of 100% of the replacement cost of such improvements or 100% of the outstanding principal amount of the Bonds. Each such policy of insurance will contain a standard replacement cost endorsement providing for no deduction for depreciation and a stipulated amount endorsement. All insurance required to be maintained pursuant to this paragraph may be subject to a deductible in an amount not to exceed \$500,000. The City's obligations under this paragraph may be satisfied by self-insurance, provided such self-insurance complies with the provisions of the Lease Agreement.

The City will maintain rental interruption insurance to cover the Authority's loss, total or partial, of Base Rental Payments resulting from the loss, total or partial, of the use of any part of the Property as a result of any of the hazards required to be covered by the insurance described in the preceding paragraph in an amount sufficient at all times to pay an amount not less than the product of two times the maximum amount of Base Rental Payments scheduled to be paid during any Rental Period. The City will not be permitted to self-insure this obligation under the Lease Agreement.

The City will pay or cause to be paid when due the premiums for all insurance policies required by the Lease Agreement, and will promptly furnish or cause to be furnished evidence of such payments to the Trustee. All such policies will provide that the Trustee will be given thirty (30) days notice of the expiration thereof, or any intended cancellation thereof. The Trustee will be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the Trustee.

The City will cause to be delivered to the Trustee on or before August 15 of each year, commencing August 15, 2013, a schedule of the insurance policies being maintained in accordance with the Lease Agreement and a Certificate of the City stating that such policies are in full force and effect and that the City is in full compliance with the requirements of the Lease Agreement. The Trustee will be entitled to rely upon said Certificate of the City as to the City's compliance with the Lease Agreement. The Trustee will not be responsible for the sufficiency of coverage or amounts of such policies.

Insurance provided through a California joint powers authority of which the City is a member or with which the City contracts for insurance will be deemed to be self-insurance for purposes of the Lease Agreement. Any self-insurance maintained by the City pursuant to the Indenture will comply with the following terms:

(a) the self-insurance program will be approved in writing by a professionally certified risk manager or by an independent insurance consultant;

(b) the self-insurance program will include an actuarially sound claims reserve fund out of which each self-insured claim will be paid, the adequacy of each such fund will be evaluated on an annual basis by a professionally certified risk manager or by an independent insurance consultant and any deficiencies in any self-insured claims reserve fund will be remedied in accordance with the recommendation of a professionally certified risk manager or such independent insurance consultant, as applicable;

(c) in the event the self-insurance program will be discontinued, the actuarial soundness of its claims reserve fund, as determined by a professionally certified risk manager or by an independent insurance consultant, will be maintained.

The insurance required by the Lease Agreement will be provided by reputable insurance companies with claims paying abilities determined, in the reasonable opinion of a professionally certified risk manager or an independent insurance consultant, to be adequate for the purposes of the Lease Agreement.

### **Title Insurance**

The City will provide, at its own expense, one or more CLTA or ALTA title insurance policies for the Property, in the aggregate amount of not less than the initial aggregate principal amount of the Series 2012 Bonds. Said policy or policies will insure (a) the fee interest of the City in the Property, (b) the Authority's ground leasehold estate in the Property under the Ground Lease, and (c) the City's leasehold estate under the Lease Agreement in the Property, subject only to Permitted Encumbrances. All Net Insurance Proceeds received under said policy or policies will be deposited with the Trustee and applied as provided in the Indenture. So long as any of the Bonds remain Outstanding, each policy of title insurance obtained pursuant to the Indenture or the Lease or required by the Indenture or the Lease Agreement will provide that all proceeds thereunder will be payable to the Trustee for the benefit of the Bond Owners.

### **Eminent Domain**

If all of the Property (or portions thereof such that the remainder is not usable for public purposes by the City) will be taken under the power of eminent domain, the term of the Lease Agreement will cease as of the day that possession will be so taken. If less than all of the Property will be taken under the power of eminent domain and the remainder is usable for public purposes by the City at the time of such taking, then the

Lease Agreement will continue in full force and effect as to such remainder, and the parties waive the benefits of any law to the contrary, and in such event there will be a partial abatement of the Rental Payments in accordance with the provisions of the Lease Agreement. So long as any Bonds will be Outstanding, any award made in eminent domain proceedings for the taking of the Property, or any portion thereof, will be paid to the Trustee and applied to the redemption of Bonds as provided in the Indenture. Any such award made after all of the Bonds, and all other amounts due under the Indenture and under the Lease Agreement, have been fully paid, will be paid to the Authority and to the City as their respective interests may appear.

### **Assignment**

The City and the Authority acknowledge the assignment of the Lease Agreement (except for the Authority's obligation and its rights to give consents or approvals pursuant to the Lease Agreement), and the Base Rental Payments payable thereunder, to the Trustee pursuant to the Assignment Agreement.

### **Default**

(a) (i) If the City will fail (A) to pay any Rental Payment payable under the Lease Agreement when the same becomes due and payable, time being expressly declared to be of the essence in the Lease Agreement, or (B) to keep, observe or perform any other term, covenant or condition contained in the Lease Agreement or in the Indenture to be kept or performed by the City, or (ii) upon the happening of any of the events specified in paragraph (b) below, the City will be deemed to be in default under the Lease Agreement and it will be lawful for the Authority to exercise any and all remedies available pursuant to law or granted pursuant to the Lease Agreement. The City will in no event be in default in the observance or performance of any covenant, condition or agreement in the Lease Agreement on its part to be observed or performed, other than as referred to in clause (i)(A) or (ii) of the preceding sentence, unless the City will have failed, for a period of thirty (30) days or such additional time as is reasonably required to correct any such default after notice by the Authority to the City properly specifying wherein the City has failed to perform any such covenant, condition or agreement. Upon any such default, the Authority, in addition to all other rights and remedies it may have at law, will have the option to do any of the following:

(1) To terminate the Lease Agreement in the manner hereinafter described on account of default by the City, notwithstanding any re-entry or re-letting of the Property as hereinafter described in paragraph (2) below, and to re-enter the Property and remove all persons in possession thereof and all personal property whatsoever situated upon the Property and place such personal property in storage in any warehouse or other suitable place, for the account of and at the expense of the City. In the event of such termination, the City agrees to surrender immediately possession of the Property, without let or hindrance, and to pay the Authority all damages recoverable at law that the Authority may incur by reason of default by the City, including, without limitation, any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon the Property and removal and storage of such property by the Authority or its duly authorized agents in accordance with the provisions contained in the Lease Agreement. Neither notice to pay Rental Payments or to deliver up possession of the Property given pursuant to law nor any entry or re-entry by the Authority nor any proceeding in unlawful detainer, or otherwise, brought by the Authority for the purpose of effecting such re-entry or obtaining possession of the Property nor the appointment of a receiver upon initiative of the Authority to protect the Authority's interest under the Lease Agreement will of itself operate to terminate the Lease Agreement, and no termination of the Lease Agreement on account of default by the City will be or become effective by operation of law or acts of the parties thereto, or otherwise, unless and until the Authority will have given written notice to the City of the election on the part of the Authority to terminate the Lease Agreement. The City covenants and agrees that no surrender of the Property or of the remainder of the term of the Lease Agreement or any termination of the Lease Agreement will be valid in any manner or for any purpose whatsoever unless stated by the Authority by such written notice.

(2) Without terminating the Lease Agreement, (a) to collect each installment of Rental Payments as the same become due and enforce any other terms or provisions of the Lease Agreement to be

kept or performed by the City, regardless of whether or not the City has abandoned the Property, or (b) to exercise any and all rights of entry and re-entry upon the Property. In the event the Authority does not elect to terminate the Lease Agreement in the manner described in paragraph (1) above, the City will remain liable and agrees to keep or perform all covenants and conditions contained in the Lease Agreement to be kept or performed by the City and, if the Property is not re-let, to pay the full amount of the Rental Payments to the end of the term of the Lease Agreement or, in the event that the Property is re-let, to pay any deficiency in Rental Payments that results therefrom; and further agrees to pay said Rental Payments and/or Rental Payment deficiency punctually at the same time and in the same manner as described above for the payment of Rental Payments under the Lease Agreement, notwithstanding the fact that the Authority may have received in previous years or may receive thereafter in subsequent years Rental Payments in excess of the Rental Payments specified in the Lease Agreement, and notwithstanding any entry or re-entry by the Authority or suit in unlawful detainer, or otherwise, brought by the Authority for the purpose of effecting such re-entry or obtaining possession of the Property. Should the Authority elect to re-enter as provided in the Lease Agreement, the City irrevocably appoints the Authority as the agent and attorney-in-fact of the City to re-let the Property, or any part thereof, from time to time, either in the Authority's name or otherwise, upon such terms and conditions and for such use and period as the Authority may deem advisable and to remove all persons in possession thereof and all personal property whatsoever situated upon the Property and to place such personal property in storage in any warehouse or other suitable place, for the account of and at the expense of the City, and the City indemnifies and agrees to save harmless the Authority from any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon and re-letting of the Property and removal and storage of such property by the Authority or its duly authorized agents in accordance with the provisions contained in the Lease Agreement. The City agrees that the terms of the Lease Agreement constitute full and sufficient notice of the right of the Authority to re-let the Property in the event of such re-letting without effecting a surrender of the Lease Agreement, and further agrees that no acts of the Authority in effecting such re-letting will constitute a surrender or termination of the Lease Agreement irrespective of the use or the term for which such re-letting is made or the terms and conditions of such re-letting, or otherwise, but that, on the contrary, in the event of such default by the City the right to terminate the Lease Agreement will vest in the Authority to be effected in the sole and exclusive manner provided for in paragraph (1) above. The City further agrees to pay the Authority the cost of any alterations or additions to the Property necessary to place the Property in condition for re-letting immediately upon notice to the City of the completion and installation of such additions or alterations.

The City waives any and all claims for damages caused or which may be caused by the Authority in re-entering and taking possession of the Property as provided in the Lease Agreement and all claims for damages that may result from the destruction of or injury to the Property and all claims for damages to or loss of any property belonging to the City, or any other person, that may be in or upon the Property.

(b) If (i) the City's interest in the Lease Agreement or any part thereof be assigned or transferred, either voluntarily or by operation of law or otherwise, without the written consent of the Authority, and as hereinafter described, or (ii) the City or any assignee will file any petition or institute any proceeding under any act or acts, state or federal, dealing with or relating to the subject or subjects of bankruptcy or insolvency, or under any amendment of such act or acts, either as a bankrupt or as an insolvent, or as a debtor, or in any similar capacity, wherein or whereby the City asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of the City's debts or obligations, or offers to the City's creditors to effect a composition or extension of time to pay the City's debts or asks, seeks or prays for reorganization or to elect a plan of reorganization, or for a readjustment of the City's debts, or for any other similar relief, or if any such petition or any such proceedings of the same or similar kind or character be filed or be instituted or taken against the City, or if a receiver of the business or of the property or assets of the City will be appointed by any court, except a receiver appointed at the instance or request of the Authority, or if the City will make a general assignment for the benefit of the City's creditors, or (iii) the City will abandon or vacate the Property, then the City will be deemed to be in default under the Lease Agreement.

(c) In addition to the other remedies set forth in the Lease Agreement, upon the occurrence of an event of default, the Authority and its assignee will be entitled to proceed to protect and enforce the rights vested in the Authority and its assignee by the Lease Agreement or by law. The provisions of the Lease Agreement and the duties of the City and of its city council, officers or employees will be enforceable by the Authority or its assignee by mandamus or other appropriate suit, action or proceeding in any court of competent jurisdiction. Without limiting the generality of the foregoing, the Authority and its assignee will have the right to bring the following actions:

(i) *Accounting*. By action or suit in equity to require the City and its city council, officers and employees and its assigns to account as the trustee of an express trust.

(ii) *Injunction*. By action or suit in equity to enjoin any acts or things which may be unlawful or in violation of the rights of the Authority or its assignee.

(iii) *Mandamus*. By mandamus or other suit, action or proceeding at law or in equity to enforce the Authority's or its assignee's rights against the City (and its city council, officers and employees) and to compel the City to perform and carry out its duties and obligations under the law and its covenants and agreements with the City as provided in the Lease Agreement.

In the event the Authority will prevail in any action brought to enforce any of the terms and provisions of the Lease Agreement, the City agrees to pay a reasonable amount as and for attorney's fees incurred by the Authority in attempting to enforce any of the remedies available to the Authority under the Lease Agreement.

Notwithstanding anything to the contrary contained in the Lease Agreement, the Authority will have no right upon a default thereunder by the City to accelerate Rental Payments.

(d) Notwithstanding anything to the contrary contained in the Lease Agreement, the termination of the Lease Agreement by the Authority and its assignees on account of a default by the City thereunder will not effect or result in a termination of the Ground Lease.

Failure of the Authority to take advantage of any default on the part of the City will not be, or be construed as, a waiver thereof, nor will any custom or practice which may grow up between the parties in the course of administering the Lease Agreement be construed to waive or to lessen the right of the Authority to insist upon performance by the City of any term, covenant or condition of the Lease Agreement, or to exercise any rights given the Authority on account of such default. A waiver of a particular default will not be deemed to be a waiver of any other default or of the same default subsequently occurring. The acceptance of Rental Payments under the Lease Agreement will not be, or be construed to be, a waiver of any term, covenant or condition of the Lease Agreement.

## **Amendments**

The Lease Agreement and the Ground Lease may be amended and the rights and obligations of the Authority and the City thereunder may be amended at any time by an amendment thereto which will become binding upon execution and delivery by the Authority and the City but only with the prior written consent of the Owners of a majority of the principal amount of the Bonds then Outstanding pursuant to the Indenture, provided that no such amendment will (i) extend the payment date of any Base Rental Payments, reduce the interest component or principal component of any Base Rental Payments or change the prepayment terms and provisions, without the prior written consent of the Owner of each Bond so affected, or (ii) reduce the percentage of the principal amount of the Bonds the consent of the Owners of which is required for the execution of any amendment of the Lease Agreement or the Ground Lease.

The Lease Agreement and the Ground Lease and the rights and obligations of the Authority and the City thereunder may also be amended at any time by an amendment thereto which will become binding upon

execution by the Authority and the City, but without the written consents of any Owners, but only to the extent permitted by law and only for any one or more of the following purposes:

(a) to add to the agreements, conditions, covenants and terms required by the Authority or the City to be observed or performed in the Lease Agreement or other agreements, conditions, covenants and terms thereafter to be observed or performed by the Authority or the City, or to surrender any right or power reserved therein to or conferred therein on the Authority or the City, and which in either case will not materially adversely affect the interests of the Owners, as evidenced by an Opinion of Bond Counsel;

(b) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained therein or in regard to questions arising thereunder which the Authority or the City may deem desirable or necessary and not inconsistent therewith, and which will not materially adversely affect the interests of the Owners, as evidenced by an Opinion of Bond Counsel;

(c) to make such additions, deletions or modifications as may be necessary or appropriate to assure the exclusion from gross income for federal income tax purposes of the interest on the Bonds;

(d) to provide for the substitution or release of a portion of the Property in accordance with the provisions of the Lease Agreement;

(e) to provide for the issuance of Additional Bonds in accordance with the Indenture; or

(f) to make such other changes therein or modifications thereto as the Authority or the City may deem desirable or necessary, and which will not materially adversely affect the interests of the Owners as evidenced by an Opinion of Bond Counsel.

## **THE INDENTURE**

### **Costs of Issuance Fund**

The Trustee will establish and maintain a separate special fund designated the "Costs of Issuance Fund." On the Closing Date, there will be deposited in the Costs of Issuance Fund the amount specified in the Indenture. There will be additionally be deposited in the Costs of Issuance Fund the portion, if any, of the proceeds of the sale of any Additional Bonds required to be deposited therein under the Supplemental Indenture pursuant to which such Additional Bonds are issued.

The moneys in the Costs of Issuance Fund will 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 Authority 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 thereunder. On March 1, 2013, and on such later date as may be specified in a supplemental Indenture, the Trustee will transfer any amounts then remaining in the Costs of Issuance Fund to the Interest Fund.

### **Construction Fund**

The Trustee will establish and maintain a separate fund designated the "Construction Fund." On the Closing Date there will be deposited in the Construction Fund the amount specified in the Indenture.

The moneys in the Construction Fund will be used and withdrawn by the Trustee from time to time to pay the Project Costs upon submission of a Written Request of the City stating (i) the Person to whom payment is to be made, (ii) the amount to be paid, (iii) the purpose for which the obligation was incurred,

(iv) that such payment constitutes a Project Cost and is a proper charge against the Construction Fund, and (v) that such amounts have not been the subject of a prior disbursement from the Construction Fund, in each case together with a statement or invoice for each amount requested thereunder.

Upon the filing of a Written Certificate of the City stating that the 2012 Project has been completed and that all Project Costs have been paid, the Trustee will transfer and apply the amount, if any, remaining in the Construction Fund (x) if such amount is equal to or greater than \$50,000, to the Redemption Fund to be used to optionally redeem Bonds, provided that the amount so transferred will not exceed the amount required to provide for the redemption of all Outstanding Bonds and (y) if such amount is less than \$50,000, to the Base Rental Payment Fund to be used for the purposes thereof.

### **Additional Bonds**

Conditions for the Issuance of Additional Bonds. The Authority may at any time issue one or more Series of Additional Bonds (in addition to the Series 2012 Bonds) payable from Base Rental Payments as provided in the Indenture on a parity with all other Bonds theretofore issued under the Indenture, but only subject to the following conditions, which are conditions precedent to the issuance of such Additional Bonds:

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

(1) The application of the proceeds of the sale of such Additional Bonds;

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

(3) The date, the maturity date or dates, the interest payment dates and the dates on which mandatory sinking fund redemptions, if any, are to be made for such Additional Bonds; provided, however, that (i) the serial Bonds of such Series of Additional Bonds will be payable as to principal annually on November 1 of each year in which principal falls due, and the term Bonds of such Series of Additional Bonds will have annual mandatory sinking fund redemptions on November 1, (ii) the Additional Bonds will be payable as to Interest semiannually on May 1 and November 1 of each year, except that the first installment of interest may be payable on either May 1 or November 1 and will be for a period of not longer than twelve months and the interest will be payable thereafter semiannually on May 1 and November 1, (iii) all Additional Bonds of a Series of like maturity will 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, will be established to provide for the redemption or payment of such Additional Bonds on or before their respective maturity dates;

(4) The redemption premiums and terms, if any, for such Additional Bonds;

(5) The form of such Additional Bonds;

(6) Such other provisions that are appropriate or necessary and are not inconsistent with the provisions hereof;

(b) The Authority will be in compliance with all agreements, conditions, covenants and terms contained in the Indenture, in the Lease Agreement and in the Ground Lease required to be observed or performed by it;

(c) The Authority will be in compliance with all agreements, conditions, covenants and terms contained in the Indenture, in the Lease Agreement and in the Ground Lease required to be observed or performed by it; and

(d) The Ground Lease will have been amended, to the extent necessary, and the Lease Agreement will have been amended so as to increase the Base Rental Payments payable by the City thereunder by an aggregate amount equal to the principal of and interest on such Additional Bonds, payable at such times and in such manner as may be necessary to provide for the payment of the principal of and interest on such Additional Bonds; provided, however, that no such amendment will be made such that the sum of Base Rental Payments, including any increase in the Base Rental Payments as a result of such amendment, plus Additional Rental Payments, in any Rental Period will be in excess of the annual fair rental value of the Property after taking into account the use of the proceeds of any Additional Bonds issued in connection therewith (evidence of the satisfaction of such condition will be made by a Written Certificate of the City).

Nothing contained in the Indenture will limit the issuance of any bonds or other obligations payable from Base Rental Payments if, after the issuance and delivery of such bonds or other obligations, 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 will be executed by the Authority for issuance under the Indenture and will be delivered to the Trustee and thereupon will be authenticated and delivered by the Trustee, but only upon receipt by the Trustee of the following:

(a) Certified copies of the Supplemental Indenture authorizing the issuance of such Additional Bonds, the amendment to the Lease Agreement required by the Indenture and the amendment to the Ground Lease, if any, required by the Indenture, together with satisfactory evidence that such amendment to the Lease Agreement and such amendment to the Ground Lease, if any, have been duly recorded;

(b) A Written Request of the Authority as to the delivery of such Additional Bonds;

(c) An opinion of Bond Counsel substantially to the effect that (i) the Indenture (including all Supplemental Indentures), the Lease Agreement (including the amendment thereto required by the Indenture) and the Ground Lease (including any amendment thereto required by the Indenture) have been duly authorized, executed and delivered by, and constitute the valid and binding obligations of, the Authority and 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 Authority payable solely from Base Rental Payments as provided in 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;

(d) a Written Certificate of the Authority that the requirements of the Indenture have been met;

(e) a Written Certificate of the City that the requirements of the Indenture have been met, and a Written Certificate of the City as to the fair rental value of the Property, after giving effect to the execution and delivery of the Additional Bonds, and to the use of proceeds received therefrom; and

(f) Such further documents as are required by the provisions hereof or by the provisions of the Supplemental Indenture authorizing the issuance of such Additional Bonds.



So long as any of the Bonds remain Outstanding, the Authority will not issue any Additional Bonds or obligations payable from the Base Rental Payments, except pursuant to the Indenture.

### **Pledge of Base Rental Payments and Additional Rental; Base Rental Payment Fund**

Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, all of the Base Rental Payments and any other amounts (including proceeds of the sale of the Bonds) held in the Base Rental Payment Fund, the Interest Fund, the Principal Fund and the Redemption Fund are 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 will constitute a first lien on such assets.

All obligations of the Authority under the Indenture will be special obligations of the Authority, payable solely from Rental Payments and the other assets pledged therefor thereunder; provided, however, that all obligations of the Authority under the Bonds will be special obligations of the Authority, payable solely from Base Rental Payments and the other assets pledged therefor under the Indenture. Neither the faith and credit nor the taxing power of the Authority, the City or the State of California, or any political subdivision thereof, is pledged to the payment of the Bonds.

All Base Rental Payments will be paid directly by the City to the Trustee, and if received by the Authority at any time will be transferred by the Authority with the Trustee within one Business Day after the receipt thereof. All Base Rental Payments paid by the City will be deposited by the Trustee in the Base Rental Payment Fund.

### **Deposit of Base Rental Payments**

The Trustee will transfer the amounts on deposit in the Base Rental Payment Fund, at the times and in the manner provided in the Indenture, to the following respective funds.

Interest Fund. On the Business Day immediately preceding each Interest Payment Date, the Trustee will transfer from the Base Rental Fund to the Interest Fund the amount, if any, necessary to cause the amount on deposit in the Interest Fund to be equal to the interest due on the Bonds on such Interest Payment Date.

Principal Fund. On the Business Day immediately preceding each May 1 and November 1, commencing May 1, 2013, the Trustee will transfer from the Base Rental Fund to the Principal Fund the amount, if any, necessary to cause the amount on deposit in the Principal Fund to be equal to the principal amount of the Bonds due on such May 1 or November 1, either as a result of the maturity thereof or mandatory sinking fund redemption payments required to be made with respect thereto. Moneys in the Principal Fund will be used by the Trustee for the purpose of paying the principal of the Bonds when due and payable at their maturity dates or upon earlier mandatory sinking fund redemption.

Redemption Fund. The Trustee, on the redemption date specified in the Written Request of the City filed with the Trustee at the time that any prepaid Base Rental Payment is paid to the Trustee pursuant to the Lease Agreement, will deposit in the Redemption Fund that amount of moneys representing the portion of the Base Rental Payments designated as prepaid Base Rental Payments. Additionally, the Trustee will deposit in the Redemption Fund any amounts required to be deposited therein pursuant to the Indenture. Moneys in the Redemption Fund will be used by the Trustee for the purpose of paying the principal of and interest and premium, if any, on Additional Bonds redeemed pursuant to the corresponding provisions of the Supplemental Indenture pursuant to which such Additional Bonds are issued.

Upon receipt of a Written Certificate of the City pursuant to the Lease Agreement that the City has commenced repairs of the Property, the Trustee will transfer moneys from the Prepaid Base Rental Account at the times and in the manner required by the Indenture if and to the extent there are insufficient funds in the

Base Rental Payment Fund to make such transfers. Upon receipt of a Written Certificate of the City pursuant to the Lease Agreement that the City has completed repairs of the Property and will recommence to make Base Rental Payments, or that the City has determined not to make such repairs or that such repairs do not require the City to vacate the Property, and made the certifications required pursuant to the Lease Agreement, the Trustee will transfer any funds remaining on deposit in the Prepaid Base Rental Account to the City for any lawful use.

### **Application of Net Insurance Proceeds**

If the Property or any portion thereof will be damaged or destroyed, subject to the further requirements of the Indenture, the City will, as expeditiously as possible, continuously and diligently prosecute or cause to be prosecuted the repair or replacement thereof, unless the City elects not to repair or replace the Property or the affected portion thereof in accordance with the provisions of the Indenture.

The Net Insurance Proceeds (other than Net Insurance Proceeds of rental interruption insurance), including the proceeds of any self-insurance, received on account of any damage or destruction of the Property or a portion thereof will as soon as possible be deposited with the Trustee and be held by the Trustee in a special account and made available for and, to the extent necessary, will be applied to the cost of repair or replacement of the Property or the affected portion thereof upon receipt of a Written Request of the City, together with invoices therefor. Pending such application, such proceeds may be invested by the Trustee as directed by the City in Permitted Investments that mature not later than such times as moneys are expected to be needed to pay such costs of repair or replacement.

Notwithstanding the foregoing, the City will, within sixty (60) days of the occurrence of the event of damage or destruction, notify the Trustee in writing as to whether the City intends to replace or repair the Property or the portions of the Property which were damaged or destroyed. If the City does intend to replace or repair the Property or portions thereof, the City will deposit with the Trustee the full amount of any insurance deductible to be credited to the special account.

If the damage, destruction or loss was such that there resulted a substantial interference with the City's right to the use or occupancy of the Property and an abatement of Rental Payments results from such damage or destruction pursuant to the Lease Agreement, then the City will be required either to (a) apply sufficient funds from the insurance proceeds and other legally available funds to the replacement or repair of the Property or the portions thereof which have been damaged to the condition which existed prior to such damage or destruction, or (b) apply sufficient funds from the insurance proceeds and other legally available funds to the redemption, as set forth in the Indenture and the corresponding provisions of any Supplemental Indenture pursuant to which Additional Bonds are issued, in full of all the Outstanding Bonds or all of those Outstanding Bonds which would have been payable from that portion of the Base Rental Payments which are abated as a result of the damage or destruction. Funds to be applied to the redemption of Bonds in accordance with clause (b) above will be deposited in the Redemption Fund. If the City is not required to replace or repair the Property, or the affected portion thereof, as set forth in clause (a) above or to use such amounts to redeem Bonds as set forth in clause (b) above, then such proceeds will, if there is first delivered to the Trustee a Written Certificate of the City to the effect that the annual fair rental value of the Property after such damage or destruction, and after any repairs or replacements made as a result of such damage or destruction, is at least equal to 100% of the maximum amount of Base Rental Payments becoming due under the Lease Agreement in the then current rental period or any subsequent rental period and the fair replacement value of the Property after such damage or destruction is at least equal to the principal amount of the Outstanding Bonds, be paid to the City to be used for any lawful purpose.

The proceeds of any award in eminent domain received in respect to the Property will be deposited by the Trustee in the Redemption Fund and applied to the redemption of Bonds pursuant to the Indenture and the corresponding provisions of any Supplemental Indenture pursuant to which Additional Bonds are issued.

## **Title Insurance**

Proceeds of any policy of title insurance received by the Trustee in respect of the Property will be applied and disbursed by the Trustee as follows:

(a) if the City determines that the title defect giving rise to such proceeds has not substantially interfered with its use and occupancy of the Property and will not result in an abatement of Rental Payments payable by the City under the Lease Agreement, such proceeds will be remitted to the City and used for any lawful purpose thereof, or

(b) if the City determines that the title defect giving rise to such proceeds has substantially interfered with its use and occupancy of the Property and will result in an abatement in whole or in part of Rental Payments payable by the City under the Lease Agreement, then the Trustee will immediately deposit such proceeds in the Redemption Fund and such proceeds will be applied to the redemption of Bonds in the manner provided in the Indenture and the corresponding provisions of any Supplemental Indenture pursuant to which Additional Bonds are issued.

## **Investment of Moneys**

Except as otherwise provided in the Indenture, all moneys in any of the funds or accounts established pursuant to the Indenture and held by the Trustee will be invested by the Trustee solely in Permitted Investments, as directed in writing by the Authority. Moneys in all funds and accounts held by the Trustee will 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 such Permitted Investments may be redeemed at par so as to be available on each Interest Payment Date. Absent timely written direction from the Authority, the Trustee will hold any funds held by it uninvested.

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 will be retained therein.

Permitted Investments acquired as an investment of moneys in any fund established under the Indenture will be credited to such fund. For the purpose of determining the amount in any fund, all Permitted Investments credited to such fund will be valued by the Trustee at the fair market value cost thereof, such valuation to be performed not less frequently than semiannually on or before each March 15 and September 15. In determining the fair market value, the Trustee may use and rely conclusively on any generally recognized securities pricing service available to it (including brokers and dealers in securities).

The Trustee may act as principal or agent in the making or disposing of any investment, Upon the Written Request of the Authority, the Trustee will sell or present for redemption any Permitted Investments so purchased whenever it will 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 will not be liable or responsible for any loss resulting from any investment made or sold pursuant to the Indenture. For purposes of investment, the Trustee may commingle moneys in any of the funds and accounts established under the Indenture.

## **Covenants**

Compliance with Agreements. The Trustee will not authenticate or deliver any Bonds in any matter other than accordance with the provisions of the Indenture, and the Authority and the City will not suffer or permit any default by them to occur under the Indenture, but will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms of the Indenture required to be complied with, kept, observed and performed by them.

Compliance with Ground Lease and Lease Agreement. The Authority and the City will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms contained in the Ground Lease and the lease Agreement required to be complied with, kept, observed and performed by them and, together with the Trustee, will enforce the Ground Lease and the Lease Agreement against the other party thereto in accordance with their respective terms.

Observance of Laws and Regulations. The Authority, the City and the Trustee will faithfully comply with, keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on them by contract, or prescribed by any law of the United States of America or of the State of California, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of each and every franchise, right or privilege now owned or hereafter acquired by them, including their right to exist and carry on their respective businesses, to the end that such franchises, rights and privileges will be maintained and preserved and will not become abandoned, forfeited or in any manner impaired.

Other Liens. The City will keep the Property and all parts thereof free from judgments and materialmen's and mechanics' liens and free from all claims, demands, encumbrances and other liens of whatever nature or character, and free from any claim or liability which materially impairs the City in conducting its business or utilizing the Property, and the Trustee at its option (after first giving the City ten (10) days' written notice to comply therewith and failure of the City to so comply within such ten-day period) may, but is in no event obligated to, defend against any and all actions or proceedings, or may pay or compromise any claim or demand asserted in any such actions or proceedings; provided, however, that, in defending against any such actions or proceedings or in paying or compromising any such claims or demands, the Trustee will not in any event be deemed to have waived or released the City from liability for or on account of any of its agreements and covenants contained in the Indenture, or from its liability under the Indenture and to perform such agreements and covenants.

So long as any Bonds are Outstanding, none of the Trustee, the Authority or the City will create or suffer to be created any pledge of or lien on the amounts on deposit in any of the funds or accounts created under the Indenture, other than the pledge and lien as provided for or permitted under the Indenture.

The Authority, the City and the Trustee will not encumber the Property other than in accordance with the Ground Lease, the Lease Agreement, the Indenture and the Assignment Agreement.

Prosecution and Defense of Suits. The City will promptly, upon request of the Trustee, take such action from time to time as may be necessary or proper to remedy or cure any cloud upon or defect in the title to the Property or any part thereof, whether now existing or hereafter developing, will prosecute all actions, suits or other proceedings as may be appropriate for such purpose and will indemnify and save the Trustee harmless from all cost, damage, expense or loss, including attorneys' fees, which it or the Owners may incur by reason of any such cloud, defect, action, suit or other proceeding.

Accounting Records and Statements. The Trustee will keep proper accounting records in which complete and correct entries will be made of all transactions relating to the receipt, deposit and disbursement of the Base Rental Payments, and such accounting records will be available for inspection by the Authority and the City at reasonable hours and under reasonable conditions. The Trustee will, upon written request, make copies of the foregoing available to any Owner or his agent duly authorized in writing.

Recordation and Filing. The City will record, or cause to be recorded, with the appropriate City recorder, the Lease Agreement, the Ground Lease and the Assignment Agreement, or memoranda thereof.

Tax Covenants. Neither the Authority nor the City will 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 any tax-exempt Bonds under Section 103 of the Code. Without limiting the generality of the foregoing, the

City will comply with the requirements of the Tax Certificate. This covenant will survive payment in full or defeasance of the Bonds.

Further Assurances. Whenever and so often as requested to do so by the Trustee, the Authority and the City will promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments and promptly do or cause to be done all such other and further things as may be necessary or reasonably required in order to further and more fully vest in the Trustee all advantages, benefits, interests, powers, privileges and rights conferred or intended to be conferred upon it by the Indenture, the Assignment Agreement, the Ground Lease or the Lease Agreement.

Continuing Disclosure. The City will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of the Indenture, failure of the City to comply with the Continuing Disclosure Certificate will not constitute an event of default under the Indenture; 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 Bonds, and upon being indemnified to its reasonable satisfaction therefor, will) or any holder or beneficial owner of Bonds may take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

### **Events of Default**

If an event of default (within the meaning of the Lease Agreement) will happen, then such event of default will constitute an event of default under the Indenture. The Trustee shall give notice, as assignee of the Authority, of an event of default under the Lease Agreement to the City. In each and every case during the continuance of an event of default, the Trustee may and, at the direction of the Owners of not less than a majority of the aggregate principal amount of Bonds then Outstanding, and upon being indemnified to its reasonable satisfaction therefor, will, upon notice in writing to the City and the Authority, exercise any of the remedies granted to the Authority under the Lease Agreement and, in addition, take whatever action at law or in equity may appear necessary or desirable to enforce its rights as assignee pursuant to the Assignment Agreement or to protect and enforce any of the rights vested in the Trustee or the Owners by the Indenture or by the Bonds, either at law or in equity or in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement or for the enforcement of any other legal or equitable right, including any one or more of the remedies set forth in the Indenture.

### **Other Remedies of the Trustee**

Subject to the provisions of the Indenture, the Trustee will have the right:

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the Authority or the City or any member, officer or employee thereof, and to compel the Authority or the City or any such member, officer or employee to perform or carry out its or his or her duties under law and the agreements and covenants required to be performed by it or him or her contained in the Indenture;

(b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Trustee; or

(c) by suit in equity upon the happening of any default under the Indenture to require the Authority and the City to account as the trustee of an express trust.

Nothing in the Indenture will be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Owner any plan of reorganization, arrangement, adjustment or composition affecting the Bonds or the rights of any Owner thereof, or to authorize the Trustee to vote in respect of the claim of any Owner in any such proceeding without the approval of the Owners so affected.

A waiver of any default or breach of duty or contract by the Trustee will not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Trustee to exercise any right or remedy accruing upon any default or breach of duty or contract will impair any such right or remedy or will be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Trustee by law or by the Indenture may be enforced and exercised from time to time and as often the Trustee will deem expedient.

If any action, proceeding or suit to enforce any right or to exercise any remedy is abandoned or determined adversely to the Trustee or any Owner, then subject to any adverse determination, the Trustee, such Owner, the Authority and the City will be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Subject to the provisions of the indenture, no remedy in the Indenture conferred upon or reserved to the Trustee is intended to be exclusive of any other remedy, and each such remedy will be cumulative and will be in addition to every other remedy given under the Indenture or now or hereafter existing at law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any law. The assertion or employment of any right or remedy under the Indenture, or otherwise, will not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Except as expressly provided in the Indenture, the Authority will not have any obligation or liability to the Owners with respect to the payment when due of the Base Rental Payments by the City, or with respect to the performance by the City of the other agreements and covenants required to be performed by it contained in the Lease Agreement or the Indenture, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Indenture.

Except for the payment when due of the Base Rental Payments and the performance of the other agreements and covenants required to be performed by it contained in the Lease Agreement, the Ground Lease or the Indenture, the City will not have any obligation or liability to the Owners with respect to the Indenture or the preparation, execution, delivery or transfer of the Bonds or the disbursement of the Base Rental Payments by the Trustee to the Owners, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Indenture.

Except as expressly provided in the Indenture, the Trustee will not have any obligation or liability to the Owners with respect to the payment when due of the Base Rental Payments by the City, or with respect to the performance by the Authority or the City of the other agreements and covenants required to be performed by them contained in the Lease Agreement, the Ground Lease or the Indenture.

All payments received by the Trustee with respect to the rental of the Property after a default by the City pursuant to the Lease Agreement (including, without limitation, any proceeds received in connection with the sale, assignment or sublease of the Authority's right, title and interest in the Ground Lease), and all damages or other payments received by the Trustee for the enforcement of any rights and powers of the Trustee under the Lease Agreement, will be deposited into the Base Rental Payment Fund and as soon as practicable thereafter applied, together with all other funds held under the Indenture (except funds in the Rebate Fund):

- (a) to the payment of all amounts due the Trustee under the Indenture; and
- (b) to the payment of all amounts then due for principal and interest on the Bonds, in respect of which, or for the benefit of which, money has been collected (other than Bonds which have become payable prior to such event of default and money for the payment of which is held by the Trustee), ratably without preference or priority of any kind, according to the amounts of principal and interest, respectively, on such Bonds due and payable; and

(c) to the payment of all amounts then due for principal of the Bonds, in respect of which, or for the benefit of which, money has been collected (other than Bonds which have become payable prior to such event of default and money for the payment of which is held by the Trustee), ratably without preference or priority of any kind, according to the amounts of principal of such Bonds due and payable.

All rights of action and claims under the Indenture or the Bonds 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 proceeding instituted by the Trustee will be brought in its own name as trustee of an express trust, and any recovery of judgment will, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Owners in respect of which such judgment has been recovered.

### **Limitation on Suits**

No Owner of any Bond will have any right to institute any proceeding, judicial or otherwise, with respect to the Indenture, or for the appointment of a receiver or Trustee, or for any other remedy under the Indenture, unless (a) such Owner has previously given written notice to the Trustee of a continuing event of default; (b) the Owners of not less than 25% of the aggregate principal amount of Bonds then Outstanding will have made written request to the Trustee to institute proceedings in respect of such event of default in its own name as Trustee under the Indenture; (c) such Owner or Owners will have afforded to the Trustee indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee for sixty (60) days after its receipt of such notice, request and offer of indemnity will have failed to institute any such proceedings; and (e) no direction inconsistent with such written request has been given to the Trustee during such sixty-day period by the Owners of a majority of the aggregate principal amount of Bonds then Outstanding; it being understood and intended that no one or more Owners will have any right in any manner whatever by virtue of, or by availing of, any provision of the Indenture to affect, disturb or prejudice the rights of any other Owner of Bonds, or to obtain or seek to obtain priority or preference over any other Owner or to enforce any right under the Indenture, except in the manner provided in the Indenture and for the equal and ratable benefit of all the Owners of Bonds.

### **The Trustee**

The Authority appoints and employs the Trustee to receive, deposit and disburse the Base Rental Payments, to authenticate, deliver and transfer the Bonds and to perform the other functions contained in the indenture, all in the manner provided in the Indenture and subject to the conditions and terms of the Indenture. By executing and delivering the Indenture, the Trustee accepts the appointment and employment referred to above and accepts the rights and obligations of the Trustee provided in the Indenture, subject to the conditions and terms of the Indenture. Other than when an event of default has occurred and is continuing, the Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Indenture, and no implied covenants or obligations will be read into the Indenture against the Trustee. In case an event of default has occurred and is continuing, the Trustee will 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 man would exercise or use under the circumstances in the conduct of his own affairs. The Trustee covenants and agrees that it will not encumber the Property.

The Authority may by an instrument in writing remove the Trustee initially a party to the Indenture and any successor thereto unless an event of default will have occurred and then be continuing, and will remove the Trustee initially a party to the Indenture and any successor thereto if at any time (a) requested to do so by an instrument or concurrent instruments in writing signed by the Owners of a majority in aggregate principal amount of Bonds at the time Outstanding (or their attorneys duly authorized in writing), or (b) the Trustee will cease to be eligible in accordance with the following sentence, and will appoint a successor Trustee, but the Trustee and any successor Trustee will be a bank or trust company having a combined capital (exclusive of borrowed capital) and surplus of at least fifty million dollars (\$50,000,000) and subject to

supervision or examination by federal or state authorities. 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 authority above referred to, then for the purposes of the Indenture the combined capital and surplus of such bank or trust company will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Trustee may at any time resign by giving written notice of such resignation to the Authority and the City and by giving notice, by first-class mail, postage prepaid, of such resignation to the Owners of the Bonds at their addresses appearing on the Registration Books. Upon receiving such notice of resignation, the Authority will promptly appoint a successor Trustee by an instrument in writing; provided, however, that in the event the Authority does not appoint a successor Trustee within thirty (30) days following receipt of such notice of resignation, the resigning Trustee may, at the expense of the Authority, petition the appropriate court having jurisdiction to appoint a successor Trustee. Any resignation or removal of a Trustee and appointment of a successor Trustee will become effective only upon acceptance of appointment by the successor Trustee.

### **Modification or Amendments to Indenture**

The Indenture and the rights and obligations of the Authority, 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 Authority, the City and the Trustee may enter into with the written consent of the Owners of a majority in aggregate principal amount of all Bonds then Outstanding, which will have been filed with the Trustee. No such modification or amendment will (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, or (ii) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required to effect any such modification or amendment, or (iii) permit the creation of any lien on the Base Rental Payments 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 Base Rental Payments and other assets (except as expressly provided in the Indenture), without the consent of the Owners of all of the Bonds then Outstanding. It will not be necessary for the consent of the Bond Owners to approve the particular form of any Supplemental Indenture, but it will be sufficient if such consent will approve the substance thereof.

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

(a) to add to the covenants and agreements of the Authority or 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 reserved to or conferred upon the Authority or the City under the Indenture;

(b) 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;

(c) 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 provisions of the Indenture;

(d) to modify, amend or supplement the Indenture in such manner as to permit the qualification hereof 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;



(e) 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

(f) in any other respect whatsoever as the Authority and 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 Authority, the City and the Trustee.

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

No Supplemental Indenture will modify any of the rights or obligations of the Trustee without its prior written consent.

Upon the execution of any Supplemental Indenture pursuant to the Indenture, the Indenture will be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Authority, the City, the Trustee and all Owners of Bonds Outstanding will 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 will be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Bonds delivered after the execution of any Supplemental Indenture pursuant to the Indenture may, and if the Authority so determines will, bear a notation by endorsement or otherwise in form approved by the Authority 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 principal corporate trust office of the Trustee a suitable notation will be made on such Bonds. If the Supplemental Indenture will so provide, new Bonds so modified as to conform, in the opinion of the Authority and the Trustee, to any modification or amendment contained in such Supplemental Indenture, will be prepared and executed by the Authority and authenticated by the Trustee, and upon demand of the Owners of any Bonds then Outstanding will be exchanged at the principal corporate trust 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.

The provisions of the Indenture will not prevent any Bond Owner from accepting any amendment as to the particular Bonds held by such Owner.

### **Discharge of Indenture**

If the Authority will pay or cause to be paid or there will 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 in the Indenture, then the Owners of such Bonds will cease to be entitled to the pledge of the Base Rental and the other assets as provided in the Indenture, and all agreements, covenants and other obligations of the Authority and the City to the Owners of such Bonds under the Indenture will thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee will execute and deliver to the Authority and the City all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee will pay over or deliver to the City all money or securities held by it pursuant hereto 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 will have been paid and if, at the time of such payment, the Authority and the City will 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 them on or prior to that time, then the Indenture will be considered to have been discharged in respect of such Bonds and such Bonds will cease to be entitled to the lien of the Indenture and such lien and all covenants, agreements and other obligations of the Authority and the City under the Indenture will 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, will remain in effect and will be binding upon the Trustee and the Owners of the Bonds and the Trustee will 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 and indemnity of the Trustee will remain in effect and will be binding upon the Trustee, the City, and the Authority.

If moneys will 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 will be deemed to have been paid within the meaning and with the effect provided in the Indenture. Any Outstanding Bonds will prior to the maturity date or redemption date thereof be deemed to have been paid within the meaning of and with the effect expressed in the Indenture if (a) in case any of such Bonds are to be redeemed on any date prior to their maturity date, the Authority will have given to the Trustee in form satisfactory to it irrevocable instructions to mail, on a date in accordance with the provisions of the Indenture, notice of redemption of such Bonds on said redemption date, said notice to be given in accordance with the Indenture, (b) there will have been deposited with the Trustee either (i) money in an amount which will be sufficient, or (ii) 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, will, as verified by an independent certified public accountant, 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 sixty (60) days, the Authority will 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.

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, will be repaid to the Authority free from the trusts created by this Indenture, and all liability of the Trustee with respect to such moneys will thereupon cease; provided, however, that before the repayment of such moneys to the Authority as aforesaid, the Trustee may (at the cost of the Authority) 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 Authority of the moneys held for the payment thereof.

## Series 2012 Bonds

### Terms of Series 2012 Bonds; Interest Computation.

(1) The Series 2012 Bonds will be issued in fully registered form without coupons in Authorized Denominations, so long as no Series 2012 Bond will have more than one maturity date. The Series 2012 Bonds will be dated as of the Closing Date, will be issued in the aggregate principal amount, will mature on November 1 of each year and will bear interest (calculated on the basis of a 360-day year comprised of twelve 30-day months) at the rates per annum as set forth in the Indenture.

(2) Interest on the Series 2012 Bonds will be payable from the Interest Payment Date next preceding the date of authentication thereof unless (i) a Series 2012 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 will bear interest from such Interest Payment Date, (ii) a Series 2012 Bond is authenticated on or before the first Record Date, in which event interest thereon will be payable from the dated date thereof, or (iii) interest on any Series 2012 Bond is in default as of the date of authentication thereof, in which event interest thereon will be payable from the date to which interest has been paid in full, payable on each Interest Payment Date. Interest will be paid in lawful money of the United States on each Interest Payment Date to the Persons in whose names the ownership of the Series 2012 Bonds is registered on the Registration Books at the close of business on the immediately preceding Record Date, except as provided in the Indenture. Interest will be paid by check of the Trustee mailed by first class mail, postage prepaid, on each Interest Payment Date to the Series 2012 Bond Owners at their respective addresses shown on the Registration Books as of the close of business on the preceding Record Date.

(3) The principal and premium, if any, of the Series 2012 Bonds will 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.

(4) The Series 2012 Bonds will be subject to redemption as provided in the Indenture.

Form of Series 2012 Bonds. The Series 2012 Bonds will be in substantially the form set forth in the Indenture, with appropriate or necessary insertions, omissions and variations as permitted or required thereby.

Application of Proceeds of Series 2012 Bonds. On the Closing Date, the proceeds received from the sale of the Series 2012 Bonds will be deposited by the Trustee in the following respective funds, as directed by a Written Request of the City:

- (1) The Trustee will deposit in the Costs of Issuance Fund the amount set forth in the Indenture.
- (2) The Trustee will deposit in the Escrow Fund the amount set forth in the Indenture.
- (3) The Trustee will deposit in the Construction Fund the amount set forth in the Indenture.

Application of City Funds. On the Closing Date, the moneys receive by the Trustee from the City in the amount set forth in the Indenture shall be deposited by the Trustee into the Prepaid Base Rental Account of the Base Rental Payment Fund.

### Rebate Fund.

(a) There will be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Tax Certificate. All money at any time deposited in the Rebate Fund will be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement (as defined in the Tax Certificate), for payment to the United States of America. Notwithstanding defeasance of the Series 2012 Bonds pursuant to

the Indenture or anything to the contrary contained herein, all amounts required to be deposited into or on deposit in the Rebate Fund will be governed exclusively by the Indenture and by the Tax Certificate (which is incorporated herein by reference). The Trustee will be deemed conclusively to have complied with such provisions if it follows the written directions of the Authority, and will have no liability or responsibility to enforce compliance by the Authority with the terms of the Tax Certificate.

(b) Any funds remaining in the Rebate Fund with respect to the Series 2012 Bonds after payment in full of all of the Series 2012 Bonds and after payment of any amounts described in the Indenture, will be withdrawn by the Trustee and remitted to the Authority.

#### **THE ASSIGNMENT AGREEMENT**

Pursuant to the Assignment Agreement, the Authority, for good and valuable consideration, the receipt of which is acknowledged, sells, assigns and transfers to the Trustee, irrevocably and absolutely, without recourse, for the benefit of the owners of the Bonds, all of its right, title and interest in and to the Ground Lease and the Lease Agreement, including, without limitation, its right to receive the Base Rental Payments to be paid by the City under and pursuant to the Lease Agreement. The Trustee accepts the foregoing assignment, subject to the terms and provisions of the Indenture, and all such Base Rental Payments will be applied and the rights so assigned will be exercised by the Trustee as provided in the Lease Agreement and the Indenture.

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**APPENDIX B**

**AUDITED FINANCIAL STATEMENTS OF THE CITY  
FOR THE YEAR ENDED JUNE 30, 2012**

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City of  
Rancho Santa Margarita  
California

Comprehensive Annual  
Financial Report

For the Year Ended June 30, 2012





# Comprehensive Annual Financial Report

For the Year Ended June 30, 2012

Finance Division

City of Rancho Santa Margarita, California



# City Council



**L. ANTHONY BEALL**  
*Mayor*



**STEVEN BARIC**  
*Mayor Pro Tempore*



**CAROL A. GAMBLE**  
*Council Member*



**JERRY HOLLOWAY**  
*Council Member*



**JESSE PETRILLA**  
*Council Member*

**City of Rancho Santa Margarita, California**

**CITY OF RANCHO SANTA MARGARITA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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**CITY OF RANCHO SANTA MARGARITA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
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# Introductory Section

City of Rancho Santa Margarita, California



## CITY OF RANCHO SANTA MARGARITA

November 28, 2012

**Mayor**

L. Anthony Beall

**Mayor Pro Tem**

Steven Baric

**Council Members**

Carol A. Gamble

Jerry Holloway

Jesse Petrilla

**City Manager**

Jennifer M. Cervantez

To the Honorable Mayor and City Council  
City of Rancho Santa Margarita  
Rancho Santa Margarita, California

It is with great pleasure that I present to you the City of Rancho Santa Margarita's twelfth Comprehensive Annual Financial Report. This report complies with the financial reporting model developed by the Governmental Accounting Standards Board (GASB) Statement 34. This financial reporting model is intended to improve financial reporting by adding significant information not previously available in local government financial statements.

In addition to the fund-by-fund financial information previously presented in the City's financial statements, we now include government-wide financial statements. The government-wide financial statements include a Statement of Net Assets that provides the total net equity of the City, including infrastructure, and the Statement of Activities that shows the cost of providing government services. These statements have been prepared using the accrual basis of accounting versus the modified accrual method used in the fund financial statements. A reconciliation report is provided as a key to understanding the changes between the two reporting methods. In addition, this reporting model includes an emphasis on the City's major funds as shown in the Governmental Fund Statements. These statements combined with other information are further analyzed in a narrative section called Management's Discussion and Analysis (MDA). The MDA provides "financial highlights" and interprets the financial reports by analyzing trends and by explaining changes, fluctuations and variances in the financial data. Furthermore, the MDA is intended to disclose any known significant events or decisions that affect the financial condition of the City.

The City of Rancho Santa Margarita took a leadership role in implementing GASB 34. The City's early implementation in 2001, before the 2003 deadline, enabled the City Council and residents of Rancho Santa Margarita to become more aware of the benefits and information contained in this financial reporting model.

The City added infrastructure capitalization in fiscal year 2002. In fiscal year 2003, the City implemented the modified approach for its pavement subsystem, which allows those infrastructure assets to be *non-depreciable*, while establishing a commitment from the City to maintain these infrastructure assets at a minimum acceptable level of condition.



In fiscal years 2004, 2007, 2008, 2010 and 2012, the City performed a condition assessment of the pavement subsystem, which is required every two years for Measure M transportation funding eligibility and every three years for financial reporting purposes, and affirmed that these infrastructure assets are above the condition level established by the government. On June 22, 2010, the City Council amended Resolution 09-11-08-02 for the purpose of implementing requirements of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definition*. The Comprehensive Annual Financial Report for fiscal year ended June 30, 2012, reflects the implementation of GASB No. 54. The City of Rancho Santa Margarita is proud to be on the leading edge of local governmental financial reporting.

The Comprehensive Annual Financial Report includes the financial activity for all funds of the City. The City provides a wide range of services including planning, building, public works, engineering, police and fire protection, recreation and general administrative activities. These services are delivered through a combination of City staff and contractual agreements.

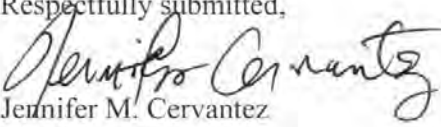
Included as a part of this letter are several attachments that provide important information regarding the operations and economic environment of the City. The attachments are summarized as follows:

**Attachment   Content**

- A            Economic Condition and Outlook
- B            Major Projects for the Year and for the Future
- C            Other Information

The Comprehensive Annual Financial Report of the City of Rancho Santa Margarita for the fiscal year ended June 30, 2012 is hereby presented. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position of the City. All disclosures necessary to enable an understanding of the City's financial activities have been included.

The preparation of the Comprehensive Annual Financial Report, in accordance with the GASB 34 financial reporting model, was made possible by the dedicated work of the Finance Division staff. Each member of the staff has my sincere appreciation for their contributions made in the preparation of this report.

Respectfully submitted,  
  
Jennifer M. Cervantez  
City Manager

## ATTACHMENT A

### *ECONOMIC CONDITION AND OUTLOOK*

Rancho Santa Margarita is located 58 miles south-east of Los Angeles. The City is distinguished by its high-end residential neighborhoods and small-town charm. In Fiscal Year 2012, sales, motor vehicle in-lieu, and property taxes make up approximately 74% of the City's general revenues.

This is the City's twelfth fiscal year since incorporation, and the tenth consecutive year that the City provided and paid the full cost of all services transitioned from the County of Orange, including contractual Police Services, which account for 50% of General Fund expenditures.

For the fiscal year ended June 30, 2012, the City continued to fight the headwind of a significant economic downturn. The City Council's adopted budget funded all services by utilizing operating revenues. At year end, actual General Fund revenues exceeded expenditures by \$1,104,989. That surplus for the City's General Fund was \$946,162, or 595%, greater than the original budgeted surplus estimate of \$158,827. General Fund operating expenditures were reduced approximately \$429,218 from budgeted amounts through cost cutting measures without affecting core City service levels to residents and businesses.

Revenues for Fiscal Year 2012 increased over budget estimates by approximately \$883,395, or 6%. Increased sales tax revenue contributed \$295,438, while property tax-related revenues decreased \$68,657. The City also recorded revenue of \$483,048 from the cable TV franchise agreement with Cox Cable, when Cox elected to join the State's cable franchise agreement, thereby preempting its agreement with the City.

Sales tax revenues were the City's largest revenue source at \$5,348,047, or 38%, of general revenue for the fiscal year ended June 30, 2012. Motor vehicle fees and in-lieu taxes of \$3,807,220, made up the City's second largest revenue source at 27% of general revenues. Property taxes of \$1,999,106 accounted for 14% of general revenues.

The City expects sales tax revenue, which increased during Fiscal Year 2012, to continue a slow-to-moderate-growth trend, as consumer and business spending for goods and services recovers. The City's outlook for current year property tax revenue continues to be cautious due to declines in its property tax valuation base that will not likely recover quickly. The prolonged economic downturn has affected consumer confidence, reduced business pricing power and investment, and worsened regional and state budgets positions. However, certain data points to slowly improving general business conditions, despite continued higher than normal unemployment, are anticipated in coming months.

## **ATTACHMENT B**

### ***MAJOR PROJECTS FOR THE YEAR AND FOR THE FUTURE***

#### **Land Settlement**

The City settled a multi-year dispute with Orange County over land transfers from the City's incorporation in 2000. As part of the settlement, the City transferred to the County an environmentally significant 15 acre parcel of land it purchased in 2009. In return, along with other settlement transactions, the County conveyed 92 acres of land to the City that may be developable and economically useful. As a result of the settlement, the City will have the opportunity to develop one of the largest sports parks in South Orange County. Also, the City will take steps to restore and enhance at least 80 acres of other land to native habitat conditions. The settlement was finalized and recorded in Fiscal Year 2010, with restoration plan production and implementation activities to occur over the next one to two years.

#### **Public Safety**

Federal Bureau of Investigation (FBI) 2011 Uniform Crime Report statistics show Rancho Santa Margarita as the safest city in California, among those with a population greater than 35,000 residents. This is the eleventh consecutive year that the City has been identified as one of the safest communities in Orange County and the State.

#### **Public Works Improvements**

Major projects included a slurry seal on Alicia Parkway and Melinda Road at Santa Margarita Parkway (\$295,000) and annual residential overlays totaling \$494,723. The City also completed installation of the traffic signal battery backup system at a cost of \$202,687. Federal Community Development Block Grant (CDBG) funds were used for the crosswalk bulb-out project on Fundadores at a cost of \$194,436.

#### **Community Services Programs**

Beginning in fiscal year 2002, the City's Community Services Division has hosted an annual New Year's Eve event with great success. This event has been held each New Year's Eve since then, and is planned for December 31, 2012, which will also be the City's thirteenth anniversary. This fiscal year the city continued to provide concerts in the park during the summer months, with the sixth annual series being received with great success. Community Services staff continued adding programs and activities at the Bell Tower Regional Community Center since assuming operations of the facility from a community foundation in July 2008. The City continues to collaborate with community partner tenants who provide youth, teen and senior services programs in the City-owned Center and seeks to expand opportunities for community participation and utilization in the Center for the foreseeable future.

## ***MAJOR PROJECTS FOR THE YEAR AND FOR THE FUTURE, CONTINUED***

### **Housing Element Update**

The California Government Code requires all cities and counties to adopt a comprehensive, long-term general plan for the physical development of the county or city. The City of Rancho Santa Margarita adopted its General Plan in December 2002. The State has identified seven mandated elements for all general plans: land use, circulation, housing, conservation, open space, noise and safety. Of the required elements, only one, the housing element, must be reviewed by the State Housing and Community Development Department (HCD). In 2002, State HCD certified the City's General Plan Housing Element. State Law also requires that all housing elements be updated every five years, subject to the schedule of periodic housing needs review established by the State. The City adopted its Updated Housing Element on December 9, 2009, which the State certified on January 13, 2010.

## **ATTACHMENT C**

### ***OTHER INFORMATION***

#### **Records Management**

The City Clerk's Office, a Division of the City Manager's Office, is responsible for the care and custody of all official records and documents for the City. This division provides for the efficient, economical, and effective controls over the creation, maintenance, disposition, and retention of all City records. Staff performs an annual inventory of existing records, including contract documents, as part of the City's records management "best practices." Continued imaging and migration of City records allows for efficient retrieval and safekeeping of important City documents, which allows for enhanced customer service to its residents and the community.

#### **Economic Stimulus Program Reporting**

As a recipient of Federal, State and County financial resources, the City is also responsible for reasonably ensuring that its internal control structure is adequate to provide compliance with applicable laws and regulations related to those programs. As part of the American Recovery and Reinvestment Act of 2009, the City has qualified for grant programs that include enhanced electronic reporting and monitoring requirements. To facilitate the operation of the various grant reporting components during the past, current and future fiscal years, the City has incorporated those elements into its current internal control structure, which is subject to ongoing monitoring and periodic evaluation by the management of the City and the City's independent auditors.

#### **Independent Audit**

The annual independent audit of the City's financial statements was conducted following the June 30<sup>th</sup> end of the fiscal year. The accounting firm of White Nelson Diehl Evans LLP was contracted by the City Council to perform the annual audit. As part of the City's annual audit, detailed examinations were made of the City's financial records and reports to verify their accuracy; and procedures were performed to determine the adequacy of the internal control structure, as well as to determine that the City has complied with applicable laws and regulations. The results of the City's annual audit for the fiscal year ended June 30, 2012, revealed no instances of material weaknesses or significant deficiencies in the internal control structure, or violations of applicable laws and regulations. The auditors' report on the basic financial statements and combining and individual fund statements and schedules is included in the financial section of this report. The City received what is commonly referred to as an unqualified audit opinion.

## ***OTHER INFORMATION, CONTINUED***

### **Interim Budgetary Review**

Additionally, the City maintains budgetary controls. The objective of the budgetary controls is to reasonably ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. The annual budgets for both Fiscal Year 2012 and 2013 were adopted by the City Council at a public hearing, following several budget development study sessions. Activities of the General, Special Revenue, Debt Service and Capital Projects Funds are included in the annual appropriated budget. The City also maintains an encumbrance accounting system as one method of accomplishing budgetary control. Additionally, the City Council has requested and received interim updates of budgetary performance and variance analysis. The updates are intended to provide additional support for staff to monitor and adjust budgeted revenues and expenditures based on comparisons to current and historical activity, and to aid City Council discussions and decisions regarding the City's budget.

### **Reserves Policy**

A continuing priority of the City Council has been to exercise prudent financial management, provide long term financial planning, and strong internal control of City asset uses, by adopting a policy regarding the City's accumulated net resources called fund balance. The City Council completed an annual review of the City's Reserves Policy and adopted to designate \$7,877,157 to several categories of available fund balance. Classifications essentially reflect a government's self-imposed limitations on the use of otherwise available current financial resources. The classification categories are: Council Strategic, Technology, Facilities, Vehicles, and Infrastructure and Emergency. The City Council has not established a minimum amount to be maintained in any of the classification categories.

### **Purchasing Policy and Contracts Administration**

The City has engaged in an ongoing assessment and enhancement of procedures and practices for procurement of goods and services as a component of its delivery of City services to residents and businesses. Revisions to the City's standardized agreements to ensure the quality and suitability of the City's desired program objectives and risk management practices were begun in the past fiscal year and will continue in the current year.

## ***OTHER INFORMATION, CONTINUED***

### **Awards**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Rancho Santa Margarita for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2011. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such Comprehensive Annual Financial Report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. This is the eleventh consecutive year that the City has received this award. We believe our current report conforms to the Certificate of Achievement program requirements, and we are submitting it to GFOA for inclusion in the award program evaluations for this fiscal year ended June 30, 2012.

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Rancho Santa Margarita  
California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Linda C. Davison*

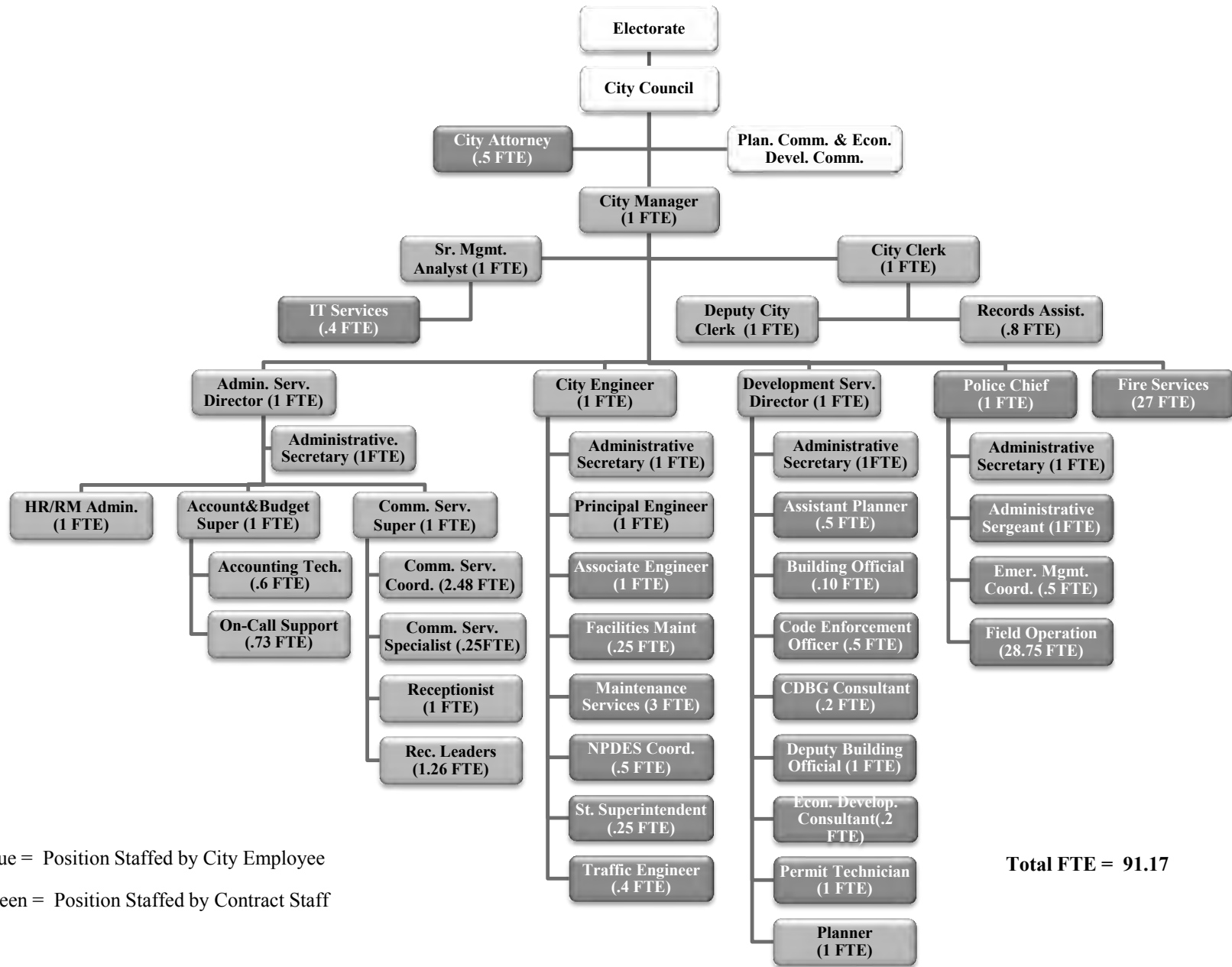
President

*Jeffrey R. Emer*

Executive Director



City of Rancho Santa Margarita  
 ORGANIZATION CHART BY CITY EMPLOYEES & CONTRACT STAFF



10

Blue = Position Staffed by City Employee  
 Green = Position Staffed by Contract Staff

**Total FTE = 91.17**

# City of Rancho Santa Margarita

## LIST OF PRINCIPAL OFFICIALS

Council – Manager Form of Government

### CITY COUNCIL

L. ANTHONY BEALL  
Mayor

STEVEN BARIC  
Mayor Pro Tempore

CAROL A. GAMBLE  
Council Member

JERRY HOLLOWAY  
Council Member

JESSE PETRILLA  
Council Member

### CITY ADMINISTRATION

JENNIFER CERVANTEZ  
City Manager/City Treasurer

Paul Boyer, Administrative Services Director/Finance Director  
Kathleen Haton, Planning/Community Development Director  
Greg Simonian, City Attorney  
Molly McLaughlin, City Clerk  
Lieutenant Brian Schmutz, Chief of Police Services  
Wendi Redington, Community Services Supervisor  
E. (Max) Maximous, City Engineer

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FINANCIAL SECTION

# Financial Section

City of Rancho Santa Margarita, California

## INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council  
City of Rancho Santa Margarita  
Rancho Santa Margarita, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Rancho Santa Margarita, California (the City), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Rancho Santa Margarita, California's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Rancho Santa Margarita, California, as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 28, 2012 on our consideration of the City of Rancho Santa Margarita, California's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the information identified in the accompanying table of contents as management's discussion and analysis and required supplementary information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the management's discussion and analysis, the schedule of funding progress and the schedule of employer contributions related to the other post-employment benefit plan in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the management's discussion and analysis, the schedule of funding progress and the schedule of employer contributions related to the other post-employment benefit plan because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison schedule has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rancho Santa Margarita, California's financial statements as a whole. The introductory section, combining fund financial statements and individual nonmajor budgetary comparison schedules and statistical tables, are presented for purposes of additional analysis and are not a required part of the financial statements. The combining fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



Irvine, California  
November 28, 2012



# Management's Discussion & Analysis

City of Rancho Santa Margarita, California

MANAGEMENT'S DISCUSSION  
& ANALYSIS

## CITY OF RANCHO SANTA MARGARITA MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Rancho Santa Margarita, California (City), we offer readers of the City of Rancho Santa Margarita's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year (FY) ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in the introductory section of this report, and with the City's financial statements which follow this discussion.

### Financial Highlights

- The government-wide assets of the City exceeded its liabilities, at June 30, 2012, by \$130.7 million (*net assets*). Of this amount, \$17.1 million (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors. Legal and contractual obligations restrict \$3.5 million of net assets for specific City programs. Investment in capital assets totals \$110.1 million.
- The government's total net assets increased by \$0.8 million during the fiscal year ended June 30, 2012. Revenues increased by \$0.8 million, due to \$0.5 million in one-time revenue from a cable grant agreement, a \$0.1 million increase in charges for services and \$0.2 million increase in sales tax revenue; offset by decreases in property tax revenue (\$0.04 million) and operating contributions (\$0.2 million). The net decrease from the prior year in total government expenses, due to capital projects spending fluctuations, matched the prior year's total net assets decrease, at \$1.6 million.
- As of June 30, 2012, the City's governmental funds reported combined ending fund balances of \$20.4 million, an increase of \$1.2 million in comparison with the prior year. Approximately 19.6 percent, or \$4.0 million of this total amount, has been allocated for specific obligations (*nonspendable, restricted, committed fund balance*), and 80.4 percent, or \$16.4 million is available for other spending purposes at the City Council's discretion (*assigned, unassigned fund balance*).
- At June 30, 2012, the unassigned fund balance of \$7.6 million and assigned fund balance of \$7.9 million for the City's General Fund total of \$15.5 million equaled 110 percent of total General Fund expenditures for the fiscal year ended June 30, 2012. However, the City Council has classified this \$15.5 million for specific purposes, including emergencies.
- The City's total long-term liabilities decreased by \$321,160 (2.7 percent) during the current fiscal year. This decrease reflects payment made for principal retirement on Certificates of Participation issued for the construction of City Hall and the Bell Tower Regional Community Center.

See Independent Auditors' Report



## **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City's Basic Financial Statements. The City's Basic Financial Statements consist of three components: 1) Government-wide Financial Statements, 2) Fund Financial Statements, and 3) Notes to the Basic Financial Statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

### **Government-wide Financial Statements**

The *government wide financial statements* are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases in the net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements present information about the functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the City include general government, building and planning, public safety, and public works.

The Government-wide Financial Statements can be found immediately following this discussion and analysis.

### **Fund Financial Statements**

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The fund financial statements provide detailed information about the individual funds—not the City as a whole. Some funds are required to be established by State law. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City of Rancho Santa Margarita uses only *governmental funds* for accounting and reporting purposes.

See Independent Auditors' Report

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between *governmental funds and governmental activities*.

The City maintains various individual governmental funds. Information is presented separately in the Governmental Funds Balance Sheet, and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances, for the General Fund and the Capital Projects Fund which are considered to be major funds, and are presented in individual columns in the fund statements. Data from other non-major governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report. The governmental Fund Financial Statements can be found following the Government-wide Financial Statements.

#### **Notes to the Basic Financial Statements**

The Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Basic Financial Statements can be found immediately following the Fund Financial Statements.

#### **Other Supplementary Information**

In addition to the basic financial statements and included within the notes, this report also presents certain *required supplementary information* about the City's General Fund budgetary comparisons. The Notes to the Required Supplementary Information presents infrastructure and budget information. The Required Supplementary Information and Notes to the Required Supplementary Information can be found following the Notes to the Basic Financial Statements.

The combining statements referred to earlier in connection with non-major governmental funds are presented for all non-major Special Revenue Funds, Capital Projects Funds, and the Rancho Santa Margarita Non-Profit Debt Service Fund. The supplementary financial information also includes budgetary comparison schedules for the non-major governmental funds to demonstrate compliance with the annual budget as adopted and amended. These combining and individual fund statements and schedules can be found immediately following the Notes to the Required Supplementary Information.

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The City's *blended component unit*, the Rancho Santa Margarita Non-Profit Corporation, although legally separate, functions at the discretion and direction of the City's management. Its financial position and results of operations, therefore, have been included as an integral part of the primary government, and are presented in the non-major fund financial statements and schedules.

## **Government-wide Financial Analysis**

The government-wide financial statements provide long-term and short-term information about the City's overall financial condition. This analysis addresses the financial statements of the City as a whole.

The largest portion of the City's net assets (84 percent) reflects its investment in capital assets (e.g., land, buildings, improvements other than buildings, equipment, infrastructure, and construction in progress), less any related debt used to acquire those assets, that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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**City of Rancho Santa Margarita**  
**Summary of Net Assets**  
As of June 30, 2012 and 2011  
(in thousands)

	<b>Governmental Activities</b>	
	2012	2011
<b>Assets:</b>		
Current and other assets	\$ 23,031	\$ 21,029
Capital assets	121,477	122,865
Total assets	144,508	143,894
<b>Liabilities:</b>		
Long-term liabilities	11,686	12,007
Other liabilities	2,104	1,929
Total liabilities	13,790	13,936
<b>Net Assets:</b>		
Invested in capital assets, net of related debt	110,117	111,200
Restricted	3,454	4,429
Unrestricted	17,147	14,329
Total net assets	\$ 130,718	\$ 129,958

During the fiscal year ended June 30, 2012, net assets of the City increased 0.58 percent to \$130.7 million, of which \$110.1 million is invested in capital assets such as equipment, buildings and infrastructure. Of the remaining total, \$3.5 million is restricted for fulfillment of specifically stipulated spending agreements originated by law, contract or other agreements with external parties. The remaining \$17.1 million, an increase of 19.5 percent from the prior year total of \$14.3 million is unrestricted; and may be used to meet the City's ongoing obligations, but is subject to classes and categories of use, for specific purposes as determined by the City Council.

See Independent Auditors' Report

**City of Rancho Santa Margarita**  
**Summary of Changes in Net Assets**  
For the Years Ended June 30, 2012 and 2011  
(in thousands)

	<b>Governmental</b>	
	<b>Activities</b>	
	<u>2012</u>	<u>2011</u>
<b>Revenues</b>		
Program revenues:		
Charges for service	\$ 1,435	\$ 1,353
Operating grants and contributions	2,965	3,169
General revenues:		
Property taxes	1,999	2,037
Sales taxes	5,348	5,167
Fees and intergovernmental	5,453	5,472
Other revenues	1,242	541
Investment revenue	120	99
Total revenues	<u>18,562</u>	<u>17,838</u>
<b>Expenses</b>		
General government	3,880	3,775
Building and planning	949	1,147
Public safety	7,564	7,527
Public works	4,432	6,462
Capital outlay	449	-
Interest expense	528	540
Total expenses	<u>17,802</u>	<u>19,451</u>
Excess (deficit) of revenues over expenses	<u>760</u>	<u>(1,613)</u>
<b>Increase (Decrease) in net assets</b>	760	(1,613)
Beginning net assets	<u>129,958</u>	<u>131,571</u>
Ending net assets	<u>\$ 130,718</u>	<u>\$ 129,958</u>

See Independent Auditors' Report

Overall, Citywide revenues for the fiscal year ended June 30, 2012 increased by \$0.72 million a 4 percent increase over the prior year. Sales tax revenue increased by \$0.18 million. Charges for other service increased \$0.08 million and other revenues increased by \$0.03 million.

- Total program revenues of \$4.4 million were 24 percent of total revenues.
- Total general revenues of \$14.2 million were 76 percent of total revenues.

Total related expenses decreased by \$1.6 million, an 8.5 percent decrease from the prior year. Public Works expenditures, which account for 25 percent of the total expenditures, were used primarily for slurry seal and overlay projects throughout the City. Public Safety expenditures accounted for 43 percent of total current expenditures. Expenditure decreases reflected the changeover in staffing which delayed the completion and expenditures for planned public works projects.

## **Financial Analysis of the Government's Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information may be useful in assessing the City's financing requirements.

As of June 30, 2012, the City's governmental funds reported total combined ending fund balances of \$20.39 million, an increase of \$1.15 million from the prior year. Approximately 43 percent of the City's governmental funds ending fund balances, or \$8.86 million, constitutes *assigned fund balance*, which have been classified by the City Council for specific uses. Approximately 38 percent of the City's governmental funds ending fund balances, or \$7.71 million, constitutes *unassigned fund balance* which is available for spending at the government's direction. *Restricted fund balance* of \$3.82 million, or 19 percent is available to: 1) pay debt service (\$0.85 million) and 2) use for specific purposes as required by special revenue funds (\$2.61 million). The remainder of fund balance, \$0.36 million, is *committed* to indicate that it is not available for new spending, because it has already been committed to: 1) liquidate contracts and purchase orders of the prior period (\$0.33 million), 2) a reserve for self-insurance deductible liability (\$0.03 million).

### **General Fund Financial Highlights**

The general fund is the chief operating fund of the City. At June 30, 2012, assigned fund balance was \$7.97 million and unassigned fund balance of the general fund was \$7.71 million, while total fund balance was \$15.68 million. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 54 percent of the total General Fund expenditures. As mentioned above, however, the City Council has classified the assigned fund balance \$7.97 million for specified purposes.

See Independent Auditors' Report

**City of Rancho Santa Margarita**  
**Summary of Changes in Fund Balances - General Fund**  
For the Year Ended June 30, 2012 and 2011  
(in thousands)

	2012	2011
<b>Revenues</b>		
Taxes	\$ 7,578	\$ 7,440
Fees and permits	2,072	1,793
Intergovernmental	4,209	4,035
Charges for service	658	756
Investment income	91	66
Fines, forfeits and penalties	278	249
Other	572	541
Total revenues	15,458	14,880
<b>Expenditures</b>		
General government	3,857	3,739
Building and planning	954	1,143
Public safety	7,501	7,355
Public works	1,908	1,962
Capital outlay	25	38
Total expenditures	14,245	14,237
(Deficit) of revenues over expenditures	1,213	643
Net transfers	(108)	640
<b>Increase in Fund Balance</b>	<b>\$ 1,105</b>	<b>\$ 1,283</b>

For the fiscal year ended June 30, 2012, the cash and investments balance in the General Fund was \$15.48 million, an increase of \$0.71 million from the prior fiscal year.

Overall, general fund revenues for the fiscal year ended June 30, 2012 increased by \$0.58 million, or 4 percent, over the prior year. Individual components of this change are summarized as follows and refer to comparisons detailed in the Summary of Changes in Net Assets presented on a prior page:

- Property tax revenues of the General Fund decreased by \$0.04 million, to \$2.00 million, due to decreases in assessed valuations.

See Independent Auditors' Report

- Sales tax revenues increased \$0.18 million, to \$5.35 million, due to the effects of increased general consumer spending and auto sales.
- Investment income revenues increased by \$0.03 million, to \$0.91 million, due to the overall changes in the economy and the calculations for fair market value on investments.

Changes in General Fund expenditures, by function, occurred as follows during the year ended June 30, 2012:

- General government expenditures increased by \$0.12 million, to \$3.86 million. This reflects a increase in professional services provided by independent contractors.
- Public safety expenditures increased by \$0.15 million to \$7.50 million, due to increased contract costs associated with police services provided by the Orange County Sheriff's Department. Public safety expenditures were 53 percent of total General Fund expenditures.
- Public works expenditures decreased by \$0.05 million, to \$1.91 million, with the primary decrease being related to staffing vacancies.
- Building and planning expenditures decreased by \$0.19 million, to \$0.95 million, reflecting a slight drop in building and development activity within the city.

**General Fund Budgetary Highlights**

Differences between the General Fund expenditures and the final amended budget were \$0.43 million and can be briefly summarized as follows:

- \$0.19 million in miscellaneous decreases in general government activities.
- \$0.01 million in increases allocated to public safety activities.
- \$0.25 million in decreases for building and planning activities.

These overall decreases can be attributed to the conservative spending maintained through the fiscal year as well as the conservative budgeting of anticipated revenues for the year. The original general fund budget was amended to increase general fund expenditures by \$0.13.

**Other Major Funds Budgetary Highlights: Capital Projects Fund**

The Capital Projects Fund accounts for street, bridge, traffic signal and other circulation related capital projects funded by grants, fees and interest revenue. Fund balance decreased by \$0.03 million due to expenditures of \$1.33 million in capital outlay for circulation capital projects. The fund balance is \$1.1 million of which \$0.9 million is assigned for future capital project expenditures.

See Independent Auditors' Report



## Capital Asset and Debt Administration

### Capital Assets

The City's investment in capital assets for its governmental activities as of June 30, 2012, amounts to \$121.48 million, net of accumulated depreciation. This investment in capital assets includes land, buildings, system improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total decrease in the City's investment in capital assets for the current fiscal year was .01 percent.

**City of Rancho Santa Margarita**  
**Summary of Changes in Capital Assets**  
(in thousands)

	<b>Balance June 30, 2011</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2012</b>
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 6,684	\$ -	\$ -	\$ 6,684
Land - right of way	43,740	-	-	43,740
Construction in Progress	87	414	449	52
Infrastructure - pavement	46,766	-	-	46,766
Total capital assets not being depreciated	<u>97,277</u>	<u>414</u>	<u>449</u>	<u>97,242</u>
Capital assets, being depreciated:				
Buildings	16,619	-	-	16,619
Parks	906	-	-	906
Machinery and equipment	483	24	-	507
Infrastructure	61,451	449	-	61,900
Total capital assets being depreciated	<u>79,459</u>	<u>473</u>	<u>-</u>	<u>79,932</u>
Less accumulated depreciation for:				
Buildings	3,878	554	-	4,432
Parks	215	36	-	251
Machinery and equipment	412	35	-	447
Infrastructure	49,365	1,202	-	50,567
Total accumulated depreciation	<u>53,870</u>	<u>1,827</u>	<u>-</u>	<u>55,697</u>
Total capital assets, being depreciated, net	<u>25,589</u>	<u>(1,354)</u>	<u>-</u>	<u>24,235</u>
Governmental activities capital assets, net	<u>\$ 122,866</u>	<u>\$ (940)</u>	<u>\$ 449</u>	<u>\$ 121,477</u>

See Independent Auditors' Report

Major capital asset transactions during the current fiscal year included the following:

- Additions to construction in progress were \$0.41 million included the included design work for projects to be completed in future years for various street, traffic, and bridge improvements.
- Infrastructure additions for the year totaled \$0.45 million related to the completion of the traffic signal battery backup and crosswalk bulb-out projects.
- Machinery and Equipment acquisitions of \$0.02 million included an addition to the City's police service vehicles.

Additional information on the City's capital assets can be found entitled Note 4 – Capital Assets in the Notes to the Basic Financial Statements section of this report.

The City elected to use the modified approach in reporting its pavement subsystem. Under the modified approach, infrastructure assets that are part of a network or a subsystem of a network are not required to be depreciated as long as two requirements are met. First, the government shall manage the eligible infrastructure assets using an asset management system and secondly, the government shall document that the eligible infrastructure assets are being preserved approximately at (or above) a condition level established and disclosed by the government. The condition of the pavement subsystem is measured using the Rancho Santa Margarita Pavement Condition Index. The City Council accepted the findings of the Pavement Condition Assessment Update in Fiscal Year 2012 and adopted a condition rating of 70 as the minimum acceptable Pavement Condition Index (PCI) for the entire street pavement subsystem. The assessed PCI was an average of 79.2, or very good. This average PCI was maintained since the last update in 2010. Actual expenses for pavement condition maintenance were less than budgeted amounts due to conservative cost estimates.

### Long-term Debt

At the end of the current fiscal year, the City had total bonded debt outstanding of \$11.36 million.

**City of Rancho Santa Margarita**  
**Summary of Changes in Long-Term Liabilities**  
(in thousands)

	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012	Long- Term	Due Within One Year
<b>Certificates of Participation</b>	\$ 11,665	\$ -	\$ 305	\$ 11,360	\$ 11,045	\$ 315
<b>Compensated Absences</b>	279	200	245	234	141	93
<b>OPEB Obligation</b>	63	33	5	91	91	-
<b>Long-Term Liabilities Total</b>	<u>\$ 12,007</u>	<u>\$ 233</u>	<u>\$ 555</u>	<u>\$ 11,685</u>	<u>\$ 11,277</u>	<u>\$ 408</u>

See Independent Auditors' Report

Long-term debt-related events during the fiscal year ended June 30, 2012 included:

- Compensated absences liabilities decreased by \$0.05 million and usage by employees amounted to \$0.25 million.
- Interest accrued on the Certificates of Participation for the fiscal year ended June 30, 2012 totaled \$0.13 million.
- Other post-employment benefit obligations, (OPEB) increased by \$0.03 million.

Additional information on the City's long-term debt can be found entitled Note 1 – Reporting Entity and Summary of Significant Accounting Policies and Note 6 – Long-term Liabilities in the Notes to the Basic Financial Statements section of this report.

### **Economic Factors and Next Year's Budgets and Rates**

The City of Rancho Santa Margarita's economy is clearly linked to the national and state economy. However, because the City is still maturing, its local economy can experience departures from other local, state or national trends with resultant recurring revenue fluctuations. Additionally, because the City's revenues are obtained from a limited number of sources, further revenue fluctuations may occur from year to year. The City uses the "Orange County Economic Forecast" prepared by Chapman University's Center for Economic Research as an information source for review of economic trends, in developing its budget model. Other data sources used by the City include UCLA Anderson School of Management and California State University Fullerton – Institute for Economic and Environmental Studies. Detailed information about the economic analysis, revenue assumptions, and other budgetary process parameters utilized in annual budget preparation, can be obtained from the City's 2012-2013 citywide budget, available through the City Manager's Office.

### **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Administrative Services, at the City of Rancho Santa Margarita, 22112 El Paseo, Rancho Santa Margarita, California, 92688.

See Independent Auditors' Report



GOVERNMENT - WIDE  
FINANCIAL STATEMENTS

# Government - Wide Financial Statements

City of Rancho Santa Margarita, California

## GOVERNMENT-WIDE FINANCIAL STATEMENTS

### THE STATEMENT OF NET ASSETS AND THE STATEMENT OF ACTIVITIES

The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a manner that considers longer-term resource needs and capacities' effects on the City's overall operations. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's *net assets* and changes in them. You can think of the City's net assets—the difference between assets and liabilities—as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net assets are one indicator of whether its long term *financial health and physical upkeep and renewal* is improving or deteriorating, and at what pace. You will need to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's roads, and other infrastructure, to assess the *overall health* of the City.

The Statement of Net Assets and the Statement of Activities present information about governmental activities. All of the City's basic services are considered to be governmental activities, including general government, building and planning, public safety, and public works.

**CITY OF RANCHO SANTA MARGARITA  
STATEMENT OF NET ASSETS  
JUNE 30, 2012**

	<b>Governmental Activities</b>
Assets:	
Cash and investments (note 2)	\$ 19,840,333
Cash and investments with fiscal agent (note 2)	848,392
Receivables:	
Due from other governments	1,813,674
Accrued interest	12,469
Accounts, net	516,321
Non-depreciable capital assets (note 4)	97,242,178
Depreciable capital assets (note 4)	79,931,812
Less: accumulated depreciation (note 4)	(55,697,122)
Total assets	144,508,057
Liabilities:	
Accounts payable	1,621,934
Accrued liabilities	312
Wages payable	87,112
Unearned revenue (note 10)	116,381
Retentions payable	43,130
Deposits	103,375
Interest payable	131,290
Long-term liabilities (note 5):	
Due within one year	408,690
Due in more than one year	11,277,265
Total liabilities	13,789,489
Net assets:	
Invested in capital assets, net of related debt	110,116,868
Restricted for:	
Public safety	137,441
Public works	2,468,544
Debt service	848,392
Unrestricted	17,147,323
Total net assets	\$ 130,718,568

See Independent Auditors' Report and Notes to the Basic Financial Statements.

**CITY OF RANCHO SANTA MARGARITA  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>Program Revenues</u>				<u>Net Governmental Activities</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Contributions and Grants</u>	<u>Capital Contributions and Grants</u>	
Governmental activities:					
General government	\$ 3,880,315	\$ 391,960	\$ 145,224	\$ -	\$ (3,343,131)
Building and planning	948,779	535,533	194,203	-	(219,043)
Public safety	7,564,128	281,666	134,266	-	(7,148,196)
Public works	4,431,877	225,528	2,491,698	-	(1,714,651)
Capital outlay	448,843	-	-	-	(448,843)
Interest expense	528,210	-	-	-	(528,210)
Total governmental activities	<u>\$ 17,802,152</u>	<u>\$ 1,434,687</u>	<u>\$ 2,965,391</u>	<u>\$ -</u>	<u>(13,402,074)</u>

General revenues:	
Taxes:	
Property taxes	1,999,106
Sales taxes	5,348,047
Real property transfer taxes	230,916
Franchise fees	1,414,887
Investment income	120,130
Motor vehicle fees, in-lieu taxes, unrestricted intergovernmental	3,807,220
Other	1,241,844
Total general revenues	<u>14,162,150</u>
Change in net assets	760,076
Net assets at beginning of year	<u>129,958,492</u>
Net assets at end of year	<u>\$ 130,718,568</u>

See Independent Auditors' Report and Notes to the Basic Financial Statements.

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FUND FINANCIAL  
STATEMENTS

# Fund Financial Statements

City of Rancho Santa Margarita, California

## **GOVERNMENTAL FUNDS**

### **GENERAL FUND**

The General Fund has been classified as a major fund and is used to account for resources traditionally associated with government which are not required legally or by sound financial management to be accounted for in another fund.

### **CAPITAL PROJECTS FUND**

The Capital Projects fund has been classified as a major fund and is used to account for various street projects and infrastructure improvements as well as major facility construction and improvements.

### **NON-MAJOR FUNDS**

All other funds are combined into this category. Additional information about the individual funds can be found in the Supplementary Schedules Section of this document.

**CITY OF RANCHO SANTA MARGARITA  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2012**

<b>Assets</b>	<b>General</b>	<b>Capital Projects</b>	<b>Non-Major Governmental Funds</b>	<b>Totals</b>
Cash and investments	\$ 15,477,962	\$ 2,051,629	\$ 2,310,742	\$ 19,840,333
Cash and investments with fiscal agent	-	-	848,392	848,392
Receivables:				
Due from other governments	1,557,288	-	256,386	1,813,674
Accrued interest	9,763	688	2,018	12,469
Accounts, net	311,864	21,441	-	333,305
Prepaid items	183,016	-	-	183,016
Total assets	<u>\$ 17,539,893</u>	<u>\$ 2,073,758</u>	<u>\$ 3,417,538</u>	<u>\$ 23,031,189</u>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 652,441	\$ 947,350	\$ 22,143	\$ 1,621,934
Accrued liabilities	312	-	-	312
Wages payable	87,112	-	-	87,112
Deferred revenue	786,261	-	-	786,261
Retentions payable	-	43,130	-	43,130
Deposits	103,375	-	-	103,375
Total liabilities	<u>1,629,501</u>	<u>990,480</u>	<u>22,143</u>	<u>2,642,124</u>
Fund balance:				
Nonspendable: Prepaid items	183,016	-	-	183,016
Restricted for debt service	-	-	848,392	848,392
Restricted for roads, grants, parks	58,982	-	2,547,003	2,605,985
Committed for street maintenance	142,428	188,906	-	331,334
Committed for self insurance	30,000	-	-	30,000
Assigned:				
Council projects/equipment/facilities	7,877,157	-	-	7,877,157
Capital projects working capital	-	894,372	-	894,372
Unassigned:	7,618,809	-	-	7,618,809
Total fund balance	<u>15,910,392</u>	<u>1,083,278</u>	<u>3,395,395</u>	<u>20,389,065</u>
Total liabilities and fund balance	<u>\$ 17,539,893</u>	<u>\$ 2,073,758</u>	<u>\$ 3,417,538</u>	<u>\$ 23,031,189</u>

See Independent Auditors' Report and Notes to the Basic Financial Statements.

**CITY OF RANCHO SANTA MARGARITA  
GOVERNMENTAL FUNDS  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2012**

Fund balances of governmental funds	\$ 20,389,065
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets net of depreciation have not been included as financial resources in governmental funds:	121,476,868
Long term debt, accrued interest payable, compensated absences, and OPEB obligation have not been included in the governmental funds:	
Certificates of Participation Payable	(11,360,000)
Accrued Interest Payable	(131,290)
Compensated Absences Payable	(234,225)
Other Post Employment Benefits (OPEB) Obligation	(91,730)
Certain receivables will be collected after year-end, but are not available to pay for current-period expenditures, and therefore are offset by deferred revenue in the governmental funds.	669,880
Net assets of governmental activities	<u><u>\$ 130,718,568</u></u>

See Independent Auditors' Report and Notes to the Basic Financial Statements.

**CITY OF RANCHO SANTA MARGARITA  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>General</u>	<u>Capital Projects</u>	<u>Non-Major Governmental Funds</u>	<u>Totals</u>
Revenues:				
Taxes	\$ 7,578,069	\$ -	\$ -	\$ 7,578,069
Fees and permits	2,072,595	-	-	2,072,595
Intergovernmental	4,209,382	253,061	2,151,683	6,614,126
Charges for services	657,598	-	-	657,598
Investment income	91,243	7,221	21,666	120,130
Fines, forfeits and penalties	277,866	-	-	277,866
Other	571,964	-	-	571,964
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	15,458,717	260,282	2,173,349	17,892,348
Expenditures:				
Current:				
General government	3,856,873	-	-	3,856,873
Building and planning	954,291	-	-	954,291
Public safety	7,501,236	-	59,109	7,560,345
Public works	1,908,481	466,798	267,517	2,642,796
Capital outlay	24,471	862,865	-	887,336
Debt Service:				
Principal Retirement	-	-	305,000	305,000
Interest	-	-	531,260	531,260
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	14,245,352	1,329,663	1,162,886	16,737,901
Excess (deficiency) of revenues over (under) expenditures				
	<hr/>	<hr/>	<hr/>	<hr/>
	1,213,365	(1,069,381)	1,010,463	1,154,447
Other financing sources (uses):				
Transfers in (note 3)	719,211	1,062,254	849,028	2,630,493
Transfers out (note 3)	(827,587)	(21,441)	(1,781,465)	(2,630,493)
	<hr/>	<hr/>	<hr/>	<hr/>
Total financing sources (uses)	(108,376)	1,040,813	(932,437)	-
Net change in fund balances				
	<hr/>	<hr/>	<hr/>	<hr/>
	1,104,989	(28,568)	78,026	1,154,447
Fund balances, beginning of year				
	<hr/>	<hr/>	<hr/>	<hr/>
	14,805,403	1,111,846	3,317,369	19,234,618
Fund balances, end of year				
	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 15,910,392	\$ 1,083,278	\$ 3,395,395	\$ 20,389,065

See Independent Auditors' Report and Notes to the Basic Financial Statements.

**CITY OF RANCHO SANTA MARGARITA  
GOVERNMENTAL FUNDS  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Net change in fund balances - total governmental funds \$ 1,154,447

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense.

Capital Expenditures	438,493
Depreciation of Capital Assets	(1,826,954)

Retirement of principal on long term debt, accrued interest payable, compensated absences, and OPEB obligation expenses reported in the Statement of Activities require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. The following represent the net change for the current period:

Retired Principal on long term debt (Certificate of Participation)	305,000
Accrued Interest Payable on long term debt (Certificate of Participation)	3,050
Compensated Absences	44,848
Net OPEB Obligation	(28,688)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds. Conversely, collection of these revenues are reported in the governmental funds when received, but not in the Statement of Activities since they have been recognized previously.

669,880

Change in net assets of governmental activities	\$ 760,076
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See Independent Auditors' Report and Notes to the Basic Financial Statements.

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# Notes To The Financial Statements

City of Rancho Santa Margarita, California

NOTES TO THE FINANCIAL  
STATEMENTS



**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

The basic financial statements of the City have been prepared in conformity with generally accepted accounting principles as applicable to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The City of Rancho Santa Margarita (the City) was incorporated on January 1, 2000 under the General Laws of the State of California. The City operates under a Council-Manager form of government. The City provides all municipal services, including street maintenance, street sweeping, street lighting, traffic signal maintenance, animal control, engineering, public works, building and planning operations, and law enforcement. The fiscal year ending June 30, 2012 was the tenth year that the City paid the full cost for all these services.

Generally accepted accounting principles require that these financial statements represent the City of Rancho Santa Margarita and its component units, entities for which the City is considered to be financially accountable. These basic financial statements of the City of Rancho Santa Margarita include the financial activities of the City and the City of Rancho Santa Margarita Nonprofit Corporation. Separate financial statements are not issued for the Rancho Santa Margarita Nonprofit Corporation.

City of Rancho Santa Margarita Nonprofit Corporation (RSMNP) was formed on August 21, 2003 as a non-profit California corporation in order to facilitate the financing of the City Hall and Regional Community Center construction, and future financing and refinancing projects of the City. The RSMNP is a separate legal entity from the City and is governed by a five-member Board of Directors consisting of the City Council Members. The City has entered into non-cancelable long-term leases with RSMNP which provide for lease payments in amounts sufficient to meet the annual debt service requirements on the certificates of participation issued by RSMNP to finance the construction projects. The leases are financing arrangements which transfer ownership of the constructed assets to the City at the end of the lease term. The financial data of RSMNP has been blended into various City funds as applicable and the capitalized leases have been eliminated for financial reporting purposes.

See Independent Auditors' Report

**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Basis of Accounting and Measurement Focus

The *basic financial statements* of the City are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Government-wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole. These statements include a separate column for the governmental activities of the primary government. Eliminations are required to be made in the Statement of Activities so that certain allocated expenses are recorded only once (by the function to which they were allocated). The City required no such eliminations.

In addition, general government expenses have not been allocated as indirect expenses to the various functions of the City.

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. *Basis of accounting* refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

See Independent Auditors' Report

**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Program revenues include charges for services, special assessments, and payments made by parties outside of the reporting government’s citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the Statement of Activities to present the net cost of each program.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

Fund Financial Statements

The underlying accounting system of the City is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the primary government’s governmental funds are presented after the government-wide financial statements. These statements display information about major funds individually and non-major funds in the aggregate for governmental funds.

Governmental Funds

In the fund financial statements, governmental funds are presented using the *modified-accrual basis of accounting*. Their revenues are recognized when they become *measurable* and *available* as net current assets. *Measurable* means that the amounts can be estimated, or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The City has elected an availability period of 60 days notwithstanding involuntary state imposed temporary deferrals of revenues collected and regularly scheduled to be transmitted to the City.

See Independent Auditors’ Report

**CITY OF RANCHO SANTA MARGARITA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Sales taxes, property taxes, franchise fees, gas taxes, motor vehicle in lieu, grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period to the extent normally collected within the availability period.

Revenue recognition is subject to the *measurable* and *available* criteria for the governmental funds in the fund financial statements. *Exchange transactions* are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). *Locally imposed derived tax revenues* are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. *Imposed non-exchange transactions* are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. *Government-mandated and voluntary non-exchange transactions* are recognized as revenues when all applicable eligibility requirements have been met. Revenues, expenses, gains, losses, assets, and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33.

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus*. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of “available spendable resources.” Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during a period.

Non-current portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus. Special reporting treatments are used to indicate; however, that they should not be considered “available spendable resources,” since they do not represent net current assets. Recognition of governmental fund-type revenue represented by non-current receivables is deferred until they become current receivables. Non-current portions of other long-term receivables, if any, that are offset by nonspendable fund balance.

See Independent Auditors’ Report

**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as *expenditures* in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as *another financing source* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

When both restricted and unrestricted resources are combined in a fund, expenses are considered to be paid first from restricted resources, and then from unrestricted resources.

(b) Major Funds

The major funds are described as follows:

General Fund

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Projects Fund

The Capital Projects Fund has been classified as a major fund and is used to account for various street projects and infrastructure improvements as well as major facility construction and improvements.

(c) Explanation of differences between governmental funds Balance Sheet and the government-wide Statement of Net Assets

“Total fund balances” of the City’s governmental funds equal to \$20,389,065 differs from “net assets” of governmental activities of \$130,718,568 reported in the statement of net assets. This difference primarily results from the long-term economic focus of the Statement of Net Assets versus the current financial resources focus of the governmental fund Balance Sheets.

See Independent Auditors’ Report

**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Capital Related Items

When capital assets (property, plant, equipment) that are to be used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in governmental funds. However, the Statement of Net Assets includes those capital assets among the assets of the City as a whole.

Cost of capital assets	\$177,173,990
Accumulated depreciation	<u>(55,697,122)</u>
Net capital assets	<u>\$121,476,868</u>

Liabilities Transactions

Payment liabilities applicable to the City’s governmental activities not due and payable in the current period are not reported as fund liabilities. Payment liabilities (both current and long-term) are reported in the Statement of Net Assets. Balances at June 30, 2012 were:

Long-term debt	\$11,360,000
Interest payable	131,290
Compensated absences	234,225
Net OPEB Obligation	<u>91,730</u>
Net long-term liabilities	<u>\$11,817,245</u>

Deferred Revenue

Certain receivables will be collected after year-end, but are not available to pay for current-period expenditures, and therefore are offset by deferred revenue in the governmental funds.

Long-term debt	\$ 669,880
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Reclassifications and Eliminations

Interfund balances must generally be eliminated in the government-wide statements, except for net residual amounts due between governmental activities. Amounts involving fiduciary funds should be reported as external transactions. Any allocations must reduce the expenses of the function from which the expenses are being allocated, so that expenses are reported only once – in the function in which they are allocated .

See Independent Auditors’ Report

**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

(d) Explanation of differences between governmental funds Balance Sheet and the government-wide Statement of Net Assets

Assets	Total Governmental Funds	Capital Related Items	Long-term Debt Transactions	Accrued Interest Payable	Deferred Revenue	Deferred Benefits *	Statement of Net Assets
Cash and investments	\$ 19,840,333	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 19,840,333
Restricted cash with fiscal agent	848,392	-	-	-	-	-	848,392
Receivables:							
Due from other governments	1,813,674	-	-	-	-	-	1,813,674
Accrued interest	12,469	-	-	-	-	-	12,469
Accounts, net	333,305	-	-	-	-	-	333,305
Prepaid items	183,016	-	-	-	-	-	183,016
Non-depreciable capital assets	-	97,242,178	-	-	-	-	97,242,178
Depreciable capital assets	-	79,931,812	-	-	-	-	79,931,812
Less: accumulated depreciation	-	(55,697,122)	-	-	-	-	(55,697,122)
<b>Total assets</b>	<b>\$ 23,031,189</b>	<b>\$ 121,476,868</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 144,508,057</b>
<b>Liabilities and Fund Balances/Net Assets</b>							
Liabilities:							
Accounts payable	\$ 1,621,934	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,621,934
Accrued liabilities	312	-	-	-	-	-	312
Wages payable	87,112	-	-	-	-	-	87,112
Deferred revenue	786,261	-	-	-	(669,880)	-	116,381
Retentions payable	43,130	-	-	-	-	-	43,130
Deposits payable	103,375	-	-	-	-	-	103,375
Long-term debt	-	-	11,360,000	-	-	325,955	11,685,955
Accrued interest payable	-	-	-	131,290	-	-	131,290
<b>Total liabilities</b>	<b>2,642,124</b>	<b>-</b>	<b>11,360,000</b>	<b>131,290</b>	<b>(669,880)</b>	<b>325,955</b>	<b>13,789,489</b>
Fund balances/net assets	20,389,065	121,476,868	(11,360,000)	(131,290)	669,880	(325,955)	130,718,568
<b>Total liabilities and fund balances / net assets</b>	<b>\$ 23,031,189</b>	<b>\$ 121,476,868</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 144,508,057</b>

\* Deferred benefits includes: Compensated Absences of \$234,225 and OPEB Obligation of \$91,730.

See Independent Auditors' Report

**CITY OF RANCHO SANTA MARGARITA  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

- (e) Explanation of differences between governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the government-wide Statement of Activities.

The “net change in fund balances” for governmental funds \$1,154,447 differs from the “change in net assets” for governmental activities \$760,076 reported in the statement of activities. The differences arise primarily from the long-term economic focus of the Statement of Activities versus the current financial resources focus of the governmental funds.

Capital Related Items

When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of financial resources expended, whereas net assets decrease by the amount of depreciation expense charged for the year and loss on disposal of assets.

Capital outlay	\$ 438,493
Depreciation expense	<u>(1,826,954)</u>
Difference	<u>\$ (1,388,461)</u>

See Independent Auditors’ Report



**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Liabilities Transactions

Some liabilities changes applicable to the City’s governmental activities are not reported as fund liabilities. All liabilities balances (both current and long-term) are reported in the Statement of Net Assets. Differences at June 30, 2012 were:

Retired Principal on long-term debt (COP)	\$ 305,000
Accrued Interest on long-term debt (COP)	<u>3,050</u>
Liabilities changes	<u>\$ 308,050</u>

Other Liabilities

Long-term liabilities changes not due and payable in the current period are not reported in the governmental funds.

Compensated Absences	\$ 44,848
Net OPEB Obligation	\$ (28,688)

Deferred Revenue

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds. Conversely, collection of these revenues are reported in the governmental funds when received, but not in the Statement of Activities since they have been recognized previously.

Deferred Revenue	\$ 669,880
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Reclassification and Eliminations

Interfund balances must generally be eliminated in the government-wide financial statements, except for net residual amounts due between governmental activities. Amounts involving fiduciary funds should be reported as external transactions. Any allocations must reduce the expenses of the function from which the expenses are being allocated, so that expenses are reported only once – in the function in which they are allocated.

See Independent Auditors’ Report

**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

**NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)**

(f) Explanation of differences between governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the government-wide Statement of Activities.

	<b>Total Governmental Funds</b>	<b>Capital Related Items</b>	<b>Long-term Debt Transactions</b>	<b>Accrued Interest Payable</b>	<b>Deferred Revenue</b>	<b>Reclassifications and Eliminations</b>	<b>Deferred Benefits *</b>	<b>Statement of Activities</b>
<b>Revenues:</b>								
Taxes	\$ 7,578,069	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,578,069
Fees and permits	2,072,595	-	-	-	-	-	-	2,072,595
Intergovernmental	6,614,126	-	-	-	-	-	-	6,614,126
Charges for services	657,598	-	-	-	-	-	-	657,598
Investment income	120,130	-	-	-	-	-	-	120,130
Fines, forfeits and penalt	277,866	-	-	-	-	-	-	277,866
Capital contribution	-	-	-	-	-	-	-	-
Other	571,964	-	-	-	669,880	-	-	1,241,844
Total revenues	<u>17,892,348</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>669,880</u>	<u>-</u>	<u>-</u>	<u>18,562,228</u>
<b>Expenditures:</b>								
<b>Current:</b>								
General government	3,856,873	33,221	-	-	-	-	(9,779)	3,880,315
Building and planning	954,291	-	-	-	-	-	(5,512)	948,779
Public safety	7,560,345	1,524	-	-	-	-	2,259	7,564,128
Public works	2,642,796	1,792,209	-	-	-	-	(3,128)	4,431,877
Capital outlay	887,336	(438,493)	-	-	-	-	-	448,843
<b>Debt service:</b>								
Principal Retirement	305,000	-	(305,000)	-	-	-	-	-
Interest	531,260	-	-	(3,050)	-	-	-	528,210
Total expenses	<u>16,737,901</u>	<u>1,388,461</u>	<u>(305,000)</u>	<u>(3,050)</u>	<u>-</u>	<u>-</u>	<u>(16,160)</u>	<u>17,802,152</u>
<b>Other financing sources (uses):</b>								
Transfers in	2,630,493	-	-	-	-	(2,630,493)	-	-
Transfers out	(2,630,493)	-	-	-	-	2,630,493	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances/ net assets	1,154,447	(1,388,461)	305,000	3,050	669,880	-	16,160	760,076
Fund balances / net assets beginning of year	<u>19,234,618</u>	<u>122,865,329</u>	<u>(11,665,000)</u>	<u>(134,340)</u>	<u>-</u>	<u>-</u>	<u>(342,115)</u>	<u>129,958,492</u>
Fund balances / net assets, end of year	<u>\$ 20,389,065</u>	<u>\$ 121,476,868</u>	<u>\$ (11,360,000)</u>	<u>\$ (131,290)</u>	<u>\$ 669,880</u>	<u>\$ -</u>	<u>\$ (325,955)</u>	<u>\$ 130,718,568</u>

\* Deferred benefits includes: Compensated Absences of \$(44,848) and OPEB Obligation of \$28,688.

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**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

(g) Cash and Investments

Investments are reported in the accompanying Balance Sheet at fair value. Changes in fair value that occur during a fiscal year are recognized as *investment income* reported for that fiscal year. *Investment income* includes interest earnings and changes in fair value. The City pools cash and investments of all funds, except investments held by fiscal agent. Each fund's share in this pool is displayed in the accompanying financial statements as *cash and investments*.

Investment income earned by the pooled investments is allocated to the various funds based on each fund's average cash and investment balance.

(h) Capital Assets

Capital assets (including infrastructure) are recorded at cost where historical records are available and at an estimated original cost where no historical records exist. Contributed capital assets are valued at their estimated fair market value at the date of the contribution. Generally, capital asset purchases in excess of \$3,000 (including infrastructure) are capitalized if they have an expected useful life of three years or more.

Capital assets include public domain (infrastructure) capital assets consisting of certain improvements including roads, streets, curbs, gutters, sidewalks, street lights, signs and signals, medians, and storm drains.

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**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Capital assets used in operations and infrastructure assets are depreciated over their estimated useful lives using the straight-line method in the government-wide financial statements. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective balance sheet. The range of lives used for depreciation purposes for each capital asset class is as follows:

Equipment	3-10 years
Buildings	30 years
Infrastructure	25-65 years

The City of Rancho Santa Margarita met all the criteria required by GASB Statement No. 34 to report their pavement subsystem using the modified approach, which allows those infrastructure assets to be *non-depreciable*. Hence, all expenditures made for the pavement subsystem (except for additions and improvements) are expensed in the period incurred. Additions or improvements to the pavement subsystem that increase the capacity or efficiency of those assets (rather than preserve the useful life) are capitalized. The City elected to set their minimum acceptable level of condition at 70 for all pavement based on their pavement management system scale of 1 to 100. The City plans to test/assess the condition level every two years.

(i) Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on July 1 and are payable in two equal installments due November 1 and February 1, respectively, and are delinquent if not paid by December 10 and April 10, respectively. The County of Orange bills and collects the property taxes and remits them to the City in installments during the year. All material amounts associated with the reporting period are collected soon enough to be considered to be “available” to finance the expenditures of the reporting period.

The County of Orange is permitted by State Law (Proposition 13) to levy taxes at 1% of full market value (at time of purchase) and can increase the assessed values no more than 2% each year. The City receives a share of this basic levy proportionate to what was received in the 1976 to 1978 period.

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**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

(j) Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded, is employed in the governmental funds. Encumbrances at year end are reported as restricted, committed, or assigned fund balance depending on the resources that have been identified to fund the applicable encumbrance.

(k) Interfund Transactions

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either “due to/from other funds” (short-term interfund loans) or “advances to/from other funds” (long-term interfund loans).

The portion of fund balance associated with amounts that have been disbursed to other funds in the form of long-term interfund advances have been classified as nonspendable unless the funds associated with repayment of the advance are otherwise restricted for specific purposes.

(l) Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Specifically, the City has made certain estimates and assumptions related to the collectability of its receivables, the depreciation of its capital assets and the ultimate outcome of claims and judgments. Actual results could differ from those estimates and assumptions.

(m) Fund Equity

Due to the implementation of GASB No. 54, the components of the fund balances of governmental funds now reflect the component classifications described below.

Fund balances are reported in the fund statements in the following classifications:

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**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

**Nonspendable Fund Balance**

Nonspendable Fund Balance – this includes amounts that cannot be spent because they are either not spendable in form (such as inventory) or legally or contractually required to be maintained intact (such as endowments).

**Spendable Fund Balance**

Restricted Fund Balance – this includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation. If the Council action limiting the use of funds is included in the same action (legislation) that created (enables) the funding source, then it is restricted.

Committed Fund Balance – this includes amount that can be used only for the specific purposes determined by a formal action of the Council. It includes Legislation (Council action) that can only be overturned by new legislation requiring the same type of voting consensus that created the original action. Therefore, if the Council action limiting the use of the funds is separate from the action (legislation) that created (enables) the funding source, then it is committed, not restricted. The City considers a resolution, an ordinance, or a minutes action to constitute a formal action of City Council for the purposes of establishing committed fund balance.

Assigned Fund Balance – this includes amounts that are designated or expressed by the Council, but does not require a formal action like a resolution or ordinance. The Council may delegate the ability of an employee or committee to assign uses of specific funds, for specific purposes. Such delegation of authority has been granted to the City Manager by the City Council.

Unassigned Fund Balance – this includes the remaining spendable amounts which are not included in one of the other classifications.

It is the city’s policy, adopted by the City Council, that restricted resources will be applied first, followed by (in order of application) committed, assigned, and unassigned resources.

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**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 2 – CASH AND INVESTMENTS

Cash and investments are reported as follows in the accompanying financial statements:

Statement of Net Assets:

Cash and investments	\$19,840,333
Cash and investments with fiscal agent	<u>848,392</u>
Total Cash and Investments	<u>\$20,688,725</u>

Cash and investments at June 30, 2012 consisted of the following:

Cash and Investments held by City:

Deposits in banks	\$ 7,482,044
Local Agency Investment Fund (LAIF)	<u>12,358,289</u>
Total Cash and Investments held by City	<u>\$19,840,333</u>

Cash and Investments held by Fiscal Agent:

Money Market Mutual Fund	<u>\$ 848,392</u>
Total Cash and Investments held by Fiscal Agent	<u>\$ 848,392</u>
Total Cash and Investments	<u>\$20,688,725</u>

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**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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NOTE 2 – CASH AND INVESTMENTS, (Continued)

Investments Authorized by the California Government Code and the City’s Investment Policy

The table below identifies the investment types that are authorized for the City by the California Government Code (or the City’s investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City’s investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City’s investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio*</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Bills	5 years	60%	None
U.S. Agency Notes	5 years	40%	None
Banker's Acceptances	180 days	10%	30%
Commercial Paper	180 days	10%	10%
Certificates of Deposit	5 years	10%	None
Federal Agency Securities	5 years	20%	20%
Passbook Savings Demand Accounts	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	\$20,000,000
Local Government Investment Pool	N/A	None	\$20,000,000

\* Excluding amounts held by bond trustee that are not subject to California Government Code restrictions or the City’s investment policy.

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City’s investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee, subject to certain additional restrictions

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**CITY OF RANCHO SANTA MARGARITA  
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NOTE 2 – CASH AND INVESTMENTS, (Continued)

in the debt agreements. The tables also identify certain provisions of these debt agreements that address maximum maturity, interest rate risk, credit risk, and disclosures relating to custodial credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>
U.S. Treasury Obligations	None
U.S. Agency Securities	None
Municipal Obligations	None
Commercial Paper	270 days
Certificates of Deposit	360 days
Money Market Mutual Funds	N/A
Investment Contracts	Life of bonds

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City currently manages its exposure to interest rate risk by participating in short term investments such as the Local Agency Investment Fund (LAIF), which invests in a combination of investments with a relatively short term weighted average maturity and offers same day liquidity.

Information about the sensitivity of the fair values of the City’s investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the City’s investments by maturity.

<u>Investment Type</u>	<u>Remaining Maturity (in Months)</u>				
	<u>Total Amount</u>	<u>0-12 Months</u>	<u>12-23 Months</u>	<u>24-35 Months</u>	<u>Greater than 36 Months</u>
Local Agency Investment Fund (LAIF)	\$ 12,373,362	\$ 12,373,362	\$ -	\$ -	\$ -
Held by bond fiscal agent:					
Money Market Mutual Fund	848,392	848,392	-	-	-
<b>Total</b>	<u><u>\$ 13,221,754</u></u>	<u><u>\$ 13,221,754</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

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**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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NOTE 2 – CASH AND INVESTMENTS, (Continued)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City’s investment policy, or debt agreements, and the actual rating, as reported by Standard and Poor’s, as of year-end for each investment type.

Investment Type	Total Amount	Minimum Legal Rating	Rating as of Fiscal Year End	
			AAA	Not Rated
Local Agency Investment Fund (LAIF)	\$ 12,373,362	N/A	\$ -	\$ 12,373,362
Held by bond fiscal agent: Money Market Mutual Fund	848,392	A	848,392	-
Total	<u>\$ 13,221,754</u>		<u>\$848,392</u>	<u>\$ 12,373,362</u>

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investment securities* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City’s investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments securities, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool that must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a market value of at least 150% of the secured public deposits, and letters of credit drawn on the Federal Home Loan Bank may have a minimum market value of 105% of the secured public deposits. At June 30, 2012, the City deposits (bank balances) were either insured by the Federal Deposit Insurance Corporation or collateralized in accordance with the California Government Code.

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**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 2 – CASH AND INVESTMENTS, (Continued)

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City’s investment in this pool is reported in the accompanying financial statements at amounts based upon the City’s pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. LAIF is not rated.

NOTE 3 – TRANSFERS IN AND OUT

Transfers in and out for the year ended June 30, 2012 are as follows:

	<b>Transfers From:</b>			Total
	General Fund	Capital Projects Fund	Non-major Funds	
<b>Transfers To:</b>				
General Fund	\$ -	\$ -	\$ 719,211	\$ 719,211
Capital Projects	-	-	1,062,254	1,062,254
Non-major Funds	827,587	21,441	-	849,028
<b>Total Transfers</b>	<b>\$ 827,587</b>	<b>\$ 21,441</b>	<b>\$ 1,781,465</b>	<b>\$ 2,630,493</b>

The reasons for the significant transfers between funds are as follows:

- The transfer of \$719,211 from the Non-major Funds to the General Fund was to fund street maintenance costs and traffic engineering services—both recorded in the General Fund.
- The transfer of \$1,062,254 from the Non-major Funds to the Capital Project Fund was primarily to fund the various slurry seal and overlay road projects throughout the city (\$753,072), and traffic signal synchronization projects (\$205,568).
- The transfer of \$21,441 from Capital Projects Fund to the Non-major Funds was reimbursement for capital project expenses subsequently covered by grant funds.
- The transfer of \$827,587 from the General Fund to the Non-major Funds was transferred to the RSM Non-Profit Debt Service Fund to pay principal and interest on the Certificates of Participation.

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**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 6,683,500	\$ -	\$ -	\$ 6,683,500
Land - right of way	43,740,119	-	-	43,740,119
Construction in Progress	86,654	414,022	448,843	51,833
Infrastructure - pavement	<u>46,766,726</u>	<u>-</u>	<u>-</u>	<u>46,766,726</u>
Total capital assets not being depreciated	<u>97,276,999</u>	<u>414,022</u>	<u>448,843</u>	<u>97,242,178</u>
Capital assets being depreciated:				
Machinery & Equipment	483,141	24,471	-	507,612
Buildings	16,618,510	-	-	16,618,510
Parks	906,478	-	-	906,478
Infrastructure - all others	<u>61,450,369</u>	<u>448,843</u>	<u>-</u>	<u>61,899,212</u>
Total capital assets being depreciated	<u>79,458,498</u>	<u>473,314</u>	<u>-</u>	<u>79,931,812</u>
Less accumulated depreciation:				
Machinery & Equipment	410,620	34,745	-	445,365
Buildings	3,877,651	553,950	-	4,431,601
Parks	216,100	36,259	-	252,359
Infrastructure	<u>49,365,797</u>	<u>1,202,000</u>	<u>-</u>	<u>50,567,797</u>
Total accum. Depreciation:	<u>53,870,168</u>	<u>1,826,954</u>	<u>-</u>	<u>55,697,122</u>
Total capital assets being depreciated, net	<u>25,588,330</u>	<u>(1,353,640)</u>	<u>-</u>	<u>24,234,690</u>
Total capital assets, net	<u>\$122,865,329</u>	<u>\$ (939,618)</u>	<u>\$ 448,843</u>	<u>\$121,476,868</u>

Depreciation expense was charged in the following functions in the Statement of Activities:

General government	\$ 33,221
Public safety	1,524
Public works	<u>1,792,209</u>
Total	<u>\$1,826,954</u>

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**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 4 – CAPITAL ASSETS, (Continued)

Construction commitments

The City had various active, on-going and un-completed construction projects at June 30, 2012. At year-end, in the Capital Projects fund, the City’s encumbrances with contractors for work performed before June 30, 2012, but not yet paid were as follows:

	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
Pavement Rehabilitaion Coto/La Promesa	\$ 15,956	\$ 81,844
Residential Slurry Seal	\$ 17,950	\$ 1,970
Robinson Ranch Road Traffic Calming	12,630	19,475
Santa Margarita Parkway Rehabilitation	\$ 31,378	\$ 66,422
Traffic Signal Battery Back-up System	\$ 179,430	\$ 19,195
Total	<u>\$ 257,344</u>	<u>\$ 188,906</u>

NOTE 5 – LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the fiscal year ended June 30, 2012 was as follows:

	<u>Balance at June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2012</u>	<u>Due Within One Year</u>
Certificates of Participation:					
City Hall & Regional Community Center	\$ 11,665,000	\$ -	\$ 305,000	\$ 11,360,000	\$ 315,000
Compensated absences	279,073	200,614	245,462	234,225	93,690
OPEB Obligation (Note 7)	63,042	33,208	4,520	91,730	-
Total Governmental Long-Term Liabilities	<u>\$ 12,007,115</u>	<u>\$ 233,822</u>	<u>\$ 554,982</u>	<u>\$ 11,685,955</u>	<u>\$ 408,690</u>

Compensated absences and OPEB obligation liabilities have typically been paid from the City’s General Fund. There is no fixed payment schedule for the long term liabilities.

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**CITY OF RANCHO SANTA MARGARITA  
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NOTE 5 – LONG-TERM LIABILITIES, (Continued)

City of Rancho Santa Margarita Nonprofit Corporation Certificates of Participation (COP) Payable

On November 1, 2003, the City of Rancho Santa Margarita Nonprofit Corporation issued \$12,795,000 of Certificates of Participation. These Certificates of Participation were issued to finance a portion of the costs of the acquisition, construction and installation of a City Hall and a Regional Community Center, which is leased to the City. Term certificates are due as follows: \$1,730,000 on October 1, 2027, with an interest rate of 4.75%; \$1,995,000 on October 1, 2030, with an interest rate of 4.75%; and \$2,300,000 on October 1, 2033, with an interest rate of 5.00%. Serial certificates are due in annual installments ranging from \$265,000 to \$805,000 commencing on October 1, 2007. The serial certificates bear interest ranging from 3.25% to 4.75%, payable semi-annually on April 1 and October 1 of each year. Interest component payments were capitalized through April 1, 2005. The amount outstanding as of June 30, 2012 was \$11,360,000.

The COPs are subject to federal arbitrage regulations. In October 2008 an interim arbitrage rebate analysis was performed to determine whether the City was required to remit an arbitrage rebate payment to the United States Department of the Treasury for excess arbitrage liabilities for the previous five year period. The computational analysis showed no payment was due or required by the City, nor was the City required to file form 8038-T with the Internal Revenue Service. The next rebate installment payment computational analysis will be due not later than November 30, 2013.

The annual requirements to amortize the outstanding Certificates of Participation as of June 30, 2012, are as follows:

<u>Fiscal Year</u>	<u>Principle</u>	<u>Interest</u>
2013	\$ 315,000	\$ 518,860
2014	330,000	505,960
2015	340,000	492,560
2016	355,000	478,660
2017	375,000	463,872
2017-2021	2,115,000	2,059,985
2022-2026	2,630,000	1,515,973
2027-2031	3,330,000	810,876
2032-2033	1,570,000	79,500
Totals	<u>\$ 11,360,000</u>	<u>\$ 6,926,246</u>

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**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 6 – PENSION PLAN

CalPERS Defined Benefit Pension Plan for Miscellaneous Employees

Plan Description The City's employees are eligible to participate in the California Public Employees Retirement System (CalPERS), a cost sharing multiple-employer defined benefit pension plan. Initial participation was determined August 2006, at which time eligible employees conducted an election voting to withdraw from the Orange County Employees Retirement System (OCERS) and participate in the CalPERS Defined Benefit Pension Plan for Miscellaneous Employees. New employees are required to join CalPERS.

CalPERS provides retirement and disability benefits, annual cost-of living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and City ordinance. The City has authority for establishing and amending plan benefits. Copies of CalPERS' annual financial report may be obtained from its executive office: 400 "P" Street, Sacramento, California 95814.

Funding Policy Plan participants (members) for Tier 1 (2.5% @ 55 formula) are required to contribute 8% of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. Plan participants for Tier 2 (2% @ 60 formula) are required to contribute 7% of their annual covered salary. The City is also required to contribute additional amounts at an actuarially determined rate. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The contribution requirements of plan members and the City are established and may be amended by CalPERS. The City has authority for establishing and amending the funding policy.

Contributions For each of the fiscal years shown below, the City has contributed at the actuarially determined rate provided by PERS' actuaries. Under GASB 27, as amended by GASB 50, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2011 to June 30, 2012 has been determined by an actuarial valuation of the plan as of June 30, 2009. The City's covered payroll for PERS was \$1,607,088 for the year ended June 30, 2012, while the City's total payroll for all employees was \$1,894,917 during the same period. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2012, the contribution rate is multiplied by the payroll of covered employees who were actually paid during the period from July 1, 2011 to June

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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NOTE 6 – PENSION PLAN, (Continued)

30, 2012. For all years of participation in this plan the actual contribution made equaled the required contribution.

Three Year Trend Information The following table provides the employer contribution rate, the required contribution amount, and the actual percentage contributed for fiscal year ended June 30, 2012 and the prior two years.

<u>Fiscal Year</u>	<u>Plan</u>	<u>Employer Contribution Rate</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>
6/30/2010	Tier 1	13.08%	\$ 236,020	100%
6/30/2011	Tier 1	13.34%	\$ 248,521	100%
6/30/2012	Tier 1	16.50%	\$ 260,467	100%
	Tier 2	8.70%	\$ 2,456	100%
6/30/2012	Total		\$ 262,923	

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description The City provides a single-employer defined benefit plan as part of the City’s participation in an elective group medical insurance plan for current employees administered by CalPERS. The CalPERS medical insurance plan offers a comprehensive program of individual and family HMO and PPO coverages, and has typical deductible and co-pay requirements. The City’s contractual agreement with CalPERS to participate in the plan and offer health insurance benefits to employees, their partners and/or relatives stipulates that the City must pay a minimum monthly amount as a premium subsidy benefit; for all employees who retire from City service, continue medical coverage and pay additional amounts to retain coverage and meet other eligibility parameters.

Eligibility Employees are eligible to receive the minimum medical premium subsidy benefit amount provided by the plan if they: 1) Satisfy eligibility requirements for vesting of benefits required by CalPERS; 2) Retire from employment with the City; 3) Elect to continue medical insurance coverage through the CalPERS plan; and 4) Pay all additional premium amounts required for the coverage option selected by them to continue in the group medical insurance plan upon retirement from the City, but must pay all premiums required to retain coverage. To receive the City’s medical premium subsidy benefit,

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**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB), (Continued)

retirees must also be vested members of the CalPERS retirement system; i.e., retire on or after age 50 with 5 years of CalPERS retirement membership contributions. If the retiree discontinues coverage in the CalPERS health insurance plan, the City’s obligation to pay a premium subsidy benefit ends. Retirees may continue in the CalPERS plan for the remainder of their lives. The City is not obligated under the group medical insurance plan to pay premiums for any retirees or provide post-retirement medical or health insurance benefits for retirees, or their spouses, partners, or relatives; other than the required minimum benefit payment. Eligibility for the City plan consisted of the following at June 30, 2012:

Eligible retirees from City service	4
Active employees, both enrolled and un-enrolled in the City’s CalPERS health insurance plan	<u>18</u>
Total	<u><u>22</u></u>

City’s Funding Policy The City pays only the minimum required monthly premium subsidy benefit amount for retired City employees; an amount that can be amended by City Council action. The required premium is made (paid) monthly directly to CalPERS at the current-fiscal-year rate set by CalPERS, which is adjusted annually based on the medical cost component of the consumer price index. For Fiscal Year 2011-12, the City paid \$112 per month as the full amount required by the plan for each retiree from City service, for a total of \$4,520.

Annual OPEB Cost and Net OPEB Obligation The City’s measurement and disclosure of retiree healthcare liabilities is made pursuant to Government Accounting Standards Board (GASB) Statement No. 45, which became effective for the City in the Fiscal Year ended June 30, 2011. According to this statement, an alternative measurement method that differs from a full actuarial valuation is permitted for employers with fewer than one hundred plan members. Employers who qualify for and use the alternative measurement method should perform new calculations every three years.

The City qualifies to use, and elects to use the alternative measurement method, which allows simplification of certain actuarial assumptions, as a valid means of measuring past, present and future City OPEB costs. The total of all such costs as they are incurred in the future is expressed in current dollars as the present value of those costs. The actuarial accrued liability (AAL) is the present value of benefit costs attributed to past service only. The City has not established a trust that is administered by the City for the purpose of holding assets accumulated for plan payment obligations for current or future retirees. Because the City does not have an irrevocable trust for the pre-funding of those

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**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB), (Continued)

benefit costs as they become realized in the future, the City has an equal *unfunded* accrued liability (UAL). The service cost is the proportion of the present value of future benefit costs allocated to the current period (fiscal year) by the actuarial method used in the valuation.

The actuarial cost method used in the City’s current valuation, dated July 1, 2009, is the projected unit credit (PUC) method; one of six permitted by GASB No. 45, under which the present value of costs is apportioned into AAL and service cost. The annual required contribution (ARC) is an amount equal to the combination of service cost for the current fiscal year and amortization, or allocation of a portion of the unfunded liability to the current fiscal year. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover service costs each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years based on an open group.

The following table shows the components of the City’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City’s net OPEB obligation for these benefits:

Present value of all projected benefits	\$437,475
Actuarial accrued liability (AAL) using PUC	\$141,927
Service cost – at 6/30/2012	\$ 24,924
30 year amortization of UAL	<u>9,233</u>
Annual required contribution	\$ 34,157
Interest on net OPEB obligation	3,152
Adjustments to annual required contributions	<u>(4,101)</u>
Annual OPEB cost (expense)	\$ 33,208
Contributions made	<u>(4,520)</u>
Increase in net OPEB obligation	\$ 28,688
Net OPEB obligation-beginning of year	<u>\$ 63,042</u>
Net OPEB obligation-end of year	<u>\$ 91,730</u>

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**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB), (Continued)

The three-year trend information of GASB No. 45, the City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended June 30, 2012 were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Actual Contribution Net of Adjustments</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2010	\$ 34,157	\$ 2,068	6.05%	\$ 32,089
6/30/2011	\$ 34,157	\$ 3,204	9.38%	\$ 63,042
6/30/2012	\$ 34,157	\$ 4,520	13.23%	\$ 91,930

Funded Status and Funding Progress The funded status of the plan as of July 1, 2009, was as follows:

Actuarial accrued liability (AAL)	\$141,927
Actuarial value of plan assets	<u>0</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$141,927</u>
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (active plan members)	\$1,607,088
UAAL as a percentage of covered payroll	8.83%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits.

Actuarial Methods and Assumptions Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each

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**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB), (Continued)

valuation and the historical pattern of sharing of benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with the long-term perspective of the calculations.

The actuarial cost method used for determining the benefit obligations is the Projected Unit Credit Actuarial Cost Method. For the actuarial valuation date of 7/1/2009, the actuarial assumptions included an annual healthcare cost trend rate of 7 percent initially, reduced by decrements of 1 percent per year to an ultimate rate of 5 percent after the third year. The annual inflation rate assumed 4 percent increases in medical costs. The UAAL is being amortized as a level dollar of projected payroll over an open 30 year period. It is assumed the City's payroll will increase 5 percent per year.

NOTE 8 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters.

General Liability

The City purchases general liability insurance from Public Agency Risk Sharing Authority of California (PARSAC). There is a self-insured retention of \$10,000 per claim. PARSAC provides limits to \$1,000,000. Excess coverage is provided through a combination of pooling and reinsurance for total coverage limits of \$34 million. The total premium for this coverage was \$104,053 for the fiscal year ending June 30, 2012.

Workers' Compensation

Effective March 1, 2004, the City purchases Workers' Compensation insurance from PARSAC. There is no deductible and the policy provides statutory limits. The premium for this coverage was \$59,433 for the fiscal year ending June 30, 2012.

Property Insurance

The City purchases commercial property insurance from PARSAC with program limits of \$1 billion for personal property with \$5,000 deductible per occurrence.

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**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 8 – RISK MANAGEMENT, (Continued)

Fidelity Bonds

The City purchases bond coverage through PARSAC in the amount of \$1,000,000 with a \$2,500 deductible.

Insurance premium payments to PARSAC are made from the City's General Fund. There were no significant claims or claims payments during the fiscal year, and there were no significant outstanding claims at June 30, 2012. Furthermore, there have been no claims settlements or judgments that have exceeded insurance coverage since the City's inception on January 1, 2000.

NOTE 9 – CONTINGENT LIABILITIES

Grants, awards and allocations of revenues for restricted purposes that have been received or are receivable from other agencies are subject to audit and adjustment by those grantor agencies. Any ineligible or disallowed expenditures of those funds, including amounts already collected, may constitute a liability of the City to return applicable funds, or request an extension of time to perform in compliance of specific requirements. The amount, if any, of such disallowed funds usage claims made by other agencies cannot be determined at this time. However, the City's management does not expect such amounts, if any, to materially impact the City's General Fund balance reserves.

The City of Rancho Santa Margarita is defendant and plaintiff in pending lawsuits arising out of matters incidental to the operation of the City. Although the outcome of these lawsuits cannot be determined at present, management estimates that any potential judgments against the City not covered by insurance resulting from such litigation will not materially affect the City's financial condition.

The City has a mitigation commitment with the County of Orange to make minimum payments each year, plus interest, to mitigate the effect of the reduction of excess revenues over expenditures for future fiscal years as a result of the incorporation of the City of Rancho Santa Margarita. The total commitment of \$12 million was negotiated for payment in two distinct methodologies. The first methodology comprised a series of annual \$1.1 million payments for 6 years with a \$600,000 final payment, for a total of \$7.2 million. This portion of the commitment payments was completed in Fiscal Year 2007. The remaining annual payments associated with the commitment are contingent upon future receipt of sales tax revenues by the City in a respective fiscal year prorated in excess of a indexed base amount for that year. Those payments have not occurred since

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**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 9 – CONTINGENT LIABILITIES, (Continued)

2009 due to sales tax revenue declines, but are open ended until the remaining balance of \$1,900,535 is repaid.

NOTE 10 – UNEARNED REVENUE

For the governmental funds, revenues are recognized for monies received when the related expenditures are measurable or incurred or eligibility requirements are satisfied. Deferred revenue reported in the General Fund represents advancements that have not been earned under the measurability criteria of GASB 34. The City has reported the same amount as “unearned revenue” on the government wide financial statements. For the Fiscal Year ended June 30, 2012, in the General Fund, \$786,261 was deferred, primarily consisting of \$669,880 of prior year capital project costs not received by year end. Additional amount of \$82,553 is revenue received in advance of planned Community Services programs or events.

Deferred revenue at July 1, 2011 included a balance of \$483,048 related to cable TV franchise agreement. A lump sum amount of \$805,080 was received in 2005 and was being amortized over fifteen years. On November 15, 2011, the City’s cable TV franchisee Cox Communications notified the City of its intention to opt into the State TV franchise, thereby pre-empting the City’s franchise agreement with Cox. The remaining balance of \$483,048 was recognized as revenue in Fiscal Year ended June 30, 2012.

NOTE 11 – GENERAL FUND BALANCE CLASSIFICATIONS

A continuing priority of the City Council is to exercise prudent financial management, provide long term financial planning, and strong internal control of City asset uses. To this end the Reserve Policy was adopted on June 25, 2008 regarding the City’s accumulated net resources, called fund balance. The Reserve Policy establishes a framework for the funding, use, and maintenance of available fund balance levels for various objectives: To protect the City’s ability to provide services to community residents during emergencies or economic downturns; provide funding for unanticipated or “one-time” expenditures, plan for the repair/replacement of City facilities, infrastructure or technology; and provide an amount for use in times of catastrophic emergencies or natural disasters.

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**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 11 – GENERAL FUND BALANCE CLASSIFICATIONS, (Continued)

The City’s fund balance classifications at June 30, 2012, are presented below and followed by explanations as to the nature and purpose of each classification.

General Fund:

Assigned:

Council Strategic	\$ 2,183,413	
Technology	1,290,920	
Facilities	2,958,949	
Vehicles	304,216	
Infrastructure	1,139,659	
Total Assigned: Council projects/equipment/facilities		\$ 7,877,157

Unassigned:

Emergency Policy	7,618,809	
Total Unassigned: Emergency Policy		\$ 7,618,809

Assigned for Council Strategic – An amount established for special projects and services to be used at the City Council’s discretion. The Council may authorize expenditure at any time during the fiscal year, up to 75% of the funding target; however, it shall require a majority vote (3/5) of City Council to access these funds.

Assigned for Technology – To be used for replacement and enhancement of technology, and shall require a majority vote (3/5) of the City Council to access these funds.

Technology is defined as computers (CPUs, servers, etc.), software, Council Chambers media, etc.

Assigned for Facilities – To be used for repair, replacement, or improvement of City facilities such as the City’s Civic Center, and other acquired facilities and mechanical systems, and shall require a majority vote (3/5) of City Council to access these funds.

Assigned for Vehicles – To be used for replacement of City vehicles and other equipment defined as rolling stock, and shall require a majority vote (3/5) of the City Council to access these funds.

Assigned for Infrastructure – To be used for repair, replacement or improvement of City property, including roads, bridges, sidewalk, and medians and shall require a majority vote (3/5) of the City Council to access these funds. The reserve amount is linked to the current City 7 year CIP plan.

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**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 11 – GENERAL FUND BALANCE CLASSIFICATIONS, (Continued)

Emergency Policy – Unassigned to be used for resumption of City services, during a natural or man-made disaster, which shall require a super majority vote (4/5) of the City Council to access these funds during non-emergencies, and majority vote (3/5) of the City Council to access these funds during emergencies.

Under GASB 54 provisions, unless earmarked for specific identifiable improvements or projects, emergency funds may not be classified as committed or assigned; and are therefore included in the unassigned classification.

NOTE 12 – COMMITMENTS

As of June 30, 2012, City commitments for outstanding encumbrances (purchase orders and contracts for goods and services not yet delivered) and self insurance for the General Fund are as follows:

General Fund:	Committed for street maintenance	\$ 142,428
	Committed for self insurance	<u>30,000</u>
		<u>\$ 172,428</u>

NOTE 13 – OPERATING LEASE

The City entered into a non-cancelable operating lease agreement with Wells Fargo Financial Leasing, Inc. in January 2008 for copy equipment at City Hall at a cost of \$139,920. The monthly cost of the 5 year lease agreement is \$2,332 and is funded by the General Fund. Future minimum payments relating to the lease are as follows:

<u>Year Ending June 30,</u>	<u>Annual Rent</u>
2013	<u>13,992</u>
	<u>\$ 13,992</u>

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**CITY OF RANCHO SANTA MARGARITA  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 13 – OPERATING LEASE, (Continued)

The City entered into another non-cancelable operating lease agreement with Wells Fargo Financial Leasing, Inc. in October 2008 for BTRCC copy equipment at a cost of \$14,204. The monthly cost of \$268 is for a 53 month term and is funded by the General Fund. Future minimum payments relating to the lease are as follow:

<u>Year Ending June 30,</u>	<u>Annual Rent</u>
2013	2,144
	<u>\$ 2,144</u>

NOTE 14 – LITIGATION SETTLEMENT

A Corrected Final Judgment was entered June 23, 2010 in San Diego County Superior Court and recorded in Orange County, California on August 18, 2010 relative to on-going litigation of the City. On January 28, 2009, the City Council approved a Settlement Agreement with the County of Orange, the Endangered Habitats League, and Rancho Mission Viejo, ending litigation initiated in 2005 by the City over the ownership of 502 acres of land in and around the City. In mid-2002, the City became aware that not all of the properties that should have been transferred from the County upon the City's incorporation had actually been transferred. While there was agreement as to many of the property interests, the City and County differed in their views as to who should have ownership of 502 acres that had originally been dedicated to the County, prior to the City's incorporation, for open space, recreation and transportation purposes.

When the parties were not able to resolve their differences, the City filed a lawsuit in 2005, claiming ownership to the entire 502-acre parcel. While the lawsuit was moving forward, the County, the Fish and Wildlife Service, the Santa Margarita Water District and Rancho Mission Viejo, LLC entered into an Implementation Agreement regarding the Southern Sub-region HCP Habitat Reserve. The effect of this was to designate specific natural habitat that would be protected in perpetuity and there would be certainty as to the Habitat Reserve.

After more than a year of negotiations, the parties negotiated a settlement agreement which, in addition to finalizing the transfer of property easements that belonged to the City upon incorporation, such as open space and public access easements, included the following key terms. The specific transactions and related items were completed at the times noted and with particular actions as noted.

The City received title to the 92-acre Chiquita Ridge open space parcel from the County of Orange. The City valued that land at \$50,000 per acre, for a total of \$4,600,000, based

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**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 14 – LITIGATION SETTLEMENT, (Continued)

on recent local and regional comparable sales and appraisals. The 92-acres are not encumbered by the Habitat Reserve designation. While there are no plans for development, the agreement provides that at such time that there is development; there shall be a minimum 23-acre active sports park that will benefit the residents of the City of Rancho Santa Margarita as well as the nearby residents of the unincorporated County area. Development of the 92-acre parcel is limited to 55 acres and any of the remaining 37 acres which are disturbed during construction must be restored to natural habitat conditions.

In addition to any portion of the 37 acres which are restored, the City shall enhance and restore 80 acres of habitat to increase the environmental value of the habitat. The 80 acres will be in or close to the City and will provide a benefit to the City's residents. The County received title to the remaining 410 acres that were in dispute thereby protecting that property as natural habitat and ensuring its enrollment in the Habitat Reserve. The City is required by the Settlement Agreement to prepare a restoration plan by the end of the third year after the Chiquita Ridge parcel conveyance, and begin restoration efforts by the end of the fourth year after conveyance. A consultant has been retained to prepare a restoration plan, and City staff will negotiate with third parties, including the County and resource agencies, to determine acceptable sites and restoration programs. As of June 30, 2012 the cost and timeframe of the required restoration efforts was not reasonably determinable and therefore no estimate of those costs is disclosed here or included in the City's financial statements. Expenditures will be recorded in the City's financial statements as costs are incurred for restoration efforts in future fiscal years.

In a related transaction required in the agreement, the City transferred to the County the 15.1 acre "Wynne Parcel" it purchased for \$2,566,351 in Fiscal Year 2009, following approval of the Settlement Agreement. The County will enroll the parcel in the Habitat Preserve. This parcel is a critical link in the regional wildlife corridor and contains valuable vernal pools and protected species including the fairy shrimp. The County will also enroll approximately 100 acres of Dove Canyon Open Space into the Habitat Reserve.

NOTE 15 – SUBSEQUENT EVENTS

Community Facilities District ("CFD") Nos. 86-1 and 86-2, which encompass property that now lies within the incorporated boundaries of the City of Rancho Santa Margarita, were formed by the Orange County Board of Supervisors in 1986 to finance the construction and/or acquisition of certain public improvements and facilities necessitated by development in the area. In 2010, the County of Orange reviewed the financial

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**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 15 – SUBSEQUENT EVENTS, (Continued)

condition of its CFD 86-2 and CFD 86-1 and notified the City of the availability of CFD funds for reimbursement to the City for public traffic signal and bridge safety and lighting improvements that were constructed using City funding sources after incorporation. The City submitted six separate reimbursement requests totaling \$669,880. On August 21, 2012, the Board of Supervisors approved payment of CFD revenue in the amount of \$669,880 to be paid to the City for reimbursement of costs related to the construction of certain street, traffic signal, and bridge improvements. The recognition of the revenue is included in the government-wide statements and according to GFOA availability guidelines is recorded in the fund financials as deferred revenue at June 30, 2012.

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REQUIRED SUPPLEMENTARY  
INFORMATION



Required  
Supplementary  
Information

City of Rancho Santa Margarita, California

**CITY OF RANCHO SANTA MARGARITA  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

OTHER POST-EMPLOYMENT BENEFITS (OPEB)

The Schedule of Funding Progress below presents three-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits. For the three-fiscal-year period of implementation of GASB No. 45, the following information is presented:

**SCHEDULE OF FUNDING PROGRESS  
OTHER POST-EMPLOYMENT BENEFITS**

Fiscal Year	Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (AAL) - Unit Credit (b)	Unfunded AAL (UAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/c)
6/30/2010	7/1/2009	\$ -	\$ 141,927	\$ 141,927	0%	\$ 1,808,008	7.85%
6/30/2011	7/1/2009	\$ -	\$ 141,927	\$ 141,927	0%	\$ 1,847,685	7.68%
6/30/2012	7/1/2009	\$ -	\$ 141,927	\$ 141,927	0%	\$ 1,607,088	8.83%

**SCHEDULE OF EMPLOYER CONTRIBUTION  
OTHER POST-EMPLOYMENT BENEFITS**

Year Ended June 30	Amount
2010	\$ 2,068
2011	\$ 3,204
2012	\$ 4,520

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**CITY OF RANCHO SANTA MARGARITA  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

This fund, as the primary operational fund for the City, is classified as a major fund and is used to account for resources and uses traditionally associated with overall government operations; which are not required legally or by regulation or standards to be accounted for in another fund.

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**CITY OF RANCHO SANTA MARGARITA  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2012**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>(NEGATIVE)</u>
Budgetary fund balances, July 1	\$ 14,566,182	\$ 14,566,182	\$ 14,805,403	\$ 239,221
Resources (inflows):				
Taxes	7,370,319	7,370,319	7,578,069	207,750
Fees and permits	1,727,883	1,727,883	2,072,595	344,712
Intergovernmental	4,357,584	4,357,584	4,209,382	(148,202)
Charges for service	673,886	673,886	657,598	(16,288)
Investment income	64,543	64,543	91,243	26,700
Fines, forfeits and penalties	252,200	252,200	277,866	25,666
Other	95,073	95,073	571,964	476,891
Transfers from other funds	992,266	992,266	719,211	(273,055)
Amounts available for appropriation	<u>30,099,936</u>	<u>30,099,936</u>	<u>30,983,331</u>	<u>883,395</u>
Charges to appropriations (outflows):				
General government	3,920,651	4,047,881	3,856,873	191,008
Building and planning	1,189,632	1,189,632	954,291	235,341
Public safety	7,517,011	7,517,011	7,501,236	15,775
Public works	1,911,373	1,911,373	1,908,481	2,892
Capital outlay	-	-	24,471	(24,471)
Transfers to other funds	836,260	836,260	827,587	8,673
Total charges to appropriations	<u>15,374,927</u>	<u>15,502,157</u>	<u>15,072,939</u>	<u>429,218</u>
Budgetary fund balances, June 30	<u>\$ 14,725,009</u>	<u>\$ 14,597,779</u>	<u>\$ 15,910,392</u>	<u>\$ 1,312,613</u>

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**CITY OF RANCHO SANTA MARGARITA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**NOTE 1 – CAPITAL ASSETS – MODIFIED APPROACH FOR INFRASTRUCTURE**

The City has elected to use the *modified approach* for the accounting and financial reporting of infrastructure assets contained in the Streets and Roads network Street Pavement subsystem.

Under the modified approach, for financial reporting purposes, infrastructure assets that are part of a network or a subsystem of a network are not required to be depreciated as long as two requirements are met. The first requirement is to manage the eligible infrastructure assets using an asset management system that has the following characteristics:

- An up-to-date inventory of eligible infrastructure assets
- Condition assessments of the eligible infrastructure assets performed at least every three years, with summarized results using a measurement scale
- Annual estimates of the amount necessary to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the government.

The second requirement is to document that the eligible infrastructure assets are being preserved approximately at (or above) a condition level established and disclosed by the government. A condition assessment must be performed every three years for financial reporting purposes. If eligible infrastructure assets meet all requirements and are not depreciated, all expenditures made for those assets (except for additions and improvements) are expensed in the period incurred. Additions and improvements to eligible infrastructure assets are capitalized. Additions or improvements increase the capacity or efficiency of infrastructure assets rather than preserve the useful life of the assets.

The condition of the pavement subsystem is measured using the Rancho Santa Margarita Pavement Condition Index. In order to establish and maintain eligibility for Measure M transportation funding provided by Orange County, California, the City must adopt and fund a local Pavement Management Plan (PMP). The local PMP is required to be updated every 2 years to maintain Measure M eligibility. The City Council accepted the findings of the PMP update performed in Fiscal Year 2012 and adopted a condition rating of 70 as the minimum acceptable Pavement Condition Index (PCI) for the entire street pavement subsystem. In accordance with the requirements for using the modified approach for this subsystem, these findings will be used until the next PCI assessment is performed for financial reporting purposes within three years of this assessment. The results of the most recent condition assessments were as follows:

See Independent Auditors' Report

**CITY OF RANCHO SANTA MARGARITA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 1 – CAPITAL ASSETS – MODIFIED APPROACH FOR INFRASTRUCTURE,  
(Continued)

**Assessments performed in the fiscal years ended June 30:**

	<u>Actual Assessed Condition Level</u>	<u>Minimum Condition Level</u>
<b>2012:</b> Pavement subsystem	79.2	70
<b>2010:</b> Pavement subsystem	78.5	70
<b>2008:</b> Pavement subsystem	76.5	70
<b>2007:</b> Pavement subsystem	73.9	70
<b>2004:</b> Pavement subsystem	75.1	70

The pavement subsystem was assigned a numerical value based upon the scales as identified below. Each street segment has a total possible point value of 100. Once each segment had a total score, the City determined the condition of the street by segment, subdivision and as a whole based upon the street deficiency scale identified below.

- Excellent (85-100) – Minor to low distress, no significant distress.
- Very Good (70-84) – Little distress, with the exception of utility patches in good condition, or slight hairline cracks; may be slightly weathered.
- Good (55-69) – Slight to moderately weathered, slight distress, possible patching.
- Fair (40-54) – Severely weathered or slight to moderate levels of distress, generally limited to patches and non-load related cracking.
- Poor (25-39) – Moderate to severe distresses, including load-related types, such as alligator cracking.
- Very Poor (10-24) – Severely distressed, large quantities of distortion or alligator cracking.
- Failed (0-9) – Failure of the pavement, distress has surpassed tolerable rehabilitation limits.

Based on the pavement condition assessment update performed in FY 2012, as of June 30, 2012, the streets had an average deficiency rating or Pavement Condition Index (PCI) of 79.2, or Very Good.

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**CITY OF RANCHO SANTA MARGARITA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

**NOTE 1 – CAPITAL ASSETS – MODIFIED APPROACH FOR INFRASTRUCTURE,  
(Continued)**

During the fiscal year ending June 30, 2012, street maintenance costs were \$1,743,138 compared to the budgeted estimate of \$2,096,757. Street maintenance costs for the fiscal years ending June 30, 2011, June 30, 2010, June 30, 2009, June 30, 2008, June 30, 2007, June 30, 2006, June 30, 2005, June 30, 2004 and June 30, 2003 (the first year of implementation of the modified approach for street pavement) were \$2,857,557, \$1,210,581, \$1,042,169, \$2,132,675, \$3,812,219, \$1,818,402, \$919,528, \$783,609 and \$908,403, respectively. Budgeted street maintenance costs for the years ended June 30, 2011, June 30, 2010, June 30, 2009, June 30, 2008, June 30, 2007, June 30, 2006, June 30, 2005, June 30, 2004 and June 30, 2003 were \$3,171,799, \$3,056,000, \$1,808,700, \$3,277,392, \$5,091,446, \$2,246,154, \$1,160,000, \$943,000 and \$1,200,000. Appropriations totaling \$2,608,357 have been budgeted for the fiscal year ending June 30, 2013 for maintenance/rehabilitation to maintain the minimum PCI standard.

**NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING**

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In June, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Budget development discussions are conducted at public workshops, and City Council study sessions and regular meetings, to obtain resident and business comments.
3. Prior to July 1, the budget is adopted by Council action at a public hearing.

Formal budgetary integration is employed as a management control device during the year. After adoption, the City Manager is authorized to transfer appropriated funds between major expenditure categories within departments and between departments. However, any revisions that alter the total appropriations of any fund must be approved by the City Council. Expenditures may not legally exceed appropriations at the fund level. All appropriations lapse at the end of the fiscal year, except for capital projects. For any project which is under construction at year-end, the appropriations are allowed to carry forward with the amount being adopted for the current year budget.

See Independent Auditors' Report

**CITY OF RANCHO SANTA MARGARITA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING, (Continued)

Budgets are prepared in accordance with generally accepted accounting principles using the modified-accrual basis of accounting. Accordingly, actual revenue and expenditure amounts can be compared with related budget amounts without any significant reconciling items.

Certain City financial statements and schedules present comparisons of budgeted amounts to actual results for all governmental funds with annual budgets. Budgeted revenue amounts represent the original budget modified by Council-authorized adjustments during the year, contingent upon new or additional revenue sources. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations during the year. Budgetary comparisons in the financial statements and schedules are based on the final adjusted amounts.

For financial reporting purposes, City Council, City Manager, and Administrative Services departments are combined as General Government, but operate separately for budgetary control purposes in the General Fund. All other budgeted funds are considered single operating units for budgetary control and financial reporting purposes.

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# Supplementary Schedules

**City of Rancho Santa Margarita, California**

SUPPLEMENTARY SCHEDULES

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## NON-MAJOR GOVERNMENTAL FUNDS

### Special Revenue Funds

Special Revenue Funds are used to account for activities funded by dedicated or specific program revenues. The following Special Revenue Funds have been classified as non-major funds in the accompanying financial statements:

Gas Tax – This fund is used to account for the City’s share of the motor vehicle gas tax imposed under the provisions of the Street and Highway Code of the State of California under Sections 2105, 2106, 2107, 2107.5 and 2103 which are legally restricted for the acquisition, construction, improvement and maintenance of public streets.

Measure M – This fund is used to account for the City’s share of the sales tax increase authorized by Orange County’s Measure “M”, and renewed Measure M. The monies are legally restricted for the acquisition, construction and improvement of public streets.

Air Quality Management District – This fund is used to account for the City’s share of vehicle registration fees that the State of California has allocated to address air quality concerns in Southern California. These monies are to be used in air quality maintenance programs locally and/or regionally.

California Law Enforcement Equipment Program – This fund is used to account for monies received through the CLEEP grant. These monies are used by police services for the purchase of high-technology police equipment.

Traffic Congestion – This fund is used to account for revenue from Assembly Bill 2928 and the corresponding expenditures for street infrastructure.

Supplemental Law Enforcement Services – This fund is used to account for monies received through the SLESF grant. These monies are used by police services to support front line law enforcement.

### Debt Service Fund

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, the City long-term debt principal and interest.

City of Rancho Santa Margarita Non-Profit Debt Service – This fund is used to account for the payment of interest and principal of the City of Rancho Santa Margarita Non-Profit Corporation project financing activities for construction of the City’s civic center facilities.

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**CITY OF RANCHO SANTA MARGARITA  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2012**

<b>Assets</b>	<b>Special Revenue Funds</b>		
	<b><u>Gas Tax</u></b>	<b><u>Measure M</u></b>	<b><u>Air Quality Management District</u></b>
Cash and investments	\$ 1,484,717	\$ 446,890	\$ 241,784
Cash and investments with fiscal agent	-	-	-
Due from other governments	140,800	100,740	14,846
Interest receivable	1,318	417	192
Total assets	<b>\$ 1,626,835</b>	<b>\$ 548,047</b>	<b>\$ 256,822</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 22,143	\$ -	\$ -
Total liabilities	22,143	-	-
Fund balances:			
Restricted for debt service	-	-	-
Restricted for roads, grants, parks	1,604,692	548,047	256,822
Total fund balances	1,604,692	548,047	256,822
Total liabilities and fund balances	<b>\$ 1,626,835</b>	<b>\$ 548,047</b>	<b>\$ 256,822</b>

See Independent Auditors' Report

<u>California Law Enforcement Eqpt. Program</u>	<u>Special Revenue Funds</u>		<u>Debt Service Fund</u>		<u>Totals</u>
	<u>Traffic Congestion</u>	<u>Supplemental Law Enforcement Services</u>	<u>Rancho Santa Margarita Non-Profit</u>		
\$ 197	\$ -	\$ 137,154	\$ -	\$ -	\$ 2,310,742
-	-	-	848,392	-	848,392
-	-	-	-	-	256,386
-	1	90	-	-	2,018
<u>\$ 197</u>	<u>\$ 1</u>	<u>\$ 137,244</u>	<u>\$ 848,392</u>	<u>\$ -</u>	<u>\$ 3,417,538</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,143
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,143</u>
-	-	-	848,392	-	848,392
<u>197</u>	<u>1</u>	<u>137,244</u>	<u>-</u>	<u>-</u>	<u>2,547,003</u>
<u>197</u>	<u>1</u>	<u>137,244</u>	<u>848,392</u>	<u>-</u>	<u>3,395,395</u>
<u>\$ 197</u>	<u>\$ 1</u>	<u>\$ 137,244</u>	<u>\$ 848,392</u>	<u>\$ -</u>	<u>\$ 3,417,538</u>

See Independent Auditors' Report

**CITY OF RANCHO SANTA MARGARITA  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>Special Revenue Funds</u>		
	<u>Gas Tax</u>	<u>Measure M</u>	<u>Air Quality Management District</u>
Revenues:			
Intergovernmental	\$ 1,393,329	\$ 598,212	\$ 60,142
Investment income	9,412	4,501	1,691
Total revenues	<u>1,402,741</u>	<u>602,713</u>	<u>61,833</u>
Expenditures:			
Current:			
Public safety	-	-	-
Public works	267,517	-	-
Debt service:			
Principal retirement	-	-	-
Interest	-	-	-
Total expenditures	<u>267,517</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>1,135,224</u>	<u>602,713</u>	<u>61,833</u>
Other financing sources (uses):			
Transfers in	-	21,441	-
Transfers out	(926,328)	(800,346)	(52,996)
Total financing sources (uses)	<u>(926,328)</u>	<u>(778,905)</u>	<u>(52,996)</u>
Net change in fund balances	208,896	(176,192)	8,837
Fund balances, beginning of year	<u>1,395,796</u>	<u>724,239</u>	<u>247,985</u>
Fund balances, end of year	<u>\$ 1,604,692</u>	<u>\$ 548,047</u>	<u>\$ 256,822</u>

See Independent Auditors' Report

<b>California Law Enforcement Eqpt. Program</b>	<b>Special Revenue Funds</b>		<b>Debt Service</b>		<b>Totals</b>
	<b>Traffic Congestion</b>	<b>Supplemental Law Enforce- ment Services</b>	<b>Rancho Santa Margarita Non-Profit</b>		
\$ -	\$ -	\$ 100,000	\$ -	\$ 2,151,683	
-	598	670	4,794	21,666	
-	598	100,670	4,794	2,173,349	
-	-	59,109	-	59,109	
-	-	-	-	267,517	
-	-	-	305,000	305,000	
-	-	-	531,260	531,260	
-	-	59,109	836,260	1,162,886	
-	598	41,561	(831,466)	1,010,463	
-	-	-	827,587	849,028	
-	(1,795)	-	-	(1,781,465)	
-	(1,795)	-	827,587	(932,437)	
-	(1,197)	41,561	(3,879)	78,026	
197	1,198	95,683	852,271	3,317,369	
\$ 197	\$ 1	\$ 137,244	\$ 848,392	\$ 3,395,395	

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## **SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**

The following Schedules of Revenues, Expenditures and Changes in Fund Balance are presented:

### Special Revenue Funds

- Gas Tax Measure M
- Air Quality Management District
- California Law Enforcement Equipment Program
- Traffic congestion
- Supplemental Law Enforcement Services

### Debt Service Fund

- Non-Profit Debt Service

### Capital Projects Fund

- Capital Projects

See Independent Auditors' Report

**CITY OF RANCHO SANTA MARGARITA  
GAS TAX FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
Budgetary fund balances, July 1	\$ 928,282	\$ 928,282	\$ 1,395,796	\$ 467,514
Resources (inflows):				
Intergovernmental	1,339,950	1,339,950	1,393,329	53,379
Investment income	4,050	4,050	9,412	5,362
Transfers from other funds	-	-	-	-
Amounts available for appropriation	<u>2,272,282</u>	<u>2,272,282</u>	<u>2,798,537</u>	<u>526,255</u>
Charges to appropriations (outflows):				
Public works	316,920	316,920	267,517	49,403
Transfers to other funds	1,203,353	1,203,353	926,328	277,025
Total charges to appropriations	<u>1,520,273</u>	<u>1,520,273</u>	<u>1,193,845</u>	<u>326,428</u>
Budgetary fund balances, June 30	<u>\$ 752,009</u>	<u>\$ 752,009</u>	<u>\$ 1,604,692</u>	<u>\$ 852,683</u>

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**CITY OF RANCHO SANTA MARGARITA  
MEASURE M FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
Budgetary fund balances, July 1	\$ 926,681	\$ 926,681	\$ 724,239	\$ (202,442)
Resources (inflows):				
Intergovernmental	555,531	555,531	598,212	42,681
Investment income	4,469	4,469	4,501	32
Transfers in from other funds	-	-	21,441	21,441
Amounts available for appropriation	<u>1,486,681</u>	<u>1,486,681</u>	<u>1,348,393</u>	<u>(138,288)</u>
Charges to appropriations (outflows):				
Transfers to other funds	<u>940,357</u>	<u>940,357</u>	<u>800,346</u>	<u>140,011</u>
Total charges to appropriations	<u>940,357</u>	<u>940,357</u>	<u>800,346</u>	<u>140,011</u>
Budgetary fund balances, June 30	<u>\$ 546,324</u>	<u>\$ 546,324</u>	<u>\$ 548,047</u>	<u>\$ 1,723</u>

See Independent Auditors' Report

**CITY OF RANCHO SANTA MARGARITA  
AIR QUALITY MANAGEMENT DISTRICT FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>(NEGATIVE)</u>
Budgetary fund balances, July 1	\$ 258,953	\$ 258,953	\$ 247,985	\$ (10,968)
Resources (inflows):				
Intergovernmental	59,392	59,392	60,142	750
Investment income	608	608	1,691	1,083
Amounts available for appropriation	<u>318,953</u>	<u>318,953</u>	<u>309,818</u>	<u>(9,135)</u>
Charges to appropriations (outflows):				
Transfers to other funds	64,000	64,000	52,996	11,004
Total charges to appropriations	<u>64,000</u>	<u>64,000</u>	<u>52,996</u>	<u>11,004</u>
Budgetary fund balances, June 30	<u>\$ 254,953</u>	<u>\$ 254,953</u>	<u>\$ 256,822</u>	<u>\$ 1,869</u>

See Independent Auditors' Report



**CITY OF RANCHO SANTA MARGARITA  
CALIFORNIA LAW ENFORCEMENT EQUIPMENT PROGRAM FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>(NEGATIVE)</u>
Budgetary fund balances, July 1	\$ 197	\$ 197	\$ 197	\$ -
Resources (inflows):				
Intergovernmental	-	-	-	-
Investment income	-	-	-	-
Amounts available for appropriation	<u>197</u>	<u>197</u>	<u>197</u>	<u>-</u>
Charges to appropriations (outflows):				
Public safety - capital outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total charges to appropriations	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Budgetary fund balances, June 30	<u><u>197</u></u>	<u><u>197</u></u>	<u><u>197</u></u>	<u><u>-</u></u>

See Independent Auditors' Report

**CITY OF RANCHO SANTA MARGARITA  
TRAFFIC CONGESTION FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>(NEGATIVE)</u>
Budgetary fund balances, July 1	\$ 404,802	\$ 404,802	\$ 1,198	\$ (403,604)
Resources (inflows):				
Intergovernmental	-	-	-	-
Investment income	-	-	598	598
Amounts available for appropriation	<u>404,802</u>	<u>404,802</u>	<u>1,796</u>	<u>(403,006)</u>
Charges to appropriations (outflows):				
Transfers to other funds	<u>169,556</u>	<u>169,556</u>	<u>1,795</u>	<u>167,761</u>
Total charges to appropriations	<u>169,556</u>	<u>169,556</u>	<u>1,795</u>	<u>167,761</u>
Budgetary fund balances, June 30	<u>\$ 235,246</u>	<u>\$ 235,246</u>	<u>\$ 1</u>	<u>\$ (235,245)</u>

See Independent Auditors' Report

**CITY OF RANCHO SANTA MARGARITA  
SUPPLEMENTARY LAW ENFORCEMENT SERVICES FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>(NEGATIVE)</u>
Budgetary fund balances, July 1	\$ 95,063	\$ 95,063	\$ 95,683	\$ 620
Resources (inflows):				
Intergovernmental	-	-	100,000	100,000
Investment income	-	-	670	670
Amounts available for appropriation	<u>95,063</u>	<u>95,063</u>	<u>196,353</u>	<u>101,290</u>
Charges to appropriations (outflows):				
Public safety - current	65,133	65,133	59,109	6,024
Public safety - capital outlay	-	-	-	-
Total charges to appropriations	<u>65,133</u>	<u>65,133</u>	<u>59,109</u>	<u>6,024</u>
Budgetary fund balances, June 30	<u>\$ 29,930</u>	<u>\$ 29,930</u>	<u>\$ 137,244</u>	<u>\$ 107,314</u>

See Independent Auditors' Report

**CITY OF RANCHO SANTA MARGARITA  
NON-PROFIT DEBT SERVICE FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>(NEGATIVE)</u>
Budgetary fund balances, July 1	\$ 854,699	\$ 854,699	\$ 852,271	\$ (2,428)
Resources (inflows):				
Investment income	-	-	4,794	4,794
Transfers from other funds	836,260	836,260	827,587	(8,673)
Amounts available for appropriation	<u>1,690,959</u>	<u>1,690,959</u>	<u>1,684,652</u>	<u>(6,307)</u>
Charges to appropriations (outflows):				
Principal Retirement	305,000	305,000	305,000	-
Interest	531,260	531,260	531,260	-
Total charges to appropriations	<u>836,260</u>	<u>836,260</u>	<u>836,260</u>	<u>-</u>
Budgetary fund balances, June 30	<u>\$ 854,699</u>	<u>\$ 854,699</u>	<u>\$ 848,392</u>	<u>\$ (6,307)</u>

See Independent Auditors' Report

**CITY OF RANCHO SANTA MARGARITA  
CAPITAL PROJECTS FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>(NEGATIVE)</u>
Budgetary fund balances, July 1	\$ 1,042,144	\$ 1,042,144	\$ 1,111,846	\$ 69,702
Resources (inflows):				
Intergovernmental	701,000	701,000	253,061	(447,939)
Investment income	-	-	7,221	7,221
Transfers from other funds	1,385,000	1,385,000	1,062,254	(322,746)
Amounts available for appropriation	<u>3,128,144</u>	<u>3,128,144</u>	<u>2,434,382</u>	<u>(693,762)</u>
Charges to appropriations (outflows):				
Public works	1,405,000	1,405,000	466,798	938,202
Capital Outlay	1,121,000	1,121,000	862,865	258,135
Transfers to other funds	-	-	21,441	(21,441)
Total charges to appropriations	<u>2,526,000</u>	<u>2,526,000</u>	<u>1,351,104</u>	<u>1,174,896</u>
Budgetary fund balances, June 30	<u>\$ 602,144</u>	<u>\$ 602,144</u>	<u>\$ 1,083,278</u>	<u>\$ 481,134</u>

See Independent Auditors' Report



# Statistical Section

**City of Rancho Santa Margarita, California**

STATISTICAL SECTION

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## STATISTICAL SECTION

This section of the City of Rancho Santa Margarita's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the city's overall financial health.

Financial Trends Schedules – These schedules contain trend information to help the reader understand how the city's financial performance and well-being have changed over time.

- Net Assets by Component
- Changes in Net Assets
- Fund Balances of Governmental Funds
- Changes in Fund Balances of Governmental Funds
- Taxable Sales by Category
- Tax Revenues by Source – Governmental Funds

Revenue Capacity Schedules – These schedules contain information to help the reader assess the factors affecting the city's ability to generate its property and sales taxes.

- Assessed Value and Estimated Actual Value of Taxable Property
- Direct and Overlapping Property Tax Rates
- Principal Property Tax Payers
- Property Tax Levies and Collections

Debt Capacity Schedules – These schedules present information to help the reader assess the affordability of the city's current levels of outstanding debt and the city's ability to issue additional debt in the future.

- Ratio of Outstanding Debt by Type
- Ratio of General Bonded Debt Outstanding
- Direct and Overlapping Bonded Debt
- Legal Debt Margin

Demographic and Economic Information – These schedules offer demographic and economic indicators to help the reader understand the environment within which the city's financial activities take place and to help make comparisons over time and with other governments.

- Demographic and Economic Statistics
- Principal Employers
- Full-time and Part-time City Employees by Function

Operating Information – These schedules contain information about the city's operations and resources to help the reader understand how the city's financial information related to the services the city provides and the activities it performs.

- Capital Asset Statistics
- Operating Indicators by Function
- Miscellaneous Statistics

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Report for the relevant year.



**City of Rancho Santa Margarita  
Net Assets by Component  
Last Ten Fiscal Years**

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>GOVERNMENTAL ACTIVITIES</b>					
Invested in Capital Assets, Net of Related Debt	\$ 110,116,868	\$ 111,200,329	\$ 112,583,691	\$ 111,994,564	\$ 110,152,663
Restricted for:					
Public Safety	137,441	95,880	128,859	138,057	178,529
Public Works	2,468,544	3,481,064	4,925,379	4,581,004	4,625,130
Debt Service	848,392	852,271	854,699	853,179	868,427
Unrestricted	17,147,323	14,328,948	13,078,887	13,623,344	16,733,118
Total Governmental Activities Net Assets	<u>\$ 130,718,568</u>	<u>\$ 129,958,492</u>	<u>\$ 131,571,515</u>	<u>\$ 131,190,148</u>	<u>\$ 132,557,867</u>
<b>PRIMARY GOVERNMENT</b>					
Invested in Capital Assets, Net of Related Debt	\$ 110,116,868	\$ 111,200,329	\$ 112,583,691	\$ 111,994,564	\$ 110,152,663
Restricted for:					
Public Safety	137,441	95,880	128,859	138,057	178,529
Public Works	2,468,544	3,481,064	4,925,379	4,581,004	4,625,130
Debt Service	848,392	852,271	854,699	853,179	868,427
Unrestricted	17,147,323	14,328,948	13,078,887	13,623,344	16,733,118
Total Primary Government Net Assets	<u>\$ 130,718,568</u>	<u>\$ 129,958,492</u>	<u>\$ 131,571,515</u>	<u>\$ 131,190,148</u>	<u>\$ 132,557,867</u>

Source: City Finance Division, Comprehensive Annual Financial Report (2003-2012)

<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
\$ 112,633,691	\$ 114,598,789	\$ 116,793,296	\$ 115,726,409	\$ 113,405,225
210,445	224,639	198,267	181,637	208,194
3,218,553	5,044,761	4,089,607	7,172,790	3,462,045
868,883	868,498	870,578	1,423,415	-
16,165,385	11,209,879	7,611,925	4,295,039	10,968,241
<b>\$ 133,096,957</b>	<b>\$ 131,946,566</b>	<b>\$ 129,563,673</b>	<b>\$ 128,799,290</b>	<b>\$ 128,043,705</b>
\$ 112,633,691	\$ 114,598,789	\$ 116,793,296	\$ 115,726,409	\$ 113,405,225
210,445	224,639	198,267	181,637	208,194
3,218,553	5,044,761	4,089,607	7,172,790	3,462,045
868,883	868,498	870,578	1,423,415	-
16,165,385	11,209,879	7,611,925	4,295,039	10,968,241
<b>\$ 133,096,957</b>	<b>\$ 131,946,566</b>	<b>\$ 129,563,673</b>	<b>\$ 128,799,290</b>	<b>\$ 128,043,705</b>

**City of Rancho Santa Margarita  
Changes in Net Assets  
Last Ten Fiscal Years**

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>EXPENSES</b>				
<b>Governmental Activities:</b>				
General Government	\$ 3,880,315	\$ 3,774,471	\$ 4,180,760	\$ 4,542,993
Building & Planning	948,779	1,147,306	1,075,710	1,064,493
Public Safety	7,564,128	7,527,342	7,829,913	8,040,476
Public Works	4,431,877	6,462,078	4,601,904	4,786,938
Capital Outlay	448,843	-	-	-
Interest Expense	528,210	539,942	550,222	560,110
Total Governmental Activities Expenses	<u>17,802,152</u>	<u>19,451,139</u>	<u>18,238,509</u>	<u>18,995,010</u>
<b>PROGRAM REVENUES</b>				
<b>Governmental Activities:</b>				
Charges for Services:				
General Government	391,960	421,986	373,889	345,078
Building and Planning	535,533	570,911	470,654	482,309
Public Safety	281,666	253,103	269,325	274,251
Public Works	225,528	106,590	31,440	61,750
Operating Contributions and Grants	2,965,391	3,169,109	3,170,366	2,758,111
Capital Contributions and Grants	-	-	-	-
Total Governmental Activities Program Revenues	<u>4,400,078</u>	<u>4,521,699</u>	<u>4,315,674</u>	<u>3,921,499</u>
<b>Total Net Revenues (Expenses)</b>	<u>\$ (13,402,074)</u>	<u>\$ (14,929,440)</u>	<u>\$ (13,922,835)</u>	<u>\$ (15,073,511)</u>
<b>GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS</b>				
<b>Governmental Activities:</b>				
Taxes:				
Property Taxes	\$ 1,999,106	\$ 2,037,141	\$ 1,465,724	\$ 2,199,059
Sales Taxes	5,348,047	5,167,358	4,481,302	5,145,381
Real Property Transfer Taxes	230,916	235,626	217,950	206,466
Motor Vehicle License Fees	-	-	-	-
Motor Vehicle in-lieu tax, unrestricted intergovernmental	3,807,220	3,790,596	3,820,297	4,012,068
Prop 1A, unrestricted intergovernmental	-	-	598,935	-
Franchise fees	1,414,887	1,445,587	1,417,649	1,453,986
Investment Income	120,130	99,019	123,100	422,358
Contribution from other government entity - Settlement Agreement	-	-	2,033,649	-
Other	1,241,844	541,090	145,595	266,475
Total Governmental Activities	<u>14,162,150</u>	<u>13,316,417</u>	<u>14,304,201</u>	<u>13,705,793</u>
<b>Changes in Net Assets</b>	<u>\$ 760,076</u>	<u>\$ (1,613,023)</u>	<u>\$ 381,366</u>	<u>\$ (1,367,718)</u>

Source: City Finance Division, Comprehensive Annual Financial Report (2003-2012)

	2008	2007	2006	2005	2004	2003
\$	4,794,245	\$ 4,235,381	\$ 4,505,272	\$ 5,016,167	\$ 4,674,016	\$ 4,962,868
	1,148,291	1,089,509	972,352	1,139,485	1,005,053	970,918
	7,642,333	6,440,965	6,033,988	5,746,796	5,437,001	4,822,527
	6,080,878	7,342,870	5,401,937	4,694,739	4,332,835	6,365,863
	-	-	-	-	-	-
	569,088	707,434	577,548	597,540	688,289	107,250
	<u>20,234,835</u>	<u>19,816,159</u>	<u>17,491,097</u>	<u>17,194,727</u>	<u>16,137,194</u>	<u>17,229,426</u>

	31,773	19,839	26,188	40,136	67,114	38,275
	539,869	540,904	508,793	864,537	670,081	638,749
	320,097	338,571	363,045	278,978	296,973	260,897
	177,512	94,822	38,709	117,702	93,083	80,040
	3,055,388	3,582,070	3,014,400	1,039,721	1,888,519	2,299,941
	-	-	-	1,512,370	1,374,956	23,034
	<u>4,124,639</u>	<u>4,576,206</u>	<u>3,951,135</u>	<u>3,853,444</u>	<u>4,390,726</u>	<u>3,340,936</u>
\$	<u>(16,110,196)</u>	<u>(15,239,953)</u>	<u>(13,539,962)</u>	<u>(13,341,283)</u>	<u>(11,746,468)</u>	<u>(13,888,490)</u>

\$	2,261,933	\$ 2,015,510	\$ 1,449,752	\$ 1,528,596	\$ 1,563,215	\$ 1,459,741
	6,400,424	6,325,108	6,365,432	5,935,350	5,621,674	4,886,699
	192,964	294,601	476,045	476,358	493,220	410,416
	-	-	-	-	-	3,696,539
	4,126,226	4,943,750	5,275,527	4,290,512	3,498,199	-
	-	-	-	-	-	-
	1,413,134	1,407,872	1,245,702	1,012,122	1,027,076	911,547
	904,939	1,054,180	631,305	364,559	214,800	341,895
	-	-	-	-	-	-
	271,486	349,323	479,089	501,701	104,656	17,363
	<u>15,571,106</u>	<u>16,390,344</u>	<u>15,922,852</u>	<u>14,109,198</u>	<u>12,522,840</u>	<u>11,724,200</u>
\$	<u>(539,090)</u>	<u>1,150,391</u>	<u>2,382,890</u>	<u>767,915</u>	<u>776,372</u>	<u>(2,164,290)</u>

**City of Rancho Santa Margarita  
Fund Balances of Governmental Funds  
Last Ten Fiscal Years**

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>GENERAL FUND</b>				
Nonspendable	\$ 183,016	\$ -	\$ -	\$ -
Restricted	58,982	-	-	-
Committed	172,428	55,892	59,085	37,810
Assigned	7,877,157	7,421,985	13,463,475	13,955,115
Unassigned	7,618,809	7,327,526	3,192,501	2,639,821
Total General Fund	<u>\$ 15,910,392</u>	<u>\$ 14,805,403</u>	<u>\$ 13,522,560</u>	<u>\$ 13,992,925</u>
<b>ALL OTHER GOVERNMENTAL FUNDS</b>				
Committed for encumbrances	\$ 188,906	\$ 28,839	\$ 1,113,041	\$ 87,264
Restricted for debt service	848,392	852,271	854,699	853,178
Restricted roads, grants, parks	2,547,003	2,465,098	-	-
Assigned, Reported in:				
Capital Project Funds	894,372	-	-	-
Unassigned, Reported in:				
Capital Project Funds	-	1,083,007	748,696	1,991,978
Other	-	-	-	-
Total All Other Governmental Funds	<u>\$ 4,478,673</u>	<u>\$ 4,429,215</u>	<u>\$ 2,716,436</u>	<u>\$ 2,932,420</u>

Source: City Finance Division, HdL, Coren & Cone, Comprehensive Annual Financial Report (2003-2012)

2008	2007	2006	2005	2004	2003
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
157,204	46,426	-	-	-	10,231
16,904,167	16,042,455	12,778,446	9,578,780	12,660,311	11,712,397
2,708,598	2,602,150	3,877,746	3,118,222	3,943,369	3,498,174
<u>\$ 17,061,371</u>	<u>\$ 16,088,881</u>	<u>\$ 12,778,446</u>	<u>\$ 9,578,780</u>	<u>\$ 12,660,311</u>	<u>\$ 11,722,628</u>
\$ 227,552	\$ -	\$ -	\$ -	\$ 86,405	\$ 115,383
868,427	868,883	868,498	870,578	1,423,415	-
-	-	-	-	-	-
-	-	-	-	-	-
1,867,508	826,848	1,391,654	1,169,652	2,608,808	409,545
-	-	-	-	1,072,021	-
<u>\$ 2,963,487</u>	<u>\$ 1,695,731</u>	<u>\$ 2,260,152</u>	<u>\$ 2,040,230</u>	<u>\$ 5,190,649</u>	<u>\$ 524,928</u>

**City of Rancho Santa Margarita**  
**Changes in Fund Balances of Governmental Funds**  
**Last Ten Fiscal Years**

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>REVENUES</b>				
Taxes	\$ 7,578,069	\$ 7,440,125	\$ 6,763,911	\$ 7,550,906
Fees & Permits	2,072,595	1,793,566	1,655,184	1,736,087
Intergovernmental	6,614,126	6,959,705	6,990,663	6,770,179
Charges for Services	657,598	755,808	638,448	607,036
Investment Income	120,130	99,019	123,100	422,358
Fines, forfeits and penalties	277,866	248,803	269,325	274,251
Other	571,964	541,090	145,595	266,475
Total Revenues	<u>17,892,348</u>	<u>17,838,116</u>	<u>16,586,226</u>	<u>17,627,292</u>
<b>EXPENDITURES</b>				
Current:				
General Government	3,856,873	3,739,202	4,097,146	4,496,860
Building and Planning	954,291	1,142,245	1,066,318	1,059,697
Public Safety	7,560,345	7,488,564	7,823,666	8,019,896
Public Works	2,642,796	4,193,615	2,340,380	2,545,637
Capital Outlay	887,336	633,846	549,624	3,831,109
Debt Service:				
Principal Retirement	305,000	295,000	290,000	280,000
Interest	531,260	542,523	552,760	562,385
Service fees & other charges	-	-	-	-
Total Expenditures	<u>16,737,901</u>	<u>18,034,995</u>	<u>16,719,894</u>	<u>20,795,584</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,154,447</u>	<u>(196,879)</u>	<u>(133,668)</u>	<u>(3,168,292)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	2,630,493	3,495,811	2,361,221	2,592,624
Transfers Out	(2,630,493)	(3,495,811)	(2,361,221)	(2,592,624)
Issuance of Debt	-	-	-	-
Total Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>1,154,447</u>	<u>(196,879)</u>	<u>(133,668)</u>	<u>(3,168,292)</u>
Fund Balances, beginning of year	19,234,618	19,431,497	19,565,165	22,733,457
Fund Balances, end of year	<u>\$ 20,389,065</u>	<u>\$ 19,234,618</u>	<u>\$ 19,431,497</u>	<u>\$ 19,565,165</u>
<b>DEBT SERVICE AS A PERCENTAGE OF NON CAPITAL EXPENDITURES</b>				
	5.13%	4.81%	5.21%	4.97%

Note: Excludes infrastructure per Governmental Accounting Standards Board Statement No. 34

Source: City Finance Division, Comprehensive Annual Financial Report (2003-2012)

	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
\$	8,855,321	\$ 8,635,219	\$ 8,291,229	\$ 7,940,304	\$ 7,678,109	\$ 6,756,856
	1,835,160	1,764,706	1,546,410	1,580,822	1,507,143	1,473,745
	8,381,614	7,325,820	8,288,428	6,842,601	6,161,674	6,022,030
	327,128	298,731	274,483	453,674	350,211	191,651
	904,939	1,054,180	631,304	364,561	214,800	341,895
	320,097	338,571	363,044	278,978	296,973	260,896
	271,486	349,323	479,089	501,701	704,656	18,063
	<u>20,895,745</u>	<u>19,766,550</u>	<u>19,873,987</u>	<u>17,962,641</u>	<u>16,913,566</u>	<u>15,065,136</u>
	4,740,844	4,807,153	4,902,918	4,876,998	4,733,646	5,032,730
	1,134,310	1,088,534	973,131	1,141,458	1,003,705	970,918
	7,623,419	6,434,622	6,028,949	5,740,329	5,411,742	4,778,075
	3,865,499	5,140,138	3,204,397	2,560,259	2,774,830	4,642,292
	348,737	250,138	9,932	10,121,622	9,073,287	398,628
	265,000	-	-	-	-	-
	571,241	575,547	575,548	575,540	239,811	-
	-	-	-	-	426,478	-
	<u>18,549,050</u>	<u>18,296,132</u>	<u>15,694,875</u>	<u>25,016,206</u>	<u>23,663,499</u>	<u>15,822,643</u>
	<u>2,346,695</u>	<u>1,470,418</u>	<u>4,179,112</u>	<u>(7,053,565)</u>	<u>(6,749,933)</u>	<u>(757,507)</u>
	2,271,638	3,310,023	2,244,604	7,644,226	1,534,764	2,956,907
	(2,271,638)	(3,310,023)	(2,244,604)	(7,644,226)	(1,534,764)	(2,956,907)
	-	-	-	-	12,795,000	-
	-	-	-	-	12,795,000	-
	<u>2,346,695</u>	<u>1,470,418</u>	<u>4,179,112</u>	<u>(7,053,565)</u>	<u>6,045,067</u>	<u>(757,507)</u>
	<u>20,386,762</u>	<u>18,916,344</u>	<u>14,737,232</u>	<u>21,790,797</u>	<u>15,745,730</u>	<u>16,503,237</u>
\$	<u><u>22,733,457</u></u>	<u><u>\$ 20,386,762</u></u>	<u><u>\$ 18,916,344</u></u>	<u><u>\$ 14,737,232</u></u>	<u><u>\$ 21,790,797</u></u>	<u><u>\$ 15,745,730</u></u>
	4.59%	3.19%	3.67%	3.86%	4.57%	0.00%



**City of Rancho Santa Margarita**  
**Taxable Sales by Category**  
**Last Ten Fiscal Years**  
**(In Thousands)**

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Apparel Stores	*	\$ 9,426	\$ 9,957	\$ 9,904
General Merchandise	*	59,349	57,149	56,695
Food Stores	*	24,911	24,534	25,293
Eating & Drinking Places:	*	59,009	57,543	57,942
Building Materials	*	37,355	35,049	32,870
Auto Dealers & Supplies	*	105,688	83,057	80,635
Service Stations	*	62,197	50,757	42,020
Other Retail Stores	*	63,075	60,604	61,961
All Other Outlets	*	109,967	104,163	95,901
<b>Total</b>	<b>*</b>	<b>\$ 530,977</b>	<b>\$ 482,813</b>	<b>\$ 463,221</b>
<b>City Direct Sales Tax Rate</b>	0.75%	0.75%	0.75%	0.85%

\*Data for fiscal year 2011-2012 not available at this time.

Note: Data for fiscal years were estimated by dividing the respective calendar year by two and adding half of each year together.

Source: California State Board of Equalization, HdL Companies

<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
\$ 10,510	\$ 12,301	\$ 12,741	\$ 12,922	\$ 14,622	\$ 15,387
57,874	62,512	60,200	54,495	52,474	49,577
25,673	26,690	27,624	25,759	24,115	24,847
59,973	64,279	62,260	59,106	54,695	50,429
38,815	46,435	46,825	47,693	49,027	42,772
132,705	175,569	191,710	179,802	166,490	135,801
52,205	46,631	45,191	41,902	36,443	30,668
76,683	86,573	93,810	89,502	78,232	71,227
115,820	134,217	129,245	120,005	129,832	115,692
<b>\$ 570,258</b>	<b>\$ 655,207</b>	<b>\$ 669,606</b>	<b>\$ 631,186</b>	<b>\$ 605,930</b>	<b>\$ 536,400</b>
0.75%	0.75%	0.75%	0.75%	1.00%	1.00%

**City of Rancho Santa Margarita  
Tax Revenues by Source - Governmental Funds  
Last Ten Fiscal Years**

<b>Fiscal Year</b>	<b>Sales and Use Tax</b>	<b>Property Tax</b>	<b>Real Property Transfer</b>	<b>Total</b>
2012	\$ 5,348,047	\$ 1,999,106	\$ 230,916	\$ 7,578,069
2011	5,167,358	2,037,141	235,626	7,440,125
2010	4,481,302	2,064,659	217,950	6,763,911
2009	5,145,381	2,199,059	206,466	7,550,906
2008	6,400,424	2,261,933	192,964	8,855,321
2007	6,325,108	2,015,510	294,601	8,635,219
2006	6,365,432	1,449,752	476,045	8,291,229
2005	5,935,350	1,528,596	476,358	7,940,304
2004	5,621,674	1,563,215	493,220	7,678,109
2003	4,886,699	1,459,741	410,416	6,756,856

Source: City Finance Division, Comprehensive Annual Financial Report (2003-2012)

**City of Rancho Santa Margarita**  
**Assessed Value and Estimated Actual Value of Taxable Property**  
**Last Ten Fiscal Years**

<b>Fiscal Year</b>	<b>Residential Property</b>	<b>Commercial Property</b>	<b>Industrial Property</b>	<b>Miscellaneous Property</b>	<b>Less: Tax-Exempt Property</b>	<b>Total Taxable Assessed Value (1)</b>	<b>Total Direct Rate</b>
2012	\$ 5,531,375,422	\$ 471,169,396	\$ 408,247,722	\$ 214,027,762	-	\$ 6,624,820,302	0.03%
2011	5,494,764,386	477,885,672	413,512,495	216,438,704	-	6,602,601,257	0.03%
2010	5,427,807,446	492,989,116	441,113,787	254,584,859	-	6,616,495,208	0.03%
2009	5,732,867,423	380,038,052	305,419,495	479,713,183	-	6,898,038,153	0.03%
2008	5,819,200,351	373,671,244	286,424,261	497,659,141	-	6,976,954,997	0.03%
2007	5,477,649,646	370,791,656	269,361,787	453,170,650	-	6,570,973,739	0.03%
2006	4,990,738,000	353,751,230	261,808,655	383,406,176	-	5,989,704,061	0.03%
2005	4,555,259,930	342,546,269	238,993,681	365,193,604	-	5,501,993,484	0.03%
2004	4,193,972,829	308,585,993	221,362,605	324,985,962	-	5,048,907,389	0.03%
2003	3,910,985,949	259,633,179	205,372,612	321,428,759	-	4,697,420,499	0.03%

(1) Note: Estimated value of taxable property not readily available in the State of California

Source: HdL Companies

**City of Rancho Santa Margarita**  
**Direct and Overlapping Property Tax Rates**  
**Last Ten Fiscal Years**  
**(Rate per \$100 of Taxable Value)**

<u>Agency</u>	<u>2011/12</u>	<u>2010/11</u>	<u>2009/10</u>	<u>2008/09</u>
<b>Basic Levy<sup>1,5</sup></b>	1.00000	1.00000	1.00000	1.00000
Capistrano Union	0.01101	0.01105	0.01077	0.00971
Metropolitan Water District Oc Annex #15	0.00000	0.00000	0.00000	0.00000
Metropolitan Water District	0.00370	0.00370	0.00430	0.00430
Metropolitan Water District Annex	0.00370	0.19120	0.19180	0.19180
Saddleback Valley Unified	0.03163	0.03194	0.03043	0.02834
Santa Margarita Water District	4.21220	4.22640	4.98790	4.03430
<b>Total Direct &amp; Overlapping<sup>2</sup> Tax Rates</b>	<b>5.26224</b>	<b>5.46429</b>	<b>6.22520</b>	<b>5.26845</b>
<b>City's Share of 1% Levy Per Prop 13<sup>3</sup></b>	0.02978	0.02978	0.02978	0.02978
<b>Total Direct Rate<sup>4,6</sup></b>	0.02978	0.02978	0.02978	0.02978

**Notes:**

<sup>1</sup>In 1978, California voters passed Proposition 13 which set the property tax rate at a 1.00% fixed amount. This 1.00 % is shared by all taxing agencies in which the subject property resides within. In addition to the 1.00% fixed amount, property owners are charged taxes as a % of assessed property values for the payment of any voter approved bonds.

<sup>2</sup>Overlapping rates are those of local and county governments that apply to property owners within the City. Not all overlapping rates apply to all city property owners.

<sup>3</sup>City's Share of 1% Levy is based on the share of the general fund tax rate area with the largest net taxable value within the city. ERAF general fund tax shifts may not be included in tax ratio figures.

<sup>4</sup>Total Direct Rate is the weighted average of all individual direct rates applied by the City.

<sup>5</sup>Under Article IXXXA of the California Constitution, local agencies within the State of California can only levy a tax rate for general obligation bonds. In addition, Article XIII A of the California Constitution specifies that the counties within the State of California may levy a basic tax rate, distributing the proceeds to the proper agencies.

<sup>6</sup>This tax rate does not include any Mello-Roos tax or special assessments.

Source: Orange County Assessor 2002/03 - 2011/12 Tax Rate Table

<b>2007/08</b>	<b>2006/07</b>	<b>2005/06</b>	<b>2004/05</b>	<b>2003/04</b>	<b>2002/03</b>
1.00000	1.00000	1.00000	1.00000	1.00000	1.00000
0.01019	0.00947	0.01078	0.01191	0.01292	0.01054
0.00000	0.00000	0.00000	0.00000	0.00000	0.01020
0.00450	0.00470	0.00520	0.00580	0.00610	0.00670
0.19200	0.19220	0.19270	0.19330	0.19360	0.19420
0.02668	0.03694	0.03079	0.03626	0.00000	0.00000
2.78400	2.85940	3.02670	6.53500	2.65500	2.55000
<b>4.01737</b>	<b>4.10271</b>	<b>4.26617</b>	<b>7.78227</b>	<b>3.86762</b>	<b>3.77164</b>
0.02978	0.02978	0.02978	0.02978	0.02978	0.02978
0.02978	0.02978	0.02978	0.02978	0.02978	0.02985

**City of Rancho Santa Margarita  
Principal Property Tax Payers  
Current Year and Nine Years Ago**

<u>Taxpayer</u>	<u>2012</u>			<u>2003</u>		
	<u>Total Assessed Value</u>	<u>Percentage of Total City Taxable Assessed Value</u>	<u>Rank</u>	<u>Total Assessed Value</u>	<u>Percentage of Total City Taxable Assessed Value</u>	<u>Rank</u>
Applied Medical Resources Corporation	\$ 120,509,458	1.82%	1			
El Prado LLC	70,414,643	1.06%	2			
BRE Properties Inc.	45,397,328	0.69%	3	\$ 40,443,315	0.86%	3
Villa La Paz Partners LP	36,951,239	0.56%	4	32,045,502	0.68%	4
Antonio Acquisition Co. LLC	34,530,987	0.52%	5	26,834,494	0.57%	7
CoxCom Inc	32,478,905	0.49%	6			
Cox Com Inc (Orange)	26,887,605	0.41%	7	65,258,424	1.39%	1
KRC Santa Margarita	25,505,519	0.38%	8	21,549,847	0.46%	9
Crescent Limited Partnership	24,359,667	0.37%	9	21,125,640	0.45%	10
FG RSM Senior Apartment	24,072,418	0.36%	10			
Northwestern Mutual Life				41,758,361	0.89%	2
ERP Operating LP				28,410,047	0.60%	5
Sanyo Foods Corporation				26,876,266	0.57%	6
Pacific Mutual Life				24,539,509	0.52%	8
Totals	<u>\$ 441,107,769</u>	<u>6.66%</u>		<u>\$ 328,841,405</u>	<u>7.00%</u>	

Source: County Tax Assessor's Office and County Tax Roll, The HdL Companies

**City of Rancho Santa Margarita  
Property Tax Levies and Collections  
Last Ten Fiscal Years**

<b>Fiscal Year</b>	<b>Total Tax Levy for Fiscal Year</b>	<b>Collected within the Fiscal Year of the Levy</b>		<b>Collections in Subsequent Years</b>	<b>Total Collections to Date</b>	
		<b>Amount</b>	<b>Percentage of Levy</b>		<b>Total Tax Collections</b>	<b>Percentage of Levy</b>
2012	\$ 1,898,324	\$ 1,778,174	93.67%	\$ 6,180	\$ 1,872,561	98.64%
2011	1,885,068	1,857,054	98.51%	62,096	1,857,053	98.51%
2010	1,886,013	1,234,269	65.44%	91,579	1,845,196	97.84%
2009	1,981,063	1,906,112	96.22%	93,040	1,912,628	96.55%
2008	1,986,995	1,910,346	96.14%	57,180	1,913,808	96.32%
2007	1,862,630	1,801,581	96.72%	33,987	1,813,177	97.34%
2006	1,445,537	1,419,756	98.20%	25,804	1,499,752	100.00%
2005	1,534,511	1,506,541	98.20%	22,087	1,528,596	99.61%
2004	1,575,818	1,549,698	98.30%	*	1,537,095	97.54%
2003	1,459,678	1,426,632	97.70%	*	1,459,741	100.00%
2002	1,467,648	1,430,843	97.50%	*	1,454,780	99.12%

\*Data prior to FY 04/05 not available.

Source: O.C. Auditor-controller, City Finance Division, Comprehensive Annual Financial Report (2003-2012)



**City of Rancho Santa Margarita  
Ratio of Outstanding Debt by Type  
Last Ten Fiscal Years**

<b>Fiscal Year</b>	<b>General Obligation Bonds</b>	<b>Lease Revenue Bonds</b>	<b>Certificates of Participation</b>	<b>Mitigation Obligation <sup>(3)</sup></b>	<b>Total Governmental Activities</b>	<b>As % of Personal Income <sup>(1)</sup></b>	<b>Per Capita <sup>(2)</sup></b>
2012	\$ -	\$ -	\$ 11,360,000	\$ -	11,360,000	0.59%	235
2011	-	-	11,665,000	-	11,665,000	0.58%	234
2010	-	-	11,960,000	-	11,960,000	0.55%	241
2009	-	-	12,250,000	-	12,250,000	0.60%	247
2008	-	-	12,530,000	-	12,530,000	0.80%	254
2007	-	-	12,795,000	600,000	13,395,000	0.83%	274
2006	-	-	12,795,000	1,000,000	13,795,000	0.85%	281
2005	-	-	12,795,000	1,000,000	13,795,000	*	282
2004	-	-	12,795,000	1,000,000	13,795,000	*	283
2003	-	-	12,795,000	1,000,000	13,795,000	*	284

<sup>(1)</sup> Assessed value used because actual value of taxable property not readily available in the State of California.

<sup>(2)</sup> See the Schedule of Demographic and Economic Statistics for personal income and population data.

<sup>(3)</sup> Pursuant to revenue neutrality agreements, upon incorporation in 2000, the City became obligated to make payments to Orange County to mitigate loss of County property and sales tax.

\*Data prior to fiscal year 2005-06 is not available.

Source: City Finance Division, Employment Development Department, State Department of Finance, U.S. Bureau of Census, and HdL Companies

**City of Rancho Santa Margarita  
Ratio of General Bonded Debt Outstanding  
Last Ten Fiscal Years**

<b>Fiscal Year</b>	<b>Population</b>	<b>Total General Obligation Bonds</b>	<b>Less Debt Service Fund <sup>(1)</sup></b>	<b>Net Bonded Debt</b>	<b>Percent of Debt to Assessed Value<sup>(2)</sup></b>	<b>Debt per Capita</b>
2012	48,079	\$ -	\$ -	\$ -	0.00%	\$ -
2011	48,278	-	-	-	0.00%	-
2010	49,945	-	-	-	0.00%	-
2009	49,643	-	-	-	0.00%	-
2008	49,501	-	-	-	0.00%	-
2007	49,306	-	-	-	0.00%	-
2006	48,969	-	-	-	0.00%	-
2005	49,006	-	-	-	0.00%	-
2004	48,988	-	-	-	0.00%	-
2003	48,809	-	-	-	0.00%	-
2002	48,507	-	-	-	0.00%	-

<sup>(1)</sup> Amounts available for repayment of general obligation bonds.

<sup>(2)</sup> Assessed value used because estimated value of taxable property not readily available in State of California.

Source: City Finance Division, Department of Finance, Bureau of Economic Analysis (U. S. Census Bureau)

**City of Rancho Santa Margarita  
Direct & Overlapping Bonded Debt  
June 30, 2012**

	<b>Rate Applies to</b>	<b>Gross Bonded Debt Balance</b>	<b>Percent Applicable to City</b>	<b>Net Bonded Debt</b>
<b>Direct Debt</b>				
A65.01 City of RSM Nonprofit Corp. COP		\$ 11,360,000	100%	\$ 11,360,000
<b>Total Direct Debt</b>				<b>11,360,000</b>
<b>Overlapping Debt</b>				
628.01 Capistrano Unified SFID#1 1999 Bond#2002C		14,990,000	1.55%	231,770
629.01 Capistrano Unified SFID#1 1999 Bond#2001B		16,429,930	1.55%	254,034
640.02 Capistrano Unified SFID#1 1999 Bond#2000A		14,090,000	1.55%	217,854
6AB.01 Saddleback Valley USD 2004 Bond#2004A		84,500,000	14.53%	12,273,421
6AW.01 Saddleback Valley USD 2004 Series B		47,425,000	14.53%	6,888,367
*C55.14 Metro Water Dist-MWDOC-1205999		39,848,053	1.76%	700,640
C76.56 Santa Margarita Water ID#4-Bond	Land	136,420,000	44.16%	60,241,353
C76.58 Santa Margarita Water ID#3-Bond	Land	20,370,000	99.83%	20,334,349
<b>Total Overlapping Debt</b>				<b>101,141,788</b>
<b>Total Direct and Overlapping Debt</b>				<b>\$ 112,501,788</b>

2011/12 Assessed Valuation: \$6,624,820,302.

Debt To assessed Valuation Ratios:	Direct Debt	0.17%
	Overlapping Debt	1.53%
	Total Debt	1.70%

\*This fund is a portion of a larger agency and is responsible for debt in areas outside the city.

\*\*This report reflects debt which is being repaid through voter-approved property tax indebtedness. It excludes mortgage revenue, tax allocation bonds, interim financing obligations, non-bonded capital lease obligations, and certificates of participation, unless provided by the city.

Source: HdL Companies

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**City of Rancho Santa Margarita  
Legal Debt Margin  
Last Ten Fiscal Years**

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Assessed Valuation	\$ 6,624,820,302	\$ 6,602,601,257	\$ 6,616,495,208	\$ 6,898,038,153
Conversion Percentage	25%	25%	25%	25%
Adjusted Assessed Valuation	\$ 1,656,205,076	\$ 1,650,650,314	\$ 1,654,123,802	\$ 1,724,509,538
Debit Limit Percentage	15%	15%	15%	15%
Debt Limit	\$ 248,430,761	\$ 247,597,547	\$ 248,118,570	\$ 258,676,431
Total Net Debt Applicable to Limit: General Obligation Bonds	-	-	-	-
Legal Debt Margin	<u>\$ 248,430,761</u>	<u>\$ 247,597,547</u>	<u>\$ 248,118,570</u>	<u>\$ 258,676,431</u>
Total Net Debt Applicable to the Limit as a Percentage of Debt Limit	0.00%	0.00%	0.00%	0.00%

**Note:**

The Government Code of the State of California provides for a legal debt limit of 15% of gross assessed valuation. However, this provision was enacted when assessed valuation was based upon 25% of market value. Effective with the 1981-82 fiscal year, each parcel is now assessed at 100% of market value (as of the most recent change in ownership for that parcel). The computations shown above reflect a conversion of assessed valuation data for each fiscal year from the current full valuation perspective to the 25% level that was in effect at the time that the legal debt margin was enacted by the State of California for local governments located within the state.

Source: City Finance Division, HdL Companies; Orange County Auditor-Controller

<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
\$ 6,979,954,997	\$ 6,570,973,739	\$ 5,989,704,151	\$ 5,501,993,484	\$ 5,048,907,389	\$ 4,697,420,499
25%	25%	25%	25%	25%	25%
\$ 1,744,988,749	\$ 1,642,743,435	\$ 1,497,426,038	\$ 1,375,498,371	\$ 1,262,226,847	\$ 1,174,355,125
15%	15%	15%	15%	15%	15%
\$ 261,748,312	\$ 246,411,515	\$ 224,613,906	\$ 206,324,756	\$ 189,334,027	\$ 176,153,269
-	-	-	-	-	-
<u>\$ 261,748,312</u>	<u>\$ 246,411,515</u>	<u>\$ 224,613,906</u>	<u>\$ 206,324,756</u>	<u>\$ 189,334,027</u>	<u>\$ 176,153,269</u>
0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

**City of Rancho Santa Margarita  
Demographic and Economic Statistics  
Last Ten Fiscal Years**

<b>Fiscal Year</b>	<b>Population</b>	<b>Personal Income <sup>(1)</sup> (in thousands)</b>	<b>Per Capita Personal Income</b>	<b>Income per Median Household</b>	<b>Median Age</b>	<b>School Enrollment</b>	<b>Unemployment Rate</b>
2012	48,079	\$ 1,914,458	\$ 39,819	\$ 96,503	34.1	6255	5.60%
2011	48,278	1,933,727	40,054	96,503	33.5	6143	6.20%
2010	49,945	2,174,555	43,539	100,166	32.7	5965	5.80%
2009	49,643	2,048,221	41,259	97,744	31.9	5842	5.50%
2008	49,501	1,566,261	31,641	106,222	31.9	5488	3.80%
2007	49,306	1,535,550	31,143	103,028	31.9	5454	2.60%
2006	48,969	1,505,441	30,743	99,967	31.9	5420	1.80%
2005	49,006	*	*	*	*	*	*
2004	48,988	*	*	*	*	*	*
2003	48,809	*	*	*	*	*	*

\*Data prior to fiscal year 2005-06 is not available.

(1) Estimated for 2012

Source: U.S. Bureau of Census, Employment Development Department, California Department of Finance, Saddleback Valley and Capistrano Unified School District

**City of Rancho Santa Margarita  
Principal Employers  
Current Year and Six Years Ago**

<u>Employer</u>	<u>2012</u>		<u>2006</u>	
	Number of Employees	Percentage of Employment	Number of Employees	Percentage of Employment
Applied Medical	1,698	10.49%	1,100	3.77%
Cox Communications	783	4.84%	750	2.57%
O'Connell Landscape	1,033	6.38%	450	1.54%
Saddleback Valley School District	344	2.13%	572	1.96%
Lucas & Mercier Construction	300	1.85%	567	1.94%
Control Components Inc. (CCI)	268	1.66%	400	1.37%
Target Corporation	200	1.24%	300	1.03%
Car Sound Exhaust System, Inc.	207	1.28%	*	*
Capistrano Unified School District	154	0.95%	200	0.68%
PADI	200	1.24%	200	0.68%
Santa Margarita Catholic H.S.	207	1.28%	200	0.68%
Kohl's	110	0.68%	*	*

Note: Data prior to Fiscal Year 2005-2006 is not available.

\* Data not available

Source: City Finance Division, Development Services



**City of Rancho Santa Margarita**  
**Full-Time and Part-Time City Employees by Function**  
**Last Ten Fiscal Years**

FUNCTION	Full-Time and Part-Time Employees as of June 30									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
City Manager Full-Time	2.00	2.00	3.00	3.00	3.00	5.00	8.50	8.75	8.25	7.25
City Clerk Full-Time	2.80	2.80	2.60	2.60	2.60	2.38	2.38	2.50	2.40	2.00
Finance Full-Time	-	-	-	-	-	2.35	2.00	2.00	2.20	3.20
Police Services Full-Time	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Bldg./Planning Full-time	3.00	3.75	3.60	3.50	3.50	7.00	4.75	4.75	3.75	3.75
Engr./Pub. Works Full-Time	3.00	3.00	3.00	3.00	3.00	4.55	4.55	4.50	4.50	4.50
Comm. Services Full-Time	-	-	-	-	-	2.25	2.25	2.50	2.00	2.50
Admin. Services Full-Time	11.32	11.07	14.10	8.60	8.35	-	-	-	-	-
<b>Total</b>	<b>23.12</b>	<b>23.62</b>	<b>27.30</b>	<b>21.70</b>	<b>21.45</b>	<b>24.53</b>	<b>25.43</b>	<b>26.00</b>	<b>24.10</b>	<b>24.20</b>

Note: Part-Time Employees are expressed as Full-Time equivalents.

Finance and Community Services Department and Human Resources Division of the City Manager department were reorganized into Divisions of the Administrative Services Department.

Source: City Finance Division, City Human Resources, Adopted Operating Budget and Capital Improvement Plan FY 2012-2013

**City of Rancho Santa Margarita  
Capital Asset Statistics  
Last Ten Fiscal Years**

<b>FUNCTION</b>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
General Government										
Civic Center/City Hall Building	1	1	1	1	1	1	1	1	-	-
Police Services										
Support Vehicles	1	1	1	1	1	1	1	1	1	1
Motorcycles	2	2	2	3	3	3	3	3	3	3
Public Works										
Streets (Miles)	99	99	99	99	99	99	99	99	*	*
Traffic Signals	159	159	159	159	159	158	156	156	*	*
Community Services										
Dog Parks	1	1	1	1	1	1	1	1	-	-
Skate Parks	1	1	1	1	1	1	1	1	-	-

\*Data is not available.

Source: City Public Works Department, Police Services, Community Services

**City of Rancho Santa Margarita  
Operating Indicators by Function  
Last Ten Fiscal Years**

<b>FUNCTION</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>General Government</b>				
Financial Reports & Audits Completed	49	15	12	12
Checks/Wire Transfers	1,759	1,645	2,502	1,664
<b>Police Services</b>				
Physical Arrests	*	1,317	1,054	1,226
Parking Citations	*	1,613	2,168	2,308
Traffic Citations	*	3,184	2,627	3,928
<b>Public Works</b>				
Street Paving (miles)	8	13	30	6
Sidewalks replaced (sq. ft.)	1,025	3,973	8,585	4,000
Curb refurbished (linear feet)	15,500	19	1,614	23,000
Traffic signs replaced/installed	600	56	458	536
Pavement Condition Index (70 = min. acceptable)	79.2	77.9	76.5	76.5
<b>Building and Planning</b>				
Building Permits Issued	1,026	782	764	807
Building Inspections Completed	2,387	2,127	1,801	1,953
Plan Checks Performed	194	223	185	126
<b>Community Services</b>				
Recreational & Instructional Classes Offered	725	712	460	134
Senior Mobility Ride Vouchers	665	609	623	422
Community Events Attendance	17,500	15,000	17,000	30,500
Community Magazine Publications	3	3	3	3

\* Data not readily available.

Source: City Finance Division, Public Safety Department, Public Works Department, Development Services and Community Services Division

<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
12	7	6	7	6	5
2,355	2,152	2,389	2,401	*	*
986	770	737	643	493	376
2,090	3,544	3,467	2,142	2,570	2,284
3,814	3,384	3,886	5,163	4,571	4,491
25	15	51	15	25	46
2,975	1,443	3,118	2,300	*	*
19,769	12,726	14,526	11,200	*	*
559	432	304	438	*	*
76	73	70	78	75	78
786	751	742	903	722	*
3,460	3,613	4,042	3,271	2,074	*
355	327	355	618	461	*
102	121	106	122	757	563
440	145	688	585	516	*
30,000	19,300	17,900	2,500	8,000	12,000
3	3	3	3	3	3

**City of Rancho Santa Margarita  
Miscellaneous Statistics  
June 30, 2012**

Geographic Location:	The City of Rancho Santa Margarita is located 58 miles south east of Los Angeles and 450 miles south of San Francisco.
Population:	48,079
Area in square miles:	13
Form of Government:	Council-Manager
Date of Incorporation:	January 1, 2000
Number of Full Time Employees:	18
Public Safety:	
Police Department	Under contract with the Orange County Sheriff's Department
Fire Department	Under contract with the Orange County Fire Authority
Library	One branch, Orange County Public Library System
Recreation:	21 Privately owned and operated parks 1 County owned and operated park 2 Privately owned golf courses
Schools:	
Elementary Schools	11
Middle Schools	2
High Schools	1
Master Home Owners' Associations	7
Miles of Streets	99.5 miles
Number of Streetlights	159

Source: City Finance Division

City of Rancho Santa Margarita

California

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## APPENDIX C

### PROPOSED FORM OF BOND COUNSEL OPINION

December 19, 2012

Rancho Santa Margarita Public Financing Authority  
22112 El Paseo  
Rancho Santa Margarita, California 92688

Re: *\$11,230,000 Rancho Santa Margarita Public Financing Authority  
Lease Revenue Refunding Bonds, Series 2012A*

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Rancho Santa Margarita Public Financing Authority (the "Authority") of the Rancho Santa Margarita Public Financing Authority Lease Revenue Refunding Bonds, Series 2012A (the "Bonds") in the aggregate principal amount of \$11,230,000. In such connection, we have reviewed the Indenture, dated as of December 1, 2012 (the "Indenture"), by and among Wells Fargo Bank, National Association, as Trustee (the "Trustee"), the Authority and the City of Rancho Santa Margarita (the "City"), the Lease Agreement, dated as of December 1, 2012 (the "Lease Agreement"), by and between the City and the Authority, the Ground Lease, dated as of December 1, 2012 (the "Ground Lease"), by and between the City and the Authority, the Assignment Agreement, dated as of December 1, 2012 (the "Assignment Agreement"), by and between the Authority and the Trustee, the Tax Certificate of the Authority and the City, dated as of the date hereof (the "Tax Certificate"), opinions of counsel to the Authority, the City and the Trustee, certificates of the Authority, the City and the Trustee and others and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

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

(1) The obligation of the City to pay Base Rental Payments in accordance with the terms of the Lease Agreement is a valid and binding obligation payable from the funds of the City lawfully available therefore, except as the same may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights, by equitable principles, by the exercise of judicial discretion in appropriate cases and by the limitations on legal remedies against municipalities in the State of California. The obligation of the City to make Base Rental Payments under the Lease does not constitute a debt of the City, the State of California or any political subdivision thereof within the meaning of any statutory or constitutional debt limitation or restriction and does not constitute a pledge of the faith and credit or taxing power of the City, the State of California or any political subdivision thereof.

(2) The Lease Agreement and the Indenture have been duly authorized, executed and delivered by the City and the Authority and constitute valid and legally binding agreements of the City and the Authority enforceable against the City and the Authority in accordance with their terms, except as the same may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights, by equitable principles, by the exercise of judicial discretion in appropriate cases and by the limitations on legal remedies against municipalities in the State of



California, except that we express no opinion as to any provisions in the Lease Agreement or the Indenture with respect to indemnification, penalty, contribution, choice of law, choice of forum or waiver.

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

(4) Interest (and original issue discount) on the Bonds is exempt from personal income taxes imposed in the State of California.

(5) The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity are to be sold to the public) and the stated redemption price at maturity with respect to such Bonds constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bond owner will increase the Bond owner's basis in the applicable Bond. Original issue discount that accrues to a Bond owner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals or corporations (as described in paragraph 3 above) and is exempt from State of California personal income tax.

(6) The amount by which a Bond owner's original basis for determining loss on sale or exchange in a Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium, which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"); such amortizable Bond premium reduces the Bond owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bond owner realizing a taxable gain when a Bond is sold by the owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the owner.

The opinions expressed in paragraphs (3) and (5) are subject to the condition that the City and the Authority comply with all requirements of the Code, that must be satisfied subsequent to the delivery of the Bonds to assure that such interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) with respect to the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The City and the Authority have covenanted to comply with all such requirements.

Except as expressly set forth in paragraphs (3), (4), (5) and (6) we express no opinion regarding any tax consequences with respect to the Bonds.

Certain agreements, requirements and procedures contained or referred to in the Indenture, the Tax Certificate executed by the City and the Authority and other documents related to the Bonds may be changed and certain actions may be taken or omitted, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. We express no opinion as to the effect on the exclusion from gross income for federal income tax purposes of interest (and original issue discount) due with respect to any Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

We have not made or undertaken to make an investigation of the state of title to any of the real property described in the Lease Agreement, the Ground Lease and the Assignment Agreement or of the accuracy or sufficiency of the description of such property contained therein, and we express no opinion with respect to such matters.

We are admitted to the practice of law only in the State of California and our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

The opinions expressed herein are based upon our analysis and interpretation of existing statutes, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Our engagement with respect to the Bonds terminates on the date of their execution and delivery.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds and expressly disclaim any duty to advise the owners of the Bonds with respect to matters contained in the Official Statement.

Respectfully submitted,

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## APPENDIX D

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate, dated December 19, 2012 (the “Disclosure Certificate”) is executed and delivered by the City of Rancho Santa Margarita (the “City”) in connection with the execution and delivery of the Rancho Santa Margarita Public Financing Authority’s (the “Authority”) \$11,230,000 Lease Revenue Refunding Bonds, Series 2012A (the “Bonds”).

WHEREAS, the Bonds are being issued pursuant to an Indenture, dated as of December 1, 2012 (the “Indenture”), by and among the Authority, the City and Wells Fargo Bank, National Association, as trustee (the “Trustee”).

WHEREAS, the Bonds are payable from the base rental payments to be made by the City under the Lease Agreement, dated as of December 1, 2012 (the “Lease Agreement”), between the City, as lessee, and the Authority, as lessor; and

WHEREAS, this Disclosure Certificate is being executed and delivered by the City for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Underwriter in complying with the Rule (defined below).

**NOW, THEREFORE**, the City covenants as follows:

SECTION 1. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Comprehensive Annual Financial Report provided by the City pursuant to, and as described in, Sections 2 and 3 of this Disclosure Certificate.

“Beneficial Owner” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“Disclosure Representative” shall mean the City Manager of the City, the Administrative Services Director of the City or their designee, or such other officer or employee as the City shall designate in writing from time to time.

“Dissemination Agent” shall mean the City, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

“Listed Events” shall mean any of the events listed in Section 4(a) and (b) of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

“Official Statement” shall mean the Official Statement relating to the Bonds, dated December 5, 2012.

“Repository” shall mean the Municipal Securities Rulemaking Board, which can be found at <http://emma.msrb.org>.

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

“State” shall mean the State of California.

“Underwriter” shall mean the original Underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

## SECTION 2. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing April 1, 2013, with the report for the 2011-12 fiscal year, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate, with a copy to the Trustee provided that the report for April 1, 2013 shall consist solely of the Official Statement. Not later than five (5) Business Days prior to the Annual Report Date, the City shall provide the Annual Report to the Dissemination Agent, if other than the City. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 3 of this Disclosure Certificate. If the City’s fiscal year changes, the City, upon becoming aware of such change, shall give notice of such change in the same manner as for a Listed Event under Section 4(c). The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the City and shall have no duty or obligation to review such Annual Report.

(b) If by five (5) Business Days prior to the Annual Report Date, the Dissemination Agent (if other than the City) has not received a copy of the Annual Report, the Dissemination Agent shall notify the City of such non-receipt.

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the MSRB by the Annual Report Date, the Dissemination Agent shall provide to the MSRB (with a copy to the Trustee and the Participating Underwriters) a notice, in substantially the form attached as Exhibit A.

(d) Unless the City has done so pursuant to Section 3(a) above, the Dissemination Agent (if other than the City) shall:

(i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) if the Dissemination Agent is other than the City, file a certificate with the City to the effect that the Annual Report has been provided pursuant to this Disclosure Certificate, stating, to the extent it can confirm such filing of the Annual Report, the date it was provided.

SECTION 3. Content of Annual Reports. The City’s Annual Report shall contain or include by reference the following:

(a) The City’s audited financial statements, prepared in accordance with generally accepted auditing standards for municipalities in the State of California. 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 the financial statements contained in the

final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) To the extent not contained in the audited financial statements filed pursuant to the preceding subsection (a) by the date required by Section 2 hereof, updates of Tables 1, 2, 3, 6 and 8 in substantially the form set forth in the Official Statement.

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 the MSRB or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The 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 4, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not more than ten (10) days after the event, if material:

1. Principal and interest payment delinquencies;
2. Unscheduled draws on debt service reserves reflecting financial difficulties;
3. Unscheduled draws on credit enhancements reflecting financial difficulties;
4. Substitution of credit or liquidity providers, or their failure to perform;
5. Issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposal Issue (IRS Form 5701-TEB);
6. Tender Offers;
7. Defeasances;
8. Rating changes; and
9. Bankruptcy, insolvency, receivership or similar proceedings.

Note: For the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) Pursuant to the provisions of this Section 4, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material in a timely manner not more than ten (10) days after occurrence:

1. unless described in Section 4(a)(5), adverse tax opinions or other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
2. modifications to the rights of Bondholders;
3. optional, unscheduled or contingent Bond calls;
4. release, substitution or sale of property securing repayment of the Bonds;

5. non-payment related defaults;

6. the consummation of a merger, consolidation, or acquisition involving the City or the Authority or the sale of all or substantially all of the assets of the City or the Authority, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; and

7. appointment of a successor or additional trustee or the change of the name of a trustee.

(c) If the City determines that knowledge of the occurrence of a Listed Event under subsection (b) would be material under applicable federal securities laws, and if the Dissemination Agent is other than the City, the City shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to file a notice of such occurrence with the MSRB in an electronic format as prescribed by the MSRB in a timely manner not more than ten (10) Business Days after the event.

(d) If the City determines that the Listed Event under subsection (b) would not be material under applicable federal securities laws and if the Dissemination Agent is other than the City, the City shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence.

(e) The City hereby agrees that the undertaking set forth in this Disclosure Agreement is the responsibility of the City and, if the Dissemination Agent is other than the City, the Dissemination Agent shall not be responsible for determining whether the City's instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

SECTION 5. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under this Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 6. Termination of Reporting Obligation. The obligations of the City, the Trustee and the Dissemination Agent under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 4(c).

SECTION 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing thirty days written notice to the City and the Trustee. The Dissemination Agent shall not be responsible for the content of any report or notice prepared by the City and shall have no duty to review any information provided to it by the City. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the City in a timely manner and in a form suitable for filing.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the City may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule; provided, the Dissemination Agent shall have first consented to any amendment that modifies or increases its duties or obligations hereunder. In the event of any amendment or waiver of a provision of this Disclosure Agreement, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the

accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 4(c), and (ii) the Annual Report for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. 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 10. Default. In the event of a failure of the City to comply with any provision of this Disclosure Agreement, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure 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 to comply with this Disclosure Agreement shall be an action to compel performance.

No Bond holder or Beneficial Owner may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the City satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the City shall have refused to comply therewith within a reasonable time.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees, to the extent permitted by law, 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 attorney's fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. In performing its duties hereunder, the Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the City, the Bond holders, or any other party. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.



SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, if any, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

**CITY OF RANCHO SANTA MARGARITA**

By: \_\_\_\_\_  
City Manager

ATTEST:

\_\_\_\_\_  
City Clerk

**EXHIBIT A**

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

Name of Issuer: Rancho Santa Margarita Public Financing Authority  
Name of Issue: Rancho Santa Margarita Public Financing Authority Lease Revenue Refunding  
Bonds, Series 2012A  
Date of Issuance: December 19, 2012

**NOTICE IS HEREBY GIVEN** that the City of Rancho Santa Margarita (the “City”) has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate, dated December 19, 2012, executed by the City. [The City anticipates that the Annual Report will be filed by \_\_\_\_\_.]

Dated: \_\_\_\_\_

**CITY OF RANCHO SANTA MARGARITA**

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

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## APPENDIX E

### BOOK-ENTRY ONLY SYSTEM

*The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Series 2012 Bonds, payment of principal, premium, if any, accreted value and interest on the Series 2012 Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Series 2012 Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.*

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Series 2012 Bonds (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each maturity of the Securities in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial

Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; 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 Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Principal, redemption price and interest payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption price and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. If applicable, a Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to tender/remarketing agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to tender/remarketing agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to tender/remarketing agent's DTC account.

10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the Authority or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

11. The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

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**\$11,230,000**  
**RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY**  
**LEASE REVENUE REFUNDING BONDS, SERIES 2012A**

**UNDERWRITER'S RECEIPT FOR THE BONDS**

The undersigned, an authorized officer of Stifel, Nicolaus & Company, Incorporated dba Stone & Youngberg, a Division of Stifel Nicolaus (the "Underwriter"), hereby certifies that it received on this date at The Depository Trust Company, New York, New York, the above-captioned Bonds in the aggregate principal amount of \$11,230,000.

The Underwriter hereby further acknowledges the receipt of, or waives the requirement for, each opinion, document and certificate contemplated by Section 8(e) of the Bond Purchase Agreement dated December 5, 2012, among the Rancho Santa Margarita Public Financing Authority, the City of Rancho Santa Margarita and the Underwriter, and agrees that each such opinion, document and certificate, to the extent received, is satisfactory to the Underwriter as to form and substance.

Dated: December 19, 2012

STIFEL, NICOLAUS & COMPANY,  
INCORPORATED DBA STONE & YOUNGBERG,  
A DIVISION OF STIFEL NICOLAUS

By:   
Authorized Officer

**WELLS FARGO BANK, NATIONAL ASSOCIATION**

**ASSISTANT SECRETARY'S CERTIFICATE**

I, Scott C. Emmons, hereby certify that I am an Assistant Secretary of Wells Fargo Bank, National Association, a national banking association, (the "Bank"), and I hereby further certify as follows:

1. The following is a true and correct extract from resolutions duly adopted by the Board of Directors of the Bank on November 25, 2003, and no modification, amendment, rescission or revocation of such resolutions has occurred affecting such extract as of the date of this certificate.

**RESOLVED**, that for the purposes of these resolutions, "Executive Officer" shall mean any person specifically designated as an Executive Officer of the Bank by resolution of the Board of Directors, and "Signing Officer" shall mean the Chairman of the Board, the President, any Vice Chairman, any Executive Vice President, any Senior Vice President, the Treasurer, any Vice President, any Assistant Vice President, any person whose title includes the word "Officer" (e.g., Commercial Banking Officer, Personal Banking Officer, Trust Officer), or any other person whose title has been or is hereafter designated by the Board of Directors as a title for an officer of the Bank, and such officers are hereby authorized to sign agreements, instruments and other documents on behalf of the Bank in accordance with the signing authorities conferred in Parts A, B and C of these resolutions;

\* \* \*

C. Signing Officers

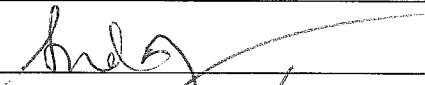
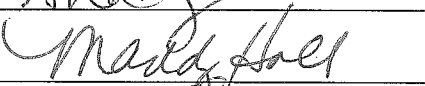

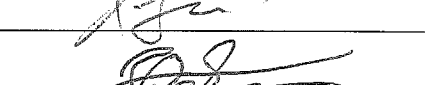




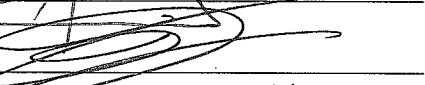
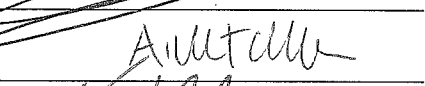
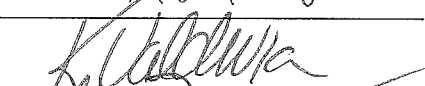
**FURTHER RESOLVED**, that any Signing Officer, acting alone, may execute on behalf of the Bank, whether acting for its own account or in a fiduciary or other representative capacity:

\* \* \*


Trust indentures, declarations of trust, trust and agency agreements, pooling and servicing agreements, fiscal and paying agency agreements, acceptances thereof, consents thereto and any similar agreements, however denominated, to which the Bank is a party in a fiduciary or other representative capacity; certificates of authentication or other indicia of valid issuance with respect to bonds, notes, debentures and other securities or obligations issued under any indenture, mortgage, trust or other agreement; certificates for securities deposited, interim certificates and other certificates for and on behalf of the Bank as depository or agent; countersignatures of stocks, bonds, notes, debentures, voting trust certificates, participation certificates and other certificates, instruments, obligations or other securities on behalf of the Bank as

certificates of cancellation and cremation of stocks, bonds, debentures or other securities.

2. The following named persons are Signing Officers of the Bank as of the date hereof, and their correct titles and genuine signatures appear beside their names:

<b><u>Name</u></b>	<b><u>Title</u></b>	<b><u>Signature</u></b>
Sandy Chan	Vice President	
Maddy Hall	Vice President	
Kyle Lim	Assistant Vice President	
Tom Orlina	Vice President	
Dania Samai	Vice President	
Robert Schneider	Vice President	
Kheang (TK) Tan	Assistant Vice President	
Michael Tu	Assistant Vice President	
Aimee Tabor	Vice President	
Kathryn Valdivia	Vice President	
Grace Yang	Vice President	

**IN WITNESS WHEREOF**, I have hereunto set my hand this 19<sup>th</sup> day of DECEMBER 2012.

  
 \_\_\_\_\_  
 Scott C. Emmons  
 Assistant Secretary

**\$11,230,000**  
**RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY**  
**LEASE REVENUE REFUNDING BONDS, SERIES 2012A**

**CLOSING CERTIFICATE OF THE TRUSTEE**

The undersigned, an authorized officer of Wells Fargo Bank, National Association, as trustee (the "Trustee") under the Indenture dated as of December 1, 2012 (the "Indenture"), by and among the Rancho Santa Margarita Public Financing Authority (the "Authority"), the City of Rancho Santa Margarita and the Trustee, and the Assignment Agreement dated as of December 1, 2012, by and between the Rancho Santa Margarita Public Financing Authority and the Trustee (collectively, the "Trustee Documents") hereby certifies as follows:

1. The Trustee is a banking association duly organized and in good standing under the laws of the United States of America, and has full corporate power and authority to enter into and perform its duties and obligations under and pursuant to the Trustee Documents.

2. The Trustee is duly authorized to execute and deliver the Trustee Documents and to authenticate and deliver the Bonds to the Underwriter upon instruction by the Authority pursuant to the terms of the Indenture, and the Trustee Documents constitute legal, valid and binding obligations of the Trustee enforceable in accordance with their terms except as enforcement may be limited by bankruptcy, insolvency, moratorium or other similar laws or equitable principles relating to or limiting creditors' rights generally.

3. The representations of the Trustee in the Trustee Documents are true and correct in all material respects as of the date hereof.

4. To the knowledge of the Trustee, there is no litigation pending or threatened (either in state or federal courts) against the Trustee (a) to restrain or enjoin the execution or delivery of any of the Bonds or the collection of revenues and other amounts pledged under the Indenture, or (b) in any way contesting or affecting any authority of the Trustee for the authentication or delivery of the Bonds or the validity or enforceability of the Trustee Documents against the Trustee.

5. No consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over it that has not been obtained is or will be required for the authentication of the Bonds or the consummation by it of the other transactions contemplated to be performed by it in connection with the authentication of the Bonds and the acceptance and performance of the obligations created by the Indenture.

6. To the knowledge of the Trustee, compliance with the terms of the Indenture will not conflict with, or result in a violation or breach of, or constitute a default under, any material agreement or material instrument to which the Trustee is a party or by which it is bound, or any law or any rule, regulation, order or decree of any court or governmental agency or body having jurisdiction over it or any of its activities or properties.

7. The Bonds have been validly authenticated and the Trustee shall hold the Bonds as FAST Agent on behalf of The Depository Trust Company for the account of the Underwriter.

8. In providing certification herein, the Trustee makes no representation regarding compliance with any state or federal securities laws.

Capitalized terms used herein but not otherwise defined shall have the meaning assigned to them in the Indenture.

Dated: December 19, 2012

WELLS FARGO BANK, NATIONAL  
ASSOCIATION, as Trustee

By: 

\_\_\_\_\_  
Authorized Officer



**\$11,230,000**  
**RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY**  
**LEASE REVENUE REFUNDING BONDS, SERIES 2012A**

**TRUSTEE'S RECEIPT FOR PROCEEDS AND OTHER MONIES**

The undersigned, an authorized officer of Wells Fargo Bank, National Association, as trustee (the "Trustee"), under that certain Indenture dated as of December 1, 2012 (the "Indenture"), by and among the Trustee, the Rancho Santa Margarita Public Financing Authority (the "Authority") and the City of Rancho Santa Margarita (the "City"), hereby acknowledges receipt from Stifel, Nicolaus & Company, Incorporated dba Stone & Youngberg, a Division of Stifel Nicolaus (the "Underwriter"), on behalf of the Authority, the "Purchase Price" of the above-captioned Bonds, computed by the Underwriter as follows:

Principal Amount	\$11,230,000.00
Plus net original issue premium	571,904.80
Less Underwriter's Discount	<u>(61,021.60)</u>
<b>TOTAL PURCHASE PRICE</b>	<b><u>\$11,740,883.20</u></b>

Disposition of Total Purchase Price of \$11,740,883.20, together with \$2,347,605.09 (consisting of \$847,605.09 from the prior debt service reserve fund and \$1,500,000.00 City prepayment of Base Rental Payments), in accordance with the Indenture, is as follows:

Deposit to the Construction Fund	\$ 850,000.00
Deposit to the Prepaid Base Rental Account	1,500,000.00
Deposit to the Escrow Fund	11,544,227.65
Deposit to the Costs of Issuance Fund	<u>194,260.64</u>
<b>TOTAL</b>	<b><u>\$14,088,488.29</u></b>

*[SIGNATURE PAGE TO  
TRUSTEE'S RECEIPT FOR PROCEEDS AND OTHER MONIES]*

Dated: December 19, 2012

WELLS FARGO BANK, NATIONAL  
ASSOCIATION, as Trustee

By: 

\_\_\_\_\_  
Authorized Officer

**\$11,230,000**  
**RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY**  
**LEASE REVENUE REFUNDING BONDS, SERIES 2012A**

**CLOSING CERTIFICATE OF THE ESCROW BANK**

The undersigned hereby states and certifies that:

1. The undersigned is an authorized officer of Wells Fargo Bank, National Association, as escrow bank (the "Escrow Bank"), under that certain Escrow Deposit and Trust Agreement dated as of December 1, 2012 (the "Escrow Agreement"), by and between the City of Rancho Santa Margarita and the Escrow Bank, and, as such, is familiar with the facts herein certified and is authorized and qualified to certify the same.

2. The Escrow Bank is duly organized and existing as a national banking association under the laws of the United States of America, having the full power and authority to enter into and perform its duties under the Escrow Agreement.

3. The Escrow Agreement has been duly authorized, executed and delivered by the Escrow Bank and, assuming due authorization, execution and delivery by the other parties thereto, the Escrow Agreement constitutes the valid and legally binding obligation of the Escrow Bank enforceable in accordance with its terms, except as enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and by the application of equitable principles, if equitable remedies are sought.

4. No consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over the Escrow Bank that has not been obtained is or will be required for the performance of the Escrow Bank of its obligations to be performed under the Escrow Agreement and the acceptance and performance of the obligations created by the Escrow Agreement.

5. To its knowledge, compliance with the terms of the Escrow Agreement will not conflict with, or result in a violation or breach of, or constitute a default under, any material agreement or material instrument to which the Escrow Bank is a party or by which it is bound, or any law or any rule, regulation, order or decree of any court or governmental agency or body having jurisdiction over the Escrow Bank or any of its activities or properties.

Dated: December 19, 2012

WELLS FARGO BANK, NATIONAL  
ASSOCIATION, as Escrow Bank

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

**\$11,230,000**  
**RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY**  
**LEASE REVENUE REFUNDING BONDS, SERIES 2012A**

**ESCROW BANK'S RECEIPT**

The undersigned, on behalf of Wells Fargo Bank, National Association, as escrow bank (the "Escrow Bank") under that certain Escrow Deposit and Trust Agreement dated as of December 1, 2012 (the "Escrow Agreement"), by and between the City of Rancho Santa Margarita and the Escrow Bank, acknowledges receipt of the Government Obligations as shown on Exhibit A and cash deposit to the Escrow Fund referenced in the Escrow Agreement.

Dated: December 19, 2012

WELLS FARGO BANK, NATIONAL  
ASSOCIATION, as Escrow Bank

By: 

\_\_\_\_\_  
Authorized Officer



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**Continuing Disclosure Details**

**EVENT FILING (CUSIP-9 BASED)**

Rule 15c2-12 Disclosure  
 Defeasance: NOTICE OF DEFEASANCE, dated 12/19/2012

Total CUSIPs associated with this submission: 15

**VIEW DOCUMENTS**

- Event Filing dated 12/19/2012
  - RANCHO NOTICE of DEFESANCE.pdf posted 12/19/2012 [View](#)

[\[-\] CUSIP-6s](#)

[> RANCHO SANTA MARGARITA CALIF CTFES PARTN. CA. \(752145\)](#)

**RANCHO SANTA MARGARITA CALIF CTFES PARTN, CA (752145)**

Displaying 1 issue.  
 Total CUSIPs selected for this CUSIP-6: 15.

Issue Description *	Dated Date	Maturity Dates	Official Statement
<a href="#">[+] CITY HALL &amp; REGL CMNTY CTR</a>	11/01/2003	2007 to 2033	<a href="#">Preview</a>

**SUBMITTER'S CONTACT INFORMATION**

Company: Corp. Trust  
 Name: ARACELY PADILLA  
 Address: 707 WILSHIRE BLVD  
 City, State Zip: LOS ANGELES, CA 90017  
 Phone Number: 2136143341  
 Email: aracely.padilla@wellsfargo.com

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**EXHIBIT C**

**NOTICE OF DEFEASANCE**

**CITY OF RANCHO SANTA MARGARITA  
 CERTIFICATES OF PARTICIPATION  
 (CITY HALL AND REGIONAL COMMUNITY CENTER)**

**BASE CUSIP NO. 752145**

NOTICE IS HEREBY GIVEN to the owners of the above-captioned certificates of participation (as further defined below, the "2003 Certificates"), of the City of Rancho Santa Margarita (the "City"), that the City has deposited with Wells Fargo Bank, National Association, as trustee (the "2003 Trustee") under the Trust Agreement, dated as of November 1, 2003 (the "Trust Agreement"), by and among the City, the City of Rancho Santa Margarita Nonprofit Corporation (the "Corporation") and the 2003 Trustee, cash and federal securities, the principal of and interest on which when paid will provide moneys sufficient to pay on and prior to October 1, 2013 the regularly scheduled payments of principal and interest with respect to the 2003 Certificates, and to pay on October 1, 2013, the principal, interest and premium, if any, with respect to the 2003 Certificates maturing after October 1, 2013.

The 2003 Certificates to be defeased are as follows:

<i>CUSIP</i>	<i>Maturity (October 1)</i>	<i>Rate</i>	<i>Amount</i>
AG7	2013	4.00%	\$ 330,000
AH5	2014	4.00	340,000
AJ1	2015	4.00	355,000
AK8	2016	4.10	375,000
AL6	2017	4.20	390,000
AM4	2018	4.30	400,000
AN2	2019	4.40	425,000
AP7	2020	4.50	440,000
AQ5	2021	4.60	460,000
AR3	2022	4.65	480,000
AS1	2023	4.75	500,000
AT9	2024	4.75	525,000
AU6	2027	4.75	1,730,000
AV4	2030	4.75	1,995,000
AW2	2033	5.00	2,300,000



In accordance with the Trust Agreement, the 2003 Certificates are deemed to have been paid in accordance with Section 10.01 thereof and the obligations of the City and the Corporation under the Trust Agreement with respect to the 2003 Certificates shall thereupon cease, terminate and become void and be discharged and satisfied.

WELLS FARGO BANK, NATIONAL  
ASSOCIATION, as Trustee

Dated this 19th day of December, 2012.

STRADLING YOCCA CARLSON & RAUTH

A PROFESSIONAL CORPORATION  
ATTORNEYS AT LAW  
660 NEWPORT CENTER DRIVE, SUITE 1600  
NEWPORT BEACH, CA 92660-6422  
TELEPHONE (949) 725-4000  
FACSIMILE (949) 725-4100

SAN DIEGO  
(858) 720-2150  
SAN FRANCISCO  
(415) 283-2240  
SANTA BARBARA  
(805) 730-6800  
SANTA MONICA  
(424) 214-7000  
SACRAMENTO  
(916) 449-2350

December 19, 2012

Rancho Santa Margarita Public Financing Authority  
22112 El Paseo  
Rancho Santa Margarita, California 92688

*Re: \$11,230,000 Rancho Santa Margarita Public Financing Authority Lease Revenue  
Refunding Bonds, Series 2012A*

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Rancho Santa Margarita Public Financing Authority (the "Authority") of the Rancho Santa Margarita Public Financing Authority Lease Revenue Refunding Bonds, Series 2012A (the "Bonds") in the aggregate principal amount of \$11,230,000. In such connection, we have reviewed the Indenture, dated as of December 1, 2012 (the "Indenture"), by and among Wells Fargo Bank, National Association, as Trustee (the "Trustee"), the Authority and the City of Rancho Santa Margarita (the "City"), the Lease Agreement, dated as of December 1, 2012 (the "Lease Agreement"), by and between the City and the Authority, the Ground Lease, dated as of December 1, 2012 (the "Ground Lease"), by and between the City and the Authority, the Assignment Agreement, dated as of December 1, 2012 (the "Assignment Agreement"), by and between the Authority and the Trustee, the Tax Certificate of the Authority and the City, dated as of the date hereof (the "Tax Certificate"), opinions of counsel to the Authority, the City and the Trustee, certificates of the Authority, the City and the Trustee and others and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

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

(1) The obligation of the City to pay Base Rental Payments in accordance with the terms of the Lease Agreement is a valid and binding obligation payable from the funds of the City lawfully available therefore, except as the same may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights, by equitable principles, by the exercise of judicial discretion in appropriate cases and by the limitations on legal remedies against municipalities in the State of California. The obligation of the City to make Base Rental Payments under the Lease does not constitute a debt of the City, the State of California or any political subdivision thereof within the meaning of any



statutory or constitutional debt limitation or restriction and does not constitute a pledge of the faith and credit or taxing power of the City, the State of California or any political subdivision thereof.

(2) The Lease Agreement and the Indenture have been duly authorized, executed and delivered by the City and the Authority and constitute valid and legally binding agreements of the City and the Authority enforceable against the City and the Authority in accordance with their terms, except as the same may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights, by equitable principles, by the exercise of judicial discretion in appropriate cases and by the limitations on legal remedies against municipalities in the State of California, except that we express no opinion as to any provisions in the Lease Agreement or the Indenture with respect to indemnification, penalty, contribution, choice of law, choice of forum or waiver.

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

(4) Interest (and original issue discount) on the Bonds is exempt from personal income taxes imposed in the State of California.

(5) The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity are to be sold to the public) and the stated redemption price at maturity with respect to such Bonds constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bond owner will increase the Bond owner's basis in the applicable Bond. Original issue discount that accrues to a Bond owner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals or corporations (as described in paragraph (3) above) and is exempt from State of California personal income tax.

(6) The amount by which a Bond owner's original basis for determining loss on sale or exchange in a Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium, which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"); such amortizable Bond premium reduces the Bond owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bond owner realizing a taxable gain when a Bond is sold by the owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the owner.

The opinions expressed in paragraphs (3) and (5) are subject to the condition that the City and the Authority comply with all requirements of the Code, that must be satisfied subsequent to the delivery of the Bonds to assure that such interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) with respect to the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The City and the Authority have covenanted to comply with all such requirements.

Except as expressly set forth in paragraphs (3), (4), (5) and (6) we express no opinion regarding any tax consequences with respect to the Bonds.

Certain agreements, requirements and procedures contained or referred to in the Indenture, the Tax Certificate executed by the City and the Authority and other documents related to the Bonds may be changed and certain actions may be taken or omitted, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. We express no opinion as to the effect on the exclusion from gross income for federal income tax purposes of interest (and original issue discount) due with respect to any Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

We have not made or undertaken to make an investigation of the state of title to any of the real property described in the Lease Agreement, the Ground Lease and the Assignment Agreement or of the accuracy or sufficiency of the description of such property contained therein, and we express no opinion with respect to such matters.

We are admitted to the practice of law only in the State of California and our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

The opinions expressed herein are based upon our analysis and interpretation of existing statutes, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Our engagement with respect to the Bonds terminates on the date of their execution and delivery.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds and expressly disclaim any duty to advise the owners of the Bonds with respect to matters contained in the Official Statement.

Respectfully submitted,

*Stradling Yocca Carlson & Rauth*

STRADLING YOCCA CARLSON & RAUTH

A PROFESSIONAL CORPORATION  
ATTORNEYS AT LAW  
660 NEWPORT CENTER DRIVE, SUITE 1600  
NEWPORT BEACH, CA 92660-6422  
TELEPHONE (949) 725-4000  
FACSIMILE (949) 725-4100

SAN DIEGO  
(858) 720-2150  
SAN FRANCISCO  
(415) 283-2240  
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December 19, 2012

Wells Fargo Bank, National Association  
Los Angeles, California

*Re: \$11,230,000 Rancho Santa Margarita Public Financing Authority Lease Revenue  
Refunding Bonds, Series 2012A*

Ladies and Gentlemen:

In our capacity as Bond Counsel relative to the issuance of the above-referenced bonds (the "Bonds"), we have this day rendered to the Rancho Santa Margarita Public Financing Authority our opinion (the "Approving Opinion") as to certain matters relating to the issuance of the Bonds. You are authorized to rely on the Approving Opinion as if it were addressed to you. You have acknowledged that no attorney-client relationship exists between us and you with respect to any matters related to the Bonds. Our engagement with respect to the Bonds has concluded with their issuance, and we expressly disclaim any obligation to update this letter or the Approving Opinion.

This letter is not to be used, circulated, quoted or otherwise referred to or relied upon for any other purpose or by any other person to whom it is not specifically addressed without our prior written consent.

Respectfully submitted,

*Stradling Yocca Carlson & Rauth*

STRADLING YOCCA CARLSON & RAUTH

A PROFESSIONAL CORPORATION  
ATTORNEYS AT LAW  
660 NEWPORT CENTER DRIVE, SUITE 1600  
NEWPORT BEACH, CA 92660-6422  
TELEPHONE (949) 725-4000  
FACSIMILE (949) 725-4100

SAN DIEGO  
(858) 720-2150  
SAN FRANCISCO  
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December 19, 2012

Stifel, Nicolaus & Company, Incorporated  
dba Stone & Youngberg, a Division of Stifel Nicolaus  
Los Angeles, California

*Re: \$11,230,000 Rancho Santa Margarita Public Financing Authority Lease Revenue  
Refunding Bonds, Series 2012A*

Ladies and Gentlemen:

Acting in our capacity as Bond Counsel for the Rancho Santa Margarita Public Financing Authority (the "Authority"), we have examined certified copies of proceedings taken for the sale and issuance of the above-referenced bonds (the "Bonds") and we have rendered our opinion to the Authority this day regarding the validity and enforceability of such Bonds (the "Approving Opinion"). The Bonds have been issued pursuant to an Indenture dated as of December 1, 2012 (the "Indenture"), by and among Wells Fargo Bank, National Association, as trustee (the "Trustee"), the Authority and the City of Rancho Santa Margarita (the "City"), and approved by Resolution No. PFA 12-11-14-02 adopted by the Board of Directors of the Authority on November 14, 2012 (the "Resolution"). You may rely upon our Approving Opinion as if addressed to you. Capitalized terms used herein and not otherwise defined shall have the meanings given such terms in the Bond Purchase Agreement dated December 5, 2012 (the "Purchase Agreement"), by and among the Authority, the City and Stifel, Nicolaus & Company Incorporated, dba Stone & Youngberg, a Division of Stifel Nicolaus, as Underwriter.

We have examined the record of proceedings submitted to us relative to the execution and delivery of the Bonds and originals or copies certified or otherwise identified to our satisfaction of (i) the Purchase Agreement, the Indenture, the Lease Agreement, the Ground Lease, the Assignment Agreement and the Continuing Disclosure Certificate, (ii) the Official Statement dated December 5, 2012 (the "Official Statement"), and (iii) such other documents, certificates, opinions of counsel, instructions and records as we have considered necessary or appropriate as a basis for our opinion.

We have assumed, but not independently verified, that the signatures on all documents, letters, opinions and certificates which we have examined are genuine, that all documents submitted to us are authentic and were duly and properly executed by the parties thereto, and that all representations made in the documents that we have reviewed are true and accurate.

Based upon the foregoing and such other information and documents as we consider necessary to render this opinion, we are of the opinion that:

1. The Purchase Agreement has been duly authorized, executed and delivered by the Authority and the City, and, assuming due authorization, execution and delivery by the other parties thereto, constitutes the legal, valid and binding obligation of the Authority and the City, enforceable in accordance with its terms, except to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights, by equitable principles, by the exercise of judicial discretion in appropriate cases and by the limitations on legal remedies against public entities in the State of California; provided that no opinion is expressed with respect to any indemnification or contribution provisions contained therein.

2. The statements contained in the Official Statement on the cover and under the captions "INTRODUCTION," "THE SERIES 2012 BONDS" (except under the subcaption "Book-Entry Only System"), "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 BONDS," "THE REFUNDING PLAN" (except under the subcaption "Verification") and "TAX MATTERS" and in "APPENDIX A – SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS" and "APPENDIX C – PROPOSED FORM OF BOND COUNSEL OPINION," excluding any material that may be treated as included under such captions and appendices by any cross-reference, insofar as such statements expressly summarize provisions of the Bonds, the Ground Lease, the Lease Agreement, the Assignment Agreement, the Indenture and Bond Counsel's final opinion concerning certain federal tax matters relating to the Bonds, are accurate in all material respects as of the date of Closing, provided that Bond Counsel need not express any opinion with respect to any financial or statistical data contained therein or with respect to the book-entry system in which the Bonds are initially delivered.

3. The Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Indenture is exempt from qualification under the Trust Indenture Act of 1939, as amended.

4. The City has, pursuant to Section 7.02 of the Lease Agreement dated November 1, 2003 (the "2003 Lease Agreement") by and between the City and the City of Rancho Santa Margarita Nonprofit Corporation, prepaid all Base Rental Payments (as defined in the 2003 Lease Agreement).

We are not passing upon and have not undertaken to determine independently or to verify the accuracy or completeness of the statements contained in the Official Statement and are, therefore, unable to make any representation to you in that regard. Based on our participation in conferences with representatives of the Authority, the City, the City's Financial Advisor and others, during which conferences the content of the Official Statement and related matters were discussed and in reliance thereon and on certain documents reviewed by us and on the documents, letters, certificates and opinions described above and our understanding of applicable law, we advise you as a matter of fact, but not opinion, that no information has come to the attention of the attorneys in the firm representing the City and the Authority which caused us to believe that the Official Statement as of its date contained, or as of the date hereof contains, any untrue statement of a material fact or as of its

date omitted, or as of the date hereof omits, to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading (except that we express no view with respect to any financial, statistical or economic data or forecasts, numbers, charts, graphs, estimates, appraisals, projections, assumptions or expressions of opinion therein, any information about The Depository Trust Company and the book-entry system or CUSIP numbers therein, or any of the Appendices thereto). We advise you that, other than reviewing the various certificates and opinions required by the Purchase Agreement regarding the Official Statement, we have not taken any steps since the date of the Official Statement to verify the accuracy of the statements contained in the Official Statement as of the date hereof.

The opinions expressed herein are based upon our analysis and interpretation of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. This opinion is limited to matters governed by the laws of the State of California and federal securities laws, and we assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction. No opinion is expressed herein with respect to the compliance with, or applicability of, any "blue sky" laws of any state as they relate to the offer or sale of the Bonds. Except as expressly set forth in the Approving Opinion, we express no opinion regarding any tax consequences with respect to the Bonds.

We call attention to the fact that the foregoing opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions or events are taken (or not taken) or occur (or do not occur), and we expressly disclaim any responsibility to advise you as to events occurring after the date hereof with respect to the Bonds or other matters discussed in the Official Statement.

This opinion is furnished by us to you solely in our capacity as Bond Counsel to the Authority and we have not undertaken to, and do not represent you in any capacity in connection with the Bonds. This opinion is solely for your benefit, and may not be relied upon by others without our prior written consent.

Respectfully submitted,

*Stallery Yocca Cohen & Rauh*

December 19, 2012

Stifel, Nicolaus & Company Incorporated  
dba Stone & Youngberg, a Division of Stifel Nicolaus  
Los Angeles, California

Wells Fargo Bank, National Association  
Los Angeles, California

Stradling Yocca Carlson & Rauth  
Newport Beach, California

Re: \$11,230,000 Rancho Santa Margarita Public Financing Authority Lease Revenue  
Refunding Bonds, Series 2012A

Ladies and Gentlemen:

I am the duly appointed City Attorney of the City of Rancho Santa Margarita (the "City") and, as counsel to the Rancho Santa Margarita Public Financing Authority (the "Authority") in connection with the issuance of the Rancho Santa Margarita Public Financing Authority Lease Revenue Bonds, Series 2012A in the aggregate principal amount of \$11,230,000 (the "Bonds"), I have examined originals (or copies certified or otherwise identified to my satisfaction) of such documents, records and other instruments as I deemed necessary or appropriate for the purposes of the following opinions, including, without limitation: the Indenture dated as of December 1, 2012 (the "Indenture"), by and among Wells Fargo Bank, National Association, as trustee (the "Trustee"), the Authority and the City; the Lease Agreement dated as of December 1, 2012 (the "Lease Agreement"), by and between the City and the Authority; the Assignment Agreement dated as of December 1, 2012, by and between the Authority and the Trustee (the "Assignment Agreement," and together with the Indenture, the Lease Agreement and the Ground Lease, "the Authority Documents"); the Official Statement dated December 5, 2012, relating to the Bonds (the "Official Statement"); and Resolution No. PFA-12-11-14-02, adopted November 14, 2012 (the "Authority Resolution"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

I am of the opinion that:

1. The Authority is a public body, corporate and politic duly organized and validly existing under the Constitution and laws of the State of California.

2. The Authority Resolution approving and authorizing the execution and delivery of the Authority Documents, the Bonds and the Official Statement and other actions of the Authority was duly adopted at a meeting of the governing body of the Authority which was called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout, and the Authority Resolution is now in full force and effect and has not been amended or superseded in any way.

3. The Authority Documents have been duly authorized, executed and delivered by the Authority and are valid, legal and binding agreements of the Authority (assuming due authorization, execution and delivery by and validity against the other parties thereto).

4. There is no action, suit, proceeding, inquiry or investigation at law or in equity before or by any court or public body pending with respect to which the Authority has been served or, to the best of my knowledge, threatened against or affecting the Authority, except as disclosed in the Official Statement, which would materially adversely impact the Authority's ability to complete the transactions contemplated by the Authority Documents, the Official Statement or any other document or certificate related to such transactions, restrain or enjoin the collection of Base Rental with respect to the Lease Agreement, or in any way contesting or affecting the validity of the Bonds, the Official Statement, the Authority Documents or the transactions described in and contemplated thereby wherein an unfavorable decision, ruling or finding would materially adversely affect the validity and enforceability of the Bonds or the Authority Documents or in which a final adverse decision could materially adversely affect the operations of the Authority.

5. The execution and delivery of the Authority Documents and the issuance of the Bonds and compliance with the provisions thereof, do not and will not in any material respect conflict with or constitute on the part of the Authority a breach of or default under any agreement or other instrument to which the Authority is a party or by which it is bound or any existing law, regulation, court order or consent decree to which the Authority is subject, which breach or default has or may have a material adverse effect on the ability of the Authority to perform its obligations under the Authority Documents.

6. No authorization, approval, consent, or other order of the State of California or any other governmental body within the State of California is required for the valid authorization, execution and delivery of the Authority Documents or the Official Statement by the Authority or the consummation by the Authority of the transactions on its part contemplated therein, except such as have been obtained and except such as may be required under state securities or blue sky laws in connection with the purchase and distribution of the Bonds by the Underwriter.



Stifel, Nicolaus & Company Incorporated  
dba Stone & Youngberg, a Division of Stifel Nicolaus  
Wells Fargo Bank, National Association  
Stradlin Yocca Carlson & Rauth  
December 19, 2012  
Page 3

7. Based on the information made available to me in my role as counsel to the Authority, and without having undertaken to determine independently or assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Official Statement under the caption entitled "THE AUTHORITY," nothing has come to my attention which would lead me to believe that the statements contained in the above-referenced caption as of the date of the Official Statement and as of the date hereof contained or contains any untrue statement of a material fact or omitted or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

Respectfully,

WOODRUFF, SPRADLIN & SMART  
A Professional Corporation

  
GREGORY E. SIMONIAN

December 19, 2012

Stifel, Nicolaus & Company Incorporated  
dba Stone & Youngberg, a Division of Stifel Nicolaus  
Los Angeles, California

Wells Fargo Bank, National Association  
Los Angeles, California

Stradling Yocca Carlson & Rauth  
Newport Beach, California

Re: \$11,230,000 Rancho Santa Margarita Public Financing Authority Lease Revenue  
Refunding Bonds, Series 2012A

Ladies and Gentlemen:

I am the duly appointed City Attorney of the City of Rancho Santa Margarita (the "City") in connection with the issuance by the Rancho Santa Margarita Public Financing Authority (the "Authority") of the Rancho Santa Margarita Public Financing Authority Lease Revenue Refunding Bonds, Series 2012A in the aggregate principal amount of \$11,230,000. In such connection, I have examined originals (or copies certified or otherwise identified to my satisfaction) of such documents, records and other instruments as I deemed necessary or appropriate for the purposes of the following opinions, including, without limitation: the Indenture dated as of December 1, 2012 (the "Indenture"), by and among Wells Fargo Bank, National Association, as trustee (the "Trustee"), the Authority and the City; the Lease Agreement dated as of December 1, 2012 (the "Lease Agreement"), by and between the City and the Authority; the Continuing Disclosure Certificate dated as of December 1, 2012 (the "Continuing Disclosure Certificate," and together with the Indenture, the Lease Agreement and the Ground Lease, the "City Documents") executed by the City; the Official Statement dated December 5, 2012, relating to the Bonds (the "Official Statement"); and Resolution No. 12-11-14-03, adopted November 14, 2012 (the "City Resolution"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

I am of the opinion that:

1. The City is a general law city and a municipal corporation duly organized and validly existing under the Constitution and laws of the State of California.

2. The City Resolution approving and authorizing the execution and delivery of the City Documents and approving and authorizing the issuance of the Bonds and the delivery of the Official Statement and other actions of the City, was duly adopted at a meeting of the governing body of the City which was called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout, and the City Resolution is now in full force and effect and has not been amended or superseded in any way.

3. The City Documents have been duly authorized, executed and delivered by the City and are valid, legal and binding agreements of the City (assuming due authorization, execution and delivery by and validity against the other parties thereto).

4. There is no action, suit, proceeding, inquiry or investigation at law or in equity before or by any court or public body pending with respect to which the City has been served or, to the best of my knowledge, threatened against or affecting the City, except as disclosed in the Official Statement, which would materially adversely impact the City's ability to complete the transactions contemplated by the City Documents, the Official Statement or any other document or certificate related to such transactions, restrain or enjoin the collection of Base Rental with respect to the Lease Agreement, or in any way contesting or affecting the validity of the Bonds; the Official Statement or the City Documents or which will materially affect the City's finances so as to impair its ability to pay Base Rental Payments when due.

5. The execution and delivery of the City Documents and compliance with the provisions thereof, do not and will not in any material respect conflict with or constitute on the part of the City a breach of or default under any agreement or other instrument to which the City is a party or by which it is bound or any existing law, regulation, court order or consent decree to which the City is subject, which breach or default has or may have a material adverse effect on the ability of the City to perform its obligations under the City Documents.

6. No authorization, approval, consent, or other order of the State of California or any other governmental body within the State of California is required for the valid authorization, execution and delivery of the City Documents or the consummation by the City of the transactions on its part contemplated therein, except such as have been obtained and except such as may be required under state securities or blue sky laws in connection with the purchase and distribution of the Bonds by the Underwriter.

7. Based upon my examinations and discussions in conferences with certain officials of the City and others with respect to the Official Statement and without having undertaken to determine independently the accuracy, completeness or fairness of the statements contained in the Official Statement, nothing has come to my attention which would lead me to believe that the statements under the captions "THE PROPERTY" and "ABSENCE OF LITIGATION" in the

Stifel, Nicolaus & Company Incorporated  
dba Stone & Youngberg, a Division of Stifel Nicolaus  
Wells Fargo Bank, National Association  
Stradlin Yocca Carlson & Rauth  
December 19, 2012  
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Official Statement (other than any financial and statistical data therein and incorporated therein by reference, as to which no opinion need be expressed) contains an untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

Respectfully,

WOODRUFF, SPRADLIN & SMART  
A Professional Corporation



GREGORY E. SIMONIAN



ATTORNEYS AT LAW

18101 Von Karman Avenue  
Suite 1800  
Irvine, CA 92612  
T 949.833.7800  
F 949.833.7878

Refer To File #: 190597-0038

December 19, 2012

Stifel, Nicolaus & Company, Incorporated dba Stone &  
Youngberg, a Division of Stifel Nicolaus  
515 South Figueroa Street, Suite 1800  
Los Angeles CA 90071

**Re: \$11,230,000 Rancho Santa Margarita Public Financing Authority Lease  
Revenue Refunding Bonds, Series 2012A**

Ladies and Gentlemen:

We have acted as counsel for you, as underwriter (the "Underwriter") named in the Bond Purchase Agreement dated December 5, 2012 (the "Purchase Contract"), among the Underwriter, the Rancho Santa Margarita Public Financing Authority (the "Authority") and the City of Rancho Santa Margarita (the "City"), in connection with the purchase by the Underwriter of the above-entitled Bonds. The Bonds are issued pursuant to Article 4 of Chapter 5, Division 7, Title 1 of the Government Code of the State of California (the "Act"), and an Indenture, dated as of December 1, 2012 (the "Indenture"), among the City, the Authority and Wells Fargo Bank, National Association (the "Trustee"). Capitalized terms herein, unless otherwise defined, shall have the meanings provided in the Indenture.

We have, as such counsel, examined originals, or copies certified or otherwise identified to our satisfaction, of such documents, records, opinions of counsel, including the final approving opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, as bond counsel ("Bond Counsel"), and other instruments as we deemed necessary or appropriate for the purpose of this opinion. In rendering our opinion herein, we are not expressing any opinion or review on the validity, accuracy or sufficiency of documents, certificates or opinions that we have examined or on the authorization, execution, delivery or validity of the Bonds or the inclusion or exclusion from gross income for federal income tax purposes, or the exemption from State of California personal income taxes, of interest on the Bonds. With your permission we have assumed and relied on the validity, accuracy and sufficiency of the records, documents, certificates and opinions relating to the issuance of the Bonds. Further, we have assumed, but not independently verified, that the signatures on all documents, certificates and opinions that we have reviewed are genuine.

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

Because the primary purpose of our professional engagement was not to establish factual matters, and because of the wholly or partially non-legal character of many determinations involved in the preparation by Bond Counsel of the final official statement relating to the Bonds (the "Official Statement"), we are not passing upon, and do not assume any responsibility for, the accuracy, completeness or fairness of any of the statements contained in the Official Statement and make no representation that we have independently verified the accuracy, completeness or fairness of any such statements. However, in our capacity as counsel for you, we reviewed the contents of the Official Statement and related materials provided by Bond Counsel. Based solely on our review, and in reliance thereon and on the certificates, opinions and other documents we have reviewed, and without independent investigation, we advise you that no information has come to our attention which would cause us to believe that the Official Statement, as of its date (except for any financial, demographic or statistical data or forecasts contained in the Official Statement, the Appendices to the Official Statement or any information relating to The Depository Trust Company or the book-entry system included in the Official Statement, as to which we express no opinion) contains any untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

This opinion is furnished by us solely for your benefit and solely with respect to your purchase of the Bonds, upon the understanding, as we have advised you, and as you have agreed, that we are not hereby assuming any professional responsibility to any other person whatsoever. Our opinion herein is not to be used, circulated, quoted or otherwise referred to for any other purpose without our express written permission; provided, however, a copy may be included in the transcript of the proceedings for the Bonds. This opinion is not intended to, and may not, be relied upon by the Authority, the City, the Bond Owners or any other party to whom it is not specifically addressed.

Respectfully submitted,

Handwritten signature and initials, likely representing the law firm LLP.



**Law Department**  
Wells Fargo & Company  
MAC N9305-172  
Sixth and Marquette  
Minneapolis, MN 55479

wellsfargo.com

December 19, 2012

City of Rancho Santa Margarita  
Rancho Santa Margarita, California

Rancho Santa Margarita Public Financing Authority  
Rancho Santa Margarita, California

Stifel, Nicolaus & Company, Incorporated  
dba Stone & Youngberg, a Division of Stifel, Nicolaus  
Los Angeles, California

Re: City of Rancho Santa Margarita  
Lease Revenue Refunding Bonds  
Series 2012A (the "Bonds")

Ladies and Gentlemen:

I am Senior Counsel of Wells Fargo & Company, the parent corporation of Wells Fargo Bank, National Association ("Wells Fargo"), and have been requested to provide this opinion on behalf of Wells Fargo in connection with (i) the Indenture, dated as of December 1, 2012 (the "Indenture"), by and among the Rancho Santa Margarita Public Financing Authority (the "Authority"), the City of Santa Margarita (the "City") and Wells Fargo, as trustee (the "Trustee"), (ii) the Assignment Agreement, dated as of December 1, 2012 (the "Assignment Agreement"), by and between the Authority and Wells Fargo, as Trustee and (iii) the Escrow Deposit and Trust Agreement, dated as of December 1, 2012 (the "Escrow Deposit and Trust Agreement," and together with the Indenture and the Assignment Agreement, the "Agreements"), by and between the City and Wells Fargo, as the escrow bank (the "Escrow Bank"). Capitalized terms used herein and not otherwise defined herein will have the meanings assigned in the Agreements.

For purposes of this opinion, I have assumed the genuineness of all signatures (other than those of Wells Fargo), the authenticity of the document submitted to me as original, and the conformity with the original document submitted to me as a copy. With regard to documents executed by entities other than Wells Fargo, I have assumed that each such other entity had the power to enter into and perform all its obligations thereunder, and also have assumed the due authorization of all requisite action and due execution of such documents by each such entity. Where questions of fact material to my opinions expressed below were not established independently, I have relied upon statements of officers of Wells Fargo as contained in their certificates.

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



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1. Wells Fargo is a national banking association and is validly existing, duly qualified to do business and in good standing under the laws of each jurisdiction in which the performance of its duties under the Agreements would require such qualification and has the requisite power and authority to execute, deliver and perform its obligations under the Agreements.

2. Wells Fargo is duly eligible and qualified to act as Trustee under the Indenture and Escrow Bank under the Escrow Deposit and Trust Agreement.

3. Wells Fargo has all requisite power, authority and legal right to execute and deliver the Agreements and to perform its obligations under such Agreements, and has taken all necessary corporate action to authorize the execution and delivery of and the performance of its obligations under such Agreements.

4. Wells Fargo has duly executed and delivered the Agreements. Assuming the due authorization, execution and delivery thereof by the other party thereto, the Agreements are the legal, valid and binding agreements of Wells Fargo, enforceable against Wells Fargo in accordance with their terms, except to the extent enforceability thereof may be subject to (i) bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights and remedies heretofore or hereinafter enacted, and (ii) the application of equitable principles and the exercise of judicial discretion in appropriate cases.

5. The execution, delivery and performance of the Agreements by Wells Fargo and the consummation of the transactions contemplated thereby do not and will not (a) to my knowledge conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which Wells Fargo is a party or by which Wells Fargo is bound or to which any of the property or assets of Wells Fargo or any of its subsidiaries is subject, (b) result in any violation of the provisions of the Articles of Association, By-laws, or applicable resolutions of Wells Fargo, or (c) to my knowledge result in any violation of any statute, order, rule or regulation of any court or government agency or body having jurisdiction over Wells Fargo or any of its properties or assets.

6. To my knowledge, there are no actions, proceedings or investigations pending or threatened against Wells Fargo before any court, administrative agency or tribunal (i) asserting the invalidity of the Agreements, (ii) seeking to prevent the consummation of any of the transactions contemplated thereby or (iii) that might materially and adversely affect the performance by Wells Fargo of its obligations under, or the validity or enforceability of the Agreements. For purposes of the foregoing, I have not regarded any actions, proceedings or investigations "threatened" unless the potential litigants or governmental authority has manifested to a member of the Wells Fargo & Company Law Department having



December 19, 2012

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responsibility for litigation matters involving the corporate trust activities of Wells Fargo a present intention to initiate such proceedings.

7. No authorization, consent or other order of any State of California or federal government authority or agency having jurisdiction in the matter is required to be obtained by Wells Fargo for the valid authorization, execution, delivery and performance by Wells Fargo of the Agreements.

I am admitted to practice in the State of California (the "State"), and do not purport to be qualified to express legal opinions based on the laws of any jurisdiction other than the federal laws of the United States of America ("Federal") and the State. These opinions are further limited to such State and Federal laws in effect as of the date hereof.

The foregoing opinions are being furnished to you solely for your benefit and that of your counsel. This opinion may not be relied upon by, nor may copies be delivered to, any other person without my prior written consent, except that reference may be made to this opinion letter in the closing memorandum relating to the Bonds and this opinion letter may be included in the related closing transcripts.

Very truly yours,



Laurie K. Jones  
Senior Counsel  
Wells Fargo & Company

hk1je0400

November 28, 2012

City of Rancho Santa Margarita  
22112 El Paseo  
Rancho Santa Margarita, CA 92688  
Attention: Mr. Paul Boyer, Administrative Services Director

Re: *US\$11,770,000 Rancho Santa Margarita Public Financing Authority, (Rancho Santa Margarita), California, Lease Revenue Refunding Bonds, Series 2012A, dated: December 19, 2012, due: November 01, 2033*

Dear Mr. Boyer:

Pursuant to your request for a Standard & Poor's rating on the above-referenced issuer, we have reviewed the information submitted to us and, subject to the enclosed *Terms and Conditions*, have assigned a rating of "AA+". Standard & Poor's views the outlook for this rating as stable. A copy of the rationale supporting the rating is enclosed.

The rating is not investment, financial, or other advice and you should not and cannot rely upon the rating as such. The rating is based on information supplied to us by you or by your agents but does not represent an audit. We undertake no duty of due diligence or independent verification of any information. The assignment of a rating does not create a fiduciary relationship between us and you or between us and other recipients of the rating. We have not consented to and will not consent to being named an "expert" under the applicable securities laws, including without limitation, Section 7 of the Securities Act of 1933. The rating is not a "market rating" nor is it a recommendation to buy, hold, or sell the obligations.

This letter constitutes Standard & Poor's permission to you to disseminate the above-assigned rating to interested parties. Standard & Poor's reserves the right to inform its own clients, subscribers, and the public of the rating.

Standard & Poor's relies on the issuer/obligor and its counsel, accountants, and other experts for the accuracy and completeness of the information submitted in connection with the rating. This rating is based on financial information and documents we received prior to the issuance of this letter. Standard & Poor's assumes that the documents you have provided to us are final. If any subsequent changes were made in the final documents, you must notify us of such changes by sending us the revised final documents with the changes clearly marked.

To maintain the rating, Standard & Poor's must receive all relevant financial information as soon as such information is available. Placing us on a distribution list for this information would

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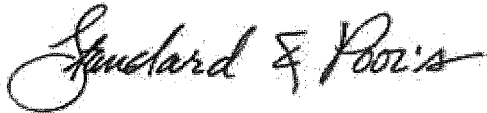
facilitate the process. You must promptly notify us of all material changes in the financial information and the documents. Standard & Poor's may change, suspend, withdraw, or place on CreditWatch the rating as a result of changes in, or unavailability of, such information. Standard & Poor's reserves the right to request additional information if necessary to maintain the rating.

Please send all information to:

Standard & Poor's Ratings Services  
Public Finance Department  
55 Water Street  
New York, NY 10041-0003

Standard & Poor's is pleased to be of service to you. For more information on Standard & Poor's, please visit our website at [www.standardandpoors.com](http://www.standardandpoors.com). If we can be of help in any other way, please call or contact us at [nypublicfinance@standardandpoors.com](mailto:nypublicfinance@standardandpoors.com). Thank you for choosing Standard & Poor's and we look forward to working with you again.

Sincerely yours,

The logo for Standard & Poor's, featuring the company name in a stylized, cursive script font.

Standard & Poor's Ratings Services  
a Standard & Poor's Financial Services LLC business.

tw  
enclosures

cc: Mr. Joshua J. Lentz, Assistant Vice President  
Fieldman, Rolapp & Associates

STANDARD  
& POOR'S

**Standard & Poor's Ratings Services  
Terms and Conditions Applicable To Public Finance Ratings**

You understand and agree that:

General. The ratings and other views of Standard & Poor's Ratings Services ("Ratings Services") are statements of opinion and not statements of fact. A rating is not a recommendation to purchase, hold, or sell any securities nor does it comment on market price, marketability, investor preference or suitability of any security. While Ratings Services bases its ratings and other views on information provided by issuers and their agents and advisors, and other information from sources it believes to be reliable, Ratings Services does not perform an audit, and undertakes no duty of due diligence or independent verification, of any information it receives. Such information and Ratings Services' opinions should not be relied upon in making any investment decision. Ratings Services does not act as a "fiduciary" or an investment advisor. Ratings Services neither recommends nor will recommend how an issuer can or should achieve a particular rating outcome nor provides or will provide consulting, advisory, financial or structuring advice.

All Rating Actions in Ratings Services' Sole Discretion. Ratings Services may assign, raise, lower, suspend, place on CreditWatch, or withdraw a rating, and assign or revise an Outlook, at any time, in Ratings Services' sole discretion. Ratings Services may take any of the foregoing actions notwithstanding any request for a confidential or private rating or a withdrawal of a rating, or termination of this Agreement. Ratings Services will not convert a public rating to a confidential or private rating, or a private rating to a confidential rating.

Publication. Ratings Services reserves the right to use, publish, disseminate, or license others to use, publish or disseminate the rating provided hereunder and any analytical reports, including the rationale for the rating, unless you specifically request in connection with the initial rating that the rating be assigned and maintained on a confidential or private basis. If, however, a confidential or private rating or the existence of a confidential or private rating subsequently becomes public through disclosure other than by an act of Ratings Services or its affiliates, Ratings Services reserves the right to treat the rating as a public rating, including, without limitation, publishing the rating and any related analytical reports. Any analytical reports published by Ratings Services are not issued by or on behalf of you or at your request. Notwithstanding anything to the contrary herein, Ratings Services reserves the right to use, publish, disseminate or license others to use, publish or disseminate analytical reports with respect to public ratings that have been withdrawn, regardless of the reason for such withdrawal. Ratings Services may publish explanations of Ratings Services' ratings criteria from time to time and nothing in this Agreement shall be construed as limiting Ratings Services' ability to modify or refine its ratings criteria at any time as Ratings Services deems appropriate.

Information to be Provided by You. For so long as this Agreement is in effect, in connection with the rating provided hereunder, you warrant that you will provide, or cause to be provided, as promptly as practicable, to Ratings Services all information requested by Ratings Services in accordance with its applicable published ratings criteria. The rating, and the maintenance of the rating, may be affected by Ratings Services' opinion of the information received from you or your agents or advisors. You further warrant that all information provided to Ratings Services by you or your agents or advisors regarding the rating or, if applicable, surveillance of the rating, as of the date such information is provided, (i) is true, accurate and complete in all material respects and, in light of the circumstances in which it was provided, not misleading and (ii) does not infringe or violate the intellectual property rights of a third party. A material breach of the warranties in this paragraph shall constitute a material breach of this Agreement.

Confidential Information. For purposes of this Agreement, "Confidential Information" shall mean verbal or written information that you or your agents or advisors have provided to Ratings Services and, in a specific and particularized manner, have marked or otherwise indicated in writing (either prior to or promptly following such disclosure) that such information is "Confidential". Notwithstanding the foregoing, information disclosed by you or your agents or advisors

to Ratings Services shall not be deemed to be Confidential Information, and Ratings Services shall have no obligation to treat such information as Confidential Information, if such information (i) was known by Ratings Services or its affiliates at the time of such disclosure and was not known by Ratings Services to be subject to a prohibition on disclosure, (ii) was known to the public at the time of such disclosure, (iii) becomes known to the public (other than by an act of Ratings Services or its affiliates) subsequent to such disclosure, (iv) is disclosed to Ratings Services or its affiliates by a third party subsequent to such disclosure and Ratings Services reasonably believes that such third party's disclosure to Ratings Services or its affiliates was not prohibited, (v) is developed independently by Ratings Services or its affiliates without reference to the Confidential Information, (vi) is approved in writing by you for public disclosure, or (vii) is required by law or regulation to be disclosed by Ratings Services or its affiliates. Ratings Services is aware that U.S. and state securities laws may impose restrictions on trading in securities when in possession of material, non-public information and has adopted securities trading and communication policies to that effect.

Ratings Services' Use of Information. Except as otherwise provided herein, Ratings Services shall not disclose Confidential Information to third parties. Ratings Services may (i) use Confidential Information to assign, raise, lower, suspend, place on CreditWatch, or withdraw a rating, and assign or revise an Outlook, and (ii) share Confidential Information with its affiliates engaged in the ratings business who are bound by appropriate confidentiality obligations; in each case, subject to the restrictions contained herein, Ratings Services and such affiliates may publish information derived from Confidential Information. Ratings Services may also use, and share Confidential Information with any of its affiliates or agents engaged in the ratings or other financial services businesses who are bound by appropriate confidentiality obligations ("Relevant Affiliates and Agents"), for modelling, benchmarking and research purposes; in each case, subject to the restrictions contained herein, Ratings Services and such affiliates may publish information derived from Confidential Information. With respect to structured finance ratings not maintained on a confidential or private basis, Ratings Services may publish data aggregated from Confidential Information, excluding data that is specific to and identifies individual debtors ("Relevant Data"), and share such Confidential Information with any of its Relevant Affiliates and Agents for general market dissemination of Relevant Data; you confirm that, to the best of your knowledge, such publication would not breach any confidentiality obligations you may have toward third parties. Ratings Services will comply with all applicable U.S. and state laws, rules and regulations protecting personally-identifiable information and the privacy rights of individuals. Ratings Services acknowledges that you may be entitled to seek specific performance and injunctive or other equitable relief as a remedy for Ratings Services' disclosure of Confidential Information in violation of this Agreement. Ratings Services and its affiliates reserve the right to use, publish, disseminate, or license others to use, publish or disseminate any non-Confidential Information provided by you, your agents or advisors.

Ratings Services Not an Expert, Underwriter or Seller under Securities Laws. Ratings Services has not consented to and will not consent to being named an "expert" or any similar designation under any applicable securities laws or other regulatory guidance, rules or recommendations, including without limitation, Section 7 of the U.S. Securities Act of 1933. Ratings Services is not an "underwriter" or "seller" as those terms are defined under applicable securities laws or other regulatory guidance, rules or recommendations, including without limitation Sections 11 and 12(a)(2) of the U.S. Securities Act of 1933. Rating Services has not performed the role or tasks associated with an "underwriter" or "seller" under the United States federal securities laws or other regulatory guidance, rules or recommendations in connection with this engagement.

Office of Foreign Assets Control. As of the date of this Agreement, (a) neither you nor the issuer (if you are not the issuer) or any of your or the issuer's subsidiaries, or any director or corporate officer of any of the foregoing entities, is the subject of any U.S. sanctions administered by the Office of Foreign Assets Control of the U.S. Department of the Treasury ("OFAC Sanctions"), (b) neither you nor the issuer (if you are not the issuer) is 50% or more owned or controlled, directly or indirectly, by any person or entity ("parent") that is the subject of OFAC Sanctions, and (c) to the best of your knowledge, no entity 50% or more owned or controlled by a direct or indirect parent of you or the issuer (if you are not the issuer) is the subject of OFAC sanctions. For so long as this Agreement is in effect, you will promptly notify Ratings Services if any of these circumstances change.

Ratings Services' Use of Confidential and Private Ratings. Ratings Services may use confidential and private ratings in its analysis of the debt issued by collateralized debt obligation (CDO) and other investment vehicles. Ratings Services

may disclose a confidential or private rating as a confidential credit estimate or assessment to the managers of CDO and similar investment vehicles. Ratings Services may permit CDO managers to use and disseminate credit estimates or assessments on a limited basis and subject to various restrictions; however, Ratings Services cannot control any such use or dissemination.

Entire Agreement. Nothing in this Agreement shall prevent you, the issuer (if you are not the issuer) or Ratings Services from acting in accordance with applicable laws and regulations. Subject to the prior sentence, this Agreement, including any amendment made in accordance with the provisions hereof, constitutes the complete and entire agreement between the parties on all matters regarding the rating provided hereunder. The terms of this Agreement supersede any other terms and conditions relating to information provided to Ratings Services by you or your agents and advisors hereunder, including without limitation, terms and conditions found on, or applicable to, websites or other means through which you or your agents and advisors make such information available to Ratings Services, regardless if such terms and conditions are entered into before or after the date of this Agreement. Such terms and conditions shall be null and void as to Ratings Services.

Limitation on Damages. Ratings Services does not and cannot guarantee the accuracy, completeness, or timeliness of the information relied on in connection with a rating or the results obtained from the use of such information. RATINGS SERVICES GIVES NO EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. Ratings Services, its affiliates or third party providers, or any of their officers, directors, shareholders, employees or agents shall not be liable to you, your affiliates or any person asserting claims on your behalf, directly or indirectly, for any inaccuracies, errors, or omissions, in each case regardless of cause, actions, damages (consequential, special, indirect, incidental, punitive, compensatory, exemplary or otherwise), claims, liabilities, costs, expenses, legal fees or losses (including, without limitation, lost income or lost profits and opportunity costs) in any way arising out of or relating to the rating provided hereunder or the related analytic services even if advised of the possibility of such damages or other amounts except to the extent such damages or other amounts are finally determined by a court of competent jurisdiction in a proceeding in which you and Ratings Services are parties to result from gross negligence, intentional wrongdoing, or willful misconduct of Ratings Services. In furtherance and not in limitation of the foregoing, Ratings Services will not be liable to you, your affiliates or any person asserting claims on your behalf in respect of any decisions alleged to be made by any person based on anything that may be perceived as advice or recommendations. In the event that Ratings Services is nevertheless held liable to you, your affiliates, or any person asserting claims on your behalf for monetary damages under this Agreement, in no event shall Ratings Services be liable in an aggregate amount in excess of US\$5,000,000 except to the extent such monetary damages directly result from Ratings Services' intentional wrongdoing or willful misconduct. The provisions of this paragraph shall apply regardless of the form of action, damage, claim, liability, cost, expense, or loss, whether in contract, statute, tort (including, without limitation, negligence), or otherwise. Neither party waives any protections, privileges, or defenses it may have under law, including but not limited to, the First Amendment of the Constitution of the United States of America.

Termination of Agreement. This Agreement may be terminated by either party at any time upon written notice to the other party. Except where expressly limited to the term of this Agreement, these Terms and Conditions shall survive the termination of this Agreement.

No Third-Party Beneficiaries. Nothing in this Agreement, or the rating when issued, is intended or should be construed as creating any rights on behalf of any third parties, including, without limitation, any recipient of the rating. No person is intended as a third party beneficiary of this Agreement or of the rating when issued.

Binding Effect. This Agreement shall be binding on, and inure to the benefit of, the parties hereto and their successors and assigns.

Severability. In the event that any term or provision of this Agreement shall be held to be invalid, void, or unenforceable, then the remainder of this Agreement shall not be affected, impaired, or invalidated, and each such term and provision shall be valid and enforceable to the fullest extent permitted by law.

Amendments. This Agreement may not be amended or superseded except by a writing that specifically refers to this Agreement and is executed manually or electronically by authorized representatives of both parties.

Reservation of Rights. The parties to this Agreement do not waive, and reserve the right to contest, any issues regarding sovereign immunity, the applicable governing law and the appropriate forum for resolving any disputes arising out of or relating to this Agreement.

**RANCHO SANTA MARGARITA  
PUBLIC FINANCING AUTHORITY**

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**LEASE REVENUE REFUNDING BONDS  
SERIES 2012A**

**CAUSEY DEMGEN & MOORE P.C.**  
Certified Public Accountants and Consultants



# CAUSEY DEMGEN & MOORE P.C.

Certified Public Accountants and Consultants

1125 Seventeenth Street - Suite 1450  
Denver, Colorado 80202-2025  
Telephone: (303) 296-2229  
Facsimile: (303) 296-3731  
www.causeycpas.com

December 19, 2012

Rancho Santa Margarita Public Financing  
Authority  
22112 El Paseo  
Rancho Santa Margarita, California 92688

City of Rancho Santa Margarita  
22112 El Paseo  
Rancho Santa Margarita, California 92688

Fieldman, Rolapp & Associates  
1990 MacArthur Boulevard, Suite 1100  
Irvine, California 92612

Stifel, Nicolaus & Company Incorporated dba  
Stone & Youngberg, a Division of Stifel  
Nicolaus  
515 South Figueroa Street, Suite 1800  
Los Angeles, California 90071

Stradling Yocca Carlson & Rauth  
660 Newport Center Drive, Suite 1600  
Newport Beach, California 92660

We have completed our engagement to verify the mathematical accuracy of (a) the computations relating to the adequacy of cash plus U.S. Treasury Securities to be held in escrow to pay the debt service requirements of the Certificates of Participation (City Hall and Regional Community Center) dated November 1, 2003 (herein referred to as the "Refunded Certificates") executed and delivered by the City of Rancho Santa Margarita and (b) the computations supporting the conclusion of Bond Counsel that the Lease Revenue Refunding Bonds, Series 2012A (herein referred to as the "2012A Bonds") to be issued by the Rancho Santa Margarita Public Financing Authority (herein referred to as the "Authority") are not "arbitrage bonds" under Section 148 of the Internal Revenue Code of 1986, as amended. We express no opinion as to the attainability of the assumptions underlying the computations or the tax-exempt status of the 2012A Bonds. Our verification was performed solely on the information contained in certain schedules of proposed transactions provided by Stone & Youngberg, a Division of Stifel Nicolaus (herein referred to as the "Underwriter"). In the course of our engagement to verify the mathematical accuracy of the computations in the schedules provided to us, we prepared Exhibits A through D attached hereto and made a part hereof.

The scope of our engagement consisted of performing the procedures described herein. These procedures were performed in a manner that we deem to be appropriate.

The accompanying exhibits of proposed transactions were prepared on the basis of assumptions underlying the computations and in accordance with the procedures described herein. We did not independently confirm the information used with outside parties.

**CAUSEY**

### **OUR UNDERSTANDING OF THE TRANSACTION**

The Authority intends to issue the 2012A Bonds on December 19, 2012 to advance refund the Refunded Certificates and to finance certain capital improvements. A portion of the proceeds of the 2012A Bonds, together with certain amounts to be contributed from the debt service reserve fund associated with the Refunded Certificates, will be used to purchase U.S. Treasury Securities and to provide cash that will be placed into an escrow account to advance refund the Refunded Certificates.

The Escrow Agent will pay the debt service requirements of the Refunded Certificates on each scheduled payment date through and including October 1, 2013 and will prepay those Refunded Certificates maturing on October 1, 2014 and thereafter, at a prepayment price equal to 100% of par, on October 1, 2013, which is the first optional prepayment date for these bonds.

### **ESCROW ACCOUNT TRANSACTIONS**

We verified the mathematical accuracy of the accompanying calculations of the escrow account transactions proposed to advance refund the Refunded Certificates.

The presently outstanding debt service requirements of the Refunded Certificates will be satisfied by the purchase of U.S. Treasury Securities (as described in Exhibit A-2) plus \$0.65 in cash. The securities and cash will be placed in an irrevocable escrow account and held therein until the Refunded Certificates are prepaid as previously described.

We read a copy of the Official Statement for the Refunded Certificates insofar as these obligations are described with respect to principal outstanding, interest rates, maturity dates, and prepayment provisions. We assumed this document to be accurate and all debt service payments on the Refunded Certificates to be current as of December 19, 2012. We compared the above information set forth in this Official Statement with the related information contained in the schedules provided to us and found the information to be consistent.

We compared the subscribed interest rates of the U.S. Treasury Securities (State and Local Government Series) to be purchased and placed in escrow with the maximum allowable interest rates as published in the SLGS Daily Rate Table by the Bureau of the Public Debt for December 5, 2012 and found the subscribed rates to be less than or equal to the maximum allowable rates that were in effect on the subscription date for each applicable maturity date.

Based on the procedures and information set forth above, the computations provided to us and represented in Exhibits A through B, which indicate that the cash and securities proposed to be placed in escrow by the Authority will produce the amounts necessary to provide for the timely payment of the proposed debt payment schedule on the Refunded Certificates, are mathematically correct.

### **YIELD ON THE 2012A BONDS**

We verified the mathematical accuracy of the accompanying computations of the yield on the 2012A Bonds as of December 19, 2012. For purposes of this calculation, yield is defined as the rate of interest which, using the assumptions and procedures set forth herein, discounts the payments to be made on the 2012A Bonds to an amount equal to the target purchase price of the 2012A Bonds. The computations were made using a 360-day year with interest compounded semi-annually and treated \$571,904.80 as the net original issue premium (which results in a target purchase price of \$11,801,904.80).

In conducting our verification, we assumed that the re-offering prices of the 2012A Bonds are as described in Exhibit C-1, that the 2012A Bonds stated to mature on or before November 1, 2022 are not optionally callable prior to maturity, and that the 2012A Bonds stated to mature on November 1, 2023 and thereafter are optionally callable at par on and after November 1, 2022. We tested to determine whether any combination of optional redemptions of those 2012A Bonds stated to mature on November 1, 2023 through and including November 1, 2025 (which represent the only callable maturities with reoffering prices in excess of the safe harbor limit of 102.250%) (herein referred to as the "Callable Premium Bonds") would result in a lower yield on the 2012A Bonds than that realized by assuming that such bonds are retired on their stated maturity dates. We assumed that all other maturities of the 2012A Bonds would be retired on the dates and in the amounts set forth in Exhibit C-1.

Based upon the assumptions, procedures and information set forth above, the computations provided to us and represented in Exhibits C and C-1, which indicate that the yield on the 2012A Bonds, assuming the Callable Premium Bonds are redeemed at par on November 1, 2022, is 2.67832%, are mathematically correct. It is our opinion that computing the aforementioned yield on the 2012A Bonds by treating the Callable Premium Bonds as being redeemed at par on November 1, 2022 results in the lowest yield on the 2012A Bonds of all possible payment permutations thereon.

### **YIELD ON THE INVESTMENT IN THE ESCROWED OBLIGATIONS PURCHASED TO REFUND THE REFUNDED CERTIFICATES**

We verified the mathematical accuracy of the accompanying computation of the yield on the investment in the escrowed U.S. Treasury Securities purchased to refund the Refunded Certificates based on an assumed settlement date of December 19, 2012 and a purchase price of \$11,544,227.00. For purposes of this calculation, yield is defined as the rate of interest which, using the assumptions and procedures set forth herein, discounts the cash receipts from the escrowed securities to an amount equal to the purchase price of the escrowed securities. The computations were made using a 360-day year with interest compounded semi-annually and were based on the dates the funds are to be received in the escrow account, and assume that all cash balances are not reinvested.

Based upon the procedures and information set forth above, the computations provided to us and represented in Exhibit D, which indicate that the yield on the escrowed securities purchased to refund the Refunded Certificates is 0.14953% (which is less than the yield on the 2012A Bonds), are mathematically correct.

**USE OF THIS REPORT**

It is understood that this report is solely for the information of and assistance to the addressees hereof in connection with the issuance of the 2012A Bonds and is not to be used, relied upon, circulated, quoted or otherwise referred to for any other purpose without our written consent, except that (i) reference may be made to the report in the Official Statement for the 2012A Bonds in the section captioned "THE REFUNDING PLAN - Verification," (ii) reference may be made to the report in the purchase contract or in any closing documents pertaining to the issuance of the 2012A Bonds, (iii) the report may be used in its entirety as an exhibit to the escrow agreement for the Refunded Certificates, (iv) the report may be included in the transcripts pertaining to the issuance of the 2012A Bonds, (v) the report may be relied upon by Bond Counsel in connection with its opinions concerning the Refunded Certificates and the 2012A Bonds, (vi) the report may be relied upon by any rating agency or bond insurer that shall have rated or insured or that will rate or insure the Refunded Certificates or the 2012A Bonds, and (vii) the report may be relied upon by the Escrow Agent for the Refunded Certificates.

\* \* \* \* \*

The scope of our engagement is deemed by the addressees hereto to be sufficient to assist such parties in evaluating the mathematical accuracy of the various computations cited above. The sufficiency of this scope is solely the responsibility of the specified users of this report and should not be taken to supplant any additional inquiries or procedures that the users would undertake in their consideration of the issuance of the bonds related to the transaction described herein. We make no representation regarding the sufficiency of the scope of this engagement. This report should not be used by any party who does not agree to the scope set forth herein and who does not take responsibility for the sufficiency and appropriateness of such scope for their purposes.

Causey Demgen & Moore P.C. is registered and licensed to practice as an Accountancy Corporation in the State of California.

We have no obligation to update this report because of events, circumstances, or transactions occurring subsequent to the date of this report.

Very truly yours,

*Causey Demgen & Moore P.C.*

EXHIBIT A

RANCHO SANTA MARGARITA  
PUBLIC FINANCING AUTHORITY  
LEASE REVENUE REFUNDING BONDS  
SERIES 2012A

ESCROW ACCOUNT CASH FLOW  
AS OF DECEMBER 19, 2012

<u>Date</u>	<u>Total Cash Receipts From U.S. Treasury Securities (Exhibit A-1)</u>	<u>Cash Disbursements From Escrow (Exhibit B)</u>	<u>Cash Balance</u>
Beginning			\$0.65
Balance:			
01-Apr-13	\$256,280.07	\$256,280.00	0.72
01-Oct-13	11,301,279.28	11,301,280.00	0.00
	<u>\$11,557,559.35</u>	<u>\$11,557,560.00</u>	

EXHIBIT A-1

RANCHO SANTA MARGARITA  
PUBLIC FINANCING AUTHORITY  
LEASE REVENUE REFUNDING BONDS  
SERIES 2012A

CASH RECEIPTS FROM THE ESCROWED SECURITIES  
AS OF DECEMBER 19, 2012

	\$256,215.00	\$11,288,012.00	
	0.090000%	0.150000%	Total
Payment	SLGS (1)	SLGS (1)	Cash
Date	01-Apr-13	01-Oct-13	Receipts
01-Apr-13	\$256,280.07		\$256,280.07
01-Oct-13		\$11,301,279.28	11,301,279.28
	\$256,280.07	\$11,301,279.28	\$11,557,559.35

(1) U.S. Treasury Certificate of Indebtedness  
(State and Local Government Series).

**RANCHO SANTA MARGARITA  
PUBLIC FINANCING AUTHORITY  
LEASE REVENUE REFUNDING BONDS  
SERIES 2012A**

**DESCRIPTION OF THE ESCROWED SECURITIES  
AS OF DECEMBER 19, 2012**

<b>Type</b>	<b>Settlement Date</b>	<b>Maturity Date</b>	<b>Par Amount</b>	<b>Coupon Rate</b>	<b>Price</b>	<b>Total Cost</b>
SLGS	19-Dec-12	01-Apr-13	\$256,215.00	0.090%	100.000000%	\$256,215.00
SLGS	19-Dec-12	01-Oct-13	<u>11,288,012.00</u>	0.150%	100.000000%	<u>11,288,012.00</u>
			<u>\$11,544,227.00</u>			<u>\$11,544,227.00</u>

**EXHIBIT B**

**RANCHO SANTA MARGARITA  
PUBLIC FINANCING AUTHORITY  
LEASE REVENUE REFUNDING BONDS  
SERIES 2012A**

**ESCROW ACCOUNT DISBURSEMENT REQUIREMENTS  
FOR THE REFUNDED CERTIFICATES  
AS OF DECEMBER 19, 2012**

<b>Payment Date</b>	<b>Rate</b>	<b>Payment For</b>			<b>Total</b>
		<b>Maturing Principal</b>	<b>Principal Prepaid</b>	<b>Interest</b>	
01-Apr-13				\$256,280.00	\$256,280.00
01-Oct-13	Various	\$330,000.00	\$10,715,000.00	256,280.00	11,301,280.00
		\$330,000.00	\$10,715,000.00	\$512,560.00	\$11,557,560.00



**RANCHO SANTA MARGARITA  
PUBLIC FINANCING AUTHORITY  
LEASE REVENUE REFUNDING BONDS  
SERIES 2012A**

**DEBT SERVICE REQUIREMENTS FOR THE REFUNDED CERTIFICATES  
ASSUMING NO OPTIONAL PREPAYMENTS PRIOR TO MATURITY  
AS OF DECEMBER 19, 2012**

(FOR INFORMATIONAL PURPOSES ONLY)

Payment Date	Rate	Payment For		Total Debt Payment
		Principal	Interest	
01-Apr-13			\$256,280.00	\$256,280.00
01-Oct-13	4.000%	\$330,000.00	256,280.00	586,280.00
01-Apr-14			249,680.00	249,680.00
01-Oct-14	4.000%	340,000.00	249,680.00	589,680.00
01-Apr-15			242,880.00	242,880.00
01-Oct-15	4.000%	355,000.00	242,880.00	597,880.00
01-Apr-16			235,780.00	235,780.00
01-Oct-16	4.100%	375,000.00	235,780.00	610,780.00
01-Apr-17			228,092.50	228,092.50
01-Oct-17	4.200%	390,000.00	228,092.50	618,092.50
01-Apr-18			219,902.50	219,902.50
01-Oct-18	4.300%	400,000.00	219,902.50	619,902.50
01-Apr-19			211,302.50	211,302.50
01-Oct-19	4.400%	425,000.00	211,302.50	636,302.50
01-Apr-20			201,952.50	201,952.50
01-Oct-20	4.500%	440,000.00	201,952.50	641,952.50
01-Apr-21			192,052.50	192,052.50
01-Oct-21	4.600%	460,000.00	192,052.50	652,052.50
01-Apr-22			181,472.50	181,472.50
01-Oct-22	4.650%	480,000.00	181,472.50	661,472.50
01-Apr-23			170,312.50	170,312.50
01-Oct-23	4.750%	500,000.00	170,312.50	670,312.50
01-Apr-24			158,437.50	158,437.50
01-Oct-24	4.750%	525,000.00	158,437.50	683,437.50
01-Apr-25			145,968.75	145,968.75
01-Oct-25	4.750%	550,000.00	145,968.75	695,968.75
01-Apr-26			132,906.25	132,906.25
01-Oct-26	4.750%	575,000.00	132,906.25	707,906.25
01-Apr-27			119,250.00	119,250.00
01-Oct-27	4.750%	605,000.00	119,250.00	724,250.00
01-Apr-28			104,881.25	104,881.25
01-Oct-28	4.750%	635,000.00	104,881.25	739,881.25
01-Apr-29			89,800.00	89,800.00
01-Oct-29	4.750%	665,000.00	89,800.00	754,800.00
01-Apr-30			74,006.25	74,006.25
01-Oct-30	4.750%	695,000.00	74,006.25	769,006.25
01-Apr-31			57,500.00	57,500.00
01-Oct-31	5.000%	730,000.00	57,500.00	787,500.00
01-Apr-32			39,250.00	39,250.00
01-Oct-32	5.000%	765,000.00	39,250.00	804,250.00
01-Apr-33			20,125.00	20,125.00
01-Oct-33	5.000%	805,000.00	20,125.00	825,125.00
		<u>\$11,045,000.00</u>	<u>\$6,663,665.00</u>	<u>\$17,708,665.00</u>

**RANCHO SANTA MARGARITA  
PUBLIC FINANCING AUTHORITY  
LEASE REVENUE REFUNDING BONDS  
SERIES 2012A**

**YIELD ON THE 2012A BONDS  
AS OF DECEMBER 19, 2012**

Payment Date	Total Debt Payment (Exhibit C-1)	Callable Premium Bond Adjustments	Adjusted Debt Service	Present Value at
				December 19, 2012 Using a Semi-Annually Compounded Yield of 2.67832%
01-May-13	\$137,330.42		\$137,330.42	\$135,997.23
01-Nov-13	617,268.75		617,268.75	603,198.53
01-May-14	182,968.75		182,968.75	176,435.35
01-Nov-14	552,968.75		552,968.75	526,177.10
01-May-15	177,418.75		177,418.75	166,591.78
01-Nov-15	562,418.75		562,418.75	521,118.53
01-May-16	169,718.75		169,718.75	155,177.67
01-Nov-16	574,718.75		574,718.75	518,534.27
01-May-17	161,618.75		161,618.75	143,891.96
01-Nov-17	581,618.75		581,618.75	510,982.31
01-May-18	153,218.75		153,218.75	132,831.80
01-Nov-18	583,218.75		583,218.75	498,935.39
01-May-19	144,618.75		144,618.75	122,084.39
01-Nov-19	599,618.75		599,618.75	499,497.60
01-May-20	135,518.75		135,518.75	111,398.74
01-Nov-20	605,518.75		605,518.75	491,169.25
01-May-21	126,118.75		126,118.75	100,949.91
01-Nov-21	616,118.75		616,118.75	486,646.24
01-May-22	116,318.75		116,318.75	90,661.18
01-Nov-22	621,318.75	\$1,640,000.00	2,261,318.75	1,739,226.31
01-May-23	106,218.75	(32,800.00)	73,418.75	55,721.65
01-Nov-23	631,218.75	(557,800.00)	73,418.75	54,985.31
01-May-24	95,718.75	(22,300.00)	73,418.75	54,258.70
01-Nov-24	640,718.75	(567,300.00)	73,418.75	53,541.69
01-May-25	84,818.75	(11,400.00)	73,418.75	52,834.15
01-Nov-25	654,818.75	(581,400.00)	73,418.75	52,135.96
01-May-26	73,418.75		73,418.75	51,447.00
01-Nov-26	663,418.75		663,418.75	458,736.75
01-May-27	66,043.75		66,043.75	45,064.05
01-Nov-27	676,043.75		676,043.75	455,193.40
01-May-28	58,037.50		58,037.50	38,561.38
01-Nov-28	683,037.50		683,037.50	447,827.83
01-May-29	49,443.75		49,443.75	31,989.00
01-Nov-29	694,443.75		694,443.75	443,352.31
01-May-30	40,575.00		40,575.00	25,561.90

RANCHO SANTA MARGARITA  
PUBLIC FINANCING AUTHORITY  
LEASE REVENUE REFUNDING BONDS  
SERIES 2012A

YIELD ON THE 2012A BONDS  
AS OF DECEMBER 19, 2012

Payment Date	Total Debt Payment (Exhibit C-1)	Callable Premium Bond Adjustments	Adjusted Debt Service	Present Value at December 19, 2012 Using a Semi-Annually Compounded Yield of 2.67832%
01-Nov-30	700,575.00		700,575.00	435,523.81
01-May-31	31,500.00		31,500.00	19,323.71
01-Nov-31	711,500.00		711,500.00	430,702.65
01-May-32	21,300.00		21,300.00	12,723.45
01-Nov-32	721,300.00		721,300.00	425,171.30
01-May-33	10,800.00		10,800.00	6,281.95
01-Nov-33	730,800.00		730,800.00	419,461.31
	<u>\$15,565,386.67</u>	<u>(\$133,000.00)</u>	<u>\$15,432,386.67</u>	<u>\$11,801,904.80</u>

Dated Date: 19-Dec-12  
Delivery Date: 19-Dec-12

The above aggregate present value of the future payments equals the following:

Par Value of the Issue	\$11,230,000.00
Net Original Issue Premium	571,904.80
Proceeds on Delivery Date	<u>\$11,801,904.80</u>

**RANCHO SANTA MARGARITA  
PUBLIC FINANCING AUTHORITY  
LEASE REVENUE REFUNDING BONDS  
SERIES 2012A**

**2012A BOND DEBT SERVICE REQUIREMENTS AND PRODUCTION  
AS OF DECEMBER 19, 2012**

Payment Date	Rate	Payment For		Total Debt Payment	Reoffering Price	Original Issue Premium/ (Discount)	Total Production
		Principal	Interest				
01-May-13			\$137,330.42	\$137,330.42			
01-Nov-13	2.000%	\$430,000.00	187,268.75	617,268.75	101.382%	\$5,942.60	\$435,942.60
01-May-14			182,968.75	182,968.75			
01-Nov-14	3.000%	370,000.00	182,968.75	552,968.75	104.447%	16,453.90	386,453.90
01-May-15			177,418.75	177,418.75			
01-Nov-15	4.000%	385,000.00	177,418.75	562,418.75	109.289%	35,762.65	420,762.65
01-May-16			169,718.75	169,718.75			
01-Nov-16	4.000%	405,000.00	169,718.75	574,718.75	111.875%	48,093.75	453,093.75
01-May-17			161,618.75	161,618.75			
01-Nov-17	4.000%	420,000.00	161,618.75	581,618.75	114.010%	58,842.00	478,842.00
01-May-18			153,218.75	153,218.75			
01-Nov-18	4.000%	430,000.00	153,218.75	583,218.75	115.753%	67,737.90	497,737.90
01-May-19			144,618.75	144,618.75			
01-Nov-19	4.000%	455,000.00	144,618.75	599,618.75	116.607%	75,561.85	530,561.85
01-May-20			135,518.75	135,518.75			
01-Nov-20	4.000%	470,000.00	135,518.75	605,518.75	116.947%	79,650.90	549,650.90
01-May-21			126,118.75	126,118.75			
01-Nov-21	4.000%	490,000.00	126,118.75	616,118.75	116.704%	81,849.60	571,849.60
01-May-22			116,318.75	116,318.75			
01-Nov-22	4.000%	505,000.00	116,318.75	621,318.75	116.076%	81,183.80	586,183.80
01-May-23			106,218.75	106,218.75			
01-Nov-23	4.000%	525,000.00	106,218.75	631,218.75	114.074%	73,888.50	598,888.50
01-May-24			95,718.75	95,718.75			
01-Nov-24	4.000%	545,000.00	95,718.75	640,718.75	112.204%	66,511.80	611,511.80
01-May-25			84,818.75	84,818.75			
01-Nov-25	4.000%	570,000.00	84,818.75	654,818.75	110.826%	61,708.20	631,708.20
01-May-26			73,418.75	73,418.75			
01-Nov-26	2.500%	590,000.00	73,418.75	663,418.75	96.012%	(23,529.20)	566,470.80
01-May-27			66,043.75	66,043.75			
01-Nov-27	2.625%	610,000.00	66,043.75	676,043.75	96.578%	(20,874.20)	589,125.80
01-May-28			58,037.50	58,037.50			
01-Nov-28	2.750%	625,000.00	58,037.50	683,037.50	97.230%	(17,312.50)	607,687.50
01-May-29			49,443.75	49,443.75			
01-Nov-29	2.750%	645,000.00	49,443.75	694,443.75	96.321%	(23,729.55)	621,270.45
01-May-30			40,575.00	40,575.00			
01-Nov-30	2.750%	660,000.00	40,575.00	700,575.00	95.356%	(30,650.40)	629,349.60
01-May-31			31,500.00	31,500.00			
01-Nov-31	3.000%	680,000.00	31,500.00	711,500.00	97.876%	(14,443.20)	665,556.80
01-May-32			21,300.00	21,300.00			
01-Nov-32	3.000%	700,000.00	21,300.00	721,300.00	96.930%	(21,490.00)	678,510.00
01-May-33			10,800.00	10,800.00			
01-Nov-33	3.000%	720,000.00	10,800.00	730,800.00	95.937%	(29,253.60)	690,746.40
		<u>\$11,230,000.00</u>	<u>\$4,335,386.67</u>	<u>\$15,565,386.67</u>		<u>\$571,904.80</u>	<u>\$11,801,904.80</u>

**EXHIBIT D**

**RANCHO SANTA MARGARITA  
PUBLIC FINANCING AUTHORITY  
LEASE REVENUE REFUNDING BONDS  
SERIES 2012A**

**YIELD ON THE ESCROWED SECURITIES  
AS OF DECEMBER 19, 2012**

<b>Date</b>	<b>Total Cash Receipts From U.S. Treasury Securities (Exhibit A)</b>	<b>Present Value at December 19, 2012 Using a Semi-Annually Compounded Yield of 0.14953%</b>
01-Apr-13	\$256,280.07	\$256,171.56
01-Oct-13	11,301,279.28	11,288,055.44
	<u>\$11,557,559.35</u>	<u>\$11,544,227.00</u>
 Total Cost of Securities		 <u>\$11,544,227.00</u>

**EXHIBIT E**

**RANCHO SANTA MARGARITA  
PUBLIC FINANCING AUTHORITY  
LEASE REVENUE REFUNDING BONDS  
SERIES 2012A**

**ESTIMATED SOURCES AND USES OF FUNDS  
AS OF DECEMBER 19, 2012**

Sources of Funds:

Par Value of Bonds	\$11,230,000.00
Net Original Issue Premium	571,904.80
DSRF Contribution	847,605.09
Prepaid Base Rental Contribution	1,500,000.00
Total Sources of Funds	<u>\$14,149,509.89</u>

Uses of Funds:

Beginning Escrow Account Cash Balance	\$0.65
Cost of the Escrowed Securities	11,544,227.00
Prepaid Base Rental	1,500,000.00
Project Fund	850,000.00
Underwriter's Discount	61,021.60
Issuance Costs	190,000.00
Contingency	4,260.64
Total Uses of Funds	<u>\$14,149,509.89</u>



## TERMINATION OF GROUND LEASE

THIS TERMINATION OF GROUND LEASE (this "Agreement") is dated as of December 1, 2012 and effective as of the date of recordation hereof, by and between the CITY OF RANCHO SANTA MARGARITA, a municipal corporation and general law city duly organized and existing under and by virtue of the Constitution and laws of the State of California (the "City"), and the CITY OF RANCHO SANTA MARGARITA NONPROFIT CORPORATION, a nonprofit public benefit corporation organized and existing under and by virtue of the laws of the State of California (the "Corporation").

### RECITALS:

A. WHEREAS, the City, as lessor, and the Corporation, as lessee, entered into that certain Ground Lease (the "Ground Lease"), dated as of November 1, 2003, and recorded November 12, 2003 as Instrument No. 2003001380243 in the Official Records of the County of Orange, State of California (the "Official Records"), pursuant to which the City leased certain property described therein (the "Property") to the Corporation.

B. WHEREAS, the Corporation, as lessor, and the City, as lessee, entered into that certain Lease Agreement (the "Lease Agreement"), dated as of November 1, 2003, as referenced in that certain Memorandum of Lease Agreement, dated as of November 1, 2003, by and between the City and the Corporation, and recorded November 12, 2003 as Instrument No. 2003001380244 in the Official Records, pursuant to which the Corporation leased the Property back to the City for the purpose of financing the Project (as defined in the Lease Agreement).

C. WHEREAS, pursuant to the Lease Agreement, the Corporation made available to the City a portion of the proceeds of the City of Rancho Santa Margarita Certificates of Participation (City Hall and Regional Community Center Project) in the original aggregate principal amount of Twelve Million Seven-Hundred Ninety-Five Thousand and No/100 DOLLARS (\$12,795,000.00) in order to finance the Project.

D. WHEREAS, the Corporation has assigned its interest in the Ground Lease and the Lease Agreement to Wells Fargo Bank, National Association, as trustee (the "Trustee"), pursuant to that certain Assignment Agreement (the "Assignment Agreement"), dated as of November 1, 2003, by and between the Corporation, as assignor, and the Trustee, as assignee, recorded November 12, 2003 as Instrument No. 2003001380245 in the Official Records.

E. WHEREAS, the City has notified the Corporation of its intention to exercise its option to prepay, on October 1, 2013, all principal components of the Base Rental Payments (as defined in the Lease Agreement) maturing on or after October 1, 2014, and all accrued interest with respect thereto, pursuant to the terms of Section 7.2 of the Lease Agreement.

F. WHEREAS, the City hereby certifies that it has caused to be delivered: (i) the prepayment price as described in Section 7.2 of the Lease Agreement; and (ii) moneys sufficient to pay the principal components of the Base Rental Payments maturing on or after October 1, 2014 and accrued interest with respect thereto (collectively, the Prepayment"), to Wells Fargo Bank, National Association, as escrow agent (the "Escrow Agent"), under that certain Escrow Agreement, dated as



of December 1, 2012, by and between the City and the Escrow Agent, in order to pay all Base Rental Payments due on April 1, 2013 and October 1, 2013, and to effect such prepayment on October 1, 2013.

G. WHEREAS, to facilitate the City's exercise of the option to prepay the Base Rental Payments, the City and the Corporation now desire to terminate and discharge the Ground Lease.

NOW, THEREFORE, for good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto hereby agree as follows:

1. Recordation. This Agreement shall not be recorded until the City has deposited the Prepayment with the Escrow Agent.

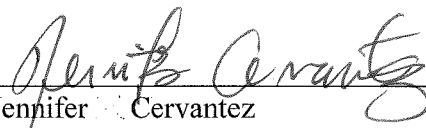
2. Termination of Ground Lease. Effective as of the recordation of this Agreement, the Corporation and the City hereby acknowledge and agree that the Ground Lease shall be terminated and discharged, and shall be of no further force or effect.

3. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which, when taken together, shall constitute one agreement. The signature and acknowledgment pages from each counterpart may be removed and attached to a single document in order to create one original instrument.

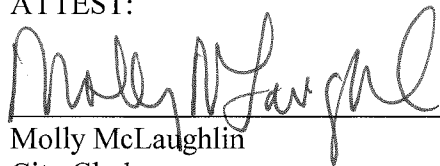
*[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]*

IN WITNESS WHEREOF, this Agreement has been executed by each party's respective duly authorized officers, as of the date first above written.


CITY OF RANCHO SANTA MARGARITA

By:   
Jennifer Cervantez  
~~Finance Director~~ City Manager

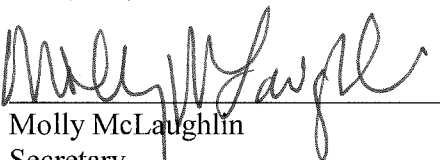
ATTEST:

  
Molly McLaughlin  
City Clerk

CITY OF RANCH SANTA MARGARITA  
NONPROFIT CORPORATION

By:   
Paul Boyer  
Treasurer

ATTEST:

  
Molly McLaughlin  
Secretary

APPROVED AS TO FORM:

  
Stradling Yocca Carlson & Rauth,  
Special Counsel

STATE OF CALIFORNIA

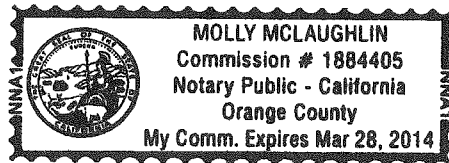
COUNTY OF ORANGE

On December 11, 2013, before me, Molly McLaughlin, Notary Public, personally appeared Jennifer Cortez, who proved to me on the basis of satisfactory evidence to be the person(s) whose names(s) ~~is/are~~ subscribed to the within instrument and acknowledged to me that ~~he/she/they~~ executed the same in ~~his/her/their~~ authorized capacity(ies), and that by ~~his/her/their~~ signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal

Molly McLaughlin  
SIGNATURE OF NOTARY PUBLIC



STATE OF CALIFORNIA

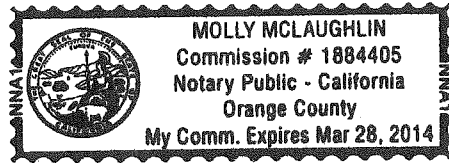
COUNTY OF ORANGE

On December 11, 2012, before me, Molly McLaughlin, Notary Public, personally appeared Paul Boyer, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) ~~is/are~~ subscribed to the within instrument and acknowledged to me that ~~he/she/they~~ executed the same in ~~his/her/their~~ authorized capacity~~(ies)~~, and that by ~~his/her/their~~ signature~~(s)~~ on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal

Molly McLaughlin  
SIGNATURE OF NOTARY PUBLIC



GOVERNMENT CODE 27361.7

I CERTIFY UNDER PENALTY OF PERJURY THAT THE NOTARY SEAL ON THE DOCUMENT TO WHICH THIS STATEMENT IS ATTACHED READS AS FOLLOWS:

NAME OF NOTARY: MOLLY MCLAUGHLIN

COUNTY WHERE BOND IS FILED: ORANGE

DATE COMMISSION EXPIRES: MAR 28, 2014

COMMISSION NO.: 1884405

MANUFACTURERS/VENDOR NO. NNA1

PLACE OF EXECUTION: SANTA ANA, CALIFORNIA

DATE: December 18, 2012

BY:   
\_\_\_\_\_  
FIRST AMERICAN TITLE INSURANCE COMPANY

RECORDING REQUESTED BY  
FIRST AMERICAN TITLE COMPANY  
NATIONAL/COMMERCIAL SERVICES  
COMMERCIAL/INDUSTRIAL DIVISION

NCJ-572749

**RECORDING REQUESTED BY:**

City of Rancho Santa Margarita

**AND WHEN RECORDED MAIL TO:**

Stradling Yocca Carlson & Rauth  
660 Newport Center Drive, Suite 1600  
Newport Beach, California 92660  
Attn: Brian P. Forbath, Esq.

Recorded in Official Records, Orange County  
Renee Ramirez, Assistant Clerk-Recorder



24.00

2012000787608 12:57 pm 12/19/12

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[Space above for Recorder's use.]

**TERMINATION OF LEASE AGREEMENT**

by and between

**CITY OF RANCHO SANTA MARGARITA**

and

**CITY OF RANCHO SANTA MARGARITA NONPROFIT CORPORATION**

**Dated as of December 1, 2012**

## TERMINATION OF LEASE AGREEMENT

THIS TERMINATION OF LEASE AGREEMENT (this "Agreement") is dated as of December 1, 2012 and effective as of the date of recordation hereof, by and between the CITY OF RANCHO SANTA MARGARITA, a municipal corporation and general law city duly organized and existing under and by virtue of the Constitution and laws of the State of California (the "City"), and the CITY OF RANCHO SANTA MARGARITA NONPROFIT CORPORATION, a nonprofit public benefit corporation organized and existing under and by virtue of the laws of the State of California (the "Corporation").

### RECITALS:

A. WHEREAS, the City, as lessor, and the Corporation, as lessee, entered into that certain Ground Lease (the "Ground Lease"), dated as of November 1, 2003, and recorded November 12, 2003 as Instrument No. 2003001380243 in the Official Records of the County of Orange, State of California (the "Official Records"), pursuant to which the City leased certain property described therein (the "Property") to the Corporation.

B. WHEREAS, the Corporation, as lessor, and the City, as lessee, entered into that certain Lease Agreement (the "Lease Agreement"), dated as of November 1, 2003, as referenced in that certain Memorandum of Lease Agreement, dated as of November 1, 2003, by and between the City and the Corporation, and recorded November 12, 2003 as Instrument No. 2003001380244 in the Official Records, pursuant to which the Corporation leased the Property back to the City for the purpose of financing the Project (as defined in the Lease Agreement).

C. WHEREAS, pursuant to the Lease Agreement, the Corporation made available to the City a portion of the proceeds of the City of Rancho Santa Margarita Certificates of Participation (City Hall and Regional Community Center Project) in the original aggregate principal amount of Twelve Million Seven-Hundred Ninety-Five Thousand and No/100 DOLLARS (\$12,795,000.00) in order to finance the Project.

D. WHEREAS, the Corporation has assigned its interest in the Ground Lease and the Lease Agreement to Wells Fargo Bank, National Association, as trustee (the "Trustee"), pursuant to that certain Assignment Agreement (the "Assignment Agreement"), dated as of November 1, 2003, by and between the Corporation, as assignor, and the Trustee, as assignee, recorded November 12, 2003 as Instrument No. 2003001380245 in the Official Records.

E. WHEREAS, the City has notified the Corporation of its intention to exercise its option to prepay, on October 1, 2013, all principal components of the Base Rental Payments (as defined in the Lease Agreement) maturing on or after October 1, 2014, and all accrued interest with respect thereto, pursuant to the terms of Section 7.2 of the Lease Agreement.

F. WHEREAS, the City hereby certifies that it has caused to be delivered: (i) the prepayment price as described in Section 7.2 of the Lease Agreement; and (ii) moneys sufficient to pay the principal components of the Base Rental Payments maturing on or after October 1, 2014 and accrued interest with respect thereto (collectively, the Prepayment"), to Wells Fargo Bank, National Association, as escrow agent (the "Escrow Agent"), under that certain Escrow Agreement, dated as

of December 1, 2012, by and between the City and the Escrow Agent, in order to pay all Base Rental Payments due on April 1, 2013 and October 1, 2013, and to effect such prepayment on October 1, 2013.

G. WHEREAS, to facilitate the City's exercise of the option to prepay the Base Rental Payments, the City and the Corporation now desire to terminate and discharge the Lease Agreement.

NOW, THEREFORE, for good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto hereby agree as follows:

1. Recordation. This Agreement shall not be recorded until the City has deposited the Prepayment with the Escrow Agent.

2. Termination of Lease Agreement. Effective as of the recordation of this Agreement, the Corporation and the City hereby acknowledge and agree that the Lease Agreement shall be terminated and discharged, and, except for the obligation of the City to pay Base Rental Payments from the moneys and securities deposited with the Trustee, shall be of no further force or effect, and from and after the date hereof, the Corporation shall have no further interest in the Property.

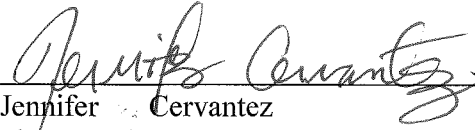
3. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which, when taken together, shall constitute one agreement. The signature and acknowledgment pages from each counterpart may be removed and attached to a single document in order to create one original instrument.

*[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]*

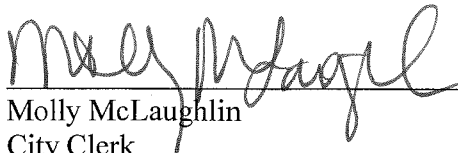


IN WITNESS WHEREOF, this Agreement has been executed by each party's respective duly authorized officers, as of the date first above written.


CITY OF RANCHO SANTA MARGARITA

By:   
Jennifer Cervantez  
~~Finance Director~~ City Manager

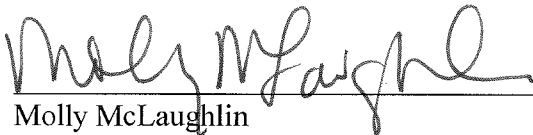
ATTEST:

  
Molly McLaughlin  
City Clerk

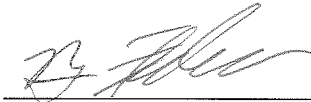
CITY OF RANCH SANTA MARGARITA  
NONPROFIT CORPORATION

By:   
Paul Boyer  
Treasurer

ATTEST:

  
Molly McLaughlin  
Secretary

APPROVED AS TO FORM:

  
Stradling Yocca Carlson & Rauth,  
Special Counsel

STATE OF CALIFORNIA

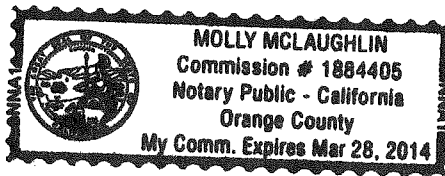
COUNTY OF ORANGE

On December 11, 2012, before me, Molly McLaughlin, Notary Public, personally appeared Jennifer Cervantez, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he (she) they executed the same in his (her) their authorized capacity(ies), and that by his (her) their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal

Molly McLaughlin  
SIGNATURE OF NOTARY PUBLIC



STATE OF CALIFORNIA

COUNTY OF ORANGE

On December 4, 2012, before me, Molly McLaughlin, Notary Public, personally appeared Paul Boyer, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

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Molly McLaughlin  
SIGNATURE OF NOTARY PUBLIC



GOVERNMENT CODE 27361.7

I CERTIFY UNDER PENALTY OF PERJURY THAT THE NOTARY SEAL ON THE DOCUMENT TO WHICH THIS STATEMENT IS ATTACHED READS AS FOLLOWS:

NAME OF NOTARY: MOLLY MCLAUGHLIN  
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DATE COMMISSION EXPIRES: MAR 28, 2014  
COMMISSION NO.: 1884405  
MANUFACTURERS/VENDOR NO. NNA1

PLACE OF EXECUTION: SANTA ANA, CALIFORNIA  
DATE: December 18, 2012

BY:   
\_\_\_\_\_  
FIRST AMERICAN TITLE INSURANCE COMPANY

# Stradling

Attorneys at Law

STRADLING YOCCA CARLSON & RAUTH, P.C.  
660 NEWPORT CENTER DRIVE, SUITE 1600  
NEWPORT BEACH, CA 92660-6422  
SYCR.COM

NEWPORT BEACH  
949.725.4000

SAN FRANCISCO  
415.283.2240

SACRAMENTO  
916.449.2350

SANTA BARBARA  
805.730.6800

SAN DIEGO  
658.926.3000

SANTA MONICA  
424.214.7000

BRIAN P. FORBATH  
DIRECT DIAL: (949) 725-4193  
BFORBATH@SYCR.COM

December 11, 2012

*VIA EMAIL AND MESSENGER*

Ms. Kristen A. Hueter  
Vice President-Senior National Commercial Underwriter  
First American Title Insurance Company  
National Commercial Services  
5 First American Way  
Santa Ana, California 92707  
Email: [khueter@firstam.com](mailto:khueter@firstam.com)

**Re: Rancho Santa Margarita Civic Center; Order No. NCS-572749-SA1**

Dear Kristen:

These instructions are being submitted to you in connection with: (i) that certain Ground Lease, dated as of December 1, 2012 (the "Ground Lease"), by and between the CITY OF RANCHO SANTA MARGARITA, a municipal corporation and general law city duly organized and existing under and by virtue of the Constitution and laws of the State of California (the "City"), and RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY, a joint exercise of powers entity duly organized and existing under the laws of the State of California (the "Authority"); (ii) that certain Memorandum of Lease Agreement, dated as of December 1, 2012 (the "Memorandum of Lease"), by and between the City and the Authority; and (iii) that certain Assignment Agreement, dated as of December 1, 2012 (the "Assignment Agreement," and together with the Ground Lease and the Memorandum of Lease, the "Documents"), by and between the Authority and WELLS FARGO BANK, NATIONAL ASSOCIATION, as trustee (the "Trustee"). This letter contains the recording instructions of the City and the Authority in connection with the recording of the above-referenced Documents and the issuance of the title insurance policy described below (the "Transaction"). The recording of the Documents is scheduled for 8:00 a.m. Pacific Standard Time on Wednesday, December 19, 2012 (the "Recording Date") and the issuance of the title insurance policy is scheduled for 8:00 a.m. Pacific Standard Time on Wednesday, December 19, 2012 (the "Issuance Date").

A. Documents. You have received or will receive the following in connection with the Transaction:

- (1) From the City:
  - a. An original of the each of the Documents;
  - b. An executed original signature page to each of the Documents; and
  - c. An executed original notarial acknowledgement page to each of the Documents;
  - d. An original of the Termination of Ground Lease, dated as of December 1, 2012 (the "Termination of 2003 Ground Lease"), by and between the City and the City of Rancho Santa Margarita Nonprofit Corporation, a nonprofit public benefit corporation organized and existing under and by virtue of the laws of the State of California (the "Nonprofit Corporation");
  - e. An original of the Termination of Lease Agreement, dated as of December 1, 2012 (the "Termination of 2003 Lease Agreement," and together with the Termination of 2003 Ground Lease, the "2003 Lease Terminations"), by and between the City and the Nonprofit Corporation;
  - f. An executed original signature page to each of the 2003 Terminations; and
  - g. An executed original notarial acknowledgement page to each of the 2003 Lease Terminations;
- (2) From the Authority:
  - a. An executed original signature page to each of the Documents; and
  - b. An executed original notarial acknowledgement page to each of the Documents;
- (3) From the Nonprofit Corporation:
  - a. An executed original signature page to each of the 2003 Lease Terminations; and
  - b. An executed original notarial acknowledgement page to each of the 2003 Lease Terminations; and
- (4) From the Trustee:
  - a. An executed original signature page to the Assignment Agreement;

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and

b. An executed original notarial acknowledgement page to the Assignment Agreement.

B. Conditions of Recording. You may record the Documents upon fulfillment of all of the conditions set forth below:

(1) You hold the original executed pages referred to in Paragraph A above, and you have confirmed that:

a. Each such page has been executed and duly notarized, if applicable;

b. Each such page is identical to the corresponding page of the Documents and the 2003 Lease Terminations delivered to you by the City;

c. You have inserted all signature pages and related notarial acknowledgements from the City, the Authority, the Nonprofit Corporation and the Trustee in order to create a fully-executed original of each of the Documents and the 2003 Lease Terminations, as applicable; and

**d. You have confirmed that the legal descriptions attached as Exhibit A to each of the Documents match exactly the legal description set forth in the title insurance policy (the "Policy") that you will issue in connection with other aspects of the Transaction;**

(2) You understand and acknowledge that you will receive the title insurance policy premium before the close of business on the Issuance Date and you are unconditionally prepared and irrevocably committed to issue, on the Issuance Date immediately upon confirmation of recording of the Documents and the 2003 Lease Terminations, the Policy in the exact form set forth as Exhibit 1 hereto (including, without limitation, all endorsements and handwritten changes thereto and only those title exceptions set forth on Schedule B of the proforma Policy) and insuring the respective interests of the City, the Authority and the Trustee in the property described therein;

(3) You have countersigned these instructions where indicated below and have delivered a copy to the undersigned via electronic mail; and

(4) You have received oral confirmation from the undersigned that all other conditions required by the City to be fulfilled outside of this letter have been fulfilled to the satisfaction of the City.

C. Recording Procedures. In recording the Documents and the 2003 Lease Terminations, you will strictly adhere to the procedures set forth in these instructions. All

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requirements with respect to the recording of the Documents and the 2003 Lease Terminations and the issuance of the Policy shall be considered as having taken place simultaneously, and no delivery or payment shall be considered as having been made until all deliveries, payments and closing transactions have been accomplished.

(1) Record the 2003 Lease Terminations and the Documents in the Official Records of the County of Orange in the following order:

- a. First, the Termination of 2003 Ground Lease;
- b. Second, the Termination of 2003 Lease Agreement;
- c. Third, the Ground Lease;
- d. Fourth, the Memorandum of Lease; and
- e. Fifth, the Assignment Agreement; and

(2) Deliver to the undersigned as soon as possible following the actual recordation of each of the Documents and the 2003 Lease Terminations conformed copies of each Document and 2003 Lease Termination showing all recording information, with originals to follow within 30 days.

D. Issuance Procedures. In issuing the Policy, you will strictly adhere to the procedures set forth in these instructions. All requirements with respect to the recording of the Documents and the 2003 Lease Terminations and the issuance of the Policy shall be considered as having taken place simultaneously, and no delivery or payment shall be considered as having been made until all deliveries, payments and closing transactions have been accomplished.

(1) Provide to the undersigned your invoice for all fees and title insurance policy premia in connection with the issuance of the Policy by no later than 12:00 noon Pacific Standard Time on the business day prior to the Issuance Date; and

(2) Deliver to the undersigned a fully executed electronic copy of the Policy, including all recording information with respect to the Documents, by no later than 12:00 noon Pacific Standard Time on the Issuance Date, with an original executed copy to follow within 30 days.

E. General Instructions.

(1) You are authorized to act based upon a .pdf version of this letter sent by electronic mail;



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(2) You shall present the Documents and the 2003 Lease Terminations for recording by no later than 8:00 a.m. Pacific Standard Time on the Recording Date. If you are unable to comply with these instructions on or before such time, or if there are to be any changes therein, you are not to proceed without further written authorization from the undersigned. If there are any questions concerning the above, please contact the undersigned immediately;

(3) All documents to be delivered to the undersigned shall be delivered to the attention of Brian P. Forbath, Esq., Stradling Yocca Carlson & Rauth, a Professional Corporation, 660 Newport Center Drive, Suite 1600, Newport Beach, California 92660, or bforbath@sycr.com. These instructions may be amended only by written amendment signed by the undersigned; and

(4) If for any reason, including the refusal of the Recorder of the County of Orange to accept any Document or 2003 Lease Termination for recording, you are unable to complete all required actions herein, you are instructed to contact the undersigned immediately.

Please acknowledge your receipt of these instructions and your agreement to proceed in accordance herewith by signing and dating the acknowledgement below and returning it to the undersigned by electronic mail, with the original to follow with deliveries to the undersigned as referenced above. In any event, your recordation of the Documents and the 2003 Lease Terminations shall constitute your acceptance of and agreement to abide by these instructions. We reserve the right to amend or modify these instructions at any time.

Thank you for your assistance in this matter.

*Brian Forbath*

STRADLING YOCCA CARLSON & RAUTH

Enclosures

THE UNDERSIGNED ACKNOWLEDGES RECEIPT OF THE WITHIN INSTRUCTIONS AND AGREES TO ISSUE THE POLICY AS OF 8:00 A.M. PACIFIC STANDARD TIME ON DECEMBER 19, 2012 IN STRICT ACCORDANCE HEREWITH.

FIRST AMERICAN TITLE INSURANCE COMPANY


By:   
Name: Michael Binkman  
Title: Title Officer  
Date: December 10, 2012

EXHIBIT 1

PROFORMA TITLE INSURANCE POLICY



# OWNER'S POLICY OF TITLE INSURANCE

ISSUED BY

*First American Title Insurance Company*

**Any notice of claim and any other notice or statement in writing required to be given to the Company under this policy must be given to the Company at the address shown in Section 18 of the Conditions.**

## COVERED RISKS

SUBJECT TO THE EXCLUSIONS FROM COVERAGE, THE EXCEPTIONS FROM COVERAGE CONTAINED IN SCHEDULE B AND THE CONDITIONS, FIRST AMERICAN TITLE INSURANCE COMPANY, a California corporation (the "Company") insures, as of Date of Policy and, to the extent stated in Covered Risks 9 and 10, after Date of Policy, against loss or damage, not exceeding the Amount of Insurance, sustained or incurred by the Insured by reason of:

1. Title being vested other than as stated in Schedule A.
2. Any defect in or lien or encumbrance on the Title. This Covered Risk includes but is not limited to insurance against loss from
  - (a) A defect in the Title caused by
    - (i) forgery, fraud, undue influence, duress, incompetency, incapacity, or impersonation;
    - (ii) failure of any person or Entity to have authorized a transfer or conveyance;
    - (iii) a document affecting Title not properly created, executed, witnessed, sealed, acknowledged, notarized, or delivered;
    - (iv) failure to perform those acts necessary to create a document by electronic means authorized by law;
    - (v) a document executed under a falsified, expired, or otherwise invalid power of attorney;
    - (vi) a document not properly filed, recorded, or indexed in the Public Records including failure to perform those acts by electronic means authorized by law; or
    - (vii) a defective judicial or administrative proceeding.
  - (b) The lien of real estate taxes or assessments imposed on the Title by a governmental authority due or payable, but unpaid.
  - (c) Any encroachment, encumbrance, violation, variation, or adverse circumstance affecting the Title that would be disclosed by an accurate and complete land survey of the Land. The term "encroachment" includes encroachments of existing improvements located on the Land onto adjoining land, and encroachments onto the Land of existing improvements located on adjoining land.
3. Unmarketable Title.
4. No right of access to and from the Land.
5. The violation or enforcement of any law, ordinance, permit, or governmental regulation (including those relating to building and zoning) restricting, regulating, prohibiting, or relating to
  - (a) the occupancy, use, or enjoyment of the Land;
  - (b) the character, dimensions, or location of any improvement erected on the Land;
  - (c) the subdivision of land; or
  - (d) environmental protectionif a notice, describing any part of the Land, is recorded in the Public Records setting forth the violation or intention to enforce, but only to the extent of the violation or enforcement referred to in that notice.
6. An enforcement action based on the exercise of a governmental

police power not covered by Covered Risk 5 if a notice of the enforcement action, describing any part of the Land, is recorded in the Public Records, but only to the extent of the enforcement referred to in that notice.

7. The exercise of the rights of eminent domain if a notice of the exercise, describing any part of the Land, is recorded in the Public Records.
8. Any taking by a governmental body that has occurred and is binding on the rights of a purchaser for value without Knowledge.
9. Title being vested other than as stated in Schedule A or being defective
  - (a) as a result of the avoidance in whole or in part, or from a court order providing an alternative remedy, of a transfer of all or any part of the title to or any interest in the Land occurring prior to the transaction vesting Title as shown in Schedule A because that prior transfer constituted a fraudulent or preferential transfer under federal bankruptcy, state insolvency, or similar creditors' rights laws; or
  - (b) because the instrument of transfer vesting Title as shown in Schedule A constitutes a preferential transfer under federal bankruptcy, state insolvency, or similar creditors' rights laws by reason of the failure of its recording in the Public Records
    - (i) to be timely, or
    - (ii) to impart notice of its existence to a purchaser for value or to a judgment or lien creditor.
10. Any defect in or lien or encumbrance on the Title or other matter included in Covered Risks 1 through 9 that has been created or attached or has been filed or recorded in the Public Records subsequent to Date of Policy and prior to the recording of the deed or other instrument of transfer in the Public Records that vests Title as shown in Schedule A.

The Company will also pay the costs, attorneys' fees, and expenses incurred in defense of any matter insured against by this policy, but only to the extent provided in the Conditions.

*First American Title Insurance Company*

BY *Dennis J. Alban* PRESIDENT

ATTEST *Christy M. King* SECRETARY



**EXCLUSIONS FROM COVERAGE**

The following matters are expressly excluded from the coverage of this policy, and the Company will not pay loss or damage, costs, attorneys' fees, or expenses that arise by reason of:

1. (a) Any law, ordinance, permit, or governmental regulation (including those relating to building and zoning) restricting, regulating, prohibiting, or relating to
  - (i) the occupancy, use, or enjoyment of the Land;
  - (ii) the character, dimensions, or location of any improvement erected on the Land;
  - (iii) the subdivision of land; or
  - (iv) environmental protection;
 or the effect of any violation of these laws, ordinances, or governmental regulations. This Exclusion 1(a) does not modify or limit the coverage provided under Covered Risk 5.
- (b) Any governmental police power. This Exclusion 1(b) does not modify or limit the coverage provided under Covered Risk 6.
2. Rights of eminent domain. This Exclusion does not modify or limit the coverage provided under Covered Risk 7 or 8.
3. Defects, liens, encumbrances, adverse claims, or other matters
  - (a) created, suffered, assumed, or agreed to by the Insured Claimant;
  - (b) not Known to the Company, not recorded in the Public Records at Date of Policy, but Known to the Insured Claimant and not disclosed in writing to the Company by the Insured Claimant prior to the date the Insured Claimant became an Insured under this policy;
  - (c) resulting in no loss or damage to the Insured Claimant;
  - (d) attaching or created subsequent to Date of Policy (however, this does not modify or limit the coverage provided under Covered Risks 9 and 10); or
  - (e) resulting in loss or damage that would not have been sustained if the Insured Claimant had paid value for the Title.
4. Any claim, by reason of the operation of federal bankruptcy, state insolvency, or similar creditors' rights laws, that the transaction vesting the Title as shown in Schedule A, is
  - (a) a fraudulent conveyance or fraudulent transfer; or
  - (b) a preferential transfer for any reason not stated in Covered Risk 9 of this policy.
5. Any lien on the Title for real estate taxes or assessments imposed by governmental authority and created or attaching between Date of Policy and the date of recording of the deed or other instrument of transfer in the Public Records that vests Title as shown in Schedule A.

- (ii) With regard to (A), (B), (C), and (D) reserving, however, all rights and defenses as to any successor that the Company would have had against any predecessor Insured.
- (e) "Insured Claimant": An Insured claiming loss or damage.
- (f) "Knowledge" or "Known": Actual knowledge, not constructive knowledge or notice that may be imputed to an Insured by reason of the Public Records or any other records that impart constructive notice of matters affecting the Title.
- (g) "Land": The land described in Schedule A, and affixed improvements that by law constitute real property. The term "Land" does not include any property beyond the lines of the area described in Schedule A, nor any right, title, interest, estate, or easement in abutting streets, roads, avenues, alleys, lanes, ways, or waterways, but this does not modify or limit the extent that a right of access to and from the Land is insured by this policy.
- (h) "Mortgage": Mortgage, deed of trust, trust deed, or other security instrument, including one evidenced by electronic means authorized by law.
- (i) "Public Records": Records established under state statutes at Date of Policy for the purpose of imparting constructive notice of matters relating to real property to purchasers for value and without Knowledge. With respect to Covered Risk 5(d), "Public Records" shall also include environmental protection liens filed in the records of the clerk of the United States District Court for the district where the Land is located.
- (j) "Title": The estate or interest described in Schedule A.
- (k) "Unmarketable Title": Title affected by an alleged or apparent matter that would permit a prospective purchaser or lessee of the Title or lender on the Title to be released from the obligation to purchase, lease, or lend if there is a contractual condition requiring the delivery of marketable title.

**2. CONTINUATION OF INSURANCE**

The coverage of this policy shall continue in force as of Date of Policy in favor of an Insured, but only so long as the Insured retains an estate or interest in the Land, or holds an obligation secured by a purchase money Mortgage given by a purchaser from the Insured, or only so long as the Insured shall have liability by reason of warranties in any transfer or conveyance of the Title. This policy shall not continue in force in favor of any purchaser from the Insured of either (i) an estate or interest in the Land, or (ii) an obligation secured by a purchase money Mortgage given to the Insured.

**3. NOTICE OF CLAIM TO BE GIVEN BY INSURED CLAIMANT**

The Insured shall notify the Company promptly in writing (i) in case of any litigation as set forth in Section 5(a) of these Conditions, (ii) in case Knowledge shall come to an Insured hereunder of any claim of title or interest that is adverse to the Title, as insured, and that might cause loss or damage for which the Company may be liable by virtue of this policy, or (iii) if the Title, as insured, is rejected as Unmarketable Title. If the Company is prejudiced by the failure of the Insured Claimant to provide prompt notice, the Company's liability to the Insured Claimant under the policy shall be reduced to the extent of the prejudice.

**4. PROOF OF LOSS**

In the event the Company is unable to determine the amount of loss or damage, the Company may, at its option, require as a condition of payment that the Insured Claimant furnish a signed proof of loss. The proof of loss must describe the defect, lien, encumbrance, or other matter insured against by this policy that constitutes the basis of loss or damage and shall state, to the extent possible, the basis of calculating the amount of the loss or damage.

**5. DEFENSE AND PROSECUTION OF ACTIONS**

- (a) Upon written request by the Insured, and subject to the options contained in Section 7 of these Conditions, the Company, at its own cost and without unreasonable delay, shall provide for the defense of an Insured in litigation in which any third party asserts a claim covered by this policy adverse to the Insured. This obligation is limited to only those stated causes of action alleging matters insured against by this policy. The Company shall have the right to select counsel of its choice (subject to the right of the Insured to object for reasonable cause) to represent the Insured as to those stated causes of action. It shall not be liable for and will not pay the fees of any other counsel. The Company will not pay any fees, costs, or expenses incurred by the Insured in the defense of those causes of action that allege matters not insured against by this policy.
- (b) The Company shall have the right, in addition to the options contained in

**CONDITIONS**

**1. DEFINITION OF TERMS**

The following terms when used in this policy mean:

- (a) "Amount of Insurance": The amount stated in Schedule A, as may be increased or decreased by endorsement to this policy, increased by Section 8(b), or decreased by Sections 10 and 11 of these Conditions.
- (b) "Date of Policy": The date designated as "Date of Policy" in Schedule A.
- (c) "Entity": A corporation, partnership, trust, limited liability company, or other similar legal entity.
- (d) "Insured": The Insured named in Schedule A.
  - (i) The term "Insured" also includes
    - (A) successors to the Title of the Insured by operation of law as distinguished from purchase, including heirs, devisees, survivors, personal representatives, or next of kin;
    - (B) successors to an Insured by dissolution, merger, consolidation, distribution, or reorganization;
    - (C) successors to an Insured by its conversion to another kind of Entity;
    - (D) a grantee of an Insured under a deed delivered without payment of actual valuable consideration conveying the Title
      - (1) if the stock, shares, memberships, or other equity interests of the grantee are wholly-owned by the named Insured,
      - (2) if the grantee wholly owns the named Insured,
      - (3) if the grantee is wholly-owned by an affiliated Entity of the named Insured, provided the affiliated Entity and the named Insured are both wholly-owned by the same person or Entity, or
      - (4) if the grantee is a trustee or beneficiary of a trust created by a written instrument established by the Insured named in Schedule A for estate planning purposes.

Section 7 of these Conditions, at its own cost, to institute and prosecute any action or proceeding or to do any other act that in its opinion may be necessary or desirable to establish the Title, as insured, or to prevent or reduce loss or damage to the Insured. The Company may take any appropriate action under the terms of this policy, whether or not it shall be liable to the Insured. The exercise of these rights shall not be an admission of liability or waiver of any provision of this policy. If the Company exercises its rights under this subsection, it must do so diligently.

- (c) Whenever the Company brings an action or asserts a defense as required or permitted by this policy, the Company may pursue the litigation to a final determination by a court of competent jurisdiction, and it expressly reserves the right, in its sole discretion, to appeal any adverse judgment or order.

#### 6. DUTY OF INSURED CLAIMANT TO COOPERATE

- (a) In all cases where this policy permits or requires the Company to prosecute or provide for the defense of any action or proceeding and any appeals, the Insured shall secure to the Company the right to so prosecute or provide defense in the action or proceeding, including the right to use, at its option, the name of the Insured for this purpose. Whenever requested by the Company, the Insured, at the Company's expense, shall give the Company all reasonable aid (i) in securing evidence, obtaining witnesses, prosecuting or defending the action or proceeding, or effecting settlement, and (ii) in any other lawful act that in the opinion of the Company may be necessary or desirable to establish the Title or any other matter as insured. If the Company is prejudiced by the failure of the Insured to furnish the required cooperation, the Company's obligations to the Insured under the policy shall terminate, including any liability or obligation to defend, prosecute, or continue any litigation, with regard to the matter or matters requiring such cooperation.
- (b) The Company may reasonably require the Insured Claimant to submit to examination under oath by any authorized representative of the Company and to produce for examination, inspection, and copying, at such reasonable times and places as may be designated by the authorized representative of the Company, all records, in whatever medium maintained, including books, ledgers, checks, memoranda, correspondence, reports, e-mails, disks, tapes, and videos whether bearing a date before or after Date of Policy, that reasonably pertain to the loss or damage. Further, if requested by any authorized representative of the Company, the Insured Claimant shall grant its permission, in writing, for any authorized representative of the Company to examine, inspect, and copy all of these records in the custody or control of a third party that reasonably pertain to the loss or damage. All information designated as confidential by the Insured Claimant provided to the Company pursuant to this Section shall not be disclosed to others unless, in the reasonable judgment of the Company, it is necessary in the administration of the claim. Failure of the Insured Claimant to submit for examination under oath, produce any reasonably requested information, or grant permission to secure reasonably necessary information from third parties as required in this subsection, unless prohibited by law or governmental regulation, shall terminate any liability of the Company under this policy as to that claim.

#### 7. OPTIONS TO PAY OR OTHERWISE SETTLE CLAIMS; TERMINATION OF LIABILITY

In case of a claim under this policy, the Company shall have the following additional options:

- (a) To Pay or Tender Payment of the Amount of Insurance.  
To pay or tender payment of the Amount of Insurance under this policy together with any costs, attorneys' fees, and expenses incurred by the Insured Claimant that were authorized by the Company up to the time of payment or tender of payment and that the Company is obligated to pay. Upon the exercise by the Company of this option, all liability and obligations of the Company to the Insured under this policy, other than to make the payment required in this subsection, shall terminate, including any liability or obligation to defend, prosecute, or continue any litigation.
- (b) To Pay or Otherwise Settle With Parties Other Than the Insured or With the Insured Claimant.
- (i) To pay or otherwise settle with other parties for or in the name of an Insured Claimant any claim insured against under this policy. In addition, the Company will pay any costs, attorneys' fees, and expenses incurred by the Insured Claimant that were authorized by the Company up to the time of payment and that the Company is obligated to pay; or
- (ii) To pay or otherwise settle with the Insured Claimant the loss or damage provided for under this policy, together with any costs,

attorneys' fees, and expenses incurred by the Insured Claimant that were authorized by the Company up to the time of payment and that the Company is obligated to pay.

Upon the exercise by the Company of either of the options provided for in subsections (b)(i) or (ii), the Company's obligations to the Insured under this policy for the claimed loss or damage, other than the payments required to be made, shall terminate, including any liability or obligation to defend, prosecute, or continue any litigation.

#### 8. DETERMINATION AND EXTENT OF LIABILITY

This policy is a contract of indemnity against actual monetary loss or damage sustained or incurred by the Insured Claimant who has suffered loss or damage by reason of matters insured against by this policy.

- (a) The extent of liability of the Company for loss or damage under this policy shall not exceed the lesser of
- (i) the Amount of Insurance; or
- (ii) the difference between the value of the Title as insured and the value of the Title subject to the risk insured against by this policy.
- (b) If the Company pursues its rights under Section 5 of these Conditions and is unsuccessful in establishing the Title, as insured,
- (i) the Amount of Insurance shall be increased by 10%, and
- (ii) the Insured Claimant shall have the right to have the loss or damage determined either as of the date the claim was made by the Insured Claimant or as of the date it is settled and paid.
- (c) In addition to the extent of liability under (a) and (b), the Company will also pay those costs, attorneys' fees, and expenses incurred in accordance with Sections 5 and 7 of these Conditions.

#### 9. LIMITATION OF LIABILITY

- (a) If the Company establishes the Title, or removes the alleged defect, lien, or encumbrance, or cures the lack of a right of access to or from the Land, or cures the claim of Unmarketable Title, all as insured, in a reasonably diligent manner by any method, including litigation and the completion of any appeals, it shall have fully performed its obligations with respect to that matter and shall not be liable for any loss or damage caused to the Insured.
- (b) In the event of any litigation, including litigation by the Company or with the Company's consent, the Company shall have no liability for loss or damage until there has been a final determination by a court of competent jurisdiction, and disposition of all appeals, adverse to the Title, as insured.
- (c) The Company shall not be liable for loss or damage to the Insured for liability voluntarily assumed by the Insured in settling any claim or suit without the prior written consent of the Company.

#### 10. REDUCTION OF INSURANCE; REDUCTION OR TERMINATION OF LIABILITY

All payments under this policy, except payments made for costs, attorneys' fees, and expenses, shall reduce the Amount of Insurance by the amount of the payment.

#### 11. LIABILITY NONCUMULATIVE

The Amount of Insurance shall be reduced by any amount the Company pays under any policy insuring a Mortgage to which exception is taken in Schedule B or to which the Insured has agreed, assumed, or taken subject, or which is executed by an Insured after Date of Policy and which is a charge or lien on the Title, and the amount so paid shall be deemed a payment to the Insured under this policy.

#### 12. PAYMENT OF LOSS

When liability and the extent of loss or damage have been definitely fixed in accordance with these Conditions, the payment shall be made within 30 days.

#### 13. RIGHTS OF RECOVERY UPON PAYMENT OR SETTLEMENT

- (a) Whenever the Company shall have settled and paid a claim under this policy, it shall be subrogated and entitled to the rights of the Insured Claimant in the Title and all other rights and remedies in respect to the claim that the Insured Claimant has against any person or property, to the extent of the amount of any loss, costs, attorneys' fees, and expenses paid by the Company. If requested by the Company, the Insured Claimant shall execute documents to evidence the transfer to the Company of these rights and remedies. The Insured Claimant shall permit the Company to sue, compromise, or settle in the name of the Insured Claimant and to use the name of the Insured Claimant in any transaction or litigation involving these rights and remedies.
- If a payment on account of a claim does not fully cover the loss of the Insured Claimant, the Company shall defer the exercise of its right to recover until after the Insured Claimant shall have recovered its loss.

- (b) The Company's right of subrogation includes the rights of the Insured to indemnities, guaranties, other policies of insurance, or bonds, notwithstanding any terms or conditions contained in those instruments that address subrogation rights.

**14. ARBITRATION**

Either the Company or the Insured may demand that the claim or controversy shall be submitted to arbitration pursuant to the Title Insurance Arbitration Rules of the American Land Title Association ("Rules"). Except as provided in the Rules, there shall be no joinder or consolidation with claims or controversies of other persons. Arbitrable matters may include, but are not limited to, any controversy or claim between the Company and the Insured arising out of or relating to this policy, any service in connection with its issuance or the breach of a policy provision, or to any other controversy or claim arising out of the transaction giving rise to this policy. All arbitrable matters when the Amount of Insurance is \$2,000,000 or less shall be arbitrated at the option of either the Company or the Insured. All arbitrable matters when the Amount of Insurance is in excess of \$2,000,000 shall be arbitrated only when agreed to by both the Company and the Insured. Arbitration pursuant to this policy and under the Rules shall be binding upon the parties. Judgment upon the award rendered by the Arbitrator(s) may be entered in any court of competent jurisdiction.

**15. LIABILITY LIMITED TO THIS POLICY; POLICY ENTIRE CONTRACT**

- (a) This policy together with all endorsements, if any, attached to it by the Company is the entire policy and contract between the Insured and the Company. In interpreting any provision of this policy, this policy shall be construed as a whole.
- (b) Any claim of loss or damage that arises out of the status of the Title or by any action asserting such claim shall be restricted to this policy.
- (c) Any amendment of or endorsement to this policy must be in writing and authenticated by an authorized person, or expressly incorporated by Schedule A of this policy.

- (d) Each endorsement to this policy issued at any time is made a part of this policy and is subject to all of its terms and provisions. Except as the endorsement expressly states, it does not (i) modify any of the terms and provisions of the policy, (ii) modify any prior endorsement, (iii) extend the Date of Policy, or (iv) increase the Amount of Insurance.

**16. SEVERABILITY**

In the event any provision of this policy, in whole or in part, is held invalid or unenforceable under applicable law, the policy shall be deemed not to include that provision or such part held to be invalid, but all other provisions shall remain in full force and effect.

**17. CHOICE OF LAW; FORUM**

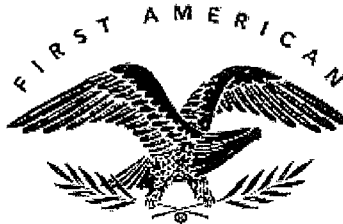
- (a) Choice of Law: The Insured acknowledges the Company has underwritten the risks covered by this policy and determined the premium charged therefore in reliance upon the law affecting interests in real property and applicable to the interpretation, rights, remedies, or enforcement of policies of title insurance of the jurisdiction where the Land is located. Therefore, the court or an arbitrator shall apply the law of the jurisdiction where the Land is located to determine the validity of claims against the Title that are adverse to the Insured and to interpret and enforce the terms of this policy. In neither case shall the court or arbitrator apply its conflicts of law principles to determine the applicable law.
- (b) Choice of Forum: Any litigation or other proceeding brought by the Insured against the Company must be filed only in a state or federal court within the United States of America or its territories having appropriate jurisdiction.

**18. NOTICES, WHERE SENT**

Any notice of claim and any other notice or statement in writing required to be given to the Company under this policy must be given to the Company at 1 First American Way, Santa Ana, CA 92707, Attn: Claims Department.

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## POLICY OF TITLE INSURANCE



## SCHEDULE A

### *First American Title Insurance Company*

Name and Address of the issuing Title Insurance Company:  
First American Title Insurance Company  
5 First American Way  
Santa Ana, CA 92707

File No.: **NCS-572749-SA1**

Policy No.: **572749**

Address Reference: 22112 and 22232 El Paseo, Rancho Santa Margarita, CA

Amount of Insurance: \$ \_\_\_\_\_

Premium: \$ \_\_\_\_\_

Date of Policy: Date of recording at time of closing

1. Name of Insured:

CITY OF RANCHO SANTA MARGARITA, a municipal corporation and general law city duly organized and existing under and by virtue of the Constitution and laws of the State of California as to Interests I and III; RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY, a joint exercise of powers entity duly organized and existing under the laws of the State of California as to Interest II; and WELLS FARGO BANK, NATIONAL ASSOCIATION, a national banking association organized under the laws of the United States of America, in its capacity as trustee under that certain Indenture of Trust, dated as of December 1, 2012, and as assignee under that certain Assignment Agreement, dated as of December 1, 2012, as to Interest III

2. The estate or interest in the Land that is insured by this policy is:

A FEE as to INTEREST I;

A LEASEHOLD ESTATE as to INTEREST II as created by that certain lease dated as of December 1, 2012, executed by the CITY OF RANCHO SANTA MARGARITA, a municipal corporation and general law city duly organized and existing under and by virtue of the Constitution and laws of the State of California, as lessor, and the RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY, a joint exercise of powers entity duly organized and existing under the laws of the State of California, as lessee, as referenced in the document entitled "Ground Lease," which was recorded on December \_\_\_\_, 2012 as Instrument No. \_\_\_\_\_, in the Official Records of the County of Orange, for the term, upon and subject to all the provisions contained in said document, and in said lease.

and

A SUBLEASEHOLD as to INTEREST III as created by that certain lease dated as of December 1, 2012, executed by the RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY, a joint exercise of powers entity duly organized and existing under the laws of the State of California, as sublessor, and the CITY OF RANCHO SANTA MARGARITA, a municipal corporation and general law city duly organized and existing under and by virtue of the Constitution and laws of the State of California, as sublessee, as referenced in the document entitled "Memorandum of Lease Agreement," which was recorded on December \_\_\_\_, 2012 as Instrument No. \_\_\_\_\_, in the Official Records of the County of Orange, for the term, upon and subject to all the provisions contained in said document, and in said lease.

3. Title is vested in:

PRO FORMA

First American Title Insurance Company

PRO FORMA



<sup>SANTA</sup>  
CITY OF RANCHO MARGARITA, a municipal corporation and general law city duly organized and existing under and by virtue of the Constitution and laws of the State of California as to Interests I and III; RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY, a joint exercise of powers entity duly organized and existing under the laws of the State of California as to Interest II; and WELLS FARGO BANK, NATIONAL ASSOCIATION, a national banking association organized under the laws of the United States of America, in its capacity as trustee under that certain Indenture of Trust, dated as of December 1, 2012, and as assignee under that certain Assignment Agreement, dated as of December 1, 2012, as to Interest III

4. The Land referred to in this policy is described as follows:

Real property in the City of Rancho Santa Margarita, County of Orange, State of California, described as follows:

LOTS 6 THROUGH 9 OF TRACT NO. 13423, AS SHOWN ON A MAP FILED IN BOOK 729, PAGES 11 TO 15 INCLUSIVE OF MISCELLANEOUS MAPS, RECORDS OF ORANGE COUNTY, CALIFORNIA.

APN: 814-154-08, 814-154-09, 814-154-10 and 814-154-11

## SCHEDULE B

File No. **NCS-572749-SA1**

Policy No. **572749**

### EXCEPTIONS FROM COVERAGE

This Policy does not insure against loss or damage, and the Company will not pay costs, attorneys' fees, or expenses that arise by reason of:

#### **Part One:**

1. (a) Taxes or assessments that are not shown as existing liens by the records of any taxing authority that levies taxes or assessments on real property or by the Public Records; (b) proceedings by a public agency that may result in taxes or assessments, or notices of such proceedings, whether or not shown by the records of such agency or by the Public Records.
2. Any facts, rights, interests, or claims that are not shown by the Public Records but that could be ascertained by an inspection of the Land or that may be asserted by persons in possession of the Land.
3. Easements, liens or encumbrances, or claims thereof, not shown by the Public Records.
4. Any encroachment, encumbrance, violation, variation, or adverse circumstance affecting the Title that would be disclosed by an accurate and complete land survey of the Land and not shown by the Public Records.
5. (a) Unpatented mining claims; (b) reservations or exceptions in patents or in Acts authorizing the issuance thereof; (c) water rights, claims or title to water, whether or not the matters excepted under (a), (b), or (c) are shown by the Public Records.

#### **Part Two:**

1. General and special taxes and assessments for the fiscal year 2012-2013 are exempt. If the exempt status is terminated an additional tax may be levied. A.P. No.: 814-154-08, 814-154-09, 814-154-10 and 814-154-11.

(Affects all Parcels)

2. This item has been intentionally deleted.
3. The lien of supplemental taxes, if any, assessed pursuant to Chapter 3.5 commencing with Section 75 of the California Revenue and Taxation Code.
4. The property covered herein lies within the boundaries of pending assessment District No. 87-5E, as disclosed by an Assessment District Map filed in Book 43, Page 40 of Assessment Maps, recorded September 01, 1988 as Instrument No. 88-439423 of Official Records.

Note: The effect of an instrument entitled "Notice of Special Tax Authorization for Communities Facilities District No. 87-5E", recorded August 02, 1990 as Instrument No. 90-410821 of Official Records; Reference being made to the record thereof for full particulars.

5. The property covered herein lies within the boundaries of pending assessment District No. 88-1, as disclosed by an Assessment District Map filed in Book 44, Page 6 of Assessment Maps, recorded September 08, 1988 as Instrument No. 88-452084 of Official Records.

Note 1: The effect of an instrument entitled "Notice of Special Tax Authorization for Community Facilities District No. 88-1", recorded November 04, 1988 as Instrument No. 88-568271 of Official Records; Reference being made to the record thereof for full particulars.

Note 2: The effect of an instrument entitled "Notice of Special Tax Lien" recorded March 05, 1997 as Instrument No. 19970101142 of Official Records; Reference being made to the record thereof for full particulars.

6. An aircraft operation, sound, air space and avigation easement above a mean sea level elevation of 2200 feet for the purposes and subject to the same conditions and limitations as shown in that certain easement recorded July 02, 1979 in Book 13213, Page 1111 of Official Records, as dedicated to the County of Orange on the map of said tract.
7. The fact that prior to the completion of an application for any building permits, the developer shall comply with County of Orange Ordinances 3071 and 3150 pertaining to interim school facilities, as recited on the map of said tract.
8. The declaration and notice concerning aircraft environmental impact over all lots for the purposes and subject to the same conditions and limitations as shown in that certain Declaration and Notice concerning Aircraft Environmental Impacts recorded December 01, 1983 as Instrument No. 83-549335 of Official Records, as recited on the map of said tract.
9. The fact that property may be subject to impacts from the proposed Foothill/Eastern Transportation Corridor, as recited on the map of said tract.
10. The recital on the map of said tract that development shall be phased in accordance with the Foothill Circulation Phasing Plan or any county approved Development Agreement pertaining to the property.
11. This item has been intentionally deleted.
12. The terms and provisions contained in the document entitled "Drainage Acceptance Agreement" recorded March 05, 1993 as Instrument No. 93-0151024 of Official Records. By Santa Margarita Company, a California corporation.
13. An easement for public utilities and incidental purposes, recorded October 27, 1994 as Instrument No. 94-0632835 of Official Records.  
In Favor of: Southern California Edison Company  
Affects: Portions of Lot 6 of Tract No. 13423
14. The following matters shown or disclosed by the filed or recorded map referred to in the legal description: sidewalk and incidental purposes.  
  
(Affects Lot 6 as therein described.)
15. Easements for sewer and water pipeline purposes, as shown and dedicated to the Santa Margarita Water District on the Map of said Tract No. 13423, which easements shall be subject to the same terms and conditions as are shown in that certain easement recorded October 06, 1980 in Book 13776, Page 341 of Official Records, over a portion of Lot 6.

Note: The recital on the map of said Tract No. 13423 that said easement is expressly made

subordinate to the easements offered for the dedication to the County of Orange where said easements overlap.

16. The recital on the map of said Tract No. 13423 that the land covered by this map is located in a very high fire hazard area due to wildland exposure.
17. The recital on the map of said Tract No. 13423 that the number of dwelling units permitted is not established for Lots 5 and 6 by the recordation of vesting Tract No. 13423, the number of dwelling units permitted will be as a part of a site development permit processed in accordance with Orange County Zoning Code Section 7-9-150.
18. An easement for public utilities and incidental purposes, recorded April 11, 1996 as Instrument No. 19960178363 of Official Records.  
In Favor of: Southern California Edison Company  
Affects: A portion of Lot 6 of Tract No. 13423, as therein described
19. Covenants, conditions, restrictions and easements in the document recorded July 02, 1986 as Instrument No. 86-283736 of Official Records, which provide that a violation thereof shall not defeat or render invalid the lien of any first mortgage or deed of trust made in good faith and for value, but deleting any covenant, condition or restriction indicating a preference, limitation or discrimination based on race, color, religion, sex, handicap, familial status, national origin, sexual orientation, marital status, ancestry, source of income or disability, to the extent such covenants, conditions or restrictions violate Title 42, Section 3604(c), of the United States Codes or Section 12955 of the California Government Code. Lawful restrictions under state and federal law on the age of occupants in senior housing or housing for older persons shall not be construed as restrictions based on familial status.  
  
Document(s) declaring modifications thereof recorded January 25, 1990 as Instrument No. 90-044095 of Official Records.  
  
Document(s) declaring modifications thereof recorded September 20, 2000 as Instrument No. 20000493489 of Official Records.  
  
Document(s) declaring modifications thereof recorded September 20, 2000 as Instrument No. 20000493852 of Official Records.
20. This item has been intentionally deleted.
21. This item has been intentionally deleted.
22. An easement for one or more pipelines and conduits, together with metering, measuring, regulating, cathodic protection, communications and other appurtenances for the transportation of gas, energy, communications, petroleum products and other substances together with the right of reasonable ingress and egress and incidental purposes, recorded February 04, 1999 as Instrument No. 19990082668 of Official Records.  
In Favor of: Southern California Gas Company, a California corporation, its successors and assigns  
Affects: A portion of the land as therein described
23. An easement for right-of-way for water and sewer pipelines and incidental purposes, recorded November 05, 2003 as Instrument No. 2003001361696 of Official Records.  
In Favor of: Santa Margarita Water District, a California water district  
Affects: A portion of Lots 6 and 8

24. This item has been intentionally deleted.
25. This item has been intentionally deleted.
26. An easement for right-of-way for water and sewer pipelines and incidental purposes, recorded July 22, 2004 as Instrument No. 2004000663407 of Official Records.  
In Favor of: Santa Margarita Water District, a California water district  
Affects: Lots 6 and 8
27. This item has been intentionally deleted.
28. The terms and provisions contained in the document entitled "Ground Lease" recorded December \_\_\_\_, 2012 as Instrument No. \_\_\_\_\_ of Official Records, by and between the CITY OF RANCHO SANTA MARGARITA, a municipal corporation and general law city duly organized and existing under and by virtue of the Constitution and laws of the State of California, as lessor, and the RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY, a joint exercise of powers entity duly organized and existing under the laws of the State of California, as lessee.
29. The terms and provisions contained in the document entitled "Memorandum of Lease Agreement" recorded December \_\_\_\_, 2012 as Instrument No. \_\_\_\_\_ of Official Records, by and between the RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY, a joint exercise of powers entity duly organized and existing under the laws of the State of California, and the CITY OF RANCHO SANTA MARGARITA, a municipal corporation and general law city duly organized and existing under and by virtue of the Constitution and laws of the State of California.
30. The terms and provisions contained in the document entitled "Assignment Agreement" recorded \_\_\_\_\_, 2012 as Instrument No. 2012\_\_\_\_\_ of Official Records, by and between Rancho Santa Margarita Public Financing Authority, a joint exercise of powers entity organized and existing under and by virtue of the laws of the State of California, and Wells Fargo Bank, National Association, a national banking association organized and existing under the laws of the United States, as Trustee

**NOTICE: This is a pro-forma policy furnished to or on behalf of the party to be insured. It neither reflects the present status of title, nor is it intended to be a commitment to insure. The inclusion of endorsements as part of the pro-forma policy in no way evidences the willingness of the Company to provide any affirmative coverage shown therein.**

**There are requirements which must be met before a final policy can be issued in the same form as this pro-forma policy. A commitment to insure setting forth these requirements should be obtained from the Company.**

**ENDORSEMENT**

**Attached to Policy No. 572749**

**Issued by**

***First American Title Insurance Company***

The Company insures against loss or damage sustained by the Insured by reason of:

1. the failure of the **common boundary line of Lot 6** of the Land to be contiguous to the **common boundary line of Lot 7 of the Land** ; or
2. the presence of any gaps, strips, or gores separating any of the contiguous boundary lines described above.

] please  
add  
Lots  
8 and  
9

This endorsement is issued as part of the policy. Except as it expressly states, it does not (i) modify any of the terms and provisions of the policy, (ii) modify any prior endorsements, (iii) extend the Date of Policy, or (iv) increase the Amount of Insurance. To the extent a provision of the policy or a previous endorsement is inconsistent with an express provision of this endorsement, this endorsement controls. Otherwise, this endorsement is subject to all of the terms and provisions of the policy and of any prior endorsements.

American Land Title Association  
Endorsement 19-06 (Contiguity-Multiple Parcels)  
Adopted 6/17/06

**ENDORSEMENT**

**Attached to Policy No. 572749**

**Issued by**

***First American Title Insurance Company***

The Company insures against loss or damage sustained by the Insured if, at Date of Policy (i) the Land does not abut and have both actual vehicular and pedestrian access to and from **El Paseo** (the "Street(s)"), (ii) the Street(s) is/are not physically open and publicly maintained, or (iii) the Insured has no right to use existing curb cuts or entries along that/those portion(s) of the Street(s) abutting the Land.

This endorsement is issued as part of the policy. Except as it expressly states, it does not (i) modify any of the terms and provisions of the policy, (ii) modify any prior endorsements, (iii) extend the Date of Policy, or (iv) increase the Amount of Insurance. To the extent a provision of the policy or a previous endorsement is inconsistent with an express provision of this endorsement, this endorsement controls. Otherwise, this endorsement is subject to all of the terms and provisions of the policy and of any prior endorsements.

American Land Title Association  
Endorsement 17-06 (Access and Entry)  
Adopted 6/17/06

**ENDORSEMENT**

**Attached to Policy No. 572749**

**Issued by**

***First American Title Insurance Company***

The Company insures against loss or damage sustained by the Insured by reason of the failure of (i) a **Commercial Structure**, known as **22112 and 22232 El Paseo, Rancho Santa Margarita, CA**, to be located on the Land at Date of Policy, or (ii) the map, if any, attached to this policy to correctly show the location and dimensions of the Land according to the Public Records.

This endorsement is issued as part of the policy. Except as it expressly states, it does not (i) modify any of the terms and provisions of the policy, (ii) modify any prior endorsements, (iii) extend the Date of Policy, or (iv) increase the Amount of Insurance. To the extent a provision of the policy or a previous endorsement is inconsistent with an express provision of this endorsement, this endorsement controls. Otherwise, this endorsement is subject to all of the terms and provisions of the policy and of any prior endorsements.

American Land Title Association  
Endorsement 22.1-06 (Location and Map)  
Adopted 6/17/06  
ALTA Owner's/Loan Policy



**ENDORSEMENT**

**Attached to Policy No. 572749**

**Issued by**

***First American Title Insurance Company***

1. As used in this endorsement, the following terms shall mean:
  - a. "Evicted" or "Eviction": (a) the lawful deprivation, in whole or in part, of the right of possession insured by this policy, contrary to the terms of the Lease or (b) the lawful prevention of the use of the Land or the Tenant Leasehold Improvements for the purposes permitted by the Lease, in either case as a result of a matter covered by this policy.
  - b. "Lease": the lease agreement described in Schedule A.
  - c. "Leasehold Estate": the right of possession for the Lease Term.
  - d. "Lease Term": the duration of the Leasehold Estate, including any renewal or extended term if a valid option to renew or extend is contained in the Lease.
  - e. "Personal Property": chattels located on the Land and property that, because of their character and manner of affixation to the Land, can be severed from the Land without causing appreciable damage to themselves or to the Land to which they are affixed.
  - f. "Remaining Lease Term": the portion of the Lease Term remaining after the Insured has been Evicted as a result of a matter covered by this policy.
  - g. "Tenant Leasehold Improvements": those improvements, including landscaping, required or permitted to be built on the Land by the Lease that have been built at the Insured's expense or in which the Insured has an interest greater than the right to possession during the Lease Term.
  
2. Valuation of Estate or Interest Insured:

If in computing loss or damage it becomes necessary to value the Title as the result of a covered matter that results in an Eviction of the Tenant, then that value shall consist of the value for the Remaining Lease Term of the Leasehold Estate and any Tenant Leasehold Improvements existing on the date of the Eviction. The Insured Claimant shall have the right to have the Leasehold Estate and the Tenant Leasehold Improvements valued either as a whole or separately. In either event, this determination of value shall take into account rent no longer required to be paid for the Remaining Lease Term.

3. Additional items of loss covered by this endorsement:

If the Insured is Evicted, the following items of loss, if applicable, shall be included in computing loss or damage incurred by the Insured, but not to the extent that the same are included in the valuation of the Title.

- a. The reasonable cost of removing and relocating any Personal Property that the Insured has the right to remove and relocate, situated on the Land at the time of Eviction, the cost of transportation of that Personal Property for the initial one hundred miles incurred in connection with the relocation, and the reasonable cost of repairing the Personal Property damaged by reason of the removal and relocation.
- b. Rent or damages for use and occupancy of the Land prior to the Eviction that the Insured as owner of the Leasehold Estate may be obligated to pay to any person having paramount title to that of the lessor in the Lease.
- c. The amount of rent that, by the terms of the Lease, the Insured must continue to pay to the lessor after Eviction with respect to the portion of the Leasehold Estate and Tenant Leasehold Improvements from which the Insured has been Evicted.

- d. The fair market value, at the time of the Eviction, of the estate or interest of the Insured in any lease or sublease made by Tenant as lessor of all or part of the Leasehold Estate or the Tenant Leasehold Improvements.
- e. Damages that the Insured is obligated to pay to lessees or sublessees on account of the breach of any lease or sublease made by the Tenant as lessor of all or part of the Leasehold Estate or the Tenant Leasehold Improvements caused by the Eviction.
- f. Reasonable costs incurred by the Insured to secure a replacement leasehold equivalent to the Leasehold Estate.
- g. If Tenant Leasehold Improvements are not substantially completed at the time of Eviction, the actual cost incurred by the Insured, less the salvage value, for the Tenant Leasehold Improvements up to the time of Eviction. Those costs include costs incurred to obtain land use, zoning, building and occupancy permits, architectural and engineering fees, construction management fees, costs of environmental testing and reviews, and landscaping costs.

This endorsement is issued as part of the policy. Except as it expressly states, it does not (i) modify any of the terms and provisions of the policy, (ii) modify any prior endorsements, (iii) extend the Date of Policy, or (iv) increase the Amount of Insurance. To the extent a provision of the policy or a previous endorsement is inconsistent with an express provision of this endorsement, this endorsement controls. Otherwise, this endorsement is subject to all of the terms and provisions of the policy and of any prior endorsements to it.

American Land Title Association  
Endorsement 13-06 (Leasehold-Owner's)  
Adopted 6/17/06



# OWNER'S POLICY OF TITLE INSURANCE

ISSUED BY

*First American Title Insurance Company*

**Any notice of claim and any other notice or statement in writing required to be given to the Company under this policy must be given to the Company at the address shown in Section 18 of the Conditions.**

## COVERED RISKS


SUBJECT TO THE EXCLUSIONS FROM COVERAGE, THE EXCEPTIONS FROM COVERAGE CONTAINED IN SCHEDULE B AND THE CONDITIONS, FIRST AMERICAN TITLE INSURANCE COMPANY, a California corporation (the "Company") insures, as of Date of Policy and, to the extent stated in Covered Risks 9 and 10, after Date of Policy, against loss or damage, not exceeding the Amount of Insurance, sustained or incurred by the Insured by reason of:

1. Title being vested other than as stated in Schedule A.
2. Any defect in or lien or encumbrance on the Title. This Covered Risk includes but is not limited to insurance against loss from
  - (a) A defect in the Title caused by
    - (i) forgery, fraud, undue influence, duress, incompetency, incapacity, or impersonation;
    - (ii) failure of any person or Entity to have authorized a transfer or conveyance;
    - (iii) a document affecting Title not properly created, executed, witnessed, sealed, acknowledged, notarized, or delivered;
    - (iv) failure to perform those acts necessary to create a document by electronic means authorized by law;
    - (v) a document executed under a falsified, expired, or otherwise invalid power of attorney;
    - (vi) a document not properly filed, recorded, or indexed in the Public Records including failure to perform those acts by electronic means authorized by law; or
    - (vii) a defective judicial or administrative proceeding.
  - (b) The lien of real estate taxes or assessments imposed on the Title by a governmental authority due or payable, but unpaid.
  - (c) Any encroachment, encumbrance, violation, variation, or adverse circumstance affecting the Title that would be disclosed by an accurate and complete land survey of the Land. The term "encroachment" includes encroachments of existing improvements located on the Land onto adjoining land, and encroachments onto the Land of existing improvements located on adjoining land.
3. Unmarketable Title.
4. No right of access to and from the Land.
5. The violation or enforcement of any law, ordinance, permit, or governmental regulation (including those relating to building and zoning) restricting, regulating, prohibiting, or relating to
  - (a) the occupancy, use, or enjoyment of the Land;
  - (b) the character, dimensions, or location of any improvement erected on the Land;
  - (c) the subdivision of land; or
  - (d) environmental protectionif a notice, describing any part of the Land, is recorded in the Public Records setting forth the violation or intention to enforce, but only to the extent of the violation or enforcement referred to in that notice.
6. An enforcement action based on the exercise of a governmental

7. The exercise of the rights of eminent domain if a notice of the exercise, describing any part of the Land, is recorded in the Public Records.
8. Any taking by a governmental body that has occurred and is binding on the rights of a purchaser for value without Knowledge.
9. Title being vested other than as stated in Schedule A or being defective
  - (a) as a result of the avoidance in whole or in part, or from a court order providing an alternative remedy, of a transfer of all or any part of the title to or any interest in the Land occurring prior to the transaction vesting Title as shown in Schedule A because that prior transfer constituted a fraudulent or preferential transfer under federal bankruptcy, state insolvency, or similar creditors' rights laws; or
  - (b) because the instrument of transfer vesting Title as shown in Schedule A constitutes a preferential transfer under federal bankruptcy, state insolvency, or similar creditors' rights laws by reason of the failure of its recording in the Public Records
    - (i) to be timely, or
    - (ii) to impart notice of its existence to a purchaser for value or to a judgment or lien creditor.
10. Any defect in or lien or encumbrance on the Title or other matter included in Covered Risks 1 through 9 that has been created or attached or has been filed or recorded in the Public Records subsequent to Date of Policy and prior to the recording of the deed or other instrument of transfer in the Public Records that vests Title as shown in Schedule A.

The Company will also pay the costs, attorneys' fees, and expenses incurred in defense of any matter insured against by this policy, but only to the extent provided in the Conditions.

*First American Title Insurance Company*

BY  PRESIDENT

ATTEST  SECRETARY



### EXCLUSIONS FROM COVERAGE

The following matters are expressly excluded from the coverage of this policy, and the Company will not pay loss or damage, costs, attorneys' fees, or expenses that arise by reason of:

1. (a) Any law, ordinance, permit, or governmental regulation (including those relating to building and zoning) restricting, regulating, prohibiting, or relating to
  - (i) the occupancy, use, or enjoyment of the Land;
  - (ii) the character, dimensions, or location of any improvement erected on the Land;
  - (iii) the subdivision of land; or
  - (iv) environmental protection;or the effect of any violation of these laws, ordinances, or governmental regulations. This Exclusion 1(a) does not modify or limit the coverage provided under Covered Risk 5.
- (b) Any governmental police power. This Exclusion 1(b) does not modify or limit the coverage provided under Covered Risk 6.
2. Rights of eminent domain. This Exclusion does not modify or limit the coverage provided under Covered Risk 7 or 8.
3. Defects, liens, encumbrances, adverse claims, or other matters
  - (a) created, suffered, assumed, or agreed to by the Insured Claimant;
  - (b) not Known to the Company, not recorded in the Public Records at Date of Policy, but Known to the Insured Claimant and not disclosed in writing to the Company by the Insured Claimant prior to the date the Insured Claimant became an Insured under this policy;
  - (c) resulting in no loss or damage to the Insured Claimant;
  - (d) attaching or created subsequent to Date of Policy (however, this does not modify or limit the coverage provided under Covered Risks 9 and 10); or
  - (e) resulting in loss or damage that would not have been sustained if the Insured Claimant had paid value for the Title.
4. Any claim, by reason of the operation of federal bankruptcy, state insolvency, or similar creditors' rights laws, that the transaction vesting the Title as shown in Schedule A, is
  - (a) a fraudulent conveyance or fraudulent transfer; or
  - (b) a preferential transfer for any reason not stated in Covered Risk 9 of this policy.
5. Any lien on the Title for real estate taxes or assessments imposed by governmental authority and created or attaching between Date of Policy and the date of recording of the deed or other instrument of transfer in the Public Records that vests Title as shown in Schedule A.

### CONDITIONS

#### 1. DEFINITION OF TERMS

The following terms when used in this policy mean:

- (a) "Amount of Insurance": The amount stated in Schedule A, as may be increased or decreased by endorsement to this policy, increased by Section 8(b), or decreased by Sections 10 and 11 of these Conditions.
- (b) "Date of Policy": The date designated as "Date of Policy" in Schedule A.
- (c) "Entity": A corporation, partnership, trust, limited liability company, or other similar legal entity.
- (d) "Insured": The Insured named in Schedule A.
  - (i) The term "Insured" also includes
    - (A) successors to the Title of the Insured by operation of law as distinguished from purchase, including heirs, devisees, survivors, personal representatives, or next of kin;
    - (B) successors to an Insured by dissolution, merger, consolidation, distribution, or reorganization;
    - (C) successors to an Insured by its conversion to another kind of Entity;
    - (D) a grantee of an Insured under a deed delivered without payment of actual valuable consideration conveying the Title
      - (1) if the stock, shares, memberships, or other equity interests of the grantee are wholly-owned by the named Insured,
      - (2) if the grantee wholly owns the named Insured,
      - (3) if the grantee is wholly-owned by an affiliated Entity of the named Insured, provided the affiliated Entity and the named Insured are both wholly-owned by the same person or Entity, or
      - (4) if the grantee is a trustee or beneficiary of a trust created by a written instrument established by the Insured named in Schedule A for estate planning purposes.

- (ii) With regard to (A), (B), (C), and (D) reserving, however, all rights and defenses as to any successor that the Company would have had against any predecessor Insured.
- (e) "Insured Claimant": An Insured claiming loss or damage.
- (f) "Knowledge" or "Known": Actual knowledge, not constructive knowledge or notice that may be imputed to an Insured by reason of the Public Records or any other records that impart constructive notice of matters affecting the Title.
- (g) "Land": The land described in Schedule A, and affixed improvements that by law constitute real property. The term "Land" does not include any property beyond the lines of the area described in Schedule A, nor any right, title, interest, estate, or easement in abutting streets, roads, avenues, alleys, lanes, ways, or waterways, but this does not modify or limit the extent that a right of access to and from the Land is insured by this policy.
- (h) "Mortgage": Mortgage, deed of trust, trust deed, or other security instrument, including one evidenced by electronic means authorized by law.
- (i) "Public Records": Records established under state statutes at Date of Policy for the purpose of imparting constructive notice of matters relating to real property to purchasers for value and without Knowledge. With respect to Covered Risk 5(d), "Public Records" shall also include environmental protection liens filed in the records of the clerk of the United States District Court for the district where the Land is located.
- (j) "Title": The estate or interest described in Schedule A.
- (k) "Unmarketable Title": Title affected by an alleged or apparent matter that would permit a prospective purchaser or lessee of the Title or lender on the Title to be released from the obligation to purchase, lease, or lend if there is a contractual condition requiring the delivery of marketable title.

#### 2. CONTINUATION OF INSURANCE

The coverage of this policy shall continue in force as of Date of Policy in favor of an Insured, but only so long as the Insured retains an estate or interest in the Land, or holds an obligation secured by a purchase money Mortgage given by a purchaser from the Insured, or only so long as the Insured shall have liability by reason of warranties in any transfer or conveyance of the Title. This policy shall not continue in force in favor of any purchaser from the Insured of either (i) an estate or interest in the Land, or (ii) an obligation secured by a purchase money Mortgage given to the Insured.

#### 3. NOTICE OF CLAIM TO BE GIVEN BY INSURED CLAIMANT

The Insured shall notify the Company promptly in writing (i) in case of any litigation as set forth in Section 5(a) of these Conditions, (ii) in case Knowledge shall come to an Insured hereunder of any claim of title or interest that is adverse to the Title, as insured, and that might cause loss or damage for which the Company may be liable by virtue of this policy, or (iii) if the Title, as insured, is rejected as Unmarketable Title. If the Company is prejudiced by the failure of the Insured Claimant to provide prompt notice, the Company's liability to the Insured Claimant under the policy shall be reduced to the extent of the prejudice.

#### 4. PROOF OF LOSS

In the event the Company is unable to determine the amount of loss or damage, the Company may, at its option, require as a condition of payment that the Insured Claimant furnish a signed proof of loss. The proof of loss must describe the defect, lien, encumbrance, or other matter insured against by this policy that constitutes the basis of loss or damage and shall state, to the extent possible, the basis of calculating the amount of the loss or damage.

#### 5. DEFENSE AND PROSECUTION OF ACTIONS

- (a) Upon written request by the Insured, and subject to the options contained in Section 7 of these Conditions, the Company, at its own cost and without unreasonable delay, shall provide for the defense of an Insured in litigation in which any third party asserts a claim covered by this policy adverse to the Insured. This obligation is limited to only those stated causes of action alleging matters insured against by this policy. The Company shall have the right to select counsel of its choice (subject to the right of the Insured to object for reasonable cause) to represent the Insured as to those stated causes of action. It shall not be liable for and will not pay the fees of any other counsel. The Company will not pay any fees, costs, or expenses incurred by the Insured in the defense of those causes of action that allege matters not insured against by this policy.
- (b) The Company shall have the right, in addition to the options contained in

Section 7 of these Conditions, at its own cost, to institute and prosecute any action or proceeding or to do any other act that in its opinion may be necessary or desirable to establish the Title, as insured, or to prevent or reduce loss or damage to the Insured. The Company may take any appropriate action under the terms of this policy, whether or not it shall be liable to the Insured. The exercise of these rights shall not be an admission of liability or waiver of any provision of this policy. If the Company exercises its rights under this subsection, it must do so diligently.

- (c) Whenever the Company brings an action or asserts a defense as required or permitted by this policy, the Company may pursue the litigation to a final determination by a court of competent jurisdiction, and it expressly reserves the right, in its sole discretion, to appeal any adverse judgment or order.

#### 6. DUTY OF INSURED CLAIMANT TO COOPERATE

- (a) In all cases where this policy permits or requires the Company to prosecute or provide for the defense of any action or proceeding and any appeals, the Insured shall secure to the Company the right to so prosecute or provide defense in the action or proceeding, including the right to use, at its option, the name of the Insured for this purpose. Whenever requested by the Company, the Insured, at the Company's expense, shall give the Company all reasonable aid (i) in securing evidence, obtaining witnesses, prosecuting or defending the action or proceeding, or effecting settlement, and (ii) in any other lawful act that in the opinion of the Company may be necessary or desirable to establish the Title or any other matter as insured. If the Company is prejudiced by the failure of the Insured to furnish the required cooperation, the Company's obligations to the Insured under the policy shall terminate, including any liability or obligation to defend, prosecute, or continue any litigation, with regard to the matter or matters requiring such cooperation.
- (b) The Company may reasonably require the Insured Claimant to submit to examination under oath by any authorized representative of the Company and to produce for examination, inspection, and copying, at such reasonable times and places as may be designated by the authorized representative of the Company, all records, in whatever medium maintained, including books, ledgers, checks, memoranda, correspondence, reports, e-mails, disks, tapes, and videos whether bearing a date before or after Date of Policy, that reasonably pertain to the loss or damage. Further, if requested by any authorized representative of the Company, the Insured Claimant shall grant its permission, in writing, for any authorized representative of the Company to examine, inspect, and copy all of these records in the custody or control of a third party that reasonably pertain to the loss or damage. All information designated as confidential by the Insured Claimant provided to the Company pursuant to this Section shall not be disclosed to others unless, in the reasonable judgment of the Company, it is necessary in the administration of the claim. Failure of the Insured Claimant to submit for examination under oath, produce any reasonably requested information, or grant permission to secure reasonably necessary information from third parties as required in this subsection, unless prohibited by law or governmental regulation, shall terminate any liability of the Company under this policy as to that claim.

#### 7. OPTIONS TO PAY OR OTHERWISE SETTLE CLAIMS; TERMINATION OF LIABILITY

In case of a claim under this policy, the Company shall have the following additional options:

- (a) To Pay or Tender Payment of the Amount of Insurance.  
To pay or tender payment of the Amount of Insurance under this policy together with any costs, attorneys' fees, and expenses incurred by the Insured Claimant that were authorized by the Company up to the time of payment or tender of payment and that the Company is obligated to pay. Upon the exercise by the Company of this option, all liability and obligations of the Company to the Insured under this policy, other than to make the payment required in this subsection, shall terminate, including any liability or obligation to defend, prosecute, or continue any litigation.
- (b) To Pay or Otherwise Settle With Parties Other Than the Insured or With the Insured Claimant.
- (i) To pay or otherwise settle with other parties for or in the name of an Insured Claimant any claim insured against under this policy. In addition, the Company will pay any costs, attorneys' fees, and expenses incurred by the Insured Claimant that were authorized by the Company up to the time of payment and that the Company is obligated to pay; or
- (ii) To pay or otherwise settle with the Insured Claimant the loss or damage provided for under this policy, together with any costs,

attorneys' fees, and expenses incurred by the Insured Claimant that were authorized by the Company up to the time of payment and that the Company is obligated to pay.

Upon the exercise by the Company of either of the options provided for in subsections (b)(i) or (ii), the Company's obligations to the Insured under this policy for the claimed loss or damage, other than the payments required to be made, shall terminate, including any liability or obligation to defend, prosecute, or continue any litigation.

#### 8. DETERMINATION AND EXTENT OF LIABILITY

This policy is a contract of indemnity against actual monetary loss or damage sustained or incurred by the Insured Claimant who has suffered loss or damage by reason of matters insured against by this policy.

- (a) The extent of liability of the Company for loss or damage under this policy shall not exceed the lesser of
- the Amount of Insurance; or
  - the difference between the value of the Title as insured and the value of the Title subject to the risk insured against by this policy.
- (b) If the Company pursues its rights under Section 5 of these Conditions and is unsuccessful in establishing the Title, as insured,
- the Amount of Insurance shall be increased by 10%, and
  - the Insured Claimant shall have the right to have the loss or damage determined either as of the date the claim was made by the Insured Claimant or as of the date it is settled and paid.
- (c) In addition to the extent of liability under (a) and (b), the Company will also pay those costs, attorneys' fees, and expenses incurred in accordance with Sections 5 and 7 of these Conditions.

#### 9. LIMITATION OF LIABILITY

- (a) If the Company establishes the Title, or removes the alleged defect, lien, or encumbrance, or cures the lack of a right of access to or from the Land, or cures the claim of Unmarketable Title, all as insured, in a reasonably diligent manner by any method, including litigation and the completion of any appeals, it shall have fully performed its obligations with respect to that matter and shall not be liable for any loss or damage caused to the Insured.
- (b) In the event of any litigation, including litigation by the Company or with the Company's consent, the Company shall have no liability for loss or damage until there has been a final determination by a court of competent jurisdiction, and disposition of all appeals, adverse to the Title, as insured.
- (c) The Company shall not be liable for loss or damage to the Insured for liability voluntarily assumed by the Insured in settling any claim or suit without the prior written consent of the Company.

#### 10. REDUCTION OF INSURANCE; REDUCTION OR TERMINATION OF LIABILITY

All payments under this policy, except payments made for costs, attorneys' fees, and expenses, shall reduce the Amount of Insurance by the amount of the payment.

#### 11. LIABILITY NONCUMULATIVE

The Amount of Insurance shall be reduced by any amount the Company pays under any policy insuring a Mortgage to which exception is taken in Schedule B or to which the Insured has agreed, assumed, or taken subject, or which is executed by an Insured after Date of Policy and which is a charge or lien on the Title, and the amount so paid shall be deemed a payment to the Insured under this policy.

#### 12. PAYMENT OF LOSS

When liability and the extent of loss or damage have been definitely fixed in accordance with these Conditions, the payment shall be made within 30 days.

#### 13. RIGHTS OF RECOVERY UPON PAYMENT OR SETTLEMENT

- (a) Whenever the Company shall have settled and paid a claim under this policy, it shall be subrogated and entitled to the rights of the Insured Claimant in the Title and all other rights and remedies in respect to the claim that the Insured Claimant has against any person or property, to the extent of the amount of any loss, costs, attorneys' fees, and expenses paid by the Company. If requested by the Company, the Insured Claimant shall execute documents to evidence the transfer to the Company of these rights and remedies. The Insured Claimant shall permit the Company to sue, compromise, or settle in the name of the Insured Claimant and to use the name of the Insured Claimant in any transaction or litigation involving these rights and remedies.
- If a payment on account of a claim does not fully cover the loss of the Insured Claimant, the Company shall defer the exercise of its right to recover until after the Insured Claimant shall have recovered its loss.

- (b) The Company's right of subrogation includes the rights of the Insured to indemnities, guaranties, other policies of insurance, or bonds, notwithstanding any terms or conditions contained in those instruments that address subrogation rights.

**14. ARBITRATION**

Either the Company or the Insured may demand that the claim or controversy shall be submitted to arbitration pursuant to the Title Insurance Arbitration Rules of the American Land Title Association ("Rules"). Except as provided in the Rules, there shall be no joinder or consolidation with claims or controversies of other persons. Arbitrable matters may include, but are not limited to, any controversy or claim between the Company and the Insured arising out of or relating to this policy, any service in connection with its issuance or the breach of a policy provision, or to any other controversy or claim arising out of the transaction giving rise to this policy. All arbitrable matters when the Amount of Insurance is \$2,000,000 or less shall be arbitrated at the option of either the Company or the Insured. All arbitrable matters when the Amount of Insurance is in excess of \$2,000,000 shall be arbitrated only when agreed to by both the Company and the Insured. Arbitration pursuant to this policy and under the Rules shall be binding upon the parties. Judgment upon the award rendered by the Arbitrator(s) may be entered in any court of competent jurisdiction.

**15. LIABILITY LIMITED TO THIS POLICY; POLICY ENTIRE CONTRACT**

- (a) This policy together with all endorsements, if any, attached to it by the Company is the entire policy and contract between the Insured and the Company. In interpreting any provision of this policy, this policy shall be construed as a whole.
- (b) Any claim of loss or damage that arises out of the status of the Title or by any action asserting such claim shall be restricted to this policy.
- (c) Any amendment of or endorsement to this policy must be in writing and authenticated by an authorized person, or expressly incorporated by Schedule A of this policy.

- (d) Each endorsement to this policy issued at any time is made a part of this policy and is subject to all of its terms and provisions. Except as the endorsement expressly states, it does not (i) modify any of the terms and provisions of the policy, (ii) modify any prior endorsement, (iii) extend the Date of Policy, or (iv) increase the Amount of Insurance.

**16. SEVERABILITY**

In the event any provision of this policy, in whole or in part, is held invalid or unenforceable under applicable law, the policy shall be deemed not to include that provision or such part held to be invalid, but all other provisions shall remain in full force and effect.

**17. CHOICE OF LAW; FORUM**

- (a) Choice of Law: The Insured acknowledges the Company has underwritten the risks covered by this policy and determined the premium charged therefore in reliance upon the law affecting interests in real property and applicable to the interpretation, rights, remedies, or enforcement of policies of title insurance of the jurisdiction where the Land is located. Therefore, the court or an arbitrator shall apply the law of the jurisdiction where the Land is located to determine the validity of claims against the Title that are adverse to the Insured and to interpret and enforce the terms of this policy. In neither case shall the court or arbitrator apply its conflicts of law principles to determine the applicable law.
- (b) Choice of Forum: Any litigation or other proceeding brought by the Insured against the Company must be filed only in a state or federal court within the United States of America or its territories having appropriate jurisdiction.

**18. NOTICES, WHERE SENT**

Any notice of claim and any other notice or statement in writing required to be given to the Company under this policy must be given to the Company at 1 First American Way, Santa Ana, CA 92707, Attn: Claims Department.

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## ***POLICY OF TITLE INSURANCE***



## SCHEDULE A

### *First American Title Insurance Company*

Name and Address of the issuing Title Insurance Company:  
First American Title Insurance Company  
5 First American Way  
Santa Ana, CA 92707

File No.: **NCS-572749-SA1**

Policy No.: **572749**

Address Reference: 22112 and 22232 El Paseo, Rancho Santa Margarita, CA

Amount of Insurance: \$11,230,000.00

Premium: \$6,938.00

Date of Policy: December 19, 2012 at 12:57 p.m.

1. Name of Insured:

CITY OF RANCHO SANTA MARGARITA, a municipal corporation and general law city duly organized and existing under and by virtue of the Constitution and laws of the State of California as to Interests I and III; RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY, a joint exercise of powers entity duly organized and existing under the laws of the State of California as to Interest II; and WELLS FARGO BANK, NATIONAL ASSOCIATION, a national banking association organized under the laws of the United States of America, in its capacity as trustee under that certain Indenture of Trust, dated as of December 1, 2012, and as assignee under that certain Assignment Agreement, dated as of December 1, 2012, as to Interest III

2. The estate or interest in the Land that is insured by this policy is:

A FEE as to INTEREST I;

A LEASEHOLD ESTATE as to INTEREST II as created by that certain lease dated as of December 1, 2012, executed by the CITY OF RANCHO SANTA MARGARITA, a municipal corporation and general law city duly organized and existing under and by virtue of the Constitution and laws of the State of California, as lessor, and the RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY, a joint exercise of powers entity duly organized and existing under the laws of the State of California, as lessee, as referenced in the document entitled "Ground Lease," which was recorded on December 19, 2012 as Instrument No. 2012000787609, in the Official Records of the County of Orange, for the term, upon and subject to all the provisions contained in said document, and in said lease.

and

A SUBLEASEHOLD as to INTEREST III as created by that certain lease dated as of December 1, 2012, executed by the RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY, a joint exercise of powers entity duly organized and existing under the laws of the State of California, as sublessor, and the CITY OF RANCHO SANTA MARGARITA, a municipal corporation and general law city duly organized and existing under and by virtue of the Constitution and laws of the State of California, as sublessee, as referenced in the document entitled "Memorandum of Lease Agreement," which was recorded on December 19, 2012 as Instrument No. 2012000787610, in the Official Records of the County of Orange, for the term, upon and subject to all the provisions contained in said document, and in said lease.

3. Title is vested in:

CITY OF RANCHO SANTA MARGARITA, a municipal corporation and general law city duly organized and existing under and by virtue of the Constitution and laws of the State of California as to Interests I and III; RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY, a joint exercise of powers entity duly organized and existing under the laws of the State of California as to Interest II; and WELLS FARGO BANK, NATIONAL ASSOCIATION, a national banking association organized under the laws of the United States of America, in its capacity as trustee under that certain Indenture of Trust, dated as of December 1, 2012, and as assignee under that certain Assignment Agreement, dated as of December 1, 2012, as to Interest III

4. The Land referred to in this policy is described as follows:

Real property in the City of Rancho Santa Margarita, County of Orange, State of California, described as follows:

LOTS 6 THROUGH 9 OF TRACT NO. 13423, AS SHOWN ON A MAP FILED IN BOOK 729, PAGES 11 TO 15 INCLUSIVE OF MISCELLANEOUS MAPS, RECORDS OF ORANGE COUNTY, CALIFORNIA.

APN: 814-154-08, 814-154-09, 814-154-10 and 814-154-11



## SCHEDULE B

File No. **NCS-572749-SA1**

Policy No. **572749**

### EXCEPTIONS FROM COVERAGE

This Policy does not insure against loss or damage, and the Company will not pay costs, attorneys' fees, or expenses that arise by reason of:

#### **Part One:**

1. (a) Taxes or assessments that are not shown as existing liens by the records of any taxing authority that levies taxes or assessments on real property or by the Public Records; (b) proceedings by a public agency that may result in taxes or assessments, or notices of such proceedings, whether or not shown by the records of such agency or by the Public Records.
2. Any facts, rights, interests, or claims that are not shown by the Public Records but that could be ascertained by an inspection of the Land or that may be asserted by persons in possession of the Land.
3. Easements, liens or encumbrances, or claims thereof, not shown by the Public Records.
4. Any encroachment, encumbrance, violation, variation, or adverse circumstance affecting the Title that would be disclosed by an accurate and complete land survey of the Land and not shown by the Public Records.
5. (a) Unpatented mining claims; (b) reservations or exceptions in patents or in Acts authorizing the issuance thereof; (c) water rights, claims or title to water, whether or not the matters excepted under (a), (b), or (c) are shown by the Public Records.

#### **Part Two:**

1. General and special taxes and assessments for the fiscal year 2012-2013 are exempt. If the exempt status is terminated an additional tax may be levied. A.P. No.: 814-154-08, 814-154-09, 814-154-10 and 814-154-11.  
  
(Affects all Parcels)
2. This item has been intentionally deleted.
3. The lien of supplemental taxes, if any, assessed pursuant to Chapter 3.5 commencing with Section 75 of the California Revenue and Taxation Code.
4. The property covered herein lies within the boundaries of pending assessment District No. 87-5E, as disclosed by an Assessment District Map filed in Book 43, Page 40 of Assessment Maps, recorded September 01, 1988 as Instrument No. 88-439423 of Official Records.

Note: The effect of an instrument entitled "Notice of Special Tax Authorization for Communities Facilities District No. 87-5E", recorded August 02, 1990 as Instrument No. 90-410821 of Official Records; Reference being made to the record thereof for full particulars.

5. The property covered herein lies within the boundaries of pending assessment District No. 88-1, as disclosed by an Assessment District Map filed in Book 44, Page 6 of Assessment Maps, recorded September 08, 1988 as Instrument No. 88-452084 of Official Records.

Note 1: The effect of an instrument entitled "Notice of Special Tax Authorization for Community Facilities District No. 88-1", recorded November 04, 1988 as Instrument No. 88-568271 of Official Records; Reference being made to the record thereof for full particulars.

Note 2: The effect of an instrument entitled "Notice of Special Tax Lien" recorded March 05, 1997 as Instrument No. 19970101142 of Official Records; Reference being made to the record thereof for full particulars.

6. An aircraft operation, sound, air space and avigation easement above a mean sea level elevation of 2200 feet for the purposes and subject to the same conditions and limitations as shown in that certain easement recorded July 02, 1979 in Book 13213, Page 1111 of Official Records, as dedicated to the County of Orange on the map of said tract.
7. The fact that prior to the completion of an application for any building permits, the developer shall comply with County of Orange Ordinances 3071 and 3150 pertaining to interim school facilities, as recited on the map of said tract.
8. The declaration and notice concerning aircraft environmental impact over all lots for the purposes and subject to the same conditions and limitations as shown in that certain Declaration and Notice concerning Aircraft Environmental Impacts recorded December 01, 1983 as Instrument No. 83-549335 of Official Records, as recited on the map of said tract.
9. The fact that property may be subject to impacts from the proposed Foothill/Eastern Transportation Corridor, as recited on the map of said tract.
10. The recital on the map of said tract that development shall be phased in accordance with the Foothill Circulation Phasing Plan or any county approved Development Agreement pertaining to the property.
11. This item has been intentionally deleted.
12. The terms and provisions contained in the document entitled "Drainage Acceptance Agreement" recorded March 05, 1993 as Instrument No. 93-0151024 of Official Records. By Santa Margarita Company, a California corporation.
13. An easement for public utilities and incidental purposes, recorded October 27, 1994 as Instrument No. 94-0632835 of Official Records.  
In Favor of: Southern California Edison Company  
Affects: Portions of Lot 6 of Tract No. 13423
14. The following matters shown or disclosed by the filed or recorded map referred to in the legal description: sidewalk and incidental purposes.  
  
(Affects Lot 6 as therein described.)
15. Easements for sewer and water pipeline purposes, as shown and dedicated to the Santa Margarita Water District on the Map of said Tract No. 13423, which easements shall be subject to the same terms and conditions as are shown in that certain easement recorded October 06, 1980 in Book 13776, Page 341 of Official Records, over a portion of Lot 6.

Note: The recital on the map of said Tract No. 13423 that said easement is expressly made

subordinate to the easements offered for the dedication to the County of Orange where said easements overlap.

16. The recital on the map of said Tract No. 13423 that the land covered by this map is located in a very high fire hazard area due to wildland exposure.
17. The recital on the map of said Tract No. 13423 that the number of dwelling units permitted is not established for Lots 5 and 6 by the recordation of vesting Tract No. 13423, the number of dwelling units permitted will be as a part of a site development permit processed in accordance with Orange County Zoning Code Section 7-9-150.

18. An easement for public utilities and incidental purposes, recorded April 11, 1996 as Instrument No. 19960178363 of Official Records.

In Favor of: Southern California Edison Company  
Affects: A portion of Lot 6 of Tract No. 13423, as therein described

19. Covenants, conditions, restrictions and easements in the document recorded July 02, 1986 as Instrument No. 86-283736 of Official Records, which provide that a violation thereof shall not defeat or render invalid the lien of any first mortgage or deed of trust made in good faith and for value, but deleting any covenant, condition or restriction indicating a preference, limitation or discrimination based on race, color, religion, sex, handicap, familial status, national origin, sexual orientation, marital status, ancestry, source of income or disability, to the extent such covenants, conditions or restrictions violate Title 42, Section 3604(c), of the United States Codes or Section 12955 of the California Government Code. Lawful restrictions under state and federal law on the age of occupants in senior housing or housing for older persons shall not be construed as restrictions based on familial status.

Document(s) declaring modifications thereof recorded January 25, 1990 as Instrument No. 90-044095 of Official Records.

Document(s) declaring modifications thereof recorded September 20, 2000 as Instrument No. 20000493489 of Official Records.

Document(s) declaring modifications thereof recorded September 20, 2000 as Instrument No. 20000493852 of Official Records.

20. This item has been intentionally deleted.
21. This item has been intentionally deleted.
22. An easement for one or more pipelines and conduits, together with metering, measuring, regulating, cathodic protection, communications and other appurtenances for the transportation of gas, energy, communications, petroleum products and other substances together with the right of reasonable ingress and egress and incidental purposes, recorded February 04, 1999 as Instrument No. 19990082668 of Official Records.  
In Favor of: Southern California Gas Company, a California corporation, its successors and assigns  
Affects: A portion of the land as therein described
23. An easement for right-of-way for water and sewer pipelines and incidental purposes, recorded November 05, 2003 as Instrument No. 2003001361696 of Official Records.  
In Favor of: Santa Margarita Water District, a California water district  
Affects: A portion of Lots 6 and 8

24. This item has been intentionally deleted.
25. This item has been intentionally deleted.
26. An easement for right-of-way for water and sewer pipelines and incidental purposes, recorded July 22, 2004 as Instrument No. 2004000663407 of Official Records.  
In Favor of: Santa Margarita Water District, a California water district  
Affects: Lots 6 and 8
27. This item has been intentionally deleted.
28. The terms and provisions contained in the document entitled "Ground Lease" recorded December 19, 2012 as Instrument No. 2012000787609 of Official Records, by and between the CITY OF RANCHO SANTA MARGARITA, a municipal corporation and general law city duly organized and existing under and by virtue of the Constitution and laws of the State of California, as lessor, and the RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY, a joint exercise of powers entity duly organized and existing under the laws of the State of California, as lessee.
29. The terms and provisions contained in the document entitled "Memorandum of Lease Agreement" recorded December 19, 2012 as Instrument No. 2012000787610 of Official Records, by and between the RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY, a joint exercise of powers entity duly organized and existing under the laws of the State of California, and the CITY OF RANCHO SANTA MARGARITA, a municipal corporation and general law city duly organized and existing under and by virtue of the Constitution and laws of the State of California.
30. The terms and provisions contained in the document entitled "Assignment Agreement" recorded December 19, 2012 as Instrument No. 2012000787611 of Official Records, by and between Rancho Santa Margarita Public Financing Authority, a joint exercise of powers entity organized and existing under and by virtue of the laws of the State of California, and Wells Fargo Bank, National Association, a national banking association organized and existing under the laws of the United States, as Trustee

**ENDORSEMENT**

**Attached to Policy No. 572749**

**Issued by**

***First American Title Insurance Company***

The Company insures against loss or damage sustained by the Insured by reason of:

1. the failure of the **common boundary lines of Lots 6, 7, 8 and 9** of the Land to be contiguous to **one another** ; or
2. the presence of any gaps, strips, or gores separating any of the contiguous boundary lines described above.

This endorsement is issued as part of the policy. Except as it expressly states, it does not (i) modify any of the terms and provisions of the policy, (ii) modify any prior endorsements, (iii) extend the Date of Policy, or (iv) increase the Amount of Insurance. To the extent a provision of the policy or a previous endorsement is inconsistent with an express provision of this endorsement, this endorsement controls. Otherwise, this endorsement is subject to all of the terms and provisions of the policy and of any prior endorsements.

American Land Title Association  
Endorsement 19-06 (Contiguity-Multiple Parcels)  
Adopted 6/17/06

**ENDORSEMENT**

**Attached to Policy No. 572749**

**Issued by**

***First American Title Insurance Company***

The Company insures against loss or damage sustained by the Insured if, at Date of Policy (i) the Land does not abut and have both actual vehicular and pedestrian access to and from **El Paseo** (the "Street(s)"), (ii) the Street(s) is/are not physically open and publicly maintained, or (iii) the Insured has no right to use existing curb cuts or entries along that/those portion(s) of the Street(s) abutting the Land.

This endorsement is issued as part of the policy. Except as it expressly states, it does not (i) modify any of the terms and provisions of the policy, (ii) modify any prior endorsements, (iii) extend the Date of Policy, or (iv) increase the Amount of Insurance. To the extent a provision of the policy or a previous endorsement is inconsistent with an express provision of this endorsement, this endorsement controls. Otherwise, this endorsement is subject to all of the terms and provisions of the policy and of any prior endorsements.

American Land Title Association  
Endorsement 17-06 (Access and Entry)  
Adopted 6/17/06

**ENDORSEMENT**

**Attached to Policy No. 572749**

**Issued by**

***First American Title Insurance Company***

The Company insures against loss or damage sustained by the Insured by reason of the failure of (i) a **Commercial Structure**, known as **22112 and 22232 El Paseo, Rancho Santa Margarita, CA**, to be located on the Land at Date of Policy, or (ii) the map, if any, attached to this policy to correctly show the location and dimensions of the Land according to the Public Records.

This endorsement is issued as part of the policy. Except as it expressly states, it does not (i) modify any of the terms and provisions of the policy, (ii) modify any prior endorsements, (iii) extend the Date of Policy, or (iv) increase the Amount of Insurance. To the extent a provision of the policy or a previous endorsement is inconsistent with an express provision of this endorsement, this endorsement controls. Otherwise, this endorsement is subject to all of the terms and provisions of the policy and of any prior endorsements.

American Land Title Association  
Endorsement 22.1-06 (Location and Map)  
Adopted 6/17/06  
ALTA Owner's/Loan Policy

## ENDORSEMENT

Attached to Policy No. 572749

Issued by

***First American Title Insurance Company***

1. As used in this endorsement, the following terms shall mean:
  - a. "Evicted" or "Eviction": (a) the lawful deprivation, in whole or in part, of the right of possession insured by this policy, contrary to the terms of the Lease or (b) the lawful prevention of the use of the Land or the Tenant Leasehold Improvements for the purposes permitted by the Lease, in either case as a result of a matter covered by this policy.
  - b. "Lease": the lease agreement described in Schedule A.
  - c. "Leasehold Estate": the right of possession for the Lease Term.
  - d. "Lease Term": the duration of the Leasehold Estate, including any renewal or extended term if a valid option to renew or extend is contained in the Lease.
  - e. "Personal Property": chattels located on the Land and property that, because of their character and manner of affixation to the Land, can be severed from the Land without causing appreciable damage to themselves or to the Land to which they are affixed.
  - f. "Remaining Lease Term": the portion of the Lease Term remaining after the Insured has been Evicted as a result of a matter covered by this policy.
  - g. "Tenant Leasehold Improvements": those improvements, including landscaping, required or permitted to be built on the Land by the Lease that have been built at the Insured's expense or in which the Insured has an interest greater than the right to possession during the Lease Term.
  
2. Valuation of Estate or Interest Insured:

If in computing loss or damage it becomes necessary to value the Title as the result of a covered matter that results in an Eviction of the Tenant, then that value shall consist of the value for the Remaining Lease Term of the Leasehold Estate and any Tenant Leasehold Improvements existing on the date of the Eviction. The Insured Claimant shall have the right to have the Leasehold Estate and the Tenant Leasehold Improvements valued either as a whole or separately. In either event, this determination of value shall take into account rent no longer required to be paid for the Remaining Lease Term.

3. Additional items of loss covered by this endorsement:

If the Insured is Evicted, the following items of loss, if applicable, shall be included in computing loss or damage incurred by the Insured, but not to the extent that the same are included in the valuation of the Title.

- a. The reasonable cost of removing and relocating any Personal Property that the Insured has the right to remove and relocate, situated on the Land at the time of Eviction, the cost of transportation of that Personal Property for the initial one hundred miles incurred in connection with the relocation, and the reasonable cost of repairing the Personal Property damaged by reason of the removal and relocation.
- b. Rent or damages for use and occupancy of the Land prior to the Eviction that the Insured as owner of the Leasehold Estate may be obligated to pay to any person having paramount title to that of the lessor in the Lease.
- c. The amount of rent that, by the terms of the Lease, the Insured must continue to pay to the lessor after Eviction with respect to the portion of the Leasehold Estate and Tenant Leasehold Improvements from which the Insured has been Evicted.



- d. The fair market value, at the time of the Eviction, of the estate or interest of the Insured in any lease or sublease made by Tenant as lessor of all or part of the Leasehold Estate or the Tenant Leasehold Improvements.
- e. Damages that the Insured is obligated to pay to lessees or sublessees on account of the breach of any lease or sublease made by the Tenant as lessor of all or part of the Leasehold Estate or the Tenant Leasehold Improvements caused by the Eviction.
- f. Reasonable costs incurred by the Insured to secure a replacement leasehold equivalent to the Leasehold Estate.
- g. If Tenant Leasehold Improvements are not substantially completed at the time of Eviction, the actual cost incurred by the Insured, less the salvage value, for the Tenant Leasehold Improvements up to the time of Eviction. Those costs include costs incurred to obtain land use, zoning, building and occupancy permits, architectural and engineering fees, construction management fees, costs of environmental testing and reviews, and landscaping costs.

This endorsement is issued as part of the policy. Except as it expressly states, it does not (i) modify any of the terms and provisions of the policy, (ii) modify any prior endorsements, (iii) extend the Date of Policy, or (iv) increase the Amount of Insurance. To the extent a provision of the policy or a previous endorsement is inconsistent with an express provision of this endorsement, this endorsement controls. Otherwise, this endorsement is subject to all of the terms and provisions of the policy and of any prior endorsements to it.

American Land Title Association  
Endorsement 13-06 (Leasehold-Owner's)  
Adopted 6/17/06

**\$11,230,000**  
**RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY**  
**LEASE REVENUE REFUNDING BONDS, SERIES 2012A**

**DISTRIBUTION LIST**

**ISSUER**

**City of Rancho Santa Margarita**  
22112 El Paseo  
Rancho Santa Margarita, CA 92688

Jennifer Cervantez, City Manager

☎: 949-635-1811  
[jcervantez@cityofrsm.org](mailto:jcervantez@cityofrsm.org)

Paul Boyer, Director of Administrative Services

☎: 949-635-1808  
[pboyer@cityofrsm.org](mailto:pboyer@cityofrsm.org)

**ISSUER'S COUNSEL**

**Woodruff, Spradlin & Smart**  
555 Anton Boulevard, Suite 1200  
Costa Mesa, CA 92626

Gregory R. Simonian, Esq.

☎: 714-415-1021  
Fax: 714-415-1121  
[gsimonian@wss-law.com](mailto:gsimonian@wss-law.com)

**BOND/DISCLOSURE COUNSEL**

**Stradling Yocca Carlson & Rauth**  
660 Newport Center Drive, Suite 1600  
Newport Beach, CA 92660

Brian Forbath, Esq.

☎: 949-725-4193  
Fax: 949-823-5193  
[bforbath@sycr.com](mailto:bforbath@sycr.com)

Reed T.C. Glyer, Esq.

☎: 949-725-4027  
Fax: 949-823-5027  
[rglyer@sycr.com](mailto:rglyer@sycr.com)

Judie Krawiec, Senior Public Finance Paralegal

☎: 949-725-4053  
Fax: 949-823-5053  
[jkrawiec@sycr.com](mailto:jkrawiec@sycr.com)

## FINANCIAL ADVISOR

**Fieldman, Rolapp & Associates**  
19900 MacArthur Boulevard, Suite 1100  
Irvine, CA 92612-2433

☎: 949-660-7300  
Fax: 949-474-8773

Dan Wiles, Principal

☎: 949-660-7315  
[dwiles@fieldman.com](mailto:dwiles@fieldman.com)

Joshua Lentz, Assistant Vice Principal

☎: 949-660-7320  
[jlentz@fieldman.com](mailto:jlentz@fieldman.com)

Danny Jasper, Associate

☎: 949-660-7310  
[djasper@fieldman.com](mailto:djasper@fieldman.com)

## UNDERWRITER

**Stone & Youngberg, a Division of Stifel Nicolaus**  
515 South Figueroa Street, Suite 1800  
Los Angeles, CA 90071

Fax: 213-443-5023

Steve Heaney, Managing Director

☎: 213-443-5001  
[sheaney@syllc.com](mailto:sheaney@syllc.com)

Jose Vera, Director

☎: 213-443-5002  
[jvera@syllc.com](mailto:jvera@syllc.com)

Jake Campos, Vice President

☎: 213-443-5017  
[jcampos@syllc.com](mailto:jcampos@syllc.com)

Melaine de Jonk, Associate

☎: 213-443-5011  
[mdejonk@syllc.com](mailto:mdejonk@syllc.com)

## UNDERWRITER'S COUNSEL

**Nossaman LLP**  
18101 Von Karman Avenue, Suite 1800  
Irvine, CA 92612

Jeff Stava, Esq.

☎: 949-477-7632  
Fax: 949-833-7878  
[jstava@nossaman.com](mailto:jstava@nossaman.com)

## TRUSTEE/ESCROW AGENT

### **Wells Fargo Bank, National Association**

707 Wilshire Boulevard, 17th Floor  
Los Angeles, CA 90017

Aimee Tabor, Vice President

☎: 949-251-4379

Fax: 213-614-3353

[aimee.tabor@wellsfargo.com](mailto:aimee.tabor@wellsfargo.com)

Dania D. Samai, Vice President

☎: 213-614-3328

Fax: 213-614-3355

[dania.d.samai@wellsfargo.com](mailto:dania.d.samai@wellsfargo.com)

## TRUSTEE COUNSEL

### **Wells Fargo Law Department**

Wells Fargo Center, 17<sup>th</sup> Floor  
6<sup>th</sup> & Marquette Avenue, MAC N9305-172  
Minneapolis, MN 55479

Heather A. Koehler, Paralegal

☎: 612-667-7616

Fax: 612-316-0805

[heather.a.koehler@wellsfargo.com](mailto:heather.a.koehler@wellsfargo.com)

## VERIFICATION AGENT

### **Causey Demgen & Moore P.C.**

1801 California Street, Suite 4650  
Denver, CO 80202

Douglas Carlile

☎: 303-296-2229

Fax: 303-296-3731

[dcarlile@cdmcpa.com](mailto:dcarlile@cdmcpa.com)

## TITLE COMPANY

### **First American Title Insurance Company**

Order No. NCS-572749-SA1  
National Commercial Services  
5 First American Way  
Santa Ana, CA 92707

Kristin A. Hueter, Vice President

☎: 714-250-8358

[khueter@firstam.com](mailto:khueter@firstam.com)

Mike Brinkman, Commercial Title Officer

☎: 714-250-8822

Tollfree: 800-854-3643

[mbrinkman@firstam.com](mailto:mbrinkman@firstam.com)

**RATING AGENCY**

**Standard & Poor's Rating Services**

55 Water Street, 38th Floor  
New York , NY 10041

Daniel Zuccarello

☎: 212-438-7414

[daniel\\_zuccarello@standardandpoors.com](mailto:daniel_zuccarello@standardandpoors.com)

Sussan Corson

☎: 212-438-2014

[sussan\\_corson@standardandpoors.com](mailto:sussan_corson@standardandpoors.com)

**JOINT POWERS AUTHORITY – CO MEMBER**

**California Municipal Finance Authority**

2111 Palomar Airport Road, Suite 320  
Carlsbad, CA 92011

John Stoecker, Financial Advisor

☎: 760-930-1221

Fax: 760-683-3390

[jstoecker@cmfa-ca.com](mailto:jstoecker@cmfa-ca.com)

**JOINT POWERS AUTHORITY – CO MEMBER  
COUNSEL**

**Squire Sanders L.P.**

555 South Flower Street, 31st Floor  
Los Angeles, CA 90071-2300

☎: 213-624-2500

Fax: 213-623-4581

Harriet M. Welch, Esq.

☎: 213-689-5158

[hwelch@ssd.com](mailto:hwelch@ssd.com)



## CITY OF RANCHO SANTA MARGARITA

*Mayor*

L. Anthony Beall

*Mayor Pro Tempore*

Steven Baric

*Council Members*

Carol A. Gamble

Jerry Holloway

Jesse Petrilla

*City Manager*

Jennifer M. Cervantez

## CITY OF RANCHO SANTA MARGARITA CERTIFICATION

STATE OF CALIFORNIA )  
COUNTY OF ORANGE ) ss.  
CITY OF RANCHO SANTA MARGARITA )

I, MARIA A. FERRIS, Deputy City Clerk of the City of Rancho Santa Margarita, California, DO HEREBY CERTIFY that the attached is a copy of fully executed Resolution No. 12-10-24-01 that was adopted by the City Council of the City of the Rancho Santa Margarita on October 24, 2012.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of the City of Rancho Santa Margarita, California, this 13<sup>th</sup> day of December, 2012.

  
\_\_\_\_\_  
MARIA A. FERRIS, DEPUTY CITY CLERK  
Rancho Santa Margarita, California

RESOLUTION NO. 12-10-24-01

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF RANCHO SANTA MARGARITA, CALIFORNIA, AUTHORIZING THE EXECUTION AND DELIVERY OF JOINT EXERCISE OF POWERS AGREEMENTS BY AND BETWEEN THE CITY OF RANCHO SANTA MARGARITA AND CALIFORNIA MUNICIPAL FINANCE AUTHORITY APPROVING MEMBERSHIP IN THE AUTHORITY AND FORMING THE RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY

WHEREAS, the City of Rancho Santa Margarita (the "City") is a municipal corporation and a general law city duly organized and existing under and pursuant to the laws of the State of California; and

WHEREAS, the City, acting pursuant to Article I (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the "JPA Law"), may enter into a joint exercise of powers agreement with one or more other public agencies pursuant to which such contracting parties may jointly exercise any power common to them and, pursuant to Government Code §6588, to exercise certain additional powers; and

WHEREAS, pursuant to the JPA Law, certain public agencies, including the City (the "CMFA Members"), have entered into a Joint Exercise of Powers Agreement Relating to the California Municipal Finance Authority, dated as of January 1, 2004 (the "CMFA Agreement") in order to form the California Municipal Finance Authority ("CMFA"), for the purpose of promoting economic, cultural and community development and in order to exercise any powers common to the CMFA Members, including the issuance of bonds, notes or other evidences of indebtedness; and

WHEREAS, the City and CMFA desire to create and establish the Rancho Santa Margarita Public Financing Authority (the "Authority") pursuant to the JPA Law; and

WHEREAS, there has been presented at this meeting a proposed form of Joint Exercise of Powers Agreement, dated as of October 15, 2012 (the "Agreement"), by and between the City and CMFA, which Agreement creates and establishes the Authority; and

WHEREAS, under California law and the Agreement, the Authority will be a public entity separate and apart from the parties to the Agreement, and the debts, liabilities and obligations of the Authority will not be the debts, liabilities or obligations of the City or any representative of the City serving on the governing body of the Authority; and

WHEREAS, there has been presented to this meeting a proposed form of the CMFA Agreement;

NOW, THEREFORE, the City Council of City of Rancho Santa Margarita does hereby RESOLVE as follows:

Section 1. The statements, findings, and determinations set forth above and in the preambles of the documents approved by this resolution are true and correct.

Section 2. The form of Agreement, on file with the City Clerk of the City, is hereby approved. The Mayor, the Mayor Pro Tempore and the City Manager (each, an "Authorized Officer") are each hereby authorized and directed, on behalf of the City, to execute and deliver the Agreement substantially in the approved form, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 3. The City Clerk shall forward a certified copy of this Resolution and an originally executed copy of the Agreement to CMFA in care of its counsel:

Harriet M. Welch, Esq.  
Squire, Sanders & Dempsey LLP.  
555 South Flower St., Suite 3100  
Los Angeles, CA 90071-2300

Section 4. This resolution shall take effect immediately upon its passage.

PASSED, APPROVED, AND ADOPTED THIS 24<sup>TH</sup> DAY OF OCTOBER, 2012.

  
\_\_\_\_\_  
L. ANTHONY BEALL, MAYOR

ATTEST:

  
\_\_\_\_\_  
MOLLY MCLAUGHLIN, CITY CLERK



STATE OF CALIFORNIA )  
COUNTY OF ORANGE ) ss  
CITY OF RANCHO SANTA MARGARITA )

I, Molly McLaughlin, City Clerk of the City of Rancho Santa Margarita, California, DO HEREBY CERTIFY that the foregoing is a true and correct copy of Resolution No. 12-10-24-01 by the City Council of the City of Rancho Santa Margarita, California, at a regular meeting thereof, held on the 24<sup>th</sup> day of October, 2012, by the following vote:

AYES:	5	COUNCIL MEMBERS:	Holloway, Gamble, Petrilla, Mayor Pro Tempore Baric and Mayor Beall
NOES:	0	COUNCIL MEMBERS:	None
ABSTAIN:	0	COUNCIL MEMBERS:	None
ABSENT:	0	COUNCIL MEMBERS:	None

  
\_\_\_\_\_  
MOLLY McLAUGHLIN, CITY CLERK



## CITY OF RANCHO SANTA MARGARITA

*Mayor*

L. Anthony Beall

*Mayor Pro Tempore*

Steven Baric

*Council Members*

Carol A. Gamble

Jerry Holloway

Jesse Petrilla

*City Manager*


Jennifer M. Cervantez

## CITY OF RANCHO SANTA MARGARITA CERTIFICATION

STATE OF CALIFORNIA )  
COUNTY OF ORANGE ) ss.  
CITY OF RANCHO SANTA MARGARITA )

I, MARIA A. FERRIS, Deputy City Clerk of the City of Rancho Santa Margarita, California, DO HEREBY CERTIFY that the attached is a copy of the October 24, 2012, City of Rancho Santa Margarita City Council Regular Meeting Minutes approved by the City Council of the City of the Rancho Santa Margarita on November 14, 2012.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of the City of Rancho Santa Margarita, California, this 13<sup>th</sup> day of December, 2012.

  
\_\_\_\_\_  
MARIA A. FERRIS, DEPUTY CITY CLERK  
Rancho Santa Margarita, California

- 1) Approved the Subdivision Improvement Agreement and authorized the Mayor to execute the Agreement.
  - 2) Approved Final Tract Map for Tract No. 17365, authorized the City Clerk to sign the Final Tract Map and transmit it to the Orange County Recorder's Office for recordation.
- 4.8 APPROVAL OF NON-EXCLUSIVE FACILITY USE REVOCABLE LICENSE AGREEMENT WITH THE RANCHO SANTA MARGARITA CHAMBER OF COMMERCE ("RSM CHAMBER")
- 1) Approved a Non-Exclusive Facility Use Revocable License Agreement with the Rancho Santa Margarita Chamber of Commerce for Fiscal Year 2012-2013.
  - 2) Authorized the City Manager to execute the agreement.

#### **ITEMS REMOVED FROM THE CONSENT CALENDAR**

##### **5. PUBLIC HEARING ITEMS**

There were none.

##### **6. CONTINUED ITEMS**

There were none.

##### **7. NEW BUSINESS**

###### **7.1 FORMATION OF JOINT POWERS AUTHORITY FOR LEASE REVENUE REFUNDING BONDS AND RELATED APPROVAL OF PROFESSIONAL SERVICES AGREEMENTS FOR FINANCIAL ADVISORY CONSULTING SERVICES AND BOND COUNSEL/DISCLOSURE COUNSEL SERVICES**

Jennifer Cervantez, City Manager, provided a brief background on the item and introduced Paul Boyer, Administrative Services Director, who presented the staff report and PowerPoint presentation (Exhibit 3 on file in the City Clerk's Office).

City Council discussion included questioning whether there was a potential downside to the refinancing; questioned the process for the escrow timeframe; questioned the terms in the documents and financial covenants; noted the maturity date would remain the same; questioned whether the City Council should use the reserves instead of making payments; questioned the options of prepayment opportunities; noted that 3% money was cheap; and noted that this was similar to refinancing one's home.

City Manager Cervantez and Mr. Boyer responded to questions and concerns related to range of annual savings estimates; the lack of downside to this refinancing process; noted that the expiration of the bonds would remain the same as it is now; noted that City staff would be looking through the terms and documents closely for hidden risks; and noted that staff would look into the potential opportunities for prepayment.

Larry McCook, resident, spoke against the refinancing proposal.

**ACTION:** It was moved by Mayor Beall, seconded by Council Member Holloway, and unanimously carried to:

1) Adopt Resolution No. 12-10-24-01 entitled:

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF RANCHO SANTA MARGARITA, CALIFORNIA, AUTHORIZING THE EXECUTION AND DELIVERY OF JOINT EXERCISE OF POWERS AGREEMENTS BY AND BETWEEN THE CITY OF RANCHO SANTA MARGARITA AND CALIFORNIA MUNICIPAL FINANCE AUTHORITY APPROVING MEMBERSHIP IN THE AUTHORITY AND FORMING THE RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY

**ACTION:** It was moved by Mayor Beall, seconded by Council Member Gamble and unanimously carried to:

2) Approve a professional services agreement with Fieldman Rolapp & Associates, Inc., for Financial Advisory Consulting Services, for an amount not to exceed \$50,000 that is contingent upon closing of the refunding process undertaken for the City's 2003 Certificates of Participation; and authorize the City Manager to execute the professional services agreement.

**ACTION:** It was moved by Mayor Beall, seconded by Council Member Gamble, and unanimously carried to:

3) Approve a professional services agreement with Stradling Yocca Carlson & Rauth of Bond Counsel/Disclosure Counsel Services, for an amount not to exceed \$70,000 that is contingent upon closing of the refunding process undertaken for the City's 2003 Certificates of Participation; and authorize the City Manager to execute the professional services agreement.

## 7.2 PROPOSED RANCHO SANTA MARGARITA ECONOMIC DEVELOPMENT PROGRAM – FY 2012/13

Jennifer Cervantez, City Manager, introduced the item and Kathleen Haton, Development Services Director, presented the staff report and provided supplemental information (Exhibit 4 on file in the City Clerk's Office).

City Council discussion included a review of the Vacancy Webpage Development and Maintenance proposal; questioned the potential of updating marketing materials; reviewed the current information and the need to update the City's collateral materials; questioned whether the staff would be providing the information to update collateral pieces or would the consultant provide; questioned whether there were analytics available to support the website development and maintenance program; reviewed the Business Outreach/ICSC Preparation element; questioned the necessity of including EDS as responsible for the follow-up on all business community interaction on behalf of the City; noted the importance of this being a "results-oriented" individual; noted the need to bring new jobs and business into the City; stated that the EDS element would be the key contact for expanding and new business opportunities; noted that the

**RESOLUTION NO. 12-96**

**CALIFORNIA MUNICIPAL FINANCE AUTHORITY**

**RESOLUTION OF THE BOARD OF DIRECTORS OF CALIFORNIA MUNICIPAL FINANCE AUTHORITY AUTHORIZING THE EXECUTION AND DELIVERY OF A JOINT EXERCISE OF POWERS AGREEMENT BY AND BETWEEN CALIFORNIA MUNICIPAL FINANCE AUTHORITY AND THE CITY OF RANCHO SANTA MARGARITA CREATING THE RANCHO SANTA MARGARITA PUBLIC FINANCING AUTHORITY.**

**WHEREAS**, pursuant to the provisions of the Joint Exercise of Powers Act, comprising Articles 1, 2, 3 and 4 of Chapter 5 of Division 7 of Title 1 (commencing with Section 6500) of the Government Code of the State of California (the "JPA Act"), a number of California cities, counties and special districts entered into a joint exercise of powers agreement (the "Agreement") pursuant to which the California Municipal Finance Authority (the "Authority") was organized; and

**WHEREAS**, the Financing Authority, upon authorization by this Board of Directors (this "Board"), acting pursuant to the JPA Act, may enter into a joint exercise of powers agreement with one or more other public agencies pursuant to which such contracting parties may jointly exercise any power common to them; and

**WHEREAS**, the Authority and the City of Rancho Santa Margarita (the "City") desire to create and establish the Rancho Santa Margarita Public Financing Authority (the "Financing Authority") pursuant to the JPA Act; and

**WHEREAS**, there has been presented at this meeting a proposed form of Joint Exercise of Powers Agreement, dated as of October 15, 2012 (the "RSM Agreement"), by and between the Authority and the City, which Agreement creates and establishes the Financing Authority; and

**WHEREAS**, under California law and the Agreement, the Financing Authority will be a public entity separate and apart from the parties to the Agreement and the debts, liabilities and obligations of the Financing Authority will not be the debts, liabilities or obligations of the Authority or any representative of the Authority serving on the governing body of the Financing Authority or any member of the Authority;

**NOW THEREFORE, BE IT RESOLVED** by the Board of Directors of the California Municipal Finance Authority (the "Board"), as follows:

Section 1. The Board hereby finds and determines that the foregoing recitals are true and correct.

Section 2. The RSM Agreement, in substantially the form placed on file with the Authority, is hereby approved. Any member of the Board is hereby authorized and directed, for and on behalf of the Authority, to execute and deliver the RSM Agreement, in substantially said form, with such changes and insertions therein and as such member of the Board, with the advice of counsel to the Authority, may approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 3. This resolution shall take effect from and after the later of its adoption or receipt by the Authority of an executed counterpart of the RSM Agreement, together with a copy of the resolution of the City Council approving the same and the execution and delivery thereof.

\* \* \* \* \*

PASSED AND ADOPTED by the California Municipal Finance Authority this 12<sup>th</sup> day of October, 2012 by the following vote:

AYES: 5  
NOES: 0  
ABSTAIN: 0  
ABSENT: 0

I, the undersigned, a duly appointed and qualified Member of the Board of the California Municipal Finance Authority, DO HEREBY CERTIFY that the foregoing resolution was duly adopted by the Board of said Authority at a duly called meeting of the Board of said Authority held in accordance with law on October 12, 2012.

By:   
Member, Board of Directors