

**CITY OF SAN DIEGO
COMMUNITY FACILITIES DISTRICT No. 2
IMPROVEMENT AREA No. 4**

June 30, 2006

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**ADMINISTRATION REPORT
FISCAL YEAR 2006-2007**

**CITY OF SAN DIEGO
COMMUNITY FACILITIES DISTRICT NO. 2
IMPROVEMENT AREA NO. 4**

Prepared for

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EXHIBITS

Exhibit A: Fiscal Year 2006-2007 Special Tax Levy

Introduction

This report provides an analysis of the financial and administrative obligations of Community Facilities District No. 2 (Santaluz) Improvement Area No. 4 ("IA No. 4") of the City of San Diego resulting from the sale of the \$9,965,000 Series A of 2004 Special Tax Bonds (the "Bonds") issued in February, 2004.

IA No. 4 is a legally constituted governmental entity established under the Mello-Roos Community Facilities Act of 1982, (the "Act") as amended. The Act provides an alternative method for the financing of certain public capital facilities and services. Specifically, IA No. 4 is authorized to issue up to \$10,500,000 in bonds and has sold \$9,965,000 in bonds. The proceeds of the Bonds are to be used for purposes of constructing certain road, water, and sewer related facilities necessary to meet increased demands placed on the City of San Diego as a result of the development of IA No. 4.

The bonded indebtedness of IA No. 4 is both secured and repaid through the annual levy and collection of special taxes from all property subject to the tax within the improvement area. In calculating the special tax liability for fiscal year 2006-2007, this report examines the financial obligations of the current fiscal year and analyzes the level of development within IA No. 4.

This report is organized into the following sections:

Section I

Section I provides an update of the development status of property within IA No. 4.

Section II

Section II analyzes the previous year's special tax levy.

Section III

Section III determines the financial obligations of IA No. 4 for fiscal year 2006-2007.

Section IV

Section IV reviews the methodology used to apportion the special tax requirement between Developed Property and Undeveloped Property. A table of the 2006-2007 special taxes for each classification of property is included.

I. Special Tax Classifications and Development Update

Special Tax Classifications

The methodology employed to calculate and apportion the special tax is contained in a document entitled the Rate and Method of Apportionment of the Special Tax. The Rate and Method of Apportionment defines two categories of property, namely "Developed Property" and "Undeveloped Property." The category of Developed Property is in turn divided into eight separate rate classifications which vary with dwelling unit size and type for residential development and acreage for non-residential development. A table of the Developed Property rate classifications is shown below.

Improvement Area No. 4 Development Property Classification

Class	Designation	
1	Residential Property	Greater than 4,600 sf
2	Residential Property	4,400 – 4,600 sf
3	Residential Property	4,100 – 4,399 sf
4	Residential Property	3,900 – 4,099 sf
5	Residential Property	3,600 – 3,899 sf
6	Residential Property	Less than 3,600 sf
7	Residential Property	Affordable Unit
8	Non-Residential Property	Not Applicable

Developed Property is distinguished from Undeveloped Property by the issuance of a building permit. Specifically, property for which a building permit was issued as of March 1 of any year will be classified as Developed Property in the following fiscal year. In addition to the issuance of a building permit, property is classified as an affordable unit if a deed restriction, resale restriction, and/or regulatory agreement has been recorded in favor of the City providing for affordable housing.

Development Update

IA No. 4 encompasses the residential development known as "Fairbanks Summit." Fairbanks Summit, which comprises most of IA No. 4, consists of approximately 115 acres situated in northwestern San Diego County, 20 miles north of the City's downtown area and six miles north of the La Jolla/Golden Triangle area. The community is currently planned to include 226 dwelling units.

As of March 1, 2006 building permits for all 226 residential units, including 36 affordable units, had been issued. The table on the following page indicates the cumulative Developed Property, by class, within IA No. 4.

In September 2003 the owner of one residential lot prepaid his CFD special tax obligation. In addition, in February 2006 the owner of one residential lot prepaid his CFD special tax obligation. Therefore, these parcels are not considered taxable property and are not subject to the CFD special tax in fiscal year 2006-2007 and for each subsequent year.

**Improvement Area No. 4
Cumulative Developed Property**

Class	Land Use	Number of Units/Acres
1	Residential Property Greater than 4,600 sf	68 units
2	Residential Property 4,400 – 4,600 sf	15 units
3	Residential Property 4,100 – 4,399 sf	20 units
4	Residential Property 3,900 – 4,099 sf	41 units
5	Residential Property 3,600 – 3,899 sf	20 units
6	Residential Property Less than 3,600 sf	24 units
7	Residential Property Affordable Unit	36 units
8	Non-Residential Property NA	0 acres

II. Fiscal Year 2005-2006 Special Tax Levy

The aggregate special tax levy for fiscal year 2005-2006 equaled \$729,972. As of June 19, 2006, \$705,400 in special taxes had been collected by the County. The remaining \$24,572 in special taxes are delinquent, resulting in a delinquency rate of 3.37 percent.

Pursuant to the Bond Indenture, IA No. 4 has covenanted to determine each year whether or not any owners of property within IA No. 4 are delinquent in the payment of their special taxes. If such delinquencies exist IA No. 4 is required to commence judicial foreclosure proceedings no later than October 1, against (i) parcels with delinquent special taxes in excess of \$10,000; and (ii) all properties with delinquent special taxes in any fiscal year in which the City receives special taxes in an amount which is less than 95% of the total special tax levied and the amount in the Reserve Account is less than the Reserve Requirement.

At this time, IA No. 4 is not required to commence foreclosure proceedings.

III. Fiscal Year 2006-2007 Special Tax Requirement

For fiscal year 2006-2007, the special tax requirement is equal to \$739,946 and is calculated as follows:

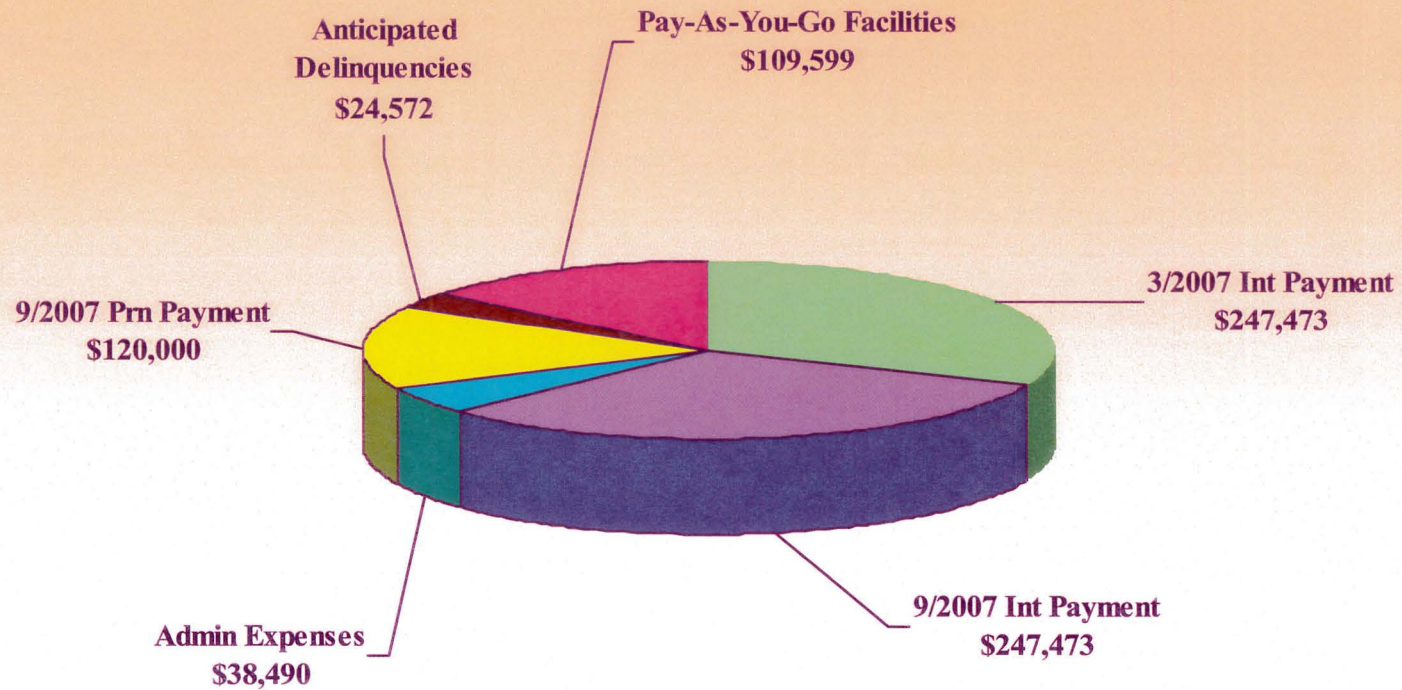
**Improvement Area No. 4
Fiscal Year 2006-2007 Special Tax Requirement**

FISCAL YEAR 2006-2007 USES OF FUNDS:	
CFD ADMINISTRATIVE EXPENSES	\$38,490
INTEREST DUE MARCH 1, 2007	\$247,473
INTEREST DUE SEPTEMBER 1, 2007	\$247,473
PRINCIPAL DUE SEPTEMBER 1, 2007	\$120,000
PAY-AS-YOU-GO FACILITIES	\$109,599
ANTICIPATED DELINQUENCIES	\$24,572
GROSS SPECIAL TAX REQUIREMENT	\$787,607
LESS CREDIT FOR FUNDS AVAILABLE	(\$47,661)
FISCAL YEAR 2006-2007 SPECIAL TAX REQUIREMENT:	\$739,946

The components of the fiscal year 2006-2007 special tax requirement are shown graphically on the following page.

Improvement Area No. 4 of the City of San Diego CFD No. 2

Fiscal Year 2006-2007 Special Tax Levy



Gross Special Tax Requirement = \$787,607

IV. Method of Apportionment

Maximum Special Taxes

The amount of special taxes that IA No. 4 may levy is strictly limited by the maximum special taxes set forth in the Rate and Method of Apportionment.¹

The fiscal year 2006-2007 maximum special tax rates for each classification of property are shown in the table on the following page. Each July 1, commencing July 1, 2004, the maximum special tax rates shall be increased by an amount equal to two percent of the amount in effect for the previous fiscal year. On July 1 of the eleventh and twelfth fiscal years in which special taxes are levied in IA No. 4, the maximum special tax rates may be increased by up to two percent of the amount in effect in the previous fiscal year, provided that such increase is necessary to meet the Special Tax Requirement. There will be no increase in the maximum special tax rates after the twelfth fiscal year in which special taxes are levied in IA No. 4.

Apportionment of Special Taxes

The special tax that is apportioned to each parcel is determined through the application of Section D of the Rate and Method of Apportionment. Section D apportions the special tax requirement in three steps which prioritize the order in which Developed Property, Undeveloped Property and other taxable property are taxed.

The first step states that the special tax shall be levied against each parcel of Developed Property at 100 percent of the assigned special tax. If the special taxes raised pursuant to the first step are less than the special tax requirement, then the second step is applied. The second step states that the special tax shall be levied against each parcel of Undeveloped Property at up to 100 percent of the maximum special tax. The third and fourth steps are designed to accommodate changes in land use and are intended to be used only as a last resort. Since actual land uses have not substantially deviated from the original projections, these steps are not necessary.

The RMA further states that the special tax on Developed Property may be reduced from the assigned special tax if the following three conditions are met: (i) it is not necessary to levy a special tax pursuant to steps two and three described above in order to meet the special tax requirement; (ii) all authorized IA No. 4 bonds have already been issued or the City Council has covenanted that it will not issue any additional IA No. 4 bonds (except refunding bonds); and (iii) and all facilities identified on Exhibit A to the Purchase and Financing Agreement have been acquired. Since all facilities have not been acquired, the fiscal year 2006-2007 special tax for each parcel of Developed Property is equal to the assigned special tax. The fiscal year 2006-2007 assigned/maximum and actual special taxes are shown for each classification of Developed Property and Undeveloped Property in the following table and graphically on the following page.

¹ Technically, Section C states that the maximum special tax for a parcel of Developed Property is equal to the greater of (i) the "Backup Special Tax" or (ii) the Assigned Special Tax. The Backup Special Tax was established for the contingency of a shortfall in revenues resulting from significant changes in development densities. The contingency for which the Backup Special Tax was established does not exist and hence, all discussion of maximum tax rates for Developed Property focuses on the Assigned Special Tax.

**Improvement Area No. 4
Fiscal Year 2006-2007 Special Taxes
for Developed Property and Undeveloped Property**

Class	Land Use		FY 2006-2007 Maximum Special Tax	FY 2006-2007 Actual Special Tax
1	Residential Property	Greater than 4,600 sf	\$4,625.68/unit	\$4,625.68/unit
2	Residential Property	4,400 – 4,600 sf	\$4,248.06/unit	\$4,248.06/unit
3	Residential Property	4,100 – 4,399 sf	\$3,776.06/unit	\$3,776.06/unit
4	Residential Property	3,900 – 4,099 sf	\$3,587.26/unit	\$3,587.26/unit
5	Residential Property	3,600 – 3,899 sf	\$3,304.06/unit	\$3,304.06/unit
6	Residential Property	Less than 3,600 sf	\$2,879.24/unit	\$2,879.24/unit
7	Residential Property	Affordable Unit	\$108.24/unit	\$108.24/unit
8	Non-Residential Property	NA	\$16,260.77/acre	\$0.00/acre
NA	Undeveloped Property	NA	\$16,260.89/acre	\$0/acre

A list of the actual special tax levied against each parcel in IA No. 4 is included in Exhibit A.

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Improvement Area No. 4 of the City of San Diego CFD No. 2

Fiscal Year 2006-2007 Special Tax Levy

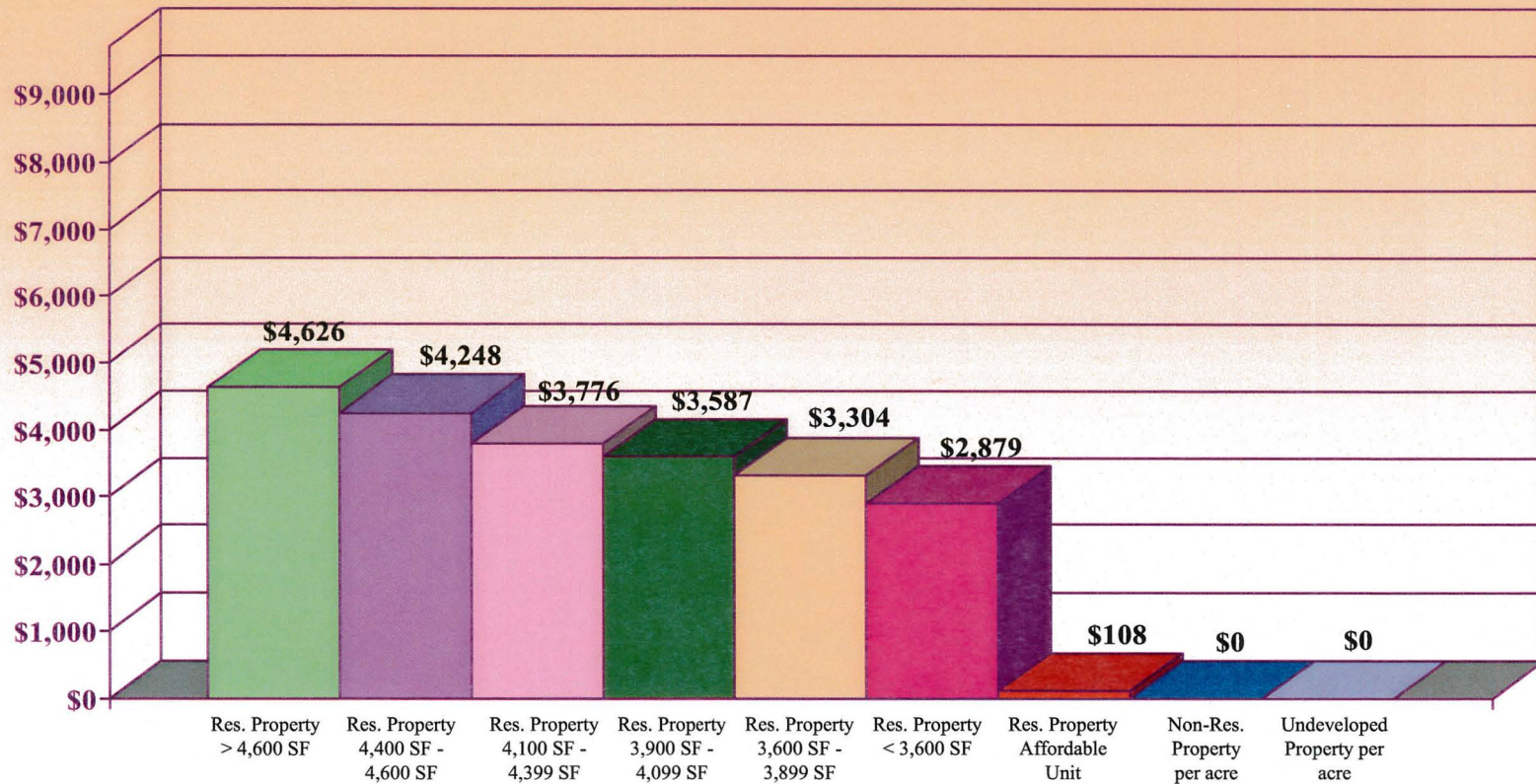


EXHIBIT A

*Improvement Area No. 4 of the
City of San Diego CFD No. 2*

*Special Tax Roll
Fiscal Year 2006-2007*

Exhibit A

City of San Diego CFD No. 2
Improvement Area No. 4
FY 2006-07 Special Tax Levy

<u>APN</u>	<u>FY 2006-07 SPECIAL TAX</u>
303-200-01-00	\$4,625.68
303-200-02-00	\$4,625.68
303-200-03-00	\$4,625.68
303-200-04-00	\$3,776.06
303-200-05-00	\$4,248.06
303-200-06-00	\$4,625.68
303-200-07-00	\$4,625.68
303-200-08-00	\$4,625.68
303-200-09-00	\$4,625.68
303-200-10-00	\$3,776.06
303-200-11-00	\$4,625.68
303-200-12-00	\$4,625.68
303-200-13-00	\$4,248.06
303-200-14-00	\$4,625.68
303-200-15-00	\$4,625.68
303-200-16-00	\$4,625.68
303-200-17-00	\$4,625.68
303-200-18-00	\$4,625.68
303-200-19-00	\$4,625.68
303-200-20-00	\$4,248.06
303-200-21-00	\$4,625.68
303-200-22-00	\$4,625.68
303-200-23-00	\$4,625.68
303-200-24-00	\$4,625.68
303-200-25-00	\$4,625.68
303-200-26-00	\$3,776.06
303-200-27-00	\$4,625.68
303-200-28-00	\$4,625.68
303-200-29-00	\$3,776.06
303-210-01-00	\$4,248.06
303-210-02-00	\$4,625.68
303-210-03-00	\$4,625.68
303-210-04-00	\$4,625.68
303-210-05-00	\$4,248.06
303-210-06-00	\$4,625.68
303-210-07-00	\$4,625.68
303-210-08-00	\$4,625.68
303-210-09-00	\$4,625.68
303-210-10-00	\$4,625.68
303-210-11-00	\$4,248.06
303-210-12-00	\$3,776.06
303-210-13-00	\$4,625.68
303-210-14-00	\$4,625.68
303-210-17-00	\$4,625.68
303-210-18-00	\$4,625.68
303-210-19-00	\$4,625.68
303-210-20-00	\$4,625.68
303-210-21-00	\$4,625.68
303-210-22-00	\$3,776.06
303-210-23-00	\$4,625.68

City of San Diego CFD No. 2
Improvement Area No. 4
FY 2006-07 Special Tax Levy

<u>APN</u>	<u>FY 2006-07 SPECIAL TAX</u>
303-210-24-00	\$3,776.06
303-210-25-00	\$4,625.68
303-210-26-00	\$4,625.68
303-210-27-00	\$4,625.68
303-210-28-00	\$3,776.06
303-210-29-00	\$4,625.68
303-210-30-00	\$4,625.68
303-210-31-00	\$4,625.68
303-210-32-00	\$3,776.06
303-210-33-00	\$4,625.68
303-210-34-00	\$4,625.68
303-210-35-00	\$4,625.68
303-210-36-00	\$4,625.68
303-210-37-00	\$4,625.68
303-210-38-00	\$4,248.06
303-210-39-00	\$4,625.68
303-210-40-00	\$4,625.68
303-210-41-00	\$4,625.68
303-210-42-00	\$3,776.06
303-210-43-00	\$4,625.68
303-210-44-01	\$108.24
303-210-44-02	\$108.24
303-210-44-03	\$108.24
303-210-44-04	\$108.24
303-210-44-05	\$108.24
303-210-44-06	\$108.24
303-210-44-07	\$108.24
303-210-44-08	\$108.24
303-210-44-09	\$108.24
303-210-44-10	\$108.24
303-210-44-11	\$108.24
303-210-44-12	\$108.24
303-210-44-13	\$108.24
303-210-44-14	\$108.24
303-210-44-15	\$108.24
303-210-44-16	\$108.24
303-210-44-17	\$108.24
303-210-44-18	\$108.24
303-210-44-19	\$108.24
303-210-44-20	\$108.24
303-210-44-21	\$108.24
303-210-44-22	\$108.24
303-210-44-23	\$108.24
303-210-44-24	\$108.24
303-210-44-25	\$108.24
303-210-44-26	\$108.24
303-210-51-00	\$4,625.68
303-210-52-00	\$4,625.68
303-220-01-00	\$2,879.24
303-220-02-00	\$3,587.26
303-220-03-00	\$3,304.06

City of San Diego CFD No. 2
Improvement Area No. 4
FY 2006-07 Special Tax Levy

<u>APN</u>	<u>FY 2006-07 SPECIAL TAX</u>
303-220-04-00	\$3,776.06
303-220-05-00	\$3,304.06
303-220-06-00	\$3,776.06
303-220-07-00	\$3,304.06
303-220-08-00	\$3,776.06
303-220-09-00	\$2,879.24
303-220-10-00	\$3,587.26
303-220-11-00	\$3,587.26
303-220-12-00	\$3,304.06
303-220-13-00	\$2,879.24
303-220-14-00	\$3,776.06
303-220-15-00	\$3,304.06
303-220-16-00	\$4,248.06
303-220-17-00	\$2,879.24
303-220-18-00	\$3,304.06
303-220-19-00	\$3,587.26
303-220-20-00	\$2,879.24
303-220-21-00	\$3,587.26
303-220-22-00	\$3,304.06
303-220-23-00	\$2,879.24
303-220-24-00	\$3,587.26
303-220-25-00	\$3,776.06
303-220-26-00	\$3,587.26
303-220-27-00	\$3,304.06
303-220-28-00	\$2,879.24
303-220-30-00	\$3,587.26
303-220-31-00	\$3,304.06
303-220-32-00	\$3,304.06
303-220-33-00	\$3,776.06
303-220-34-00	\$2,879.24
303-220-35-00	\$3,304.06
303-220-36-00	\$3,776.06
303-220-37-00	\$2,879.24
303-220-38-00	\$3,587.26
303-220-39-00	\$3,587.26
303-221-01-00	\$3,304.06
303-221-02-00	\$3,587.26
303-221-03-00	\$3,587.26
303-221-04-00	\$3,587.26
303-221-05-00	\$3,304.06
303-221-06-00	\$3,587.26
303-221-07-00	\$3,587.26
303-221-08-00	\$3,304.06
303-221-09-00	\$3,587.26
303-221-10-00	\$3,587.26
303-221-11-00	\$3,304.06
303-221-12-00	\$3,587.26
303-221-13-00	\$2,879.24
303-221-14-00	\$3,304.06
303-221-15-00	\$3,587.26
303-221-16-00	\$2,879.24

City of San Diego CFD No. 2
Improvement Area No. 4
FY 2006-07 Special Tax Levy

<u>APN</u>	<u>FY 2006-07 SPECIAL TAX</u>
303-221-17-00	\$3,776.06
303-221-18-00	\$3,304.06
303-221-19-00	\$3,587.26
303-221-20-00	\$3,304.06
303-221-21-00	\$2,879.24
303-221-22-00	\$3,587.26
303-221-23-00	\$3,587.26
303-221-24-00	\$3,304.06
303-221-25-00	\$3,776.06
303-221-26-00	\$3,304.06
303-221-27-00	\$3,776.06
303-230-01-00	\$2,879.24
303-230-02-00	\$4,248.06
303-230-03-00	\$3,587.26
303-230-04-00	\$2,879.24
303-230-05-00	\$4,625.68
303-230-06-00	\$3,587.26
303-230-07-00	\$4,248.06
303-230-08-00	\$2,879.24
303-230-09-00	\$4,625.68
303-230-10-00	\$2,879.24
303-230-11-00	\$3,587.26
303-230-12-00	\$4,248.06
303-230-13-00	\$3,587.26
303-230-14-00	\$2,879.24
303-230-15-00	\$4,625.68
303-230-16-00	\$3,587.26
303-230-17-00	\$4,625.68
303-230-18-00	\$3,587.26
303-230-19-00	\$2,879.24
303-230-20-00	\$4,625.68
303-230-21-00	\$4,625.68
303-230-22-00	\$3,587.26
303-230-23-00	\$4,248.06
303-230-24-00	\$2,879.24
303-230-25-00	\$4,248.06
303-230-26-00	\$3,587.26
303-230-27-00	\$3,587.26
303-230-28-00	\$2,879.24
303-230-30-00	\$3,587.26
303-230-31-00	\$3,587.26
303-230-32-00	\$2,879.24
303-230-33-00	\$2,879.24
303-230-34-00	\$3,587.26
303-230-35-00	\$4,248.06
303-240-01-00	\$3,587.26
303-240-02-00	\$4,625.68
303-240-03-00	\$3,587.26
303-240-04-00	\$2,879.24
303-240-05-00	\$4,248.06
303-240-06-00	\$2,879.24

City of San Diego CFD No. 2
Improvement Area No. 4
FY 2006-07 Special Tax Levy

<u>APN</u>	<u>FY 2006-07 SPECIAL TAX</u>
303-240-07-00	\$4,625.68
303-240-08-00	\$3,587.26
303-240-09-00	\$3,587.26
303-240-10-00	\$4,625.68
303-240-11-00	\$3,587.26
303-240-12-00	\$4,625.68
303-240-13-00	\$3,587.26
303-240-14-00	\$4,625.68
303-240-15-00	\$3,587.26
303-240-16-00	\$4,625.68
303-240-17-00	\$4,625.68
303-240-18-00	\$1,082.40
Total Number of Parcels Taxed	215
Total FY 2006-07 Special Tax	\$739,945.60