



Union High School District

Board of Trustees
Joyce Dalessandro
Barbara Groth
Beth Hergesheimer
Amy Herman
John Salazar

Superintendent
Ken Noah

**BOARD OF TRUSTEES
SAN DIEGUITO PUBLIC FACILITIES AUTHORITY
SPECIAL MEETING**

AGENDA

THURSDAY, MARCH 1, 2012

**DISTRICT OFFICE BOARD ROOM 101
710 ENCINITAS BLVD., ENCINITAS, CA. 92024**

(IMMEDIATELY FOLLOWING ITEM 19 OF REGULAR AGENDA)

A Special Meeting of the San Dieguito Public Facilities Authority of San Dieguito Union High School District has been scheduled for Thursday, March 1, 2012.

1. CALL TO ORDER

2. APPROVAL OF MINUTES

Approve the minutes of the December 8, 2011, San Dieguito Public Facilities Authority Board Meeting, as shown in the attached supplement(s).

DISCUSSION / ACTION ITEMS

3. ADOPTION OF RESOLUTION / 2012A LEASE REVENUE BONDS / TORREY PINES HIGH SCHOOL PROJECTS

Motion by _____, second by _____, to adopt the attached Resolution of the Board of Directors of the San Dieguito Public Facilities Authority (The "Board"), Authorizing the Issuance of the San Dieguito Public Facilities Authority Lease Revenue Bonds, Distribution of an Official Statement and Taking Certain Other Actions Related Thereto.

4. ADJOURNMENT

In compliance with the Americans with Disabilities Act, if you need special assistance, disability-related modifications, or accommodations, including auxiliary aids or services, in order to participate in the public meetings of the District's Governing Board, please contact the [Office of the District Superintendent](#). Notification 72 hours prior to the meeting will enable the District to make reasonable arrangements to ensure accommodation and accessibility to this meeting. Upon request, the District shall also make available this agenda and all other public records associated with the meeting in appropriate alternative formats for persons with a disability

Canyon Crest Academy • Carmel Valley MS • Diegueño MS • Earl Warren MS • La Costa Canyon HS • North Coast Alternative HS
Oak Crest MS • San Dieguito Adult Education • San Dieguito Academy • Sunset HS • Torrey Pines HS



MINUTES

Board of Trustees
Joyce Dalessandro
Barbara Groth
Beth Hergesheimer
Amy Herman
John Salazar

Superintendent
Ken Noah

Union High School District

BOARD OF TRUSTEES
SAN DIEGUITO PUBLIC FACILITIES AUTHORITY
SPECIAL MEETING

THURSDAY, DECEMBER, 8, 2011

DISTRICT OFFICE BOARD ROOM 101
710 ENCINITAS BLVD., ENCINITAS, CA. 92024

A Special Meeting of the San Dieguito Public Facilities Authority of San Dieguito Union High School District was held on Thursday, December 8, 2011, at the above location. The meeting was convened at 6:43 PM, immediately following Board action on Item 7j of the Regular Board Meeting Agenda, (*Committee Appointments of Board Representatives*).

Attendance / Board of Trustees

Joyce Dalessandro
Barbara Groth
Beth Hergesheimer
Amy Herman
John Salazar

Attendance / District Administration

Ken Noah, Superintendent
Eric Dill, Associate Superintendent, Business Services / SDPFA Treasurer
Terry King, Associate Superintendent, Human Resources
Rick Schmitt, Associate Superintendent, Educational Services
Becky Banning, Executive Assistant to the Superintendent / Recording Secretary

DISCUSSION / ACTION ITEMS

1. APPROVAL OF MINUTES

Approval of Minutes of the August 18, 2011, Meeting, as shown in the attached supplement.
It was moved by Ms. Groth, seconded by Ms. Herman, to approve Minutes of August 18, 2011.
Motion unanimously carried.

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2. ELECTION OF OFFICERS, 2012

2A. Nomination for Chairperson

It was moved by Ms. Groth, seconded by Ms. Hergesheimer, that the President of the San Dieguito Union High School District Board of Trustees for 2012 be elected Chairperson of the SDPFA. Motion unanimously carried.

2B. Nomination for Vice-Chairperson

It was moved by Ms. Groth, seconded by Ms. Herman, that the Vice-President of the San Dieguito Union High School District Board of Trustees for 2012 be elected Vice-Chairperson of the SDPFA. Motion unanimously carried.

2C. Nomination and Appointment of Treasurer

It was moved by Ms. Hergesheimer, seconded by Ms. Groth, that the Associate Superintendent of Business be appointed Treasurer of the SDPFA. Motion unanimously carried.

2D. Nomination for Secretary

It was moved by Ms. Groth, seconded by Ms. Hergesheimer, that the Clerk of the San Dieguito Union High School District Board of Trustees for 2012 be elected Secretary of the SDPFA. Motion unanimously carried.

3. ADJOURNMENT

The meeting was adjourned at 6:44 PM and the Board reconvened its regular meeting.

Amy Herman, Board Clerk

Date: ____/____/____

Ken Noah, Superintendent

Date: ____/____/____

San Dieguito Union High School District

INFORMATION REGARDING BOARD AGENDA ITEM

TO: BOARD OF TRUSTEES

DATE OF REPORT: February 16, 2012

BOARD MEETING DATE: March 1, 2012

PREPARED BY: John Addleman, Director of Planning and
Financial Management
Eric Dill, Assoc. Supt. of Business Services

SUBMITTED BY: Ken Noah
Superintendent

SUBJECT: ADOPTION OF RESOLUTION / 2012A
LEASE REVENUE BONDS / TORREY PINES
HIGH SCHOOL PROJECTS

EXECUTIVE SUMMARY

At the February 16, 2012 board meeting information was provided regarding the financing of projects at Torrey Pines High School this summer.

Staff proposes to fund \$2M for repairs to facilities at Torrey Pines High School by issuing lease revenue bonds. The bonds would have an eight year term with interest only payments in the first three fiscal years, after which level interest and principal payments would be made. The bonds would be paid for by contributions from the Torrey Pines High School Foundation, Pop Warner, and the District's general fund, in part by facility rental fees. Should the District be successful in passing a Prop 39 general obligation (GO) bond measure, future GO bond proceeds may be used to pay off this bond.

Staff has been working closely with De La Rosa & Co. (Underwriter), Fieldman, Rolapp & Associates (Financial Advisor), and Manatt, Phelps, and Phillips (Bond Counsel) to develop the best financing plan. Given ever changing market conditions, the financing plan may be put on hold should rates move unfavorably such that \$2M in process is not available between now and the proposed pre-pricing call tentatively scheduled March 21, 2012.

Proposed Financing Structure

Staff is recommending issuance of lease revenue bonds. Lease financing is similar to a lease-leaseback mechanism whereby a school district leases property to a third party and, in consideration of the use of the property, makes periodic lease payments back to the third party during the term of the lease. Unlike GO or Mello-Roos bonds that are collateralized by special taxes on homes in the district, the ultimate backstop for lease revenue bonds is the District's general fund.

Lease Financing Structure

The lease financing will work as follows:

- The District leases the premises to the San Dieguito Public Facilities Authority
- Authority will issue lease revenue bonds in the amount of \$2.5M
- Authority subleases the premises (Torrey Pines High School) to the District
- The District pays rent for use of the premises to the Authority
- Authority pledges rental income to a Trustee for the benefit of the owners of the lease revenue bonds

Impact on the general fund:

- District will covenant in the Facility Sublease to include all rental payments in its annual budget and to make the necessary appropriations
- District's obligation to the Authority is not a traditional debt on the General Fund, however, the District is obligated to make rental payments from any source of legally available funds

The total principal amount of the bond would be \$2.5M, with a little more than \$2M being available for projects. The coupon rate is estimated at 4%. The bond is expected to trade above its par value, creating a premium of approximately \$44K. Typically a bond will trade at premium when it offers a coupon rate that is higher than prevailing interest rates. This is because investors want a higher yield and will pay more for it. This will effectively lower the yield to the investor in the early years to 2.4% and then moving up to the coupon rate of 4% in the final year. \$250K would be used to fund a reserve fund in lieu of a surety. Interest earnings from the reserve fund would be used to offset annual debt service, and in the final year the reserve fund would be closed and used to pay down outstanding principal. \$92K would be used to capitalize interest in the first fiscal year, alleviating the burden from the district's general fund. The estimated cost of issuance, including the underwriter's discount, is approximately \$196K.

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Estimate of Costs:

Bond Counsel (Manatt, et al)	\$62,500
Tax Counsel (Perry Israel)	\$12,500
Underwriter's Counsel (Orrick, et al)	\$25,000
District Counsel (Laura Romano)	\$ 3,000
Financial Advisor (Fieldman Rolapp)	\$25,000
Rating Agency (tbd)	\$10,000
Printer (tbd)	\$ 5,000
Title (First American)	\$10,000
Trustee (US Bank)	\$ 6,200
Statistical Analysts (CalMuni)	\$ 500
Underwriter (De La Rosa) (not to exceed)	\$31,250
Misc. Costs/Contingency	\$ 7,800

Understanding the inherent risks of this type of financing, staff has attempted to mitigate short term risk to the general fund by proposing an eight year term, where interest only payments of less than \$100,000 are payable in the first three fiscal years, and level interest and principal payments of \$560,000 are deferred to the last five fiscal years of repayment. By deferring principal, facility rental use along with contributions from the Foundation will help to largely offset the early interest only payments and provide time to secure principal repayment in a fashion that is not detrimental to the instructional program.

Net Debt Service

	Total	Less:	Less:	General Fund
	Debt Svc	Debt Svc	Capitalized	Net
FY	Debt Svc	Reserve Fund	Interest Fund	Debt Svc
12/13	\$ 91,666.67	\$ 2,291.67	\$ 89,375.00	\$ -
13/14	\$ 100,000.00	\$ 2,500.00	\$ 2,291.67	\$ 95,208.33
14/15	\$ 100,000.00	\$ 2,500.00		\$ 97,500.00
15/16	\$ 560,000.00	\$ 2,500.00		\$ 557,500.00
16/17	\$ 561,600.00	\$ 2,500.00		\$ 559,100.00
17/18	\$ 562,400.00	\$ 2,500.00		\$ 559,900.00
18/19	\$ 562,400.00	\$ 2,500.00		\$ 559,900.00
19/20	\$ 561,600.00	\$ 252,500.00		\$ 309,100.00
	\$ 3,099,666.67			\$ 2,738,208.33

Proposed Projects

Torrey Pines High School

Project #1:

The synthetic field and track installed in 2003 at Torrey Pines High School, are reaching the end of their useful life. In order to avoid a closure of the field, staff is proposing to replace the field and track. The estimated construction cost is \$1.25M.

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Project #2

Over the last several years, repairs to the roof and replacement of aging HVAC units have been completed at Building B. In order to prevent water damage in classrooms and to continue to provide a healthy environment for students and staff, staff is proposing to reroof the north-west portion of Building B, in addition to replacing 3 aging HVAC units with new energy efficient HVAC units. The estimated construction cost is \$450K.

Project #3

At Building E, 6 exposed ground mounted HVAC units are deteriorating. Keeping in line with the District's master plan, the units will be replaced with rooftop units and configured as such as to eventually bring air conditioning to the entire building in the future. The proposed work at Building E would provide an opportunity at the adjacent Building G to tie its systems into the District's energy management system, in order to better manage the use of Building G's HVAC units. The estimated construction cost is \$302K.

RECOMMENDATION:

It is recommended that the Board adopt the attached Resolution of the Board of Trustees of the San Dieguito Union High School District (The "Board") Authorizing the Issuance by the San Dieguito Public Facilities Authority of Lease Revenue Bonds, Distribution of an Official Statement and Taking Certain Other Actions Related Thereto.

FUNDING SOURCE:

N/A

RESOLUTION OF THE BOARD OF DIRECTORS OF THE SAN DIEGUITO PUBLIC FACILITIES AUTHORITY (THE “BOARD”) AUTHORIZING THE ISSUANCE OF THE SAN DIEGUITO PUBLIC FACILITIES AUTHORITY LEASE REVENUE BONDS, DISTRIBUTION OF AN OFFICIAL STATEMENT AND TAKING CERTAIN OTHER ACTIONS RELATED THERETO

WHEREAS, the San Dieguito Union High School District (the “**School District**”) and Community Facilities District No. 94-1 of the School District formed the San Dieguito Public Facilities Authority (the “**Authority**”) pursuant to a “Joint Exercise of Powers Agreement”;

WHEREAS, the Authority is a joint exercise of powers authority duly organized and operating pursuant to Article 1 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (§ 6500 et seq.) (hereinafter, the “**Act**”);

WHEREAS, Article 4 of the Act (§ 6584 et seq.) authorizes and empowers the Authority to issue bonds to finance certain public improvements or working capital whenever a local agency determines that there are significant public benefits from doing so;

WHEREAS, in order to assist the School District in financing and constructing various public facilities benefitting the School District, the Authority proposes to issue its San Dieguito Public Facilities Authority Lease Revenue Bonds, Series 2012A (Torrey Pines High School Projects) (the “**Bonds**”) in an aggregate principal amount not to exceed \$2,500,000;

WHEREAS, the Authority proposes to issue the Bonds pursuant to a Trust Agreement (“**Trust Agreement**”) to be entered into between the Authority and U.S. Bank National Association, as trustee (“**Trustee**”);

WHEREAS, the Bonds will be issued under the provisions of the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 (commencing with § 6584) of the Act, and the Trust Agreement;

WHEREAS, the Bonds will be offered to the public pursuant to an official statement to be distributed to the public by De La Rosa & Co., Inc. (the “**Underwriter**”), as underwriter for the Bonds containing information about the School District and the Authority;

WHEREAS, in order to be prepared for changes in the financial market which may occur prior to the issuance of the Bonds and which, if deemed to be in the best interest of the Authority, may make it more advantageous to have all or a portion of the Bonds sold in a private placement, the Authority proposes to approve a private placement of all or a portion of the Bonds in lieu of a public offering of all or a portion of the Bonds;

WHEREAS, in connection with the issuance of the Bonds, the School District will lease to the Authority Torrey Pines High School located in San Diego, California (excluding certain facilities at Torrey Pines High School that were financed pursuant to the provisions of the Mello

ITEM 3

Roos Community Facilities Act of 1982, as amended) (collectively, the “**Leased Facilities**”) and the Authority will sublease the Leased Facilities back to the School District;

WHEREAS, the proceeds of the Bonds will be used to pay costs of issuance of the Bonds and the costs of certain capital improvements at Torrey Pines High School (the “**Improvements**”);

WHEREAS, the School District is approving in its resolution (the “**School District Resolution**”) all actions in order to obtain the financing relating to the Bonds, including but not limited to the execution and delivery of any documents, certificates and other instruments, as may be necessary, by the School District, and any other action necessary to effectuate the purposes of the School District Resolution.

WHEREAS, the Authority is authorized to undertake all of the above pursuant to applicable laws of the State of California;

NOW, THEREFORE, this Board does find, resolve, determine and order as follows:

Section 1. Findings under Marks-Roos Local Bond Pooling Act of 1985. The Authority hereby finds that significant public benefits will arise from and financing of the Improvements with the proceeds of the Bonds, in accordance with section 6586 of the California Government Code, in that the financing will result in demonstrable savings in effective interest rates, bond preparation, bond underwriting and bond issuance costs to finance the Improvements.

Section 2. Issuance of Bonds. The issuance of the Bonds in an aggregate principal amount not to exceed \$2,500,000 is hereby authorized and approved.

Section 3. Trust Agreement and Continuing Disclosure Certificate. The form of Trust Agreement with respect to the Bonds, presented at this meeting, is hereby authorized and approved. The officers of the Authority and their authorized representatives are, and each of them acting alone is, hereby authorized and directed for and in the name of, and on behalf of the Authority, to execute and deliver the Trust Agreement substantially in the form attached hereto as Exhibit A and a Continuing Disclosure Certificate in connection therewith substantially in the form attached hereto as Exhibit B, with such changes therein as may be necessary or as they may approve, in their discretion, as being in the best interests of the Authority, such approval to be evidenced conclusively by the execution and delivery thereof. U.S. Bank National Association is appointed as trustee for the Bonds.

Section 4. Bond Purchase Contract. The form of Bond Purchase Contract (the “**Bond Purchase Contract**”) between the Authority and De La Rosa & Co., Inc. (the “**Underwriter**”), presented at this meeting, is hereby authorized and approved. The officers of the Authority and their authorized representatives are, and each of them acting alone is, hereby authorized and directed for and in the name of, and on behalf of the Authority, to execute and to deliver the Bond Purchase Contract, substantially in the form attached hereto as Exhibit C, with such changes therein as may be necessary or as they may approve, in their discretion, as being in the best interests of the Authority, such approval to be evidenced conclusively by the execution and delivery thereof. In connection with the execution and delivery of the Bond Purchase

Contract, the officers and their authorized representatives are further authorized and directed, jointly and severally, to negotiate the price and the interest rates for the Bonds such that (i) the final maturity of the Bonds shall not exceed 10 years and (ii) the underwriter's discount (excluding any original issue discount) shall not exceed 1.25% of the aggregate principal amount of the Bonds plus expenses.

Section 5. *Lease Agreement.* The form of Lease Agreement (the "**Lease Agreement**"), between the Authority and the School District, presented at this meeting, is hereby authorized and approved. The officers of the Authority and their authorized representatives are, and each of them acting alone is, hereby authorized and directed for and in the name of, and on behalf of the Authority, to execute and deliver the Lease Agreement, substantially in the form attached hereto as Exhibit D, with such changes therein as may be necessary or as they may approve, in their discretion, as being in the best interests of Authority, such approval to be evidenced conclusively by the execution and delivery thereof.

Section 6. *Sublease Agreement.* The form of Sublease Agreement (the "**Sublease Agreement**"), between the Authority and the School District, presented at this meeting, is hereby authorized and approved. The officers of the Authority and their authorized representatives are, and each of them acting alone is, hereby authorized and directed for and in the name of, and on behalf of the Authority, to execute and deliver the Sublease Agreement, substantially in the form attached hereto as Exhibit E, with such changes therein as may be necessary or as they may approve, in their discretion, as being in the best interests of Authority, such approval to be evidenced conclusively by the execution and delivery thereof.

Section 7. *Official Statement.* In connection with the Bonds, the officers of the Authority and their authorized representatives are, and each of them acting alone is, hereby authorized and directed to prepare or cause to be prepared a preliminary official statement and an official statement, each substantially in the form attached hereto as Exhibit F, with such changes therein as may be necessary or as they may approve, in their discretion, as being in the best interests of the Authority (such approval with respect to the preliminary official statement to be evidenced conclusively by the execution and delivery of a certificate in accordance with Rule 15c2-12 as described below, and such approval with respect to the official statement to be evidenced by the execution and delivery thereof) that the Underwriter is hereby authorized to distribute to persons who may be interested in the purchase of the Bonds. The officers of the Authority and their authorized representatives are, and each of them acting alone is, hereby further authorized and directed for and in the name of, and on behalf of the Authority, to deem the preliminary official statement to be final in accordance with Rule 15c2-12 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, and to execute and deliver the official statement.

Section 8. *Private Placement Bonds.* The election by the Authority to cause all or a portion of the Bonds to be sold in a private placement in lieu of a public offering of all or a portion of the Bonds is hereby authorized and approved if it is deemed to be in the best interests of the Authority. The officers of the Authority and their authorized representatives are, and each of them acting alone is, hereby further authorized and directed, for and in the name and on behalf of the Authority, to execute and deliver all agreements, certificates and instruments relating to the private placement of all or a portion of the Bonds as may be necessary and if such

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agreements, certificates and instruments relating to the private placement of all or a portion of the Bonds are deemed to be in the best interests of the Authority, such determination to be evidenced conclusively by the execution and delivery thereof.

In the event an election is made by the Authority, upon deeming it to be in the best interests of the Authority, to cause all or a portion of the Bonds to be sold in a private placement in lieu of a public offering, the officers of the Authority and their authorized representatives are, and each of them acting alone is, hereby authorized and directed for and in the name of, and on behalf of the Authority, to execute and to deliver a purchase contract, placement agreement or similar document with a party other than the Underwriter in order to effectuate a private placement of all or a portion of the Bonds.

Section 9. *General Authorization.* The officers of the Authority and each of them acting alone is, hereby authorized and directed to take such actions, and to execute such documents, instruments and certificates, directly or indirectly related and as may be necessary to obtain the financing relating to the Bonds, and to otherwise effectuate the purposes of this Resolution.

Section 10. *Authority Designee.* For the avoidance of doubt, each of the Chairperson of the Authority, the Associate Superintendent of Business Services of the School District (a designee of the Chairperson of the Authority), and any other person the Chairperson of the Authority may from time to time designate in writing as designee, is hereby authorized to approve, execute and deliver any documents, certificates and other instruments, as may be necessary to effectuate the purposes of this Resolution.

Section 11. *Ratification.* All actions heretofore taken by the officers, employees and agents of the Authority with respect to the transactions set forth above are hereby approved, confirmed and ratified.

This Resolution shall take effect immediately upon its passage.

[Remainder of this page intentionally left blank]

ITEM 3

The foregoing Resolution was on the ____ day of _____, 2012, adopted by the Board of Directors of the San Dieguito Public Facilities Authority.

BOARD OF DIRECTORS OF THE SAN
DIEGUITO PUBLIC FACILITIES AUTHORITY

By: _____
Chairperson

ATTEST:

By: _____
Title: _____

ITEM 3

STATE OF CALIFORNIA)
COUNTY OF SAN DIEGO)

I, Joyce Dalessandro, Chairperson of the Board of Directors of the San Dieguito Public Facilities Authority (the “**Board**”) do hereby certify that the foregoing Resolution was duly adopted by the Board of said San Dieguito Public Facilities Authority at a meeting of said Board held on the 1st day of March, 2012, and that it was so adopted by the following vote:

AYES: MEMBERS: _____

NOES: MEMBERS: _____

ABSTAIN: MEMBERS: _____

ABSENT: MEMBERS: _____

Chairperson of the Board of Directors

EXHIBIT A

Form of Trust Agreement

TRUST AGREEMENT

by and between the

SAN DIEGUITO PUBLIC FACILITIES AUTHORITY

and

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

Dated as of [March 1], 2012

\$_[_____]

San Dieguito Public Facilities Authority
Lease Revenue Bonds, Series 2012A
(Torrey Pines High School Projects)

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THIS TRUST AGREEMENT dated as of [March 1], 2012 (the “Trust Agreement” or “Agreement”), by and between the SAN DIEGUITO PUBLIC FACILITIES AUTHORITY, a joint exercise of powers authority duly organized and existing pursuant to an Agreement entitled “Joint Exercise of Powers Agreement” between Community Facilities District No. 94-1 of the San Dieguito Union High School District and the San Dieguito Union High School District (the “Authority”), and U.S. BANK NATIONAL ASSOCIATION, a national banking association duly organized and existing under the laws of the United States of America, as trustee (the “Trustee”);

W I T N E S S E T H:

WHEREAS, the Authority is a joint exercise of powers authority duly organized and operating pursuant to Article 1 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (hereinafter, the “Act”);

WHEREAS, Article 4 of the Act authorizes and empowers the Authority to issue bonds to finance certain public improvements or working capital whenever a local agency determines that there are significant public benefits from doing so;

WHEREAS, the San Dieguito Union High School District (the “District”) will lease to the Authority certain capital assets of the District (the “Facility”) pursuant to the Facility Lease dated as of [March 1], 2012;

WHEREAS, the District will lease back the Facility from the Authority pursuant to the terms of the Facility Sublease dated as of [March 1], 2012;

WHEREAS, the District has determined to finance various capital projects as set forth in Exhibit C to the Facility Sublease (as amended from time to time, the “Project”);

WHEREAS, the Authority is empowered pursuant to the Facility Sublease and the aforementioned Article 4 of the Act to cause the lease of the Facility, and to cause the financing of the Project through the issuance of its bonds;

WHEREAS, the District has determined that the consummation of the transactions contemplated in the Facility Lease, the Facility Sublease and this Trust Agreement will result in significant public benefits;

WHEREAS, the Authority intends to assist the District in financing the Project by issuing the San Dieguito Public Facilities Authority Lease Revenue Bonds, Series 2012A (Torrey Pines High School Projects), (the “Bonds”);

WHEREAS, on [_____], 2012, the Board of Trustees of the San Dieguito Union High School District (the “Board of Trustees”) approved certain resolutions (collectively, the “District Resolution”) approving the Facility Lease, the Facility Sublease and other documents associated with the financing of the Project through the issuance of the Bonds and authorizing their execution on behalf of the District;

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WHEREAS, in the District Resolution, the Board of Trustees has determined, pursuant to Section 5922 of the Government Code of the State, that the execution and delivery of this Agreement will result in a reduction in the amount or duration of payments and lower the cost of borrowing when used in combination with the Bonds; and

WHEREAS, the Authority has authorized the issuance of the Bonds, in an aggregate principal amount of [_____] dollars (\$[_____]) to assist in financing the Project;

WHEREAS, to reduce the borrowing costs of the Authority and the base rental payments of the District, and to help the financing of the Project from which significant public benefit will be achieved, the Bonds shall be issued pursuant to Article 4 of the Act;

WHEREAS, 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 full and timely payment of the principal thereof and premium, if any, and interest thereon, the Authority has authorized the execution and delivery of this Trust Agreement;

WHEREAS, the Authority has determined that all acts and proceedings required by law necessary to make the Bonds, when executed by the Authority and authenticated and delivered by the Trustee, duly issued and the valid, binding and legal obligations of the Authority payable in accordance with their terms, and to constitute this Trust Agreement a valid and binding agreement of the parties hereto for the uses and purposes herein set forth, have been done and taken, and have been in all respects duly authorized;

NOW, THEREFORE, THIS TRUST AGREEMENT WITNESSETH, that in order to secure the full and timely payment of the principal of, premium, if any, and interest on all Bonds at any time issued and outstanding under this Trust Agreement, according to their tenor, and to secure the performance and observance of all the covenants and conditions therein and herein set forth, and to declare the terms and conditions upon and subject to which the Bonds are to be issued and received, and in consideration of the premises and of the mutual covenants herein contained and of the purchase and acceptance of the Bonds by the Holders thereof, and for other valuable consideration, the receipt whereof is hereby acknowledged, the Authority does hereby covenant and agree with the Trustee, for the benefit of the respective Holders from time to time of the Bonds, 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 Supplemental Trust Agreement and of any certificate, opinion, request or other document herein or therein mentioned have the meanings herein specified, unless otherwise defined in such other document. Capitalized terms not otherwise defined herein shall have the meaning assigned to such terms in the Facility Sublease.

Act

The term “Act” means the Joint Exercise of Powers Act (being Chapter 5 of Division 7 of Title 1 of the Government Code of the State, as amended) and all laws amendatory thereof or supplemental thereto.

Annual Debt Service

The term “Annual Debt Service” means, for any Fiscal Year, the sum of (1) the interest payable on all Outstanding Bonds in such Fiscal Year, assuming that all Outstanding Bonds are paid at maturity or redeemed as scheduled in accordance with Section 4.01, (2) the principal amount of all Outstanding Bonds, if any, maturing by their terms in such Fiscal Year, and (3) the principal amount of all Outstanding Bonds, if any, required to be redeemed or paid in such Fiscal Year (together with the redemption premiums, if any, thereon).

Authority

The term “Authority” means the San Dieguito Public Facilities Authority created pursuant to the Act and its successors and assigns in accordance herewith.

Authorized Denominations

The term “Authorized Denominations” means with respect to the Bonds, \$5,000 or any integral multiple thereof.

Board of Trustees

The term “Board of Trustees” means the legislative body of the District.

Bond or Bonds

The terms “Bond” or “Bonds” means the San Dieguito Public Facilities Authority Lease Revenue Bonds, Series 2012A (Torrey Pines High School Projects), authorized by and at any time Outstanding pursuant to this Trust Agreement and executed, issued and delivered in accordance with Sections 2.01, 2.02, 2.03 and 3.01.

Bond Counsel

The term “Bond Counsel” means counsel of recognized national standing in the field of law relating to municipal bonds, appointed and paid by the District.

Bondholder; Bondowner; Owner; Holder

The terms “Bondholder,” “Bondowner,” “Owner” or “Holder” mean, with respect to the Bonds, the person in whose name any Bond shall be registered.

Book-Entry Bonds

The term “Book-Entry Bonds” means Bonds registered in the name of the nominee of a Depository as the owner thereof pursuant to the terms and provisions of Section 2.08 of this Agreement.

Business Day

The term “Business Day” means a day that is not a Saturday, Sunday or legal holiday on which banking institutions in the State of New York or the State of California are authorized to remain closed, or a day on which the Federal Reserve system is closed.

Certificate of the Authority

The term “Certificate of the Authority” means an instrument in writing signed by any of the following officials of the Authority: the Chairperson or Vice-Chairperson of the Board of Directors, Secretary, Treasurer or a designee of any such officer, or by any other person (whether or not an officer of the Authority) who is specifically authorized by resolution of the Authority for that purpose.

Certificate of the District

The term “Certificate of the District” means an instrument in writing signed by any of the following District officials: the President, Vice-President or Secretary of the Board of Trustees, Superintendent, Associate Superintendent of Business Services or by any such official’s duly appointed designee, or by any other officer of the District duly authorized by the Board of Trustees of the District for that purpose.

Code

The term “Code” means the Internal Revenue Code of 1986, as amended.

Continuing Disclosure Agreement

The term “Continuing Disclosure Agreement” shall mean that certain Continuing Disclosure Agreement executed by the District dated the date of issuance and delivery of the Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

Corporate Trust Office

The term “Corporate Trust Office” refers to the office of the Trustee noted in Section 13.12 and such other offices as the Trustee may designate from time to time.

Costs of Issuance

The term “Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the District or the Authority and related to the authorization,

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execution and delivery of the Facility Lease, the Facility Sublease, this Trust Agreement and the issuance and sale of the Bonds, including, but not limited to, costs of preparation and reproduction of documents, costs of rating agencies and costs to provide information required by rating agencies, filing and recording fees, fees and charges of the Trustee, legal fees and charges, fees and disbursements of consultants and professionals, fees and charges for preparation, execution and safekeeping of the Bonds, title search and title insurance fees, fees of the Authority and any other authorized cost, charge or fee in connection with the issuance of the Bonds.

Costs of Issuance Fund

The term “Costs of Issuance Fund” means the fund by that name established pursuant to Section 3.01(b).

Demised Premises

The term “Demised Premises” means that certain real property situated in the County of San Diego, State of California, described in Exhibit A to the Facility Sublease, together with any additional real property added thereto or substituted therefor by any supplement or amendment thereto in accordance with the Facility Sublease and the Trust Agreement; subject, however, to any conditions, reservations, and easements of record or known to the District.

Depository

The term “Depository” means DTC or another recognized securities depository selected by the Authority which maintains a book-entry system for the Bonds.

Dissemination Agent

The term “Dissemination Agent” means the District or any successor appointed under the Continuing Disclosure Agreement.

District

The term “District” means the San Dieguito Union High School District, a school district organized and existing under the laws of the State of California.

DTC or The Depository Trust Company

The term “DTC” or “The Depository Trust Company” means The Depository Trust Company, New York, New York.

DTC Participant

Any broker-dealer, bank or other financial institution for which DTC holds Bonds from time to time as securities depository.

Event of Default

The term “Event of Default” shall have the meaning specified in Section 8.01.

Facility

The term “Facility” shall mean Torrey Pines High School located on and including the Demised Premises (other than and specifically excluding the public school facilities and improvements financed directly or indirectly pursuant to the provisions of the Mello Roos Community Facilities Act of 1982, as amended, being Chapter 2.5 of Part 1, Division 2, Title 5 of the Government Code of the State of California) together with any additional property added or substituted for all or any portion of such property in accordance with the Facility Sublease and this Trust Agreement and less any property released in accordance with the Facility Sublease and this Trust Agreement; subject, however, to any conditions, reservations, and easements of record or known to the District.

Facility Lease

The term “Facility Lease” means that certain lease by and between the District and the Authority, dated as of [March 1], 2012, whereby the District leased the Facility to the Authority, as it may from time to time be supplemented, modified or amended pursuant to the provisions hereof and thereof.

Facility Sublease

The term “Facility Sublease” means that certain lease, entitled “Facility Sublease,” by and between the District and the Authority, dated as of [March 1], 2012, whereby the Authority subleased the Facility back to the District, as it may from time to time be supplemented, modified or amended pursuant to the provisions hereof and thereof.

Federal Securities

The term “Federal Securities” means any direct, noncallable 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) or any obligations the principal of and interest on which are unconditionally guaranteed (directly or indirectly) by the United States of America.

Financial Newspaper

The term “Financial Newspaper” means The Wall Street Journal or The Bond Buyer, or any other newspaper or journal printed in the English language, publishing financial news, and selected by the Authority.

Fiscal Year

The term “Fiscal Year” means the twelve (12) month period terminating on June 30 of each year, or any other annual accounting period hereafter selected and designated by the Authority as its Fiscal Year in accordance with applicable law.

Insurance and Condemnation Fund

The term “Insurance and Condemnation Fund” means the fund by that name created pursuant to Section 5.06.

Interest Account

The term “Interest Account” means the account by that name created pursuant to Section 5.03.

Interest Payment Date

The term “Interest Payment Date” means, (i) with respect to the Bonds, March 1 and September 1 in each year, commencing September 1, 2012, and (ii) such other dates as set forth in a Supplemental Trust Agreement with respect to a Series of Bonds.

Investment Securities

The term “Investment Securities” means any of the following that at the time are legal investments under the laws of the State of California for moneys held hereunder and then proposed to be invested therein (provided that the Trustee shall be entitled to rely upon any investment direction from the Authority as conclusive certification to the Trustee that the investments described therein are so authorized under the laws of the State of California):

i. any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed as to full and timely payment by, the United States of America, including obligations of any of the federal agencies and federally sponsored entities set forth in clause (iii) below to the extent unconditionally guaranteed by the United States of America and including interest strips of any such obligations or of bonds issued by the Resolution Funding Corporation and held in book-entry form by the Federal Reserve Bank of New York;

ii. any certificates, receipts, securities or other obligations evidencing ownership of, or the right to receive, a specified portion of one or more interest payments or principal payments, or any combination thereof, to be made on any bond, note, or other obligation described above in clause (i);

iii. obligations of Fannie Mae, the Government National Mortgage Association, Farm Credit System Financial Corporation, Federal Home Loan Banks, Federal Home Loan Mortgage Corporation, Tennessee Valley Authority, Washington Metropolitan Area Transit Authority, United States Import-Export Bank, United States Department of Housing and

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Urban Development, Farmers Home Administration, General Services Administration and United States Maritime Administration;

iv. housing authority bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America; or project notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;

v. obligations of any state, territory or commonwealth of the United States of America or any political subdivision thereof or any agency or department of the foregoing; provided that such obligations are rated in the highest Rating Category by Moody's and Standard & Poor's;

vi. any bonds or other obligations of any state of the United States of America or any political subdivision thereof (a) which are not callable prior to maturity or as to which irrevocable instructions have been given to the paying agent of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (b) which are secured as to principal and interest and redemption premium, if applicable, by a fund consisting only of cash or bonds or other obligations of the character described above in clause (i) or (ii) which fund may be applied only to the payment of such principal of and interest and redemption premium, if applicable, on such bonds or other obligations on the interest payment dates and the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, (c) as to which the principal of and interest on the bonds and obligations of the character described above in clause (i) or (ii) which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay the principal of and interest and redemption premium, if applicable, on the bonds or other obligations described in this clause (vi) on the interest payment dates and the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (vi), as appropriate, and (d) which are rated in the highest long-term Rating Category by Moody's and Standard & Poor's;

vii. demand or time deposits or certificates of deposit, whether negotiable or nonnegotiable, trust funds, trust accounts, interest-bearing deposits, overnight bank deposits, interest-bearing money market accounts or bankers acceptances issued by any bank or trust company (including, without limitation, the Trustee or any of its affiliates) organized under the laws of any state of the United States of America or any national banking association (including the Trustee or any of its affiliates) or by a state licensed branch of any foreign bank, provided that such certificates of deposit shall be purchased directly from such a bank, trust company, national banking association or branch and shall be either (1) continuously and fully insured by the Federal Deposit Insurance Corporation, or (2) continuously and fully secured by such securities and obligations as are described above in clauses (i) through (v), inclusive, which shall have a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such certificates of deposit and shall be lodged with the Trustee or third-party agent, as custodian, by the bank, trust company, national banking association or branch issuing such

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certificates of deposit, and the bank, trust company, national banking association or branch issuing each such certificate of deposit required to be so secured shall furnish the Trustee with an undertaking satisfactory to the District that the aggregate market value of all such obligations securing each such certificate of deposit will at all times be an amount equal to the principal amount of each such certificate of deposit and the District shall be entitled to rely on each such undertaking;

viii. taxable commercial paper or tax-exempt commercial paper rated in the highest Rating Category by Moody's and Standard & Poor's which matures not more than 270 calendar days after the date of purchase;

ix. variable rate obligations required to be redeemed or purchased by the obligor or its agent or designee upon demand of the holder thereof secured as to such redemption or purchase requirement by a liquidity agreement with a corporation and as to the payment of interest and principal either upon maturity or redemption (other than upon demand by the holder thereof) thereof by an unconditional credit facility of a corporation, provided that the variable rate obligations themselves are rated in the highest short-term Rating Category, if any, and in the highest long-term Rating Category, if any, by Moody's and Standard & Poor's, and that the corporations providing the liquidity agreement and credit facility have, at the date of acquisition of the variable rate obligations by the Trustee, an outstanding issue of unsecured, uninsured and unguaranteed debt obligations rated in the highest long-term Rating Category by Moody's and Standard & Poor's;

x. any cash sweep or similar account arrangement of or available to the Trustee, the investments of which are limited to investments described in clauses (i), (ii), (iii), (iv), and (v) of this definition of Investment Securities and any money market fund including money market mutual funds having a rating in the highest investment category granted thereby from Standard & Poor's and Moody's, including, without limitation any mutual fund for which the Trustee or an affiliate of the Trustee serves as investment manager, administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Trustee or an affiliate of the Trustee receives fees from funds for services rendered, (ii) the Trustee collects fees for services rendered pursuant to this Trust Agreement, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to this Agreement may at times duplicate those provided to such funds by the Trustee or an affiliate of the Trustee;

xi. the Local Agency Investment Fund or similar pooled fund operated by or on behalf of the State of California and which is authorized to accept investments of moneys held in any of the funds or accounts established pursuant to this Trust Agreement;

xii. commercial paper having, at the time of investment or contractual commitment to invest therein, a rating from Standard & Poor's and Moody's in the highest rating category granted thereby; and

xiii. any other investment approved by the Authority (A) which does not cause the rating on the Bonds to be reduced or withdrawn and (B) so long as the Authority provides Standard & Poor's notice of such investment.

Maximum Annual Debt Service

The term “Maximum Annual Debt Service” means the largest Annual Debt Service during the period from the date of such determination through the final maturity date of any Outstanding Bonds.

Moody’s

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

Opinion of Counsel

The term “Opinion of Counsel” means a written opinion of Bond Counsel.

Outstanding

The term “Outstanding,” when used as of any particular time with reference to Bonds, means (subject to the provisions of Section 10.02) all Bonds except

- (1) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;
- (2) Bonds paid or deemed to have been paid within the meaning of Section 11.01; and
- (3) Bonds in lieu of or in substitution for which other Bonds shall have been executed, issued and delivered by the Authority pursuant hereto.

Principal Account

The term “Principal Account” means the account by that name created pursuant to Section 5.03.

Project

The term “Project” means the project described in Exhibit C to the Facility Sublease.

Project Fund

The term “Project Fund” means the fund by that name established pursuant to Section 3.02.

Rating Category

The term “Rating Category” means: (i) with respect to any long-term rating category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign or other modifier, and (ii) with respect to any short-term or commercial paper rating category, all ratings designated by a particular letter or combination of letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier.

Record Date

The term “Record Date” means the fifteenth day of the month prior to an Interest Payment Date, whether or not such day is a Business Day.

Representation Letter

The term “Representation Letter” means the blanket letter of representation of the Authority to DTC or any similar letter to a substitute depository.

Reserve Fund

The term “Reserve Fund” means the fund by that name established pursuant to Section 5.04.

Reserve Fund Requirement

The term “Reserve Fund Requirement” means, as of any date of calculation, the least of (i) 10% of the initial stated principal amount of the Bonds, (ii) Maximum Annual Debt Service for the current or any future Fiscal Year, or (iii) 125% of average Annual Debt Service.

Responsible Officer

The term “Responsible Officer” means any officer of the Trustee assigned to administer its duties under this Trust Agreement.

Revenue Fund

The term “Revenue Fund” means the fund by that name established pursuant to Section 5.02(b).

Revenues

The term “Revenues” means (i) all Base Rental Payments (as defined in the Facility Sublease) and other payments paid by the District and received by the Authority pursuant to the Facility Sublease (but not Additional Payments (as defined in the Facility Sublease)), and (ii) all interest or other income from any investment, pursuant to Section 5.07, of any money in any fund or account established pursuant to this Trust Agreement or the Facility Sublease.

Standard & Poor's

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

State

The term "State" means the State of California.

Supplemental Trust Agreement

The term "Supplemental Trust Agreement" means any Trust Agreement then in full force and effect that has been duly executed and delivered by the Authority and the Trustee amendatory hereof or supplemental hereto; but only if and to the extent that such Supplemental Trust Agreement is executed and delivered pursuant to the provisions hereof.

Tax Certificate

The term "Tax Certificate" means the tax certificate and agreement concerning certain matters pertaining to the use of proceeds of the Bonds, executed and delivered by the Authority and the District on the date of issuance of the Bonds, including all exhibits attached thereto, as such certificate may from time to time be modified or supplemented in accordance with the terms thereof.

Trust Agreement

The term "Trust Agreement" means this Trust Agreement, dated as of [March 1], 2012, between the Authority and the Trustee, as originally executed and as it may from time to time be amended or supplemented by all Supplemental Trust Agreements executed pursuant to the provisions hereof.

Trustee

The term "Trustee" means U.S. Bank National Association, or any other association or corporation which may at any time be substituted in its place as provided in Section 9.01.

Written Request of the Authority

The term "Written Request of the Authority" means an instrument in writing signed by or on behalf of the Authority by the Chairperson or Vice-Chairperson of the Board of Directors, Secretary, Treasurer or a designee of any such officer, or by any other person (whether or not an officer of the Authority) who is specifically authorized by resolution of the Board of Directors of the Authority to sign or execute such a document on its behalf.

Written Request of the District

The term “Written Request of the District” means an instrument in writing signed by the President, Vice-President or Secretary of the Board of Trustees, Superintendent, Associate Superintendent of Business Services or by any other officer of the District duly authorized by the Board of Trustees of the District in writing to the Trustee for that purpose.

SECTION 1.02.Equal Security. In consideration of the acceptance of the Bonds by the Bondholders thereof, this Trust Agreement shall be deemed to be and shall constitute a contract among the Authority, the Trustee and the Bondholders from time to time of all Bonds authorized, executed, issued and delivered hereunder and then Outstanding to secure the full, timely and final payment of the interest on and principal of and premium, if applicable, 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 shall be for the equal and proportionate benefit, protection and security of all Bondholders 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.

SECTION 1.03.Interpretation. Unless the context otherwise indicates, words expressed in the singular shall include the plural and vice versa and the use of the neuter, masculine, or feminine gender is for convenience only and shall be deemed to mean or include the neuter, masculine or feminine gender, as appropriate. Headings of articles and sections herein and the table of contents hereof are solely for convenience of reference, do not constitute a part hereof and shall not affect the meaning, construction or effect hereof.

ARTICLE II

THE BONDS

SECTION 2.01.Authorization of Bonds; Bonds.

(a) The Bonds shall be issued for the purpose of providing funds to pay costs of the Project and to pay Costs of Issuance. The Bonds shall be issued on behalf of the District by the Authority and sold by the Authority under and subject to the terms of District Resolution, the Authority Resolution, this Agreement and all applicable laws, and shall be designated as the “San Dieguito Public Facilities Authority Lease Revenue Bonds, Series 2012A (Torrey Pines High School Projects)” and shall be in the aggregate principal amount of [_____] dollars (\$[_____]).

(b) The Bonds shall be dated the date of their delivery. The Bonds shall bear interest at the rate as set forth in Section 2.01(c) of this Section. The Bonds shall mature on [March 1], 2020.

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(c) The principal and any premium of the Bonds shall be payable in lawful money of the United States of America to the Owner thereof, upon the surrender thereof at the Corporate Trust Office of the Trustee, or at such other location as the Trustee shall designate. Each payment of principal on the Bonds shall include the CUSIP identification number, if any, of the Bond with respect to which such payment is made. So long as Cede & Co. or its registered assigns shall be the registered owner of any Bonds, payment shall be made to Cede & Co. by wire transfer as provided in Section 2.01(d) hereof.

The Bonds shall bear interest at the rate of [_____] % per annum, payable on each Interest Payment Date. Each Bond authenticated and registered on any date prior to the close of business on the first Record Date shall bear interest from the date of said Bond. Each Bond authenticated during the period between any Record Date and the close of business on its corresponding Interest Payment Date shall bear interest from such Interest Payment Date. Any other Bond shall bear interest from the Interest Payment Date immediately preceding the date of its authentication. If, at the time of authentication of any Bond, interest is in default on outstanding Bonds, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment on the outstanding Bonds. Interest on the Bonds shall be calculated on the basis of a 360-day year consisting of twelve 30-day months.

(d) The interest on the Bonds shall be payable in like lawful money to the person whose name appears on the bond registration books of the Trustee as the Owner thereof as of the close of business on the applicable Record Date for each Interest Payment Date, whether or not such day is a Business Day. Payment of the interest on any Bond shall be made by check or draft mailed by first class mail on each Interest Payment Date (or on the following Business Day, if the Interest Payment Date does not fall on a Business Day) to such Owner at such Owner's address as it appears on such registration books or at such address as the Owner may have filed with the Trustee for that purpose; or upon written request of the Owner of Bonds aggregating not less than \$1,000,000 in principal amount, given no later than the Record Date immediately preceding the applicable Interest Payment Date, by wire transfer in immediately available funds to an account maintained in the United States at such wire address as such Owner shall specify in its written notice. So long as Cede & Co. or its registered assigns shall be the registered owner of any of the Bonds, payment shall be made thereto by wire transfer.

(e) Interest on any Bond shall cease to accrue (i) on the maturity date thereof, provided that there has been irrevocably deposited with the Trustee an amount sufficient to pay the principal amount thereof, plus interest accrued thereon to such date; or (ii) on the redemption date thereof, provided there has been irrevocably deposited with the Trustee an amount sufficient to pay the redemption price thereof, plus interest accrued thereon to such date. The Owner of such Bond shall not be entitled to any other payment, and such Bond shall no longer be Outstanding and entitled to the benefits of this Trust Agreement, except for the payment of the principal amount or redemption price, of such Bond, as appropriate, from moneys held by the Trustee for such payment.

(f) The Bonds shall be issued as fully registered Bonds in Authorized Denominations.

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(g) The Authority has reviewed all proceedings heretofore taken relative to the authorization of the Bonds and has found, as a result of such review, and hereby finds and determines that all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in the issuance of the Bonds do exist, have happened and have been performed in due time, form and manner as required by law, and that the Authority is now duly authorized, pursuant to each and every requirement of the Act, to issue the Bonds in the form and manner provided herein for the purpose of providing funds to finance the Project, and that the Bonds shall be entitled to the benefit, protection and security of the provisions hereof.

(h) The validity of the issuance of the Bonds shall not be dependent on or affected in any way by the proceedings taken by the District for the financing of the Project or by any contracts made by the District or its agents in connection therewith, and shall not be dependent upon the performance by any person, firm or corporation of his or its obligation with respect thereto. The recital contained in the Bonds that the same are issued pursuant to the Act and pursuant hereto shall be conclusive evidence of their validity and of the regularity of their issuance, and all Bonds shall be incontestable from and after their issuance. The Bonds shall be deemed to be issued, within the meaning hereof, whenever the definitive Bonds (or any temporary Bonds exchangeable therefor) shall have been delivered to the purchaser thereof and the proceeds of sale thereof received.

SECTION 2.02.Form of Bonds. The Bonds and the authentication and registration endorsement and assignment to appear thereon shall be substantially in the forms set forth in Appendix A hereto attached and by this reference herein incorporated.

SECTION 2.03.Execution of Bonds. The Chairperson or the Treasurer of the Authority is hereby authorized and directed to execute each of the Bonds on behalf of the Authority and the Secretary of the Authority is hereby authorized and directed to countersign each of the Bonds on behalf of the Authority. The signatures of such officers may be by printed, lithographed or engraved by facsimile reproduction. In case any officer whose signature appears on the Bonds shall cease to be such officer before the delivery of the Bonds to the purchaser thereof, such signature shall nevertheless be valid and sufficient for all purposes as if such officer had remained in office until such delivery of the Bonds.

Only those Bonds bearing thereon a certificate of authentication in the form hereinbefore recited, executed manually and dated by the Trustee, shall be entitled to any benefit, protection or security hereunder or be valid or obligatory for any purpose, and such certificate of the Trustee shall be conclusive evidence that the Bonds so authenticated have been duly authorized, executed, issued and delivered hereunder and are entitled to the benefit, protection and security hereof.

SECTION 2.04.Transfer and Payment of Bonds. Any Bond may, in accordance with its terms, be transferred in the books required to be kept pursuant to the provisions of Section 2.06 by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation accompanied by delivery of a duly executed written instrument of transfer 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 deliver to the transferee a new Bond or Bonds for a like aggregate principal amount of Authorized Denominations. The Trustee shall require the payment by the Bondholder requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer as a condition precedent to the exercise of such privilege.

The Authority and the Trustee may deem and treat the registered owner of any Bond as the absolute owner of such Bond for the purpose of receiving payment thereof and for all other purposes, whether such Bond shall be overdue or not, and neither the Authority nor the Trustee shall be affected by any notice or knowledge to the contrary; and payment of the interest on and principal of and premium, if applicable, on such Bond shall be made only to such registered owner, which payments shall be valid and effectual to satisfy and discharge liability on such Bond to the extent of the sum or sums so paid.

The Trustee shall not be required to register the transfer of or exchange any Bond which has been selected for redemption in whole or in part, from and after the day of mailing of a notice of redemption of such Bond selected for redemption in whole or in part as provided in Section 4.07 or during the period established by the Trustee for selection of Bonds for redemption.

SECTION 2.05.Exchange of Bonds. Bonds may be exchanged at the Principal Office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations. The Trustee shall require the payment by the Bondholder requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange as a condition precedent to the exercise of such privilege. The Trustee shall not be required to exchange any Bond which has been selected for redemption in whole or in part, from and after the day of mailing of a notice of redemption of such Bond selected for redemption in whole or in part as provided in Section 4.07 or during the period established by the Trustee for selection of Bonds for redemption.

SECTION 2.06.Bond Registration Books. The Trustee will keep at its Corporate Trust Office sufficient books for the registration and transfer of the Bonds, which during normal business hours shall be open to inspection by the Authority upon reasonable notice, and upon presentation for such purpose the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer the Bonds in such books as hereinabove provided.

SECTION 2.07.Mutilated, Destroyed, Stolen or Lost Bonds; Temporary Bonds. If any Bond shall become mutilated, the Trustee, at the expense of the Bondholder, shall thereupon authenticate and deliver a new Bond of like tenor and amount 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 cancelled.

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 be satisfactory to the Trustee and indemnity satisfactory to the Trustee shall be given, the Trustee, at the expense of the Bondholder, shall thereupon authenticate and deliver a new Bond of like tenor in lieu of and in substitution for the Bond so lost, destroyed or stolen.

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The Trustee may require payment of a reasonable sum for each new Bond issued under this Section 2.07 and of the expenses which may be incurred by the Authority and the Trustee in the premises. Any Bond issued under the provisions of this Section in lieu of any Bond alleged to be lost, destroyed or stolen shall be equally and proportionately entitled to the benefits of this Trust Agreement with all other Bonds of the same Series secured by this Trust Agreement. Neither the Authority nor the Trustee shall be required to treat both the original Bond and any replacement Bond as being Outstanding for the purpose of determining the principal amount of Bonds which may be issued hereunder or for the purpose of determining any percentage of Bonds Outstanding hereunder, but both the original and replacement Bond shall be treated as one and the same.

The Bonds issued under this Trust Agreement may be initially issued in temporary form exchangeable for definitive Bonds when ready for delivery. The temporary Bonds may be printed, lithographed or typewritten, shall be of such denominations as may be determined by the Authority, shall be in fully registered form and may contain such reference to any of the provisions of this Trust Agreement as may be appropriate. Every temporary Bond shall be executed and authenticated as authorized by the Authority, in accordance with the terms of the Act. If the Authority issues temporary Bonds it will execute and furnish definitive Bonds without delay and thereupon the temporary Bonds may be surrendered, for cancellation, in exchange therefor at the Corporate Trust Office of the Trustee, and the Trustee shall deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bonds of authorized denominations. Until so exchanged, the temporary Bonds shall be entitled to the same benefits under this Trust Agreement as definitive Bonds delivered hereunder.

SECTION 2.08. Special Covenants as to Book-Entry Only System for Bonds.

(a) Except as otherwise provided in subsections (b) and (c) of this Section 2.08, all of the Bonds initially issued shall be registered in the name of Cede & Co., as nominee for DTC, or such other nominee as DTC shall request pursuant to the Representation Letter. Payment of the interest on any Bond registered in the name of Cede & Co. shall be made on each Interest Payment Date for such Bonds to the account, in the manner and at the address indicated in or pursuant to the Representation Letter.

(b) The Bonds initially shall be issued in the form of a single authenticated fully registered bond, representing the aggregate principal amount of the Bonds. Upon initial issuance, the ownership of the authenticated Bond shall be registered in the registration records maintained by the Trustee pursuant to Section 2.06 in the name of Cede & Co., as nominee of DTC, or such other nominee as DTC shall request pursuant to the Representation Letter. The Trustee and the Authority may treat DTC (or its nominee) as the sole and exclusive owner of the Bonds registered in its name for the purposes of payment of the principal or redemption price of and interest on such Bonds, selecting the Bonds or the portion thereof to be redeemed, giving any notice permitted or required to be given to Bondholders hereunder, registering the transfer of the Bonds, obtaining any consent or other action to be taken by Bondholders of the 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" (which shall mean, for purposes of this Section 2.08, securities

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brokers and dealers, banks, trust companies, clearing corporations and other entities, some of whom directly or indirectly own DTC), any person claiming a beneficial ownership interest in the Bonds under or through DTC or any Participant, or any other person which is not shown on the registration records as being a Bondholder, with respect to (i) the accuracy of any records maintained by DTC or any Participant, (ii) the payment by DTC or any Participant of any amount in respect of the principal or redemption price of or interest on the Bonds, (iii) any notice which is permitted or required to be given to Bondholders of Bonds hereunder, (iv) the selection by DTC or any Participant of any person to receive payment in the event of a partial redemption of the Bonds, or (v) any consent given or other action taken by DTC as Bondholder of Bonds. The Trustee shall pay all principal of and premium, if any, and interest on the Bonds only at the times, to the accounts, at the addresses and otherwise in accordance with the Representation Letter, and all such payments shall be valid and effective to satisfy fully and discharge the Authority's obligations with respect to the payment of the principal of and premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. 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 its then existing nominee, the Bonds will be transferable to such new nominee in accordance with subsection (e) of this Section 2.08.

(c) In the event that the Authority determines that the Bonds should not be maintained in book-entry form, the Trustee shall, upon the written instruction of the Authority, so notify DTC, whereupon DTC shall notify the Participants of the availability through DTC of bond certificates. In such event, the Bonds will be transferable in accordance with subsection (e) of this Section 2.08. DTC may determine to discontinue providing its services with respect to the Bonds or a portion thereof, at any time by giving written notice of such discontinuance to the Authority or the Trustee and discharging its responsibilities with respect thereto under applicable law. In such event, the Bonds will be transferable in accordance with subsection (e) of this Section 2.08. If at any time DTC shall no longer be registered or in good standing under the Securities Exchange Act or other applicable statute or regulation and a successor securities depository is not appointed by the Authority within 90 days after the Authority receives notice or becomes aware of such condition, as the case may be, then this Section 2.08 shall no longer be applicable and the Authority shall execute and the Trustee shall authenticate and deliver certificates representing the Bonds as provided below. Whenever DTC requests the Authority and the Trustee to do so, the Trustee and the Authority will cooperate with DTC in taking appropriate action after reasonable notice to arrange for another securities depository to maintain custody of all certificates evidencing the Bonds then Outstanding. In such event, the Bonds will be transferable to such securities depository in accordance with subsection (e) of this Section 2.08, and thereafter, all references in this Trust Agreement to DTC or its nominee shall be deemed to refer to such successor securities depository and its nominee, as appropriate.

(d) Notwithstanding any other provision of this Trust Agreement to the contrary, so long as all Bonds Outstanding are registered in the name of any nominee of DTC, all payments with respect to the principal of and premium, if any, and interest on each such Bond and all notices with respect to each such Bond shall be made and given, respectively, to DTC as provided in or pursuant to the Representation Letter.

(e) In the event that any transfer or exchange of Bonds is authorized under subsection (b) or (c) of this Section 2.08, such transfer or exchange shall be accomplished upon receipt by the Trustee from the registered owner thereof of the Bonds to be transferred or exchanged and appropriate instruments of transfer to the permitted transferee, all in accordance with the applicable provisions of Sections 2.04 and 2.05. In the event Bond certificates are issued to Bondholders other than Cede & Co., its successor as nominee for DTC as holder of all the Bonds, another securities depository as holder of all the Bonds, or the nominee of such successor securities depository, the provisions of Sections 2.04 and 2.05 shall also apply to, among other things, the registration, exchange and transfer of the Bonds and the method of payment of principal of, premium, if any, and interest on the Bonds.

ARTICLE III

ISSUANCE OF BONDS

SECTION 3.01. Procedure for the Issuance of Bonds.

(a) At any time after the sale of the Bonds in accordance with the Act, the Authority shall execute the Bonds for issuance hereunder and shall deliver them to the Trustee, and thereupon the Bonds shall be authenticated and delivered by the Trustee to the purchaser thereof upon the Written Request of the Authority and upon receipt of payment therefor from the purchaser thereof.

(b) Upon receipt of payment for the Bonds from the purchaser thereof, the Trustee shall, unless otherwise instructed by the Authority, transfer or deposit the proceeds received from such sale to the following respective parties or to the following respective accounts or funds, in the following order of priority:

(i) deposit the sum of \$[_____] to the Costs of Issuance Fund, which fund is hereby created and which fund the Trustee hereby covenants and agrees to maintain. All money in the Costs of Issuance Fund shall be used and withdrawn by the Trustee to pay the Costs of Issuance of the Bonds upon receipt of a Written Request of the Authority, filed with the Trustee, each of which shall be sequentially numbered and shall state the person(s) to whom payment is to be made, the amount(s) to be paid, the purpose(s) for which the obligation(s) was incurred and that such payment is a proper charge against said fund. Ninety days after the date on which the Bonds are issued, any remaining balance in the Costs of Issuance Fund shall be transferred to the Project Fund and the Costs of Issuance Fund shall be closed;

(ii) deposit the amount of \$[_____] in the Project Fund; and

(iii) deposit the amount of \$[_____] in the Reserve Fund.

(c) [In connection with the issuance of the Bonds, the District will wire to the Trustee \$[_____] which the Trustee shall deposit into the Costs of Issuance Fund.]

SECTION 3.02.Project Fund. The Trustee hereby agrees to establish the Project Fund (the “Project Fund”) (the initial payment into which is provided for in Section 3.01(b)). The moneys in the Project Fund shall be disbursed by the Trustee upon the Written Request of the District in the form of Appendix B attached hereto for the payment of costs relating to the financing and completion of the Project. Once all of the moneys are disbursed by the Trustee upon Written Request of the District, the Project Fund shall be closed.

SECTION 3.03.Limitations on the Issuance of Obligations Payable from Revenues. The Authority will not, so long as any of the Bonds are Outstanding, issue any obligations or securities, however denominated, payable in whole or in part from the Revenues except Obligations which are junior and subordinate to the payment of the principal, premium and interest for the Bonds and which subordinated obligations are payable as to principal, premium, interest and reserve fund requirements, if any, only out of the Revenues after the prior payment of all amounts then required to be paid hereunder from the Revenues for principal, premium and interest for the Bonds, as the same become due and payable and at the times and in the manner as required in this Trust Agreement.

ARTICLE IV

REDEMPTION OF BONDS

SECTION 4.01.Mandatory Sinking Fund Redemptions.

(a) The Bonds maturing on March 1, [____], shall be subject to mandatory sinking fund redemption on each March 1 in the amounts set forth below at a redemption price equal to the principal amount thereof and accrued interest thereon to the date fixed for redemption, but without premium, as set forth in the following table:

<u>Redemption Dates</u>	<u>Principal Amount</u>
[_____]	\$[_____]

(b) In lieu of depositing cash with the Trustee as a mandatory sinking fund payment, the Authority shall have the option to tender to the Trustee for cancellation any amount of the Bonds purchased by the Authority at public or private sale as and when and at such prices as the Authority may in its discretion determine. The principal amount of any Bond so purchased by the Authority and tendered to the Trustee shall be credited towards and shall reduce the next mandatory sinking fund payments required to be made in the order in which they are required to be made pursuant to this Section 4.01.

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SECTION 4.02.Optional Redemption After Call Date. The Bonds shall be subject to redemption prior to their stated maturity date, at the option of the Authority, from any source of available funds, as a whole or in part in Authorized Denominations, on any date on and after [FIRST CALL DATE], at the respective redemption prices set forth below expressed as percentages of the principal amounts of the Bonds called for redemption, plus accrued interest, if any, to the redemption date:

<u>Redemption Period</u> <u>(Both Dates Inclusive)</u>	<u>Redemption Prices</u> <u>(Expressed as a Percentage)</u>
_____, _____ to _____, _____	[10[_]%
_____, _____ to _____, _____	10[_]
_____, _____ and thereafter	100]

SECTION 4.03.Optional Redemption From GO Bond Proceeds. The Bonds shall be subject to redemption in whole prior to their stated maturity date, on any date at the option of the Authority, from a prepayment by the District of Base Rental Payments under the Facility Lease or from the purchase of the Facilities by the District pursuant to the Facility Lease so long as the source of the District’s funds are proceeds from a general obligation bond issuance by the District. The redemption price for any such redemption under this Section shall be the principal amounts of the Bonds called for redemption, plus accrued interest to the redemption date without any premium.

SECTION 4.04.Reserved.

SECTION 4.05.Extraordinary Redemption from Eminent Domain or Insurance Proceeds. The Authority may, with the permission of the District and under the terms of Section 5.01 of the Facility Sublease, elect not to repair a destroyed or damaged portion of the Facility, and in that event, if the proceeds of insurance together with any other moneys then available for the purpose (including Federal or State disaster relief) are at least sufficient to redeem the aggregate principal amount of outstanding Bonds equal to the amount of Bonds attributable to the portion of the Facility so destroyed or damaged (determined by reference to the proportion which the cost of such portion of the Facility bears to the total cost of the Facility), the Authority shall cause said proceeds to be used for the redemption of that portion of the outstanding Bonds at a redemption price equal to the principal amount of the Bonds called for redemption plus interest accrued to the redemption date.

If the whole of the Facilities, including the Demised Premises, or so much thereof as to render the remainder unusable, is taken under power of eminent domain, the term of the Facility Sublease will cease as of the day possession is so taken. If less than the whole of the Facilities is taken by eminent domain, there will be a partial abatement of the rental due under the Facility Sublease in an amount equivalent to the amount by which the annual payments of principal of and interest on the Bonds then Outstanding will be reduced by the application of the award in eminent domain to the redemption of Outstanding Bonds. The Authority shall cause the entire award in eminent domain to be used for the redemption of outstanding Bonds at a

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redemption price equal to the principal amount of the Bonds called for redemption plus interest accrued to the redemption date.

SECTION 4.06. Reserved.

SECTION 4.07. Notice of Redemption. Notice of redemption of any Bonds shall be given by the Trustee to Owners upon the Written Request of the Authority given to the Trustee not less than 45 days prior to the redemption date (or such lesser number of days acceptable to the Trustee at the election of the Trustee). Notice of any redemption of Bonds shall be mailed postage prepaid, not less than thirty (30) nor more than sixty (60) days prior to the redemption date (a) by first class mail to the respective Owners thereof at the addresses appearing on the bond registration books described in Sections 2.06 and 6.07, and (b) as may be further required in accordance with the Continuing Disclosure Agreement.

Each notice of redemption shall contain all of the following information:

- (i) the date of such notice;
- (ii) the name of the Bonds and the date of issue of the Bonds;
- (iii) the redemption date;
- (iv) the redemption price, if available;
- (v) (if less than all of the Bonds are to be redeemed) the distinctive numbers of the Bonds to be redeemed;
- (vi) (in the case of Bonds redeemed in part only) the respective portions of the principal amount of the Bonds to be redeemed;
- (vii) the CUSIP number, if any, of the Bonds to be redeemed;
- (viii) a statement that such Bonds, must be surrendered by the Owners at the Corporate Trust Office of the Trustee, or at such other place or places designated by the Trustee; and
- (ix) notice that further interest on such Bonds will not accrue from and after the designated redemption date.

Such redemption notices may state that no representation is made as to the accuracy or correctness of the CUSIP numbers provided therein or on the Bonds.

SECTION 4.08. Effect of Notice. A certificate of the Trustee that notice of call and redemption has been given to Owners and as may be further required in the Continuing Disclosure Agreement as herein provided shall be conclusive as against all parties. The actual receipt by the Owner of any Bond or any other party of notice of redemption shall not be a condition precedent to redemption, and failure to receive such notice, or any defect in the notice

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given, shall not affect the validity of the proceedings for the redemption of such Bonds or the cessation of interest on the date fixed for redemption.

When notice of redemption has been given substantially as provided for herein, and when the redemption price of the Bonds called for redemption is set aside for the purpose, the Bonds designated for redemption shall become due and payable on the specified redemption date and interest shall cease to accrue thereon as of the redemption date, and upon presentation and surrender of such Bonds at the place specified in the notice of redemption, such Bonds shall be redeemed and paid at the redemption price thereof out of the money provided therefor. The Owners of such Bonds so called for redemption after such redemption date shall look for the payment of such Bonds and the premium thereon, if applicable, only to the funds set aside for such purpose. All Bonds redeemed shall be cancelled forthwith by the Trustee and shall not be reissued.

SECTION 4.09. Right to Rescind Notice. Upon written notice from the District, the Authority may rescind any redemption (other than mandatory sinking fund redemptions under Section 4.01) and notice thereof on any date prior to the date fixed for redemption by directing the Trustee in writing to give written notice of the rescission to the Owners of the Bonds so called for redemption. Notice of rescission of redemption shall be given in the same manner in which notice of redemption was originally given. The actual receipt by the owner of any Bond of notice of such rescission shall not be a condition precedent to rescission, and failure to receive such notice or any defect in such notice shall not affect the validity of the rescission.

SECTION 4.10. Selection of Bonds for Redemption. If less than all of the Outstanding Bonds of a series are to be redeemed on any one date, the Trustee shall select, in accordance with written directions from the Authority, the Bonds to be redeemed in part from the Outstanding Bonds so that the aggregate annual principal amount of and interest on Bonds which shall be payable after such redemption date shall be as nearly proportional as practicable to the aggregate annual principal amount of and interest on Bonds Outstanding prior to such redemption date.

ARTICLE V

REVENUES

SECTION 5.01. Pledge of Revenues. All Revenues are hereby irrevocably pledged and assigned to the payment of the interest and premium, if any, on and principal of the Bonds, and the Revenues shall not be used for any other purpose while any of the Bonds remain Outstanding; provided, however, that out of the Revenues there may be applied such sums for such purposes as are permitted hereunder. This pledge shall constitute a pledge of and charge and first lien upon the Revenues for the payment of the interest on and principal of the Bonds in accordance with the terms hereof and thereof.

SECTION 5.02. Receipt and Deposit of Revenues in the Revenue Fund.

(a) At least fifteen (15) days prior to each date on which a Base Rental Payment is due, pursuant to the Facility Sublease, the Trustee shall notify the District of the amount of the

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Base Rental Payment due. Any failure to send such notice shall not affect the District's obligation to make timely payments of Base Rental Payments. The District has been directed to pay all Base Rental Payments directly to the Trustee. If the Authority receives any Base Rental Payments, it shall hold the same in trust as agent of the Trustee and shall immediately transfer such Base Rental Payments to the Trustee.

(b) In order to carry out and effectuate the pledge, assignment, charge and lien contained herein, the Authority agrees and covenants that all Revenues when and as received shall be received by the Authority in trust hereunder for the benefit of the Holders of the Bonds and shall be transferred when and as received by the Authority to the Trustee for deposit in the Revenue Fund, which fund is hereby created and which fund the Trustee hereby agrees and covenants to maintain in trust for Holders of Bonds so long as any Bonds shall be Outstanding hereunder.

(c) All Revenues and all other amounts pledged and assigned hereunder shall be accounted for through and held in trust in the Revenue Fund, and the Trustee shall have no beneficial right or interest in any of the Revenues except only as herein provided. All Revenues and all other amounts pledged and assigned hereunder, whether received by the Authority in trust or deposited with the Trustee as herein provided, shall nevertheless be allocated, applied and disbursed solely to the purposes and uses hereinafter in this Article set forth, and shall be accounted for separately and apart from all other accounts, funds, money or other resources of the Trustee.

SECTION 5.03. Establishment and Maintenance of Accounts for Use of Money in the Revenue Fund.

(a) Revenue Fund. All money in the Revenue Fund shall be set aside by the Trustee in the following respective special accounts or funds within the Revenue Fund (each of which is hereby created and each of which the Trustee hereby covenants and agrees to cause to be maintained) in the following order of priority:

- (1) Interest Account, and
- (2) Principal Account.

All money in each of such accounts shall be held in trust by the Trustee and shall be applied, used and withdrawn only for the purposes hereinafter authorized in this Section.

(b) Interest Account. On or before each Interest Payment Date and on any date on which Bonds are to be redeemed, the Trustee shall set aside from the Revenue Fund and deposit in the Interest Account that amount of money which is equal to the amount of interest becoming due and payable on all Outstanding Bonds on such date.

No deposit need be made in the Interest Account if the amount contained therein and available to pay interest on the Bonds is at least equal to the aggregate amount of interest becoming due and payable on all Outstanding Bonds on such date.

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All money in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity).

All amounts on deposit in the Interest Account on [March 1] of any year to the extent not required to pay any interest then having come due and payable on the Outstanding Bonds, shall be transferred to the Principal Account.

(c) Principal Account. On or before each date on which the principal of the Bonds shall be payable, the Trustee shall deposit in the Principal Account an amount required to cause the aggregate amount on deposit in the Principal Account to equal (i) the principal amount of the Bonds maturing on such date, and (ii) the redemption price of the Bonds (consisting of the principal amount thereof) required to be redeemed on such date pursuant to any of the provisions of Article IV hereof. All moneys in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of (i) paying the principal of the Bonds at the maturity thereof, or (ii) paying the principal of the Bonds upon the redemption thereof. All amounts on deposit in the Principal Account on [March 1] of any year, to the extent not required to pay the principal of any Outstanding Bonds then having come due and payable, shall be transferred to the Reserve Fund.

SECTION 5.04.Reserve Fund.

(a) The Trustee hereby agrees to establish and maintain so long as any Bonds are Outstanding the Reserve Fund (the "Reserve Fund") (the funding of which is provided for in Section 3.01(b)). The Trustee shall hold the Reserve Fund for the benefit of the Bondholders.

(b) All moneys in the Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of funding the Interest Account or the Principal Account, in that order, in the event of any deficiency in either of such accounts on an Interest Payment Date, or to make the final payment on the Bonds at maturity, except that so long as the Authority is not in default hereunder, any amounts in the Reserve Fund in excess of the Reserve Fund Requirement shall be withdrawn from the Reserve Fund and deposited to the Interest Account on each Interest Payment Date.

(c) Whenever the amounts in the Reserve Fund shall be sufficient to pay all remaining Base Rental Payments under the Facility Sublease, no further Base Rental Payments need be paid by the District under the Facility Sublease, and amounts in the Reserve Fund shall be transferred to the Revenue Fund.

SECTION 5.05.Reserved.

SECTION 5.06.Application of Insurance Proceeds. In the event of any damage to or destruction of any part of the Facility covered by insurance, the Authority shall cause the proceeds of such insurance to be utilized for the repair, reconstruction or replacement of the damaged or destroyed portion of the Facility, and the Trustee shall hold said proceeds in a fund established by the Trustee for such purpose separate and apart from all other funds designated the "Insurance and Condemnation Fund", to the end that such proceeds shall be applied to the

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repair, reconstruction or replacement of the Facility to at least the same good order, repair and condition as it was in prior to the damage or destruction, insofar as the same may be accomplished by the use of said proceeds. The District shall file a Certificate of the District with the Trustee that sufficient funds from insurance proceeds or from any funds legally available to the District, or from any combination thereof, are available in the event it elects to repair, reconstruct or replace the Facility. The Trustee shall invest said proceeds in Investment Securities pursuant to the Written Request of the District, as agent for the Authority under the Facility Sublease, and withdrawals of said proceeds shall be made from time to time upon the filing with the Trustee of a Written Request of the District, stating that the District has expended moneys or incurred liabilities in an amount equal to the amount therein stated for the purpose of the repair, reconstruction or replacement of the Facility, and specifying the items for which such moneys were expended, or such liabilities were incurred, in reasonable detail. Any balance of such proceeds not required for such repair, reconstruction or replacement and the proceeds of use and occupancy insurance shall be paid to the Trustee as Base Rental Payments and deposited in the Revenue Fund as directed by the District and used to reduce required Base Rental Payments. Alternatively, the District, if the proceeds of such insurance together with any other moneys then available for such purpose are sufficient to redeem all, in case of damage or destruction in whole of the Facility, or that portion, in the case of partial damage or destruction of the Facility, of the Bonds and to pay all other amounts relating to the damaged or destroyed portion of the Facility, may elect not to repair, reconstruct or replace the damaged or destroyed portion of the Facility and thereupon shall cause said proceeds to be used for the redemption of Outstanding Bonds pursuant to the applicable provisions of Article IV. The District shall not apply the proceeds of insurance as set forth in this Section 5.06 to redeem the Bonds in part due to damage or destruction of a portion of the Facility unless the Base Rental Payments on the undamaged portion of the Facility will be sufficient to pay the scheduled principal and interest on the Bonds remaining unpaid after such redemption.

SECTION 5.07. Deposit and Investments of Money in Accounts and Funds. All money held by the Trustee in any of the accounts or funds established pursuant hereto shall be invested in Investment Securities at the Written Request of the Authority or, if no instructions are received, in money market funds described in clause (xi) of the definition of Investment Securities and, with respect to monies on deposit in the Reserve Fund only, shall not be invested at a yield exceeding [___]%. Such investments shall, as nearly as practicable, mature on or before the dates on which such money is anticipated to be needed for disbursement hereunder. For purposes of this restriction, Investment Securities containing a repurchase option or put option by the investor shall be treated as having a maturity of no longer than such option. All interest or profits received on any money so invested in the Project Fund and in the Revenue Fund or any account of such funds shall be retained in such funds or accounts. Except as provided herein, all interest or gain derived from the investment of amounts in any fund or account established hereunder shall be retained in such fund or account. The Trustee and its affiliates may act as principal, agent, sponsor or advisor with respect to any investments. The Trustee shall not be liable for any losses on investments made in accordance with the terms and provisions of this Trust Agreement.

Investments in any and all funds and accounts may be commingled for purposes of making, holding and disposing of investments, notwithstanding provisions herein for transfer

to or holding in particular funds and accounts amounts received or held by the Trustee hereunder, provided that the Trustee shall at all times account for such investments strictly in accordance with the funds and accounts to which they are credited and otherwise as provided in this Trust Agreement.

The Authority acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Authority the right to receive brokerage confirmations of security transactions as they occur, the Authority specifically waives receipt of such confirmations to the extent permitted by law. The Trustee will furnish the Authority (if requested by it) periodic cash transaction statements which include detail for all investment transactions made by the Trustee hereunder.

ARTICLE VI

RESERVED

ARTICLE VII

COVENANTS OF THE AUTHORITY

SECTION 7.01.Punctual Payment and Performance. The Authority will punctually pay out of the Revenues the interest on and principal of and premium, if applicable, to become due on every Bond issued hereunder in strict conformity with the terms hereof and of the Bonds, and will faithfully observe and perform all the agreements and covenants to be observed or performed by the Authority contained herein and in the Bonds.

SECTION 7.02.Against Encumbrances. The Authority will not make any pledge or assignment of or place any charge or lien upon the Revenues except as provided in Section 5.01, and will not issue any bonds, notes or obligations payable from the Revenues or secured by a pledge of or charge or lien upon the Revenues except as provided in Section 3.03.

SECTION 7.03.Accounting Records and Reports. The Trustee will keep or cause to be kept proper books of record and accounts in which complete and correct entries shall be made of all transactions made by the Trustee relating to the receipts, disbursements, allocation and application of the Revenues, and such books shall be available for inspection by the Authority at reasonable hours, under reasonable conditions and upon reasonable notice. The Trustee shall provide to the Authority monthly statements covering the funds and accounts held pursuant to the Trust Agreement. Not more than one hundred eighty (180) days after the close of each Fiscal Year, the Trustee shall furnish or cause to be furnished to the Authority a complete financial statement (which may be in the form of the Trustee's customary account statements) covering receipts, disbursements, allocation and application of Revenues for such Fiscal Year. The Authority shall keep or cause to be kept such information as is required under the Tax Certificate.

SECTION 7.04.Prosecution and Defense of Suits. The Authority will defend against every suit, action or proceeding at any time brought against the Trustee upon any claim to the extent arising out of the receipt, application or disbursement of any of the Revenues or to

the extent involving the failure of the Authority to fulfill its obligations hereunder; provided, that the Trustee or any affected Bondholder at its election may appear in and defend any such suit, action or proceeding. The Authority will indemnify and hold harmless the Trustee against any and all liability claimed or asserted by any person to the extent arising out of such failure by the Authority, and will indemnify and hold harmless the Trustee against any reasonable attorney's fees or other reasonable expenses which it may incur in connection with any litigation to which it may become a party by reason of its actions hereunder, except for any loss, cost, damage or expense resulting from the negligence or willful misconduct by the Trustee. Notwithstanding any contrary provision hereof, this covenant shall remain in full force and effect even though all Bonds secured hereby may have been fully paid and satisfied.

SECTION 7.05.Further Assurances. Whenever and so often as reasonably requested to do so by the Trustee or any Bondholder, the Authority 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 Bondholders all rights, interests, powers, benefits, privileges and advantages conferred or intended to be conferred upon them hereby.

SECTION 7.06.Maintenance of Revenues. The Authority will promptly collect all rents and charges due for the occupancy or use of the Facility as the same become due, and will promptly and vigorously enforce its rights against any tenant or other person who does not pay such rents or charges as they become due. The Authority will at all times maintain and vigorously enforce all of its rights under the Facility Sublease.

SECTION 7.07.Amendments to Facility Sublease. The Authority shall not supplement, amend, modify or terminate any of the terms of the Facility Sublease, or consent to any such supplement, amendment, modification or termination, without the prior written consent of the Trustee. The Trustee shall give such written consent if such supplement, amendment, modification or termination (a) will not materially adversely affect the interests of the Bondholders or result in any material impairment of the security hereby given for the payment of the Bonds (provided that such supplement, amendment or modification shall not be deemed to have such adverse effect or to cause such material impairment solely by reason of providing for the substitution of real property pursuant to Section 2.03 of the Facility Sublease), (b) is to add to the agreements, conditions, covenants and terms required to be observed or performed thereunder by any party thereto, or to surrender any right or power therein reserved to the Authority or the District, (c) is to cure, correct or supplement any ambiguous or defective provision contained therein, (d) is to accommodate any substitution in accordance with Section 2.03 under the Facility Sublease, (e) is to modify the legal description of the Facility to conform to the requirements of title insurance or otherwise to add or delete property descriptions to reflect accurately the description of the parcels intended or preferred to be included therein, or substituted for the Facility pursuant to the provision of Section 2.03 of the Facility Sublease, or (f) if the Trustee first obtains the written consent of the Bondholders of a majority in principal amount of the Bonds then Outstanding to such supplement, amendment, modification or termination; provided, that no such supplement, amendment, modification or termination shall reduce the amount of Base Rental Payments to be made to the Authority or the Trustee by the

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District pursuant to the Facility Sublease to an amount less than the Base Rental Payment Schedule, or extend the time for making such payments, or permit the creation of any lien prior to or on a parity with the lien created by this Trust Agreement on the Base Rental Payments (all except as expressly provided herein or in the Facility Sublease), in each case without the written consent of all of the Bondholders of the Bonds then Outstanding.

SECTION 7.08. Leasehold Estate. The Authority will be, on the date of the delivery of the Bonds, the owner and lawfully possessed of the leasehold estate described in the Facility Lease, and the Facility Sublease will be, on the date of delivery of the Bonds, a valid subsisting demise for the term therein set forth of the property which it purports to demise. At the time of the delivery of the Bonds the District will be the owner in fee simple of the premises described therein, and the Facility Sublease will be lawfully made by the District, and the covenants contained in the Facility Sublease on the part of the District will be valid and binding. At the time of the delivery of the Bonds, the Authority will have good right, full power and lawful authority to lease said leasehold estate, in the manner and form provided in the Facility Sublease, and the Facility Sublease will be duly and regularly executed.

Without allowance for any days of grace which may or might exist or be allowed by law or granted pursuant to any terms or conditions of the Facility Sublease, the Authority will in all respects promptly and faithfully keep, perform and comply with all the terms, provisions, covenants, conditions and agreements of the Facility Sublease to be kept, performed and complied with by it. The Authority will not do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission of or refraining from action, would or might be a ground for declaring a forfeiture of the Facility Sublease, or would or might be a ground for cancellation or termination of the Facility Sublease by the lessee thereunder. The Authority will promptly deposit with the Trustee (to be held by the Trustee until the title and rights of the Trustee under this Trust Agreement shall be released or reconvened) any and all documentary evidence received by it showing compliance with the provisions of the Facility Sublease to be performed by the Authority. The Authority, immediately upon its receiving or giving any notice, communication or other document in any way relating to or affecting the Facility Sublease, or the leasehold estate thereby created, which may or can in any manner affect the estate of the lessor or of the Authority in or under the Facility Sublease, will deliver the same, or a copy thereof, to the Trustee.

SECTION 7.09. Tax Covenants.

(a) The Authority covenants that, in order to maintain the exclusion from gross income for Federal income tax purposes of the interest on the Bonds, and for no other purpose, it will satisfy, or take such actions as may be necessary to cause to be satisfied, each provision of the Code necessary to maintain such exclusion. In furtherance of this covenant, the Authority covenants to comply with the Tax Certificate as a source of guidance with respect to the requirements of the Code.

(b) The Authority covenants that no part of the proceeds of the Bonds shall be used, directly or indirectly, to acquire any "investment property," as defined in Section 148 of the Code, and it shall not take or permit to be taken any other action or actions, which would cause the obligation represented by this Indenture or by the Bonds to be an "arbitrage bond"

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within the meaning of Section 148 of the Code, as in effect from time to time, or under applicable Treasury regulations promulgated thereunder. In order to assure compliance with the rebate requirements of Section 148 of the Code, the Authority further covenants that it will pay or cause to be paid to the United States Treasury Department the amounts necessary to satisfy the requirements of Section 148(f) of the Code, as required in the Tax Certificate, and that it will establish such accounting procedures as are necessary to adequately determine, account for and pay over any such amount or amounts required to be paid to the United States in a manner consistent with requirements of Section 148 of the Code, such covenant to survive the termination of this Indenture.

(c) The Authority covenants that it will not take any action or omit to take any action, which action or omission, would result in a loss of exclusion from gross income for purposes of Federal income taxation, under Section 103(a) of the Code, of interest on the Bonds.

(d) The Authority covenants that it will not use or permit the use of the proceeds of the Bonds or the Project in such manner or to such extent as would result in a loss of exclusion of the interest on the Bonds from gross income for Federal income tax purposes under Section 103(a) of the Code.

(e) In furtherance of the covenants of the Authority set forth above, the Authority will comply with the Tax Certificate. The Trustee and the Authority may conclusively rely on any such written instructions provided to the Trustee by the District.

(f) Notwithstanding any provisions of this Section, if the District or Authority shall provide to the Trustee an opinion of Bond Counsel that any specified action required under this Section is no longer required or that some further or different action is required in order to prevent the loss of exclusion of the interest on the Bonds from gross income for Federal income tax purposes under Section 103(a) of the Code, the Trustee may conclusively rely on such opinion in complying with the requirements of this Section, and the covenants hereunder shall be deemed to be modified to that extent.

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES OF BONDHOLDERS

SECTION 8.01. Events of Default. The following events shall be Events of Default:

(a) if default shall be made by the Authority in the due and punctual payment of the interest on any Bond when and as the same shall become due and payable;

(b) if default shall be made by the Authority in the due and punctual payment of the principal of or premium, if applicable, on any Bond when and as the same shall become due and payable, whether at maturity as therein expressed or by proceedings for redemption;

(c) if default shall be made by the Authority in the performance of any of the other agreements or covenants required herein to be performed by the Authority, and such

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default shall have continued for a period of sixty (60) days or such additional time (with respect to agreements or covenants that cannot be corrected or performed within such sixty (60) day period but the correction of which is being diligently pursued by the Authority) as is reasonably required to correct any such default after the Authority shall have been given notice in writing of such default by the Trustee;

(d) if the Authority shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the Authority seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the Authority or of the whole or any substantial part of its property; or

(e) if an Event of Default has occurred under Section 6.01 of the Facility Sublease.

SECTION 8.02. Institution of Legal Proceedings by Trustee. If one or more of the Events of Default shall happen and be continuing, the Trustee may, and upon the written request of the Bondholders of a majority in principal amount of the Bonds then Outstanding, and in each case upon being indemnified to its reasonable satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of the Bondholders of Bonds under this Trust Agreement and under Article VI of the Facility Sublease by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained herein, or in aid of the execution of any power herein granted, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee shall deem most effectual in support of any of its rights and duties hereunder.

SECTION 8.03. Non-Waiver. Nothing in this Article or in any other provision hereof or in the Bonds shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay the interest on and principal of and premiums, if applicable, on the Bonds to the respective Bondholders of the Bonds at the respective dates of maturity or upon prior redemption as provided herein from the Revenues as provided herein pledged for such payment, or shall affect or impair the right of such Bondholders, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied herein and in the Bonds.

A waiver of any default or breach of duty or contract by the Trustee or any Bondholder 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 or any Bondholder 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 Bondholders by the Act or by this Article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee or the Bondholders.

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If any action, proceeding or suit to enforce any right or exercise any remedy is abandoned, the Authority, the Trustee and any Bondholder shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

SECTION 8.04.Actions by Trustee as Attorney-in-Fact. Any action, proceeding or suit which any Bondholder shall have the right to bring to enforce any right or remedy hereunder may be brought by the Trustee for the equal benefit and protection of all Bondholders, whether or not the Trustee is a Bondholder, and the Trustee is hereby appointed (and the successive Bondholders, by taking and holding the Bonds issued hereunder, shall be conclusively deemed to have so appointed it) the true and lawful attorney-in-fact of the Bondholders for the purpose of bringing any such action, proceeding or suit and for the purpose of doing and performing any and all acts and things for and on behalf of the Bondholders as a class or classes as may be advisable or necessary in the opinion of the Trustee as such attorney-in-fact.

SECTION 8.05.Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Bondholders 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 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 the Act or any other law.

SECTION 8.06.Limitation on Bondholders' Right to Sue. No Bondholder of any Bond issued hereunder shall have the right to institute any suit, action or proceeding at law or equity, for any remedy under or upon this Trust Agreement, unless (a) such Bondholder shall have previously given to the Trustee written notice of the occurrence of an Event of Default as defined in Section 8.01; (b) the Bondholders of at least a majority in aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name; (c) said Bondholders shall have tendered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Bondholder of Bonds of any remedy hereunder; it being understood and intended that no one or more Bondholders of Bonds shall have any right in any manner whatever by his or their action to enforce any right under this Trust Agreement, except in the manner herein provided, and that all proceedings at law or in equity to enforce any provision of this Trust Agreement shall be instituted, had and maintained in the manner herein provided and for the equal benefit of all Bondholders of the Outstanding Bonds.

ARTICLE IX

THE TRUSTEE

SECTION 9.01. The Trustee. U.S. Bank National Association shall serve as the initial Trustee for the Bonds for the purpose of receiving all money which the Authority is required to deposit with the Trustee hereunder and for the purpose of allocating, applying and using such money as provided herein and for the purpose of paying the interest on and principal of and premium, if applicable, on the Bonds presented for payment, with the rights and obligations provided herein. The Authority agrees that it will at all times maintain a Trustee having a corporate trust office in California.

The Authority, unless there exists any Event of Default as defined in Section 8.01, may at any time, and for any breach of the trusts set forth herein shall, remove the Trustee initially appointed and any successor thereto and may appoint a successor or successors thereto by an instrument in writing; provided, that any such successor shall be a bank, banking institution, or trust company, having (or whose parent holding company has) 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 authority. If such bank, banking institution, 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 purpose of this Section the combined capital and surplus of such bank, banking institution, 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 by mailing by first class mail to the Bondholders notice of such resignation. Upon receiving such notice of resignation, the Authority shall promptly appoint a successor Trustee by an instrument in writing. Any removal or resignation of a Trustee and appointment of a successor Trustee shall become effective only upon the acceptance of appointment by the successor Trustee. The successor Trustee shall send notice of its acceptance by first class mail to the Bondholders. If, within thirty (30) days after notice of the removal or resignation of the Trustee no successor Trustee shall have been appointed and shall have accepted such appointment, the removed or resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee, which court may thereupon, after such notice, if any, as it may deem proper and prescribe and as may be required by law, appoint a successor Trustee having the qualifications required hereby.

The Trustee is hereby authorized to pay or redeem the Bonds when duly presented for payment at maturity or on redemption prior to maturity. The Trustee shall cancel all Bonds upon payment thereof or upon the surrender thereof by the Authority and shall destroy such Bonds and a certificate of destruction shall be delivered to the Authority upon its request. The Trustee shall keep accurate records of all Bonds paid and discharged and cancelled by it.

The Trustee shall, prior to an Event of Default, and after the curing or waiving of all Events of Default that may have occurred, perform such duties and only such duties as are specifically set forth in this Trust Agreement and no implied duties or obligations shall be read into this Trust Agreement. The Trustee shall, during the existence of any Event of Default (that has not been cured or waived), exercise such of the rights and powers vested in it by this Trust

Agreement, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

SECTION 9.02. Liability of Trustee. The recitals of facts, agreements and covenants herein and in the Bonds shall be taken as recitals of facts, agreements and covenants of the Authority, and the Trustee assumes no responsibility for the correctness of the same or makes any representation as to the sufficiency or validity hereof or of the Bonds, or shall incur any responsibility in respect thereof other than in connection with the rights or obligations assigned to or imposed upon it herein, in the Bonds or in law or equity. The Trustee shall not be liable in connection with the performance of its duties hereunder except for its own negligence or willful misconduct.

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

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

The Trustee shall not be responsible for the sufficiency of any insurance required by the Facility Sublease, and 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 District.

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

The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Trust Agreement at the request, order or direction of any of the Bondholders pursuant to the provisions of this Trust Agreement unless such Bondholders shall have offered to the Trustee reasonable security or indemnity against the reasonable costs, expenses and liabilities that may be incurred therein or thereby. The Trustee has no obligation or liability to the Bondholders for the payment of the interest on, principal of or premium, if applicable, with respect to the Bonds from its own funds; but rather the Trustee's obligations shall be limited to the performance of its duties hereunder.

The Trustee shall not be deemed to have knowledge of any Event of Default (except payment defaults on the Bonds) unless and until a Responsible Officer shall have actual knowledge thereof or a Responsible Officer of the Trustee shall have received written notice thereof at its Principal Office. The Trustee shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements herein or of any of the documents executed in connection with the Bonds, or as to the existence of a default or Event of Default thereunder. The Trustee shall not be responsible for the validity or effectiveness of any collateral given to or held by it.

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The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through attorneys-in-fact, agents or receivers, and shall not be answerable for the negligence or misconduct of any such attorney-in-fact, agent or receiver if such attorney-in-fact, agent or receiver was appointed by the Trustee with due care. The Trustee shall be entitled to advice of counsel and other professionals concerning all matters of trust and its duty hereunder, and the Trustee shall not be answerable for the professional malpractice of any attorney-in-law or certified public accountant in connection with the rendering of his professional advice in accordance with the terms of this Trust Agreement, if such attorney-in-law or certified public accountant was selected by the Trustee with due care.

The Trustee shall not be concerned with or accountable to anyone for the subsequent use or application of any moneys which shall be released or withdrawn in accordance with the provisions hereof.

Whether or not therein expressly so provided, every provision of this Trust Agreement, the Facility Sublease or related documents relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Article.

The Trustee makes no representation or warranty, express or implied, as to the title, value, design, compliance with specifications or legal requirements, quality, durability, operation, condition, merchantability or fitness for any particular purpose for the use contemplated by the Authority or District of the Facility or the Project. In no event shall the Trustee be liable for incidental, indirect, special or consequential damages in connection with or arising from the Facility Sublease or this Trust Agreement for the existence, furnishing or use of the Facility or the Project.

The Trustee shall be protected in acting upon any notice, resolution, requisition, request (including any Written Request of the Authority or the District), consent, order, certificate, report, opinion, bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. Before the Trustee acts or refrains from acting, the Trustee may consult with counsel, who may be counsel of or to the Authority, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

Whenever in the administration of its rights and obligations hereunder the Trustee shall deem it necessary or desirable that a matter be established or proved 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 bad faith on the part of the Trustee, be deemed to be conclusively proved and established by a Certificate of the Authority, which 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 may deem reasonable.

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

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The Trustee is not responsible for the content of any official statement or any other offering or disclosure material prepared in connection with the Bonds.

SECTION 9.03. Compensation and Indemnification of Trustee. The Authority covenants to pay (but solely from Additional Payments) to the Trustee from time to time, and the Trustee shall be entitled to, compensation for all services rendered by it in the exercise and performance of any of the powers and duties hereunder of the Trustee, and the Authority will pay or reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee, in accordance with any of the provisions of this Trust Agreement (including the reasonable compensation and the reasonable expenses and disbursements of their counsel – including the allocated reasonable fees and disbursements of in-house counsel – and of all persons not regularly in their employ) except any such expense, disbursement or advance as may arise from their negligence or willful misconduct. The Authority, to the extent permitted by law, shall indemnify, defend and hold harmless the Trustee against any loss, damage, liability or expense incurred without negligence or willful misconduct on the part of the Trustee arising out of or in connection with the acceptance or administration of the trusts created hereby, including reasonable costs and expenses (including reasonable attorneys’ fees and disbursements) of defending itself against or investigating any claim or liability in connection with the exercise or performance of any of its powers hereunder. The rights of the Trustee and the obligations of the Authority under this Section 9.03 shall survive the discharge of the Bonds and this Trust Agreement and the resignation or removal of the Trustee.

SECTION 9.04. Compliance with Continuing Disclosure Agreement. Pursuant to Section 8.08 of the Facility Sublease, the District has undertaken all responsibility for compliance with continuing disclosure requirements, and the Authority shall have no liability to the Owners of the Bonds or any other person with respect to S.E.C. Rule 15c2-12. The District has agreed that so long as it shall act as the Dissemination Agent under the Continuing Disclosure Agreement, it will perform all of the provisions thereof to be performed by the Dissemination Agent. Notwithstanding any other provision of this Trust Agreement, failure of the District to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, any Bondholder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under Section 8.08 of the Facility Sublease or under this Section 9.04. For purposes of this Section, “Beneficial Owner” means any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

ARTICLE X

AMENDMENT OF THE TRUST AGREEMENT

SECTION 10.01. Amendment of the Trust Agreement.

(a) This Trust Agreement and the rights and obligations of the Authority and of the Bondholders may be amended at any time by a Supplemental Trust Agreement which shall become binding when the written consents of the Bondholders of a majority in aggregate

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principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in Section 10.02, are filed with the Trustee; provided that if such modification or amendment will, by its terms, not take effect so long as any Bonds remain Outstanding, the consent of the Bondholders shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding under this Section. No such amendment shall (1) extend the maturity of or reduce the interest rate on or amount of interest on or amount of tax-credit associated with or principal of or premium, if applicable, on any Bond without the express written consent of the Bondholder of such Bond, (2) adversely impact the Bondholders of one series of Bonds in favor of the Bondholders of the other series of Bonds without 100% consent of the Bondholders of the series of Bonds adversely impacted, or (3) permit the creation by the Authority of any pledge of or charge or lien upon the Revenues as provided herein superior to or on a parity with the pledge, charge and lien created hereby for the benefit of the Bonds, or (4) reduce the percentage of Bonds required for the written consent to any such amendment, or (5) modify any rights or obligations of the Trustee, the Authority, or the District without their prior written assent thereto, respectively. It shall not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Trust Agreement, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the execution by the Authority and the Trustee of any Supplemental Trust Agreement pursuant to this subsection (a), the Trustee shall mail a notice on behalf of the Authority, setting forth in general terms the substance of such Supplemental Trust Agreement to the Bondholders at the addresses shown on the registration books maintained by the Trustee. 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 Trust Agreement.

(b) The Trust Agreement and the rights and obligations of the Authority and of the Bondholders may also be amended at any time by a Supplemental Trust Agreement which shall become binding upon adoption, without the consent of any Bondholders, for any purpose that will not materially adversely affect the interests of the Bondholders, including (without limitation) for any one or more of the following purposes --

(i) to add to the agreements and covenants required herein to be performed by the Authority other agreements and covenants thereafter to be performed by the Authority, or to surrender any right or power reserved herein to or be conferred herein on the Authority;

(ii) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained herein or in regard to questions arising hereunder which the Authority may deem desirable or necessary; or

(iii) to add to the agreements and covenants required herein, such agreements and covenants as may be necessary to qualify the Trust Agreement under the Trust Indenture Act of 1939 as amended.

SECTION 10.02. Disqualified Bonds. Bonds owned or held by or for the account of the Authority shall not be deemed Outstanding for the purpose of any consent or other action

or any calculation of Outstanding Bonds provided in this Article, and shall not be entitled to consent to or take any other action provided in this Article.

SECTION 10.03. Endorsement or Replacement of Bonds After Amendment. After the effective date of any action taken as hereinabove provided, the Authority may determine that the Bonds may bear a notation by endorsement in form approved by the Authority as to such action, and in that case upon demand of the Bondholder of any Outstanding Bonds and presentation of his Bond for such purpose at the office of the Trustee a suitable notation as to such action shall be made on such Bond. If the Authority shall so determine, new Bonds so modified as, in the opinion of the Authority, shall be necessary to conform to such action shall be prepared and executed, and in that case upon demand of the Bondholder of any Outstanding Bond a new Bond or Bonds shall be exchanged at the office of the Trustee without cost to each Bondholder for its Bond or Bonds then Outstanding upon surrender of such Outstanding Bonds.

SECTION 10.04. Amendment by Mutual Consent. The provisions of this Article shall not prevent any Bondholder from accepting any amendment as to the particular Bonds held by him, provided that due notation thereof is made on such Bonds.

ARTICLE XI

DISCHARGE OF BONDS

SECTION 11.01. Discharge of Bonds.

(a) If the Authority shall pay or cause to be paid or there shall otherwise be paid to the Bondholders of all Outstanding Bonds the interest thereon and principal thereof and premium, if applicable, thereon at the times and in the manner stipulated herein and therein, and the Authority shall pay in full all other amounts due hereunder and under the Facility Sublease, then the Bondholders of such Bonds shall cease to be entitled to the pledge of and charge and lien upon the Revenues as provided herein, and all agreements, covenants and other obligations of the Authority to the Bondholders 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 all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, the Trustee shall pay over or deliver to the Authority all money or securities held by it pursuant hereto which are not required for the payment of the interest on and principal of and premium, if applicable, on such Bonds and for the payment of all other amounts due hereunder and under the Facility Sublease.

(b) Defeasance. Any Bond will be deemed paid, discharged and no longer Outstanding if each of the conditions set out in this Section 11.01(b) is satisfied. The conditions are:

(1) The Authority deposits with the Trustee (A) money or (B) Federal Securities which are not subject to early redemption, of such maturities and interest payment dates and bearing such interest as will be sufficient, without further investment or reinvestment of either the principal amount of such Federal Securities or the interest earnings on Federal Securities (the earnings to be held in trust also), together with any money, for the payment on

their respective maturity dates, or redemption dates prior to maturity, of the principal of such Bonds and redemption premium, if any, and interest to accrue on such Bonds to such maturity or redemption dates.

(2) The Trustee, the Authority and the District receives, at the expense of the Authority, and each may rely upon: (A) a verification report of an independent certified public accountant or other firm nationally recognized in the certification of cash flow analyses; (B) an opinion from counsel that (x) the deposit being held by the Trustee under subsection (1) above will not constitute a voidable preference or transfer under the Federal Bankruptcy Code or any other similar state or federal statute in the event the Authority or the District becomes a debtor within the meaning of the Federal Bankruptcy Code or comes within the protection of such similar state or federal statute (“Insolvency Event”) and (y) in the event of any such Insolvency Event, the deposit held by the Trustee under Subsection (1) above will not be treated as part of the estate of the District or the Authority.

(3) All Trustee’s fees or other amounts due or to become due with respect to such Bonds have been paid or sufficient additional moneys to make the required payments have been irrevocably deposited with the Trustee.

(4) For any such Bonds to be redeemed on any date prior to their maturity, the Trustee has received in form satisfactory to it irrevocable instructions to redeem such Bonds on a date on which the Bonds are subject to redemption, and either evidence satisfactory to the Trustee that all redemption notices required by this Trust Agreement have been given or irrevocable power authorizing the Trustee to give such redemption notices. The Trustee shall redeem the Bonds specified by such irrevocable instructions on the date specified by such irrevocable instructions.

At such times as a Bond is deemed to be paid under this Trust Agreement, it will no longer be secured by or entitled to the benefits of this Trust Agreement, except for the purposes of payment in accordance with this Trust Agreement.

All income from all Federal Securities in the hands of the Trustee pursuant to this Section which is identified by an independent certified public accountant or other firm nationally recognized in the certification of cash flow analyses as not required for the payment of the Bonds and interest on such income with respect to which such moneys have been so deposited will be deposited with the Trustee as and when realized and collected for use and application as are other moneys deposited with the Trustee under this Trust Agreement.

Notwithstanding any other provision of this Trust Agreement to the contrary, all moneys or Federal Securities set aside and held in trust pursuant to the provisions of this Section for the payment of Bonds (including accrued interest on such Bonds) shall be applied to and used solely for the payment of the particular Bonds (including interest on such Bonds) with respect to which such moneys or Federal Securities have been so set aside in trust.

SECTION 11.02.Unclaimed Money. Anything contained herein to the contrary notwithstanding, any money held by the Trustee in trust for the payment and discharge of any of the Bonds or interest thereon which remains unclaimed for two (2) years after the date when such

ITEM 3

Bonds or interest thereon have become due and payable, either at their stated maturity dates or by call for redemption prior to maturity, if such money was held by the Trustee at such date, or for two (2) years after the date of deposit of such money if deposited with the Trustee after the date when such Bonds have become due and payable, shall be repaid by the Trustee to the Authority as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Bondholders shall not look to the Trustee for the payment of such Bonds; provided, however, that before being required to make any such payment to the Authority, the Trustee may, and at the request of the Authority shall, at the expense of the Authority, cause to be published once a week for two (2) successive weeks in a Financial Newspaper of general circulation in Los Angeles and in San Francisco, California, and in the same or a similar Financial Newspaper of general circulation in New York, New York, a notice that such money remains unclaimed and that, after a date named in such notice, which date shall not be less than thirty (30) days after the date of the first publication of each such notice, the balance of such money then unclaimed will be returned to the Authority.

ARTICLE XII

RESERVED

ARTICLE XIII

MISCELLANEOUS

SECTION 13.01.Liability of Authority Limited to Revenues. Notwithstanding anything contained herein, the Authority shall not be required to advance any money derived from any source other than the Revenues as provided herein for the payment of the interest on or principal of or premium, if applicable, on the Bonds or for the performance of any agreements or covenants herein contained. The Authority may, however, advance funds for any such purpose so long as such funds are derived from a source legally available for such purpose.

The Bonds are limited obligations of the Authority and are payable, as to interest thereon, principal thereof and any premiums upon the redemption of any thereof, solely from the Revenues as provided herein, and the Authority is not obligated to pay them except from the Revenues. All the Bonds are equally secured by a pledge of and charge and lien upon the Revenues, and the Revenues constitute a trust fund for the security and payment of the interest on and principal of and premium, if applicable, on the Bonds as provided herein. The Bonds are not a debt of the District, the State or any of its political subdivisions, and neither the District, the State nor any of its political subdivisions is liable thereon, nor in any event shall the Bonds be payable out of any funds or properties other than those of the Authority as provided herein. The Bonds do not constitute an indebtedness within the meaning of any constitutional or statutory limitation or restriction.

SECTION 13.02.Benefits of this Trust Agreement Limited to Parties and Third Party Beneficiaries. Nothing contained herein, expressed or implied, is intended to give to any person other than the Authority, the Trustee, and the Bondholders any right, remedy or claim

under or by reason hereof. Any agreement or covenant required herein to be performed by or on behalf of the Authority or any member, officer or employee thereof shall be for the sole and exclusive benefit of the Authority, the Trustee, and the Bondholders.

SECTION 13.03.Successor Is Deemed Included In All References To Predecessor. Whenever herein either the Authority or any member, officer or employee thereof or of the State is named or referred to, such reference shall be deemed to include the successor to the powers, duties and functions with respect to this Agreement, the Bonds, the Facility Sublease and the Project that are presently vested in the Authority or such member, officer or employee, and all agreements and covenants required hereby to be performed by or on behalf of the Authority or any member, officer or employee thereof shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

SECTION 13.04.Execution of Documents by Bondholders. Any declaration, request or other instrument which is permitted or required herein to be executed by Bondholders may be in one or more instruments of similar tenor and may be executed by Bondholders in person or by their attorneys appointed in writing. The fact and date of the execution by any Bondholder 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 make 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. The ownership of any Bonds and the amount, maturity, number and date of holding the same may be proved by the registration books relating to the Bonds at the Principal Office of the Trustee.

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

SECTION 13.05.Waiver of Personal Liability. No member, officer or employee of the Authority or the District shall be individually or personally liable for the payment of the interest on or principal of or premium, if applicable, on the Bonds by reason of their issuance, but nothing herein contained shall relieve any such member, officer or employee from the performance of any official duty provided by the Act or by any other applicable provisions of law or hereby.

SECTION 13.06.Acquisition of Bonds by Authority. All Bonds acquired by the Authority, whether by purchase or gift or otherwise, shall be surrendered to the Trustee for cancellation.

SECTION 13.07.Destruction of Cancelled Bonds. Whenever provision is made for the return to the Authority of any Bonds which have been cancelled pursuant to the provisions hereof, the Authority may, by a Written Request of the Authority, direct the Trustee to destroy such Bonds and furnish to the Authority a certificate of such destruction.

SECTION 13.08.Content of Certificates. Every Certificate of the Authority with respect to compliance with any agreement, condition, covenant or provision provided herein shall include (a) a statement that the person or persons making or giving such certificate have read such agreement, condition, covenant or provision and the definitions herein relating thereto; (b) a brief statement as to the nature and scope of the examination or investigation upon which the statements contained in such certificate are based; (c) a statement that, in the opinion of the signers, they have made or caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether or not such agreement, condition, covenant or provision has been complied with; and (d) a statement as to whether, in the opinion of the signers, such agreement, condition, covenant or provision has been complied with.

Any Certificate of the Authority may be based, insofar as it relates to legal matters, upon an Opinion of Counsel unless the person making or giving such certificate knows that the Opinion of Counsel with respect to the matters upon which his certificate may be based, as aforesaid, is erroneous, or in the exercise of reasonable care should have known that the same was erroneous. Any Opinion of Counsel, insofar as it relates to factual matters or information which is in the possession of the Authority, may be based upon a representation by an officer or officers of the Authority unless the counsel executing such Opinion of Counsel knows that the representation with respect to the matters upon which his opinion may be based, as aforesaid, is erroneous, or in the exercise of reasonable care should have known that the same was erroneous.

SECTION 13.09.Publication for Successive Weeks. Any publication required to be made hereunder for successive weeks in a Financial Newspaper may be made in each instance upon any Business Day of the first week and need not be made on the same Business Day of any succeeding week or in the same Financial Newspaper for any subsequent publication, but may be made on different Business Days or in different Financial Newspapers, as the case may be.

SECTION 13.10.Accounts and Funds. Any account or fund required herein to be established and maintained 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 accounts and funds shall at all times be maintained in accordance with corporate trust industry standards and with due regard for the protection of the security of the Bonds and the rights of the Bondholders.

SECTION 13.11.Business Day. When any action is provided for herein to be done on a day named or within a specified time period, and the day or the last day of the period falls on a day which is not a Business Day, such action may be performed on the next ensuing Business Day with the same effect as though performed on the appointed day or within the specified period.

SECTION 13.12.Notices; Notices to Rating Agencies. All written notices to be given hereunder shall be given by mail to the party entitled thereto at the addresses set forth below, or at such other addresses as such parties may provide to the other party in writing from time to time, namely:

If to the Authority: San Dieguito Public Facilities Authority
710 Encinitas Boulevard
Encinitas, California 92024

If to the Trustee: U.S. Bank National Association
Corporate Trust Services
633 West Fifth St., 24th Floor
Los Angeles, California 90071

If to the District: San Dieguito Union High School District
710 Encinitas Boulevard
Encinitas, California 92024

The Authority shall give written notice to Standard & Poor's of the redemption or defeasance of any Bonds, the amendment of the Facility Sublease or Trust Agreement, and any change in the Trustee in accordance herewith.

SECTION 13.13. Article and Section Headings and References. 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" and other subdivisions or clauses are to the corresponding articles, sections, subdivisions or clauses hereof; and the words "hereby," "herein," "hereof," "hereto," "herewith," "hereunder" and other words of similar import refer to this Trust Agreement as a whole and not to any particular article, section, subdivision or clause hereof.

SECTION 13.14. Partial Invalidity. If any one or more of the agreements or covenants or portions thereof required hereby to be performed by or on the part of the Authority or the Trustee shall be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof shall be null and void and shall be deemed separable from the remaining agreements and covenants or portions thereof and shall in no way affect the validity hereof or of the Bonds, and the Bondholders shall retain all the benefit, protection and security afforded to them under the Act or any other applicable provisions of law. The Authority and the Trustee hereby declare that they would have executed and delivered this Trust Agreement and each and every other article, section, paragraph, subdivision, sentence, clause and phrase hereof and would have authorized the issuance of the Bonds pursuant hereto irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases hereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

SECTION 13.15. Governing Law. This Trust Agreement shall be governed exclusively by the provisions hereof and by the laws of the State as the same from time to time exist.

SECTION 13.16. Execution in Several Counterparts. This Trust Agreement may be executed in any number of counterparts and each of such counterparts shall for all purposes be

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deemed to be an original; and all such counterparts, or as many of them as the Authority and the Trustee shall preserve undestroyed, shall together constitute but one and the same instrument.

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IN WITNESS WHEREOF, the SAN DIEGUITO PUBLIC FACILITIES AUTHORITY has caused this Trust Agreement to be signed in its name by its Chairperson, and U.S. BANK NATIONAL ASSOCIATION, in token of its acceptance of the trusts created hereunder, has caused this Trust Agreement to be signed by one of the officers thereunder duly authorized, all as of the day and year first above written.

SAN DIEGUITO PUBLIC FACILITIES
AUTHORITY

By: _____
Chairperson

Attest:

By: _____
Authority Secretary

U.S. BANK NATIONAL ASSOCIATION, as
Trustee

By: _____
Authorized Officer

Acknowledged:

SAN DIEGUITO UNION HIGH SCHOOL
DISTRICT

By: _____
Associate Superintendent of
Business Services

APPENDIX A

FORM OF BOND

Number R-__	UNITED STATES OF AMERICA STATE OF CALIFORNIA COUNTY OF SAN DIEGO	Principal Sum \$[_____]
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SAN DIEGUITO PUBLIC FACILITIES AUTHORITY
LEASE REVENUE BONDS, SERIES 2012A
(TORREY PINES HIGH SCHOOL PROJECTS)

NEITHER THE FULL FAITH AND CREDIT OF THE AUTHORITY NOR THE SAN DIEGUITO UNION HIGH SCHOOL DISTRICT IS PLEDGED FOR THE PAYMENT OF THE INTEREST ON OR PRINCIPAL OF THE BONDS AND NO TAX OR OTHER SOURCE OF FUNDS OTHER THAN THE REVENUES HEREINAFTER REFERRED TO IS PLEDGED TO PAY THE INTEREST ON OR PRINCIPAL OF THE BONDS. NEITHER THE PAYMENT OF THE PRINCIPAL OF NOR INTEREST ON THE BONDS CONSTITUTES A DEBT, LIABILITY OR OBLIGATION OF THE SAN DIEGUITO UNION HIGH SCHOOL DISTRICT OR COMMUNITY FACILITIES DISTRICT NO. 94-1 OF THE SAN DIEGUITO UNION HIGH SCHOOL DISTRICT, THE PARTIES TO THE AGREEMENT CREATING THE AUTHORITY.

<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Dated as of</u>	<u>CUSIP NO.</u>
[March 1, 2020]	[_____]%	[____], 2012	[_____]

Registered Owner: CEDE & CO.

Principal Sum: [_____] DOLLARS

The SAN DIEGUITO PUBLIC FACILITIES AUTHORITY, a joint exercise of powers authority, duly organized and validly existing under and pursuant to the laws of the State of California (the "Authority"), for value received, hereby promises to pay (but only out of the Revenues hereinafter referred to) to the registered owner identified above or registered assigns, on the maturity date specified above (subject to any right of prior redemption hereinafter provided for) the principal sum specified above (the "Principal Sum") in lawful money of the United States of America. This Bond shall bear interest at the rate as set forth above.

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The principal hereof is payable to the registered owner hereof in lawful money of the United States of America upon the surrender hereof at the designated corporate trust office of U.S. Bank National Association as the initial trustee (herein called the "Trustee"), appointed pursuant to a Trust Agreement, dated as of [March 1], 2012 (the "Trust Agreement") by and between the Authority and the Trustee. So long as Cede & Co. or its registered assigns shall be the registered owner of this Bond, payment shall be made by wire transfer through The Depository Trust Company ("DTC") as provided in the Trust Agreement.

The Bonds shall bear interest at the rate set forth above, payable on March 1 and September 1 of each year, commencing September 1, 2012. Each Bond authenticated and registered on any date prior to the close of business on the first Record Date shall bear interest from the date of said Bond. Each Bond authenticated during the period between any Record Date and the close of business on its corresponding Interest Payment Date shall bear interest from such Interest Payment Date. Any other Bond shall bear interest from the Interest Payment Date immediately preceding the date of its authentication. If, at the time of authentication of any Bond, interest is in default on outstanding Bonds, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment on the outstanding Bonds. Interest on the Bonds shall be calculated on the basis of a 360-day year consisting of twelve 30-day months. Interest due on or before the maturity or prior redemption of this Bond shall be payable only by check mailed by first-class mail to the registered owner hereof; provided that upon the written request of a Bondholder of \$1,000,000 or more in aggregate principal amount of Bonds of the Series of which this Bond is a part received by the Trustee (defined hereinafter) prior to the applicable record date, interest shall be paid by wire transfer in immediately available funds.

This Bond is one of a duly authorized issue of bonds of the Authority designated as its "San Dieguito Public Facilities Authority Lease Revenue Bonds, Series 2012A (Torrey Pines High School Projects)" (the "Bonds") issued in an aggregate principal amount of \$[_____], all of like tenor and date (except for such variations, if any, as may be required to designate varying numbers, maturities and interest rates), and is issued under and pursuant to the provisions of the Joint Exercise of Powers Act (being Chapter 5 of Division 7 of Title 1 of the California Government Code, as amended) and all laws amendatory thereof or supplemental thereto (the "Act") and under and pursuant to the provisions of the Trust Agreement (copies of the Trust Agreement are on file at the corporate trust office of the Trustee in Los Angeles, California).

The Bonds are issuable as fully registered bonds in the denomination of \$5,000 principal amount or any integral multiple thereof. Subject to the limitations and conditions and upon payment of the charges, if any, as provided in the Trust Agreement, Bonds may be exchanged for a like aggregate principal amount of Bonds of other Authorized Denominations.

The Bonds are issued to provide funds to finance the improvement, equipping, and remodeling of certain public high school buildings and related facilities, located in the San Dieguito Union High School District (as more fully defined in the Trust Agreement, the "Project"). The Bonds are limited obligations of the Authority and are payable, as to interest thereon and principal thereof, solely from certain proceeds of the Bonds held in certain funds and accounts pursuant to the Trust Agreement and the revenues (as more fully defined in the Trust Agreement, the "Revenues") derived from certain Base Rental Payments made by the San Dieguito Union High School District (the "District") pursuant to the Facility Sublease dated as of [March 1], 2012 (as amended from time to time, the "Facility Sublease"), by and between the Authority and the District, and the Authority is not obligated to pay the interest or premium, if any, on and principal of the Bonds except from the Revenues. All Bonds are equally and ratably secured in accordance with the terms and conditions of the Trust Agreement by a pledge and assignment of and charge and lien upon the Revenues, and the Revenues constitute a trust fund for the security and payment of the interest or premium, if any, on and principal of the Bonds as provided in the Trust Agreement. The full faith and credit of the Authority, Community Facilities District No. 94-1 of the San Dieguito Union High School District (the other member, along with the District, of the Authority) and the District are not pledged for the payment of the interest or premium, if any, on or principal of the Bonds. No tax shall ever be levied to pay the interest on or principal of the Bonds. The Bonds are not secured by a legal or equitable pledge of or charge or lien upon any property of the Authority or any of its income or receipts except the Revenues, and neither the payment of the interest on nor principal (or premium, if any) of the Bonds is a debt, liability or general obligation of the Authority, the District or any member of the Authority for which such entity is obligated to levy or pledge any form of taxation. Reference is hereby made to the Act and to the Trust Agreement and any and all amendments thereof and supplements thereto for a description of the terms on which the Bonds are issued, the provisions with regard to the

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nature and extent of the Revenues, the rights of the registered owners of the Bonds, security for payment of the Bonds, remedies upon default and limitations thereon, and amendment of the Trust Agreement (with or without consent of the registered owners of the Bonds); and all the terms of the Trust Agreement are hereby incorporated herein and constitute a contract between the Authority and the registered owner of this Bond, to all the provisions of which the registered owner of this Bond, by acceptance hereof, agrees and consents.

The Bonds are subject to redemption as set forth in the Trust Agreement.

This Bond is transferable only on a register to be kept for that purpose at the above-mentioned corporate trust office of the Trustee by the registered owner hereof in person or by the duly authorized attorney of such owner upon payment of the charges provided in the Trust Agreement and upon surrender of this Bond together with a written instrument of transfer satisfactory to the Trustee duly executed by the registered owner or the duly authorized attorney of such owner, and thereupon a new fully registered Bond or Bonds in the same aggregate principal amount in authorized denominations will be issued to the transferee in exchange therefor. The Authority and the Trustee may deem and treat the registered owner hereof as the absolute owner hereof for the purpose of receiving payment of the interest hereon and principal hereof and for all other purposes, whether or not this Bond shall be overdue, and neither the Authority nor the Trustee shall be affected by any notice or knowledge to the contrary; and payment of the interest on and principal of this Bond shall be made only to such registered owner, which payments shall be valid and effectual to satisfy and discharge liability on this Bond to the extent of the sum or sums so paid.

This Bond shall not be entitled to any benefit, protection or security under the Trust Agreement or become valid or obligatory for any purpose until the certificate of authentication hereon endorsed shall have been executed and dated by the Trustee.

It is hereby certified and recited that all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by the Act, and by the Constitution and laws of the State of California, that the amount of this Bond, together with all other indebtedness of the Authority, does not exceed any limit prescribed by the Constitution or laws of the State of California and is not in excess of the amount of Bonds permitted to be issued under the Trust Agreement.

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IN WITNESS WHEREOF, the San Dieguito Public Facilities Authority has caused this Bond to be executed in its name and on its behalf by the manual or facsimile signature of the Treasurer of the Authority and countersigned by the manual or facsimile signature of the Secretary of said Authority, and has caused this Bond to be dated as of the Dated Date specified above.

SAN DIEGUITO PUBLIC FACILITIES AUTHORITY

By _____
Treasurer

Countersigned:

Authority Secretary

TRUSTEE'S CERTIFICATE OF AUTHENTICATION
AND REGISTRATION

This is one of the SAN DIEGUITO PUBLIC FACILITIES AUTHORITY LEASE REVENUE BONDS, SERIES 2012A (TORREY PINES HIGH SCHOOL PROJECTS), described in the within-mentioned Trust Agreement and authenticated and registered on _____, 2012.

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By _____ [specimen – not for signature] _____
Authorized Officer

DTC LEGEND

Unless this Bond is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the Trustee for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

ASSIGNMENT

For value received the undersigned do(es) hereby sell, assign and transfer unto _____ the within-mentioned Registered Bond and hereby irrevocably constitute(s) and appoint(s) _____ attorney, to transfer the same on the books of the Trustee with full power of substitution in the premises.

I.D. Number

NOTE: The signature(s) on this Assignment must correspond with the name(s) as written on the face of the within Registered Bond in every particular, without alteration or enlargement or any change whatsoever.

Dated: _____

Signature Guarantee: _____
Notice: Signature must be guaranteed by an eligible guarantor institution.

APPENDIX B

FORM OF REQUISITION – PROJECT FUND

Date: _____

No. ____

U.S. Bank National Association
Corporate Trust Services
633 West Fifth St., 24th Floor
Los Angeles, California 90071

Re: San Dieguito Public Facilities Authority Lease Revenue Bonds, Series 2012A (Torrey Pines High School Projects)

Ladies and Gentlemen:

This letter is our authorization to you to disburse from the Project Fund provided for in Section 3.02 of the Trust Agreement dated as of [March 1], 2012 (the “Trust Agreement”) between the San Dieguito Public Facilities Authority and U.S. Bank National Association, as trustee, the amounts indicated on the schedule attached hereto to the therein-named individuals, firms and corporations, together with the appropriate invoices, for costs related to completion of the Project. The obligations in the stated amounts have been incurred by the District, and each item thereof is a proper charge against the Project Fund and has not been previously paid from said fund or from the proceeds of the Bonds. There has not been filed with or served upon the Authority or the District notice of any lien, right to lien or attachment upon, or claim affecting the right to receive payment of, any of the moneys payable to any of the persons named below, which has not been released or will not be released simultaneously with the payment of such obligation, other than materialmen's or mechanics' liens accruing by mere operation of law.

The obligations in the stated amounts have been incurred by the San Dieguito Union High School District and each item thereof is a proper charge against the Project Fund.

Very truly yours,

**SAN DIEGUITO UNION HIGH SCHOOL
DISTRICT**

By: _____

EXHIBIT B

Form of Continuing Disclosure Certificate

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the San Dieguito Union School District (the “District”) in connection with the issuance of \$ _____ aggregate principal amount of San Dieguito Public Facilities Authority 2012 Lease Revenue Bonds, Series 2012A (Torrey Pines High School Projects) (the “Bonds”). The Bonds are being issued as authorized by resolutions adopted by the District on _____, 2012 and by the San Dieguito Public Facilities Authority (the “Authority”) on _____, 2012 (together, the “Resolution”), and in accordance with the terms of a Trust Agreement, dated as of [March 1], 2012 (the “Trust Agreement”), by and between the Authority and U.S. Bank National Association, as trustee (the “Trustee”). The District covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Trust Agreement, 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 Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Beneficial Owner” shall mean any person who has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“Dissemination Agent” shall mean Willdan Financial Services, or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

“Holder” shall mean the person in whose name any Bond shall be registered.

“Listed Events” shall mean any of the events listed in Section 5(a) or (b) of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB currently located at <http://emma.msrb.org>.

“Participating Underwriter” shall mean E. J. De La Rosa & Co., Inc., or the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

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

SECTION 3. Provision of Annual Reports.

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(a) The District shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the District's fiscal year (presently June 30), commencing with the Annual Report for the fiscal year of the District ending June 30, 2012 (which is due no later than April 30, 2013), provide to the Participating Underwriter and the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. Each Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. The Dissemination Agent shall not have any duties or responsibilities with respect to the contents of the Annual Report. If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5.

(b) Not later than 15 Business Days prior to the date specified in subsection (a) of this Section for the providing of the Annual Report to the MSRB, the District shall provide the Annual Report to the Dissemination Agent.

(c) If the District is unable to provide the Annual Report to the MSRB by the date required in subsection (a) of this Section, the District shall send a notice to the MSRB through the EMMA System in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall file a report with the District and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided to the MSRB pursuant to this Disclosure Certificate, stating the date it was provided.

SECTION 4. Content of Annual Reports. The District's Annual Report shall contain or include by reference the following:

- (a) Audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the District's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to subsection (a) of Section 2 hereof, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.
- (b) The Average Daily Attendance and Base Revenue Limit for the last completed fiscal year for the District.
- (c) The number of employees for the last completed fiscal year, broken down into the following categories: non-management certificated; certificated management; classified non-management; classified management; and total number of all employees for the District.
- (d) The contributions to PERS and STRS for the last completed fiscal year for the District.
- (e) The audited Statement of Income, Expenditures and Changes in Fund Balance for the General Fund, for the last completed fiscal year for the District.

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- (f) The adopted budget for the current fiscal year, together with any amendments thereto, for the District.
- (g) Information regarding the investment policies and practices with respect to District funds and the status of the investment of District funds, similar to the information included in the Official Statement, including the annual report for the last completed fiscal year relating to the Pooled Surplus Investments Fund maintained by the county in which the District is located pursuant to California Government Code Sections 53600 *et seq.*, together with the most recent monthly report for such investment pool, so long as the District has money on deposit therein.
- (h) Assessed Value of taxable property within the District and the District's total property tax levy, in each case for the current fiscal year.
- (i) Outstanding borrowings and long-term obligations payable from the District's General Fund, including:
 - (1) general obligation bonds, certificates of participation, tax and revenue anticipation notes, pension obligation bonds, capital leases and operating leases;
 - (2) a description of any obligations of the type referred to in (1) above that have been issued, entered into or incurred since the beginning of the District's current fiscal year; and
 - (3) a description of any obligations of the type referred to in (1) above that the District reasonably expects to issue, enter into or incur within the 60 day period following the date of filing of the Annual Report.
- (j) In addition to any of the information expressly required to be provided under subsections (a) and (b) of this Section, the District shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been submitted to the MSRB through the EMMA System. The District shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

- (a) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds not later than ten business days after the occurrence of the event:
 - 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;

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5. Adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
6. Tender offers;
7. Defeasances;
8. Rating changes; or
9. Bankruptcy, insolvency, receivership or similar event of the obligated person.

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) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, not later than ten business days after the occurrence of the event:

1. Unless described in paragraph 5(a)(5), 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 rights of Bond holders;
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 an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or
7. Appointment of a successor or additional paying agent or the change of name of a paying agent.

(c) The District shall give, or cause to be given, in a timely manner, notice of a failure to provide the annual financial information on or before the date specified in Section 3, as provided in Section 3(b).

(d) Whenever the District obtains knowledge of the occurrence of a Listed Event described in Section 5(b), the District shall determine if such event would be material under applicable federal securities laws.

(e) If the District learns of the occurrence of a Listed Event described in Section 5(a), or determines that knowledge of a Listed Event described in Section 5(b) would be material under applicable federal securities laws, the District shall within ten business days of occurrence file a notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsection (b)(3) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Trust Agreement.

SECTION 6. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior prepayment or payment in full of all of the Bonds. If such termination occurs prior to the final principal payment date of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(e).

SECTION 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate. The initial Dissemination Agent shall be the District.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

- (a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;
- (b) the undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and
- (c) the proposed amendment or waiver (i) is approved by holders of the Bonds in the manner provided in the Trust Agreement for amendments to the Trust Agreement with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of holders.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the District 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 District. 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 5(e), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as

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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 Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate 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 District to comply with its obligations under this Disclosure Certificate; provided that any such action may be instituted only in Superior Court of the State of California in and for the County of San Diego or in U.S. District Court in or nearest to the County. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Trust Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 12. Governing Law. This Disclosure Certificate 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.

Date: _____, 2012

SAN DIEGUITO UNION HIGH SCHOOL
DISTRICT

By: _____
Authorized Officer

WILLDAN FINANCIAL SERVICES

By: _____
Authorized Officer

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: San Dieguito Public Facilities Authority
Name of Obligated Person: San Dieguito Union High School District
Name of Issue: San Dieguito Public Facilities Authority Lease Revenue Bonds, Series
2012A (Torrey Pines High School Projects)
Date of Issuance: _____, 2012

NOTICE IS HEREBY GIVEN that the San Dieguito Union High School District (the "District") has not provided an Annual Report with respect to the above-named Bonds as required by Section 2 of its Continuing Disclosure Certificate, dated as of [March 1], 2012, executed and delivered by the District. [The District anticipates that the Annual Report will be filed by _____.]

Dated: _____

SAN DIEGUITO UNION HIGH SCHOOL DISTRICT

EXHIBIT C

Form of Bond Purchase Contract

BOND PURCHASE CONTRACT

[\$[Par Amount]

**San Dieguito Public Facilities Authority
Lease Revenue Bonds, Series 2012A
(Torrey Pines High School Projects)**

_____ __, 2012

San Dieguito Union High School District
Encinitas, California

San Dieguito Public Facilities Authority
Encinitas, California

Ladies and Gentlemen:

The undersigned, E. J. De La Rosa & Co., Inc. (the “Underwriter”), acting on its own behalf and not as fiduciary or agent for you, hereby offers to enter into this Bond Purchase Contract (the “Purchase Contract”) with the San Dieguito Union High School District (the “District”) and the San Dieguito Public Facilities Authority (the “Authority”) for the purchase by and the delivery to the Underwriter of the Bonds specified below. This offer is made subject to acceptance by the District and the Authority prior to 11:59 p.m., California time, on the date hereof, and upon such acceptance this Purchase Contract shall be in full force and effect in accordance with its terms and shall be binding upon the District, the Authority and the Underwriter.

1. Purchase and Sale Upon the terms and conditions and upon the basis of the representations, covenants and agreements herein set forth, the Underwriter hereby agrees to purchase, and the Authority hereby agrees to issue and to execute and to instruct the Trustee (as hereinafter defined) to authenticate and deliver to the Underwriter, all (but not less than all) of the \$_____ aggregate principal amount of San Dieguito Public Facilities Authority Lease Revenue Bonds, Series 2012A (Torrey Pines High School Projects) as shown in Appendix A (the “Bonds”). The Bonds are to be dated their date of delivery and are as more fully described in the Official Statement hereinafter mentioned. The Bonds shall be purchased at the aggregate purchase price of \$_____ (representing an aggregate principal amount of \$_____, less an underwriter’s discount of \$_____). The Bonds shall mature on [March 1], 2020, bear interest at the rate of [_____] % per annum and have the initial offering price of 100%. Interest on the Bonds shall be calculated on the basis of a 360-day year consisting of twelve 30-day months.

The Bonds shall be as described in, and shall be issued and secured under, a Trust Agreement, dated as of [March 1], 2012 (the “Trust Agreement”), by and between the Authority and U.S. Bank National Association, as trustee (the “Trustee”). The Bonds are payable and subject to prepayment as provided in the Trust Agreement. The Bonds are payable from and secured by the Authority’s pledge of Revenues under the Trust Agreement. “Revenues” means (i) all Base Rental Payments (as defined in the Sublease) and other payments paid by the District and received by the Authority (but not Additional Payments as defined in the Sublease) pursuant to a Facility Sublease (the “Sublease”), dated as of [March 1], 2012, by and between the Authority, as lessor and the District, as lessee, and (ii) all interest or other income from any investment of any money in any fund or account established pursuant to the Trust Agreement or the Sublease.

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The Bonds shall be as described in the Trust Agreement substantially in the form previously submitted to the Underwriter with only such changes therein as shall be mutually agreed upon by the Authority, the District, the Trustee and the Underwriter. This Purchase Contract, the Trust Agreement, the Sublease, the Facility Lease, dated as of [March 1], 2012 (the "Facility Lease"), by and between the District and the Authority and the Continuing Disclosure Certificate, dated as of [March 1], 2012 (the "Disclosure Certificate"), executed and delivered by the District, are collectively referred to herein as the "Legal Documents." Capitalized terms used herein that are defined in the Trust Agreement or the Sublease shall have the same meanings when used herein.

2. Offering. The District and the Authority shall deliver or cause to be delivered to the Underwriter, within seven Business Days from the date hereof, a reasonable number of copies (as requested by the Underwriter) of the Official Statement, dated the date hereof, relating to the Bonds, in order to permit the Underwriter to comply with the obligations of the Underwriter pursuant to the rules of the Municipal Securities Rulemaking Board and Rule 15c2-12(b)(4) under the Securities Exchange Act of 1934, as amended, including, without limitation, as necessary to accompany any confirmation requesting payment from any customers of the Underwriter. In connection with the covenant and agreement of the District set forth in this section, the Underwriter agrees to file the Official Statement (including the Official Statement as it may be amended or supplemented) with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system within one Business Day after receipt from the District, but in no event later than the Closing Date. The Official Statement (the Official Statement, including the cover page, inside cover page, the appendices and any amendments or supplements thereto and all information incorporated therein by reference, is referred to herein as the "Official Statement") shall be approved for distribution by a resolution of the Board of Trustees of the District (the "District Resolution") and a resolution adopted by the Board of Directors of the Authority (the "Authority Resolution" and, together with the District Resolution, the "Resolutions"). By acceptance of this Purchase Contract, the District and the Authority hereby authorize the use of copies of the Official Statement and the Preliminary Official Statement dated _____, 2012 (the "Preliminary Official Statement") in connection with the public offering and sale of the Bonds.

The Underwriter agrees to make a bona fide public offering of the Bonds at the initial offering prices or yields set forth on the inside cover of the Official Statement; however, the Underwriter reserves the right to make concessions to dealers and to change such initial offering prices or yields as the Underwriter shall deem necessary in connection with the marketing of the Bonds.

The District acknowledges and agrees that (i) the purchase and sale of the Bonds pursuant to this Purchase Contract is an arm's-length commercial transaction between the District and the Underwriter, (ii) in connection with such transaction, the Underwriter has not assumed a fiduciary responsibility in favor of the District with respect to (x) the offering of the Bonds or the process leading thereto (whether or not the Underwriter has advised or is currently advising the District on other matters) or (y) any other obligation to the District except the obligations expressly set forth in this Purchase Contract, and (iii) the District has consulted with its own legal and other professional advisors to the extent it deemed appropriate in connection with the offering of the Bonds.

3. Closing At 8:00 a.m., Pacific time, on _____, 2012, or at such other time or on such earlier or later date upon which the District, the Authority and the Underwriter mutually agree (the "Closing"), the Trustee will deliver or cause to be delivered to The Depository Trust Company ("DTC") in New York, New York, one fully registered book-entry bond for each maturity, duly executed, and the other documents hereinafter mentioned shall be delivered at the offices of Manatt, Phelps & Phillips, LLP, Los Angeles, California. CUSIP identification numbers shall be printed on the Bonds, but the failure to print such numbers on any of the Bonds or any error with respect thereto shall not constitute cause for a failure or refusal by the Underwriter to accept delivery of, or pay for, the Bonds in accordance

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with the terms of this Purchase Contract. The Underwriter will accept delivery of the Bonds and pay the purchase price thereof by federal funds wire payable to the order of the Trustee in an amount equal to the purchase price indicated in Paragraph 1, above. The Bonds will be made available to the Underwriter for inspection at such place as may be mutually agreed to by the Underwriter and the Authority, for checking prior to the Closing.

4. Representations and Agreements of the District. The District represents, warrants and covenants to the Underwriter that:

(a) The District is a school district duly organized and validly existing under the Constitution and general laws of the State of California and has all necessary power and authority to enter into and perform its duties under the Trust Agreement, the Facility Lease, the Sublease, the Disclosure Certificate and this Purchase Contract (collectively, the "District Documents"), and, when executed and delivered by the respective parties thereto, the District Documents will constitute the legal, valid and binding obligations of the District enforceable in accordance with their respective terms, except as the 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 (whether in proceedings at law or in equity).

(b) The execution and delivery of the District Documents and compliance with the provisions thereof and the approval of the Official Statement, will not in any material respect conflict with, or constitute a breach of or default under, any law, administrative regulation, court decree, resolution or other agreement or document to which the District is subject or by which it or any of its property is bound.

(c) Except as may be required under blue sky or other securities laws of any state, and except as such have been obtained and are in full-force and effect, there is no consent, approval, authorization or other order of, or filing with, or certification by, any regulatory authority required in connection with the execution, delivery and sale or exchange of the Bonds, the execution and delivery of the District Documents or the consummation by the District of the other transactions contemplated by the Official Statement or this Purchase Contract.

(d) There is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending or, to the best of the knowledge of the District, threatened against or affecting the District, (i) which would materially and adversely impact the District's ability to complete the transactions described in or contemplated by the Official Statement, (ii) to restrain or enjoin the delivery of the Bonds or the payments to be made by the District pursuant to the Sublease, (iii) in any way contesting or affecting the validity of the District Documents or the Bonds or the transactions described in the Official Statement, or contesting in any way the completeness or accuracy of the Official Statement, or (iv) wherein an unfavorable decision, ruling or finding would materially and adversely affect the District or the validity or enforceability of the District Documents or the Bonds.

(e) The information relating to the District contained in the Official Statement is true and correct in all material respects and such information does not contain any untrue statement of a material fact or omit 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 (except that no representation or warranty is made with respect to the information concerning the DTC Book-Entry System).

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(f) The District shall 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 any expenses or costs shall be born by the Underwriter and that the District shall 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 in any jurisdiction where it is not now so qualified.

(g) By official action of the District prior to or concurrently with the execution of this Purchase Contract, the District has duly approved the distribution of the Official Statement and the Preliminary Official Statement and has duly authorized and approved the execution and delivery of, and the performance by the District of the obligations on its part contained in, the District Documents and the consummation by it of all other transactions with respect to the execution and delivery of the Bonds as contemplated by the Official Statement and this Purchase Contract, and, as of the date hereof, such authorizations and approvals are in full force and effect and have not been amended, modified or rescinded.

(h) The District is not in breach of or default under any applicable law or administrative regulation of the State of California or the United States or any applicable judgment or decree or any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the District is a party or to which it or any of its property is otherwise subject which breach or default would have a material and adverse impact on the District's ability to perform its obligations under the District Documents, 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, which would have a material and adverse impact on the District's ability to perform its obligations under the District Documents.

(i) The District covenants with the Underwriter that so long as the Underwriter is required under Rule 15c2-12, adopted by the Securities and Exchange Commission ("Rule 15c2-12") or any amendment or successor thereto, to send any potential customer, on request, a copy of the Official Statement (the "Delivery Period"), if an event occurs, which might or would cause the information 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 the statements therein, in the light of the circumstances under which they were made, not misleading, the District shall notify the Underwriter of any such event of which it has knowledge, 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 District shall 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. All printing expenses thereby incurred during the Delivery Period shall be paid for by the District.

(j) If the information relating to the District, the Legal Documents or the Bonds 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 end of the Delivery Period, the portions of the Official Statement so supplemented or amended 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 the statements therein, in the light of the circumstances under which they were made, not misleading.

(k) The District has never been and is not now in default as to the payment of principal or interest with respect to an obligation issued by the District or successor of the District

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or with respect to an obligation guaranteed by the District as guarantor or successor of a guarantor.

(l) The District has not failed in any material respect to comply with any undertaking to provide annual or material event disclosure pursuant to any undertaking under Rule 15c2-12.

(m) The District will undertake, pursuant to the Disclosure Certificate, to provide certain annual financial information and notices of the occurrence of certain events, if material. A description of this undertaking is set forth in the Preliminary Official Statement and will also be set forth in the Final Official Statement.

(n) The District has, and has had, no financial advisory relationship with the Underwriter with respect to the Bonds, nor with any investment firm controlling, controlled by or under common control with the Underwriter.

5. Representations and Agreements of the Authority. The Authority represents, warrants and covenants to the Underwriter that:

(a) The Authority is a joint powers authority, duly organized and existing pursuant to pursuant to Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California and an agreement entitled "Joint Powers Agreement," dated October 22, 1998 (the "JPA Agreement"), between the District and Community Facilities District No. 94-1 of the District.

(b) The Authority has all necessary power and authority to enter into and perform its duties under the Trust Agreement, the Facility Lease, the Sublease and this Purchase Contract (collectively, the "Authority Documents") and, when executed and delivered by the other parties thereto, the Authority Documents will constitute the legal, valid and binding obligations of the Authority enforceable in accordance with their respective terms, except as the 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.

(c) The execution and delivery of the Authority Documents and compliance with the provisions thereof, and the approval of the Official Statement, will not in any material respect conflict with, or constitute a breach of or default under, any law, administrative regulation, court decree, resolution, bylaws, bond, note, loan agreement, lease purchase agreement, lease, installment purchase agreement or other agreement or document to which the Authority is subject or by which it or any of its property is bound.

(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 authority having jurisdiction over the Authority, other than the approval and authorization of the Governing Board of the Authority, required for the issuance and sale of the Bonds, the execution and delivery of the Authority Documents or the consummation by the Authority of the other transactions contemplated by the Official Statement and this Purchase Contract.

(e) There is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending or, to the best of the knowledge of the Authority,

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threatened against or affecting the Authority, (i) which would materially and adversely impact the Authority's ability to complete the transactions described in or contemplated by the Official Statement, (ii) to restrain or enjoin the delivery of the Bonds or the payments to be made by the Authority pursuant to the Facility Lease, (iii) in any way contesting or affecting the validity of the Authority Documents or the Bonds or the transactions therein, or contesting in any way the completeness or accuracy of the Official Statement, or (iv) wherein an unfavorable decision, ruling or finding would materially and adversely affect the Authority or the validity or enforceability of the Authority Documents or the Bonds.

(f) The information in the Official Statement regarding the Authority 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.

(g) By official action of the Authority prior to or concurrently with the execution hereof, 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 Authority Documents and the consummation by it of all other actions to be taken by the Authority with respect to the execution and delivery of the Bonds as contemplated by the Official Statement and the Purchase Contract, and, as of the date hereof, such authorizations and approvals are in full force and effect and have not been amended, modified or rescinded.

(h) The Authority is not in breach of or default under any applicable law or administrative regulation of the State of California or the United States or any applicable judgment or decree or any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Authority is a party or to which it or any of its property is otherwise subject which breach or default would have a material and adverse impact on the Authority's ability to perform its obligations under the Authority Documents, 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, which would have a material and adverse impact on the Authority's ability to perform its obligations under the Authority Documents.

(i) The Authority is not in default, nor has been in default at any time, as to the payment of principal or interest with respect to an obligation issued by the Authority or successor of the Authority or with respect to an obligation guaranteed by the Authority as guarantor or successor of a guarantor.

(j) The Authority has, and has had, no financial advisory relationship with the Underwriter with respect to the Bonds, nor with any investment firm controlling, controlled by or under common control with the Underwriter.

6. Representations and Agreements of the Underwriter. The Underwriter represents to and agrees with the District and the Authority that, as of the date hereof and as of the date of the Closing:

(a) The Underwriter is duly authorized to execute this Purchase Contract and to take any action under this Purchase Contract required to be taken by it, and the undersigned officer of the Underwriter is duly authorized to sign this Purchase Contract on behalf of the Underwriter and to bind the Underwriter hereby.

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(b) The Underwriter is in compliance with MSRB Rule G-37 with respect to the District, and is not prohibited thereby from acting as underwriter with respect to securities of the District.

(c) The Underwriter has, and has had, no financial advisory relationship with the District or the Authority with respect to the Bonds, and no investment firm controlling, controlled by or under common control with the Underwriter has or has had any such financial advisory relationship.

(d) The Underwriter has reasonably determined that the District's undertaking pursuant to Section 4(m) hereof and as specified in the Disclosure Certificate to provide continuing disclosure with respect to the Bonds is sufficient to effect compliance with Rule 15c2-12.

7. Conditions to Closing. The Underwriter has entered into this Purchase Contract in reliance upon the representations and warranties of the District and the Authority contained herein, the Bonds to be delivered pursuant hereto and the opinions of Manatt, Phelps & Phillips, LLP ("Bond Counsel"), counsel to the Trustee, and special tax counsel to the Authority required hereby. The Underwriter's obligations under this Purchase Contract are and shall be subject to the following further conditions:

(a) At the time of Closing, the Legal Documents shall be in full force and effect as valid and binding obligations between or among the various parties thereto, and the Legal Documents and the Official Statement shall not have been amended, modified or supplemented except as may have been agreed to in writing by the Underwriter, the Authority and the District and there shall be in full force and effect such resolutions as, in the opinion of Bond Counsel, shall be necessary in connection with the transactions contemplated hereby.

(b) At or prior to the Closing, the Underwriter shall receive the following documents, in each case satisfactory in form and substance to the Underwriter and its counsel:

(1) the approving opinion of Bond Counsel in substantially the form included as Appendix C-1 to the Official Statement, dated the date of Closing, addressed to the Authority;

(2) a supplemental opinion (or opinions) of Bond Counsel, dated the Closing Date, in form and substance satisfactory to the Underwriter and Counsel to the Underwriter, addressed to the Authority and the Underwriter, to the effect that:

(i) the Bonds are exempt from registration pursuant to the Securities Act of 1933, as amended, and the Trust Agreement is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended;

(ii) the Purchase Contract has been duly executed and delivered by the Authority and the District, and (assuming due authorization, execution and delivery by and validity against the Underwriter), is a legal, valid and binding obligations of the Authority and the District enforceable in accordance with their respective terms, subject to (A) applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally (including, without limitation, fraudulent conveyance laws), (B) the effect of general principles of equity, including without limitation, concepts

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of materiality, reasonableness, good faith and fair dealing and the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law, (C) the exercise of judicial discretion in appropriate cases, (D) the limitations on legal remedies imposed on actions against public entities in the State, and (E) the application of State laws relating to conflicts of interest to which public entities are subject; and provided that no opinion need be expressed on indemnification provisions; and

(iii) the statements in the Official Statement on the cover page relating to tax, description of the Bonds and security for the Bonds, and statements under the captions “THE SERIES 2012A BONDS,” “SECURITY FOR AND SOURCES OF PAYMENT FOR THE SERIES 2012A BONDS,” and in “APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS,” taken together insofar as such statements purport to summarize certain provisions of the Bonds, the Legal Documents and the approving opinion or opinions of such counsel, are true and accurate in all material respects (excluding any information relating to DTC or its book-entry only system);

(3) a certificate, signed by an official of the District, confirming to the Underwriter that the Preliminary Official Statement as of its date did not, and the Official Statement as of its date and at the time of Closing did not and does not, to the best of the knowledge of said official, contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading, and that there has been no material adverse change in the financial condition or affairs of the District which would make it unreasonable for the purchaser of the Bonds to rely upon the Official Statement in connection with the resale of the Bonds; excluding in each case any information contained therein relating to DTC or its book-entry only system; information contained therein describing the investment policy of the County of San Diego, its current portfolio holdings, and valuation procedures (as they relate to funds of the District held by the Treasurer-Tax Collector of the County of San Diego); information provided by the Underwriter regarding CUSIP numbers or the prices or yields at which the Bonds were re-offered to the public, as to all of which the District expresses no view.

(4) an opinion of special tax counsel to the Authority and the District in substantially the form included (i) as Appendix C-2 to the Official Statement, dated the date of Closing, addressed to the Authority and the District and (ii) as Appendix D hereto, dated the date of Closing, addressed to the Underwriter;

(5) an opinion of the District Counsel, dated the date of Closing, addressed to the District, the Authority and the Underwriter, covering the matters set forth in Appendix A hereto;

(6) the opinion of counsel to the Trustee, dated the date of Closing, addressed to the Underwriter, the Authority and the District covering the matters set forth in Appendix B hereto;

(7) an opinion of the District Counsel as counsel to the Authority, dated the date of Closing, addressed to the Authority, the District and the Underwriter, covering the matters set forth in Appendix C hereto;

ITEM 3

(8) a certificate, dated the date of Closing, signed by a duly authorized official of the District, to the effect that:

(i) the representations, warranties and covenants of the District contained in this Purchase Contract are true and correct in all material respects on and as of the date of the Closing with the same effect as if made on the date of the Closing; and

(ii) the District has complied with all of the agreements and satisfied all of the conditions on its part to be performed or satisfied pursuant to the Legal Documents at or prior to the Closing;

(9) a certificate, dated the date of Closing, signed by a duly authorized official of the Authority, to the effect that:

(i) the representations, warranties and covenants of the Authority contained in this Purchase Contract are true and correct in all material respects on and as of the date of the Closing with the same effect as if made on the date of the Closing; and

(ii) the Authority has complied with all of the agreements and satisfied all of the conditions on its part to be performed or satisfied pursuant to the Legal Documents at or prior to the Closing;

(10) an executed or certified copy of the Legal Documents;

(11) an executed copy of the Official Statement;

(12) a certified copy of the general resolution of the Trustee authorizing the execution and delivery of certain documents by certain officers of the Trustee, which resolution authorizes the execution and delivery of the Bonds and the Trust Agreement;

(13) copies of the District Resolution adopted by the Board of Trustees of the District and certified by an authorized officer authorizing the execution and delivery of the Legal Documents to which the District is a party;

(14) copies of the Authority Resolution adopted by the Board of Directors of the Authority and certified by an authorized officer of the Authority authorizing the execution and delivery of the Legal Documents to which the Authority is a party;

(15) a tax certificate of the District and the Authority in form and substance acceptable to Bond Counsel and special tax counsel;

(16) the letter of Standard & Poor's Ratings Service to the effect that such rating agency has rated the Bonds "AA-", and that such rating has not been revoked or downgraded;

(17) evidence of arrangements for the issuance of a CTLA title insurance policy insuring the District's subleasehold estate in the Property, subject only to the exceptions set forth in Section 5.05 of the Facility Sublease, together with an endorsement providing for a Special Damages Calculation or similar amendment of the

ITEM 3

leasehold damages calculation to provide coverage at the principal amount of the Bonds, in form and substance acceptable to Bond Counsel, Underwriter's Counsel and the Underwriter;

(18) a certificate or certificates, dated the date of the Preliminary Official Statement, of the Authority and the District addressed to the Underwriter, to the effect that for purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission, the Authority and the District, respectively, deems the Preliminary Official Statement to be final as of its date;

(19) copies of the preliminary and final notices to the California Debt and Investment Advisory Commission relating to the Bonds; and

(20) a certificate of the Trustee, dated the Closing date, to the effect that:

(i) the Trustee is a national banking association duly organized and in good standing under the laws of the United States and has all necessary legal power and authority to enter into and perform its duties under the Trust Agreement;

(ii) the Trustee is duly authorized to enter into the Trust Agreement and to authenticate and deliver the Bonds to the Underwriter pursuant to the terms of the Trust Agreement and this Purchase Contract, and the Bonds have been duly authenticated and delivered by the Trustee in accordance with the Trust Agreement;

(iii) the execution and delivery of the Trust Agreement, and compliance with the provisions thereof, will not conflict with, or constitute a breach of or default under, any law, administrative regulation, court decree, resolution, charter, by-laws or other agreement to which the Trustee is subject or by which it is bound. No representation or warranty need be made as to any state or federal securities laws, or the tax consequences of any payment on any Bonds of any federal, state or local tax law; and

(iv) to the knowledge of the Trustee, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court or governmental agency, public board or body served on or threatened against or affecting the existence of the Trustee, or in any way contesting or affecting the validity or enforceability of the Bonds, or the Trust Agreement or contesting the powers of the Trustee or its authority to enter into and perform its obligations under such documents wherein an unfavorable decision, ruling or finding would adversely affect the validity of such documents; and

(21) such additional legal opinions, certificates, proceedings, instruments and other documents as Bond Counsel may reasonably request to evidence compliance by the Trustee, the Authority and the District with legal requirements, the truth and accuracy, as of the time of Closing, of the representations contained herein and of the information contained in the Official Statement, and the due performance or satisfaction by the Trustee, the District and the Authority, at or prior to such time, of all agreements then to be performed and all conditions then to be satisfied.

ITEM 3

(c) All matters relating to the Legal Documents, the Bonds and the sale thereof, and the consummation of the transactions contemplated by the Legal Documents shall have been approved by the Underwriter, such approval not to be unreasonably withheld.

If the conditions to the Underwriter's obligations contained in this Purchase Contract are not satisfied or if the Underwriter's obligations shall be terminated for any reason permitted by this Purchase Contract, this Purchase Contract shall terminate and the Underwriter, the District and the Authority shall have no further obligations hereunder. In the event that the Underwriter fails (other than for a reason permitted by this Purchase Contract) to accept and pay for the Bonds at the Closing, an amount equal to one percent (1%) of the principal amount of the Bonds shall be full liquidated damages for such failure and for any and all defaults hereunder on the part of the Underwriter, and the acceptance of such amount shall constitute a full release and discharge of all claims and rights of the Trustee, the District and the Authority against the Underwriter.

8. Termination. (a) *By the Authority or the District.* In the event of the Authority's failure to deliver the Bonds at the Closing, or inability of the Authority or the District to satisfy the conditions to the obligations of the Underwriter contained herein (unless waived by the Underwriter), or if the obligations of the Underwriter shall be terminated for any reason permitted by this Purchase Contract, this Purchase Contract shall terminate.

(b) *By the Underwriter.* The Underwriter may terminate this Purchase Contract, without any liability therefor, by notification to the Authority and the District if as of the Closing Date any of the following shall have had a material adverse effect on the marketability or market price of the Bonds, in the reasonable opinion of the Underwriter, upon consultation with the Authority and the District:

(1) There shall have occurred and be continuing the declaration of a general banking moratorium by any authority of the United States or the State of New York or the State of California;

(2) There shall be in force a general suspension of trading or other material restrictions not in force as of the date hereof on the New York Stock Exchange or other national securities exchange;

(3) Legislation shall have been enacted by the Congress of the United States, or passed by and still pending before either House of the Congress, or recommended or endorsed to the Congress for passage by the President of the United States, or favorably reported for passage to and still pending before either House of the Congress by any committee of such House to which such legislation has been referred for consideration, or a decision shall have been rendered by a court of the United States, or the United States Tax Court, or a ruling or regulation shall have been issued by the U.S. Treasury, with respect to federal tax treatment of tax credits, federal taxation of interest received on securities of the general character of the Bonds, or legislation shall have been enacted by the State of California which renders interest on the Bonds not exempt from State of California personal income taxes, which in the reasonable opinion of the Purchaser materially adversely affects the marketability or market price of the Bonds;

(4) Legislation shall have been enacted, or a decision of a court of the United States shall have been rendered or any action shall have been taken by, or on behalf of, the Securities and Exchange Commission or any other governmental agency having jurisdiction in the subject matter which, in the opinion of Bond Counsel, has the effect of

ITEM 3

requiring the contemplated distribution of the Bonds to be registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, or the Resolution or the Trust Agreement to be qualified under the Trust Indenture Act of 1939, as amended;

(5) The New York Stock Exchange or other national securities exchange, or any governmental authority, shall impose and there shall be in effect, as to the Bonds or obligations of the general character of the Bonds, any material restrictions not now in force, or increase materially those now in force, with respect to the extension of credit by, or the charges to the net capital requirements of, underwriters;

(6) Congress shall have made a formal declaration of war, or the President of the United States shall have ordered a new major engagement in or escalation of military hostilities, or there shall have occurred a declared national emergency that interrupts or causes disorder to the operation of the financial markets in the United States for a period of more than 30 days.

(7) The withdrawal or downgrading of any rating of the District's outstanding indebtedness by a national rating agency; or

(8) 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 which, in the Underwriter's judgment, requires or has required an amendment of or supplement to the Official Statement.

In the event the Underwriter shall fail to pay for the Bonds upon tender of the Bonds at the Closing, the Underwriter shall have no right in or to the Bonds.

9. Amendment. After the Closing the District will not adopt any amendment or supplement to the Official Statement to which the Underwriter shall object in writing or which shall be disapproved by the Underwriter or counsel for the Underwriter.

10. Expenses. In connection with the underwriting of the Bonds, the District shall pay the following expenses from the proceeds of the Bonds, and to the extent or in the event not so paid such expenses shall be paid directly by the District:

- (a) the cost of preparing, printing, executing and delivering the Bonds, including all expenses relating to the printing of CUSIP numbers on the Bonds and the CUSIP Service Bureau charge for the assignment of said numbers;
- (b) the fees and expenses of the Trustee, including the fees and expenses of the Trustee's counsel;
- (c) all fees charged by any rating agency for rating the Bonds;
- (d) the cost of printing, distribution and delivery of the Official Statement; and

ITEM 3

(e) the fees and disbursements of Bond Counsel to the District.

All out-of-pocket expenses of the Underwriter shall be paid by the Underwriter (including without limitation costs associated with qualifying the Bonds for sale under any state “Blue Sky” laws, California Debt and Investment Advisory Commission fees, sales and advertising expenses, and any other incidental expenses).

10. Notices. Any notice or other communication to be given under this Purchase Contract (other than the acceptance hereof as specified in the introductory paragraph hereof) may be given to the District by delivering the same in writing to the District at the address given below, and may be given to the Underwriter by delivering the same in writing to the address of the Underwriter set forth in Appendix A, or such other address as the District or the Underwriter may designate by notice to the other party.

To the District: San Dieguito Union High School District
c/o San Dieguito Union High School District
710 Encinitas Boulevard
Encinitas, CA 92024
Attn: Eric Dill, Associate Superintendent of Business Services

To the Authority: San Dieguito Public Facilities Authority
c/o San Dieguito Union High School District
710 Encinitas Boulevard
Encinitas, CA 92024
Attn: [Name], Treasurer

To The Underwriter: E. J. De La Rosa & Co., Inc.
101 Montgomery Street, Suite 2150
San Francisco, CA 94104
Attn: Ralph Holmes, Principal

All notices or communication given hereunder by any party shall be given and served upon each other party.

11. Parties in Interest. This Purchase Contract is made solely for the benefit of the District, the Authority and the Underwriter (including the successors or assigns thereof) and no other person shall acquire or have any right hereunder or by virtue hereof. All representations, warranties and agreements in this Purchase Contract shall remain operative and in full force and effect, regardless of (a) delivery of and payment for any of the Bonds; and (b) any termination of this Purchase Contract.

12. Severability. If any provision of this Purchase Contract shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

13. Governing Law. This Purchase Contract shall be governed by the laws of the State of California.

14. Headings. The headings of the paragraphs and sections of this Purchase Contract are inserted for convenience of reference only and shall not be deemed to be a part hereof.

ITEM 3

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

Respectfully submitted,
E. J. DE LA ROSA & CO., INC.

By: _____
Authorized Officer

Accepted: _____, 2012.

Time: _____ p.m.

SAN DIEGUITO UNION HIGH SCHOOL DISTRICT

By: _____
Associate Superintendent
Business Services

SAN DIEGUITO PUBLIC FACILITIES AUTHORITY

By: _____
Treasurer

APPENDIX A

FORM OF OPINION OF DISTRICT COUNSEL

[closing date]

San Dieguito Union High School District
Encinitas, California

San Dieguito Public Facilities Authority
Encinitas, California

U.S. Bank National Association
Los Angeles, California

E.J De La Rosa & Co., Inc,
San Francisco, California

\$_[_____]

San Dieguito Public Facilities Authority
Lease Revenue Bonds, Series 2012A
(Torrey Pines High School Projects)

Ladies and Gentlemen:

I have served as counsel to the San Dieguito Union High School District (the “District”) in connection with the issuance and sale by the San Dieguito Public Facilities Authority (the “Authority”) of the \$_[_____] aggregate principal amount of San Dieguito Public Facilities Authority Lease Revenue Bonds, Series 2012A (Torrey Pines High School Projects) (the “Bonds”). As such counsel I have examined and am familiar with (i) the Joint Powers Agreement, dated October 22, 1998 (the “JPA Agreement”), between the District and the Community Facilities District No. 94-1 of the San Dieguito Union High School District, (ii) the Trust Agreement, dated as of [March 1], 2012, between the Authority and U.S. Bank National Association, as trustee (the “Trustee”), (iii) the Facility Lease, dated as of [March 1], 2012, between the District and the Authority (the “Facility Lease”), (iv) the Facility Sublease, dated as of [March 1], 2012, between the Authority and the District (the “Sublease”), (v) the Continuing Disclosure Certificate, dated as of [March 1], 2012, executed and delivered by the District (the “Continuing Disclosure Certificate”), (vi) the Bond Purchase Contract, dated _____, 2012, among the District, the Authority and E. J. De La Rosa & Co., Inc., as underwriter (the “Underwriter”) of the Bonds (the “Purchase Contract”); and (vii) an Official Statement of the Authority and the District relating to the Bonds, dated _____, 2012 (the “Official Statement”). In reviewing the documents and matters referred to above, the undersigned has assumed the genuineness of all documents and signatures presented and has not undertaken to verify independently, and has assumed the accuracy of the factual matters represented, warranted or certified therein. The Trust Agreement, the Sublease, the Continuing Disclosure Certificate and the Purchase Contract are referred to herein collectively as the “District Documents.” Terms used herein but not defined herein shall have the meanings assigned to them in the Purchase Contract.

Based upon the foregoing, it is my opinion that:

1. The District is a school district duly organized and validly existing under the Constitution and general laws of the State of California and has all necessary power and authority to enter into and perform its duties under the Trust Agreement, the Facility Lease, the Sublease, the Disclosure Certificate and the Purchase Contract.

ITEM 3

2. The resolution of the Board of Trustees of the District (the “Resolution”) approving and authorizing the issuance of the Bonds, the execution and delivery by the District of the Trust Agreement, the Facility Lease, the Sublease and the Official Statement was duly adopted at a meeting of the Board of the District 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.

3. To the best of my knowledge after reasonable investigation, 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 District, to restrain or enjoin the issuance of the Bonds or in any way contesting or affecting the validity of the Bonds, the Trust Agreement, the Facility Lease or the Sublease.

4. The issuance of the Bonds and execution and delivery of the Trust Agreement, the Facility Lease, the Sublease and the Official Statement, the adoption of the Resolution, and compliance by the District with the provisions of the foregoing, under the circumstances contemplated thereby, do not and will not in any material respect conflict with or constitute on the part of the District a breach or default under any agreement or other instrument to which the District is a party (and of which I am aware after reasonable investigation) or by which it is bound (and of which I am aware after reasonable investigation) or any existing law, regulation, court order or consent decree to which the District is subject.

5. Based upon examinations which I have made and our discussions in conferences with certain officials of the District 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 (including the Appendices attached thereto), nothing has come to my attention which would lead me to believe that the information in the Official Statement relating to the District (other than financial and statistical data therein and incorporated therein by reference, and other than information relating to the DTC Book-Entry System, as to which no opinion is 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.

I express no opinion as to any matter other than as expressly set forth above. Without limiting the generality of the foregoing, I specifically express no opinion as to the status of the Bonds or the interest thereon, the Trust Agreement, the Resolution or Official Statement under any federal securities laws or any state securities or “Blue Sky” law or any federal, state or local tax law. Further, I express no opinion with respect to any indemnification, contribution, choice of law, choice of forum or waiver provisions contained in the District Documents, and I express no opinion on the laws of any jurisdiction other than the State of California and the United States of America.

This opinion is delivered to the District, the Trustee, the Underwriter and Bond Counsel, and is solely for the benefit of such parties and is not to be used, circulated, quoted or otherwise referred to or relied upon by any other person or for any other purpose, except that Manatt, Phelps & Phillips, LLP, bond counsel to the Authority, may rely on this opinion and include it in the transcript of proceedings relating to the Bonds.

Very truly yours,

APPENDIX B

POINTS TO BE COVERED IN OPINION OF TRUSTEE COUNSEL

1. The Trustee is a national trust and savings association duly organized and validly existing under the laws of the United States.
2. The Trustee has taken all corporate action necessary to assume the duties and obligations of Trustee under the Trust Agreement.
3. The Trustee has lawful authority for the authentication of the Bonds and the Bonds have been duly executed by the Trustee and delivered in accordance with the Trust Agreement and are entitled to the benefits of the Trust Agreement.
4. The Trustee has qualified under the Trust Agreement to act thereunder.
5. The Trust Agreement has been duly authorized, executed and delivered by the Trustee and assuming due authorization, execution and delivery by the other parties thereto is the valid, legal and binding agreement of the Trustee, enforceable in accordance with its terms, except as such enforcement may be limited by bankruptcy, insolvency, reorganization or other similar laws affecting the enforcement of creditors' rights in general and by general principles of equity (regardless of whether such enforcement is considered in a proceeding in equity or at law).
6. No consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over the Trustee that has not been obtained is or will be required for the execution and delivery by the Trustee of the Trust Agreement.

APPENDIX C

FORM OPINION OF COUNSEL TO THE AUTHORITY

[closing date]

San Dieguito Union High School District
Encinitas, California

E.J De La Rosa & Co., Inc,
San Francisco, California

U.S. Bank National Association
Los Angeles, California

\$_[_____]
San Dieguito Public Facilities Authority
Lease Revenue Bonds, Series 2012A
(Torrey Pines High School Projects)

Ladies and Gentlemen:

I have served as counsel to the San Dieguito Public Facilities Authority (the “Authority”) in connection with the issuance and sale by the Authority of the \$[_____] aggregate principal amount of San Dieguito Public Facilities Authority Lease Revenue Bonds, Series 2012A (Torrey Pines High School Projects) (the “Bonds”). As such counsel I have examined and am familiar with (i) the Joint Powers Agreement, dated October 22, 1998 (the “JPA Agreement”), between the San Dieguito Union High School District (the “District”) and the Community Facilities District No. 94-1 of the San Dieguito Union High School District, (ii) the Trust Agreement, dated as of [March 1], 2012, between the Authority and U.S. Bank National Association, as trustee (the “Trustee”), (iii) the Facility Lease, dated as of [March 1], 2012, between the District and the Authority (the “Facility Lease”), (iv) the Facility Sublease, dated as of [March 1], 2012, between the Authority and the District (the “Sublease”), (v) the Continuing Disclosure Certificate, dated as of [March 1], 2012, executed and delivered by the District (the “Continuing Disclosure Certificate”), (vi) the Bond Purchase Contract, dated _____, 2012, among the District, the Authority and E. J. De La Rosa & Co., Inc., as underwriter (the “Underwriter”) of the Bonds (the “Purchase Contract”); and (vii) an Official Statement of the Authority and the District relating to the Bonds, dated _____, 2012 (the “Official Statement”). In reviewing the documents and matters referred to above, the undersigned has assumed the genuineness of all documents and signatures presented and has not undertaken to verify independently, and has assumed, the accuracy of the factual matters represented, warranted or certified therein. The Trust Agreement, the Sublease, and the Purchase Contract are referred to herein collectively as the “Authority Documents.” Terms used herein but not defined herein shall have the meanings assigned to them in the Purchase Contract.

Based upon the foregoing, it is my opinion that:

1. The Authority is a joint exercise of powers agency duly organized and existing under the laws of the State of California.
2. The resolution of the Board of Directors of the Authority (the “Resolution”) approving and authorizing the issuance of the Bonds, the execution and delivery by the Authority of the Trust Agreement, the Facility Lease, the Sublease and the Official Statement was duly adopted at a

ITEM 3

meeting of the Board of Directors 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.

3. To the best of my knowledge after reasonable investigation, 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 Authority, to restrain or enjoin the issuance of the Bonds or in any way contesting or affecting the validity of the Bonds, the Trust Agreement, the Facility Lease or the Sublease.

4. The issuance of the Bonds and execution and delivery of the Trust Agreement, the Facility Lease, the Sublease and the Official Statement, the adoption of the Resolution, and compliance by the Authority with the provisions of the foregoing, under the circumstances contemplated thereby, do not and will not in any material respect conflict with or constitute on the part of the Authority a breach or default under any agreement or other instrument to which the Authority is a party (and of which I am aware after reasonable investigation) or by which it is bound (and of which I am aware after reasonable investigation) or any existing law, regulation, court order or consent decree to which the Authority is subject.

5. Based upon examinations which I have made and my discussions in conferences with certain officials of the Authority 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 (including the Appendices attached thereto), nothing has come to my attention which would lead me to believe that the information in the Official Statement relating to the Authority (other than financial and statistical data therein and incorporated therein by reference, and other than information relating to the DTC Book-Entry System, as to which no opinion is 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.

I express no opinion as to any matter other than as expressly set forth above. Without limiting the generality of the foregoing, I specifically express no opinion as to the status of the Bonds or the interest thereon, the Trust Agreement, the Resolution or Official Statement under any federal securities laws or any state securities or "Blue Sky" law or any federal, state or local tax law. Further, I express no opinion with respect to any indemnification, contribution, choice of law, choice of forum or waiver provisions contained in the Authority Documents, and I express no opinion on the laws of any jurisdiction other than the State of California and the United States of America.

This opinion is delivered to the District, the Trustee, the Underwriter and Bond Counsel, and is solely for the benefit of such parties and is not to be used, circulated, quoted or otherwise referred to or relied upon by any other person or for any other purpose, except that Manatt, Phelps & Phillips, LLP, bond counsel to the Authority, may rely on this opinion and include it in the transcript of proceedings relating to the Bonds.

Very truly yours,

APPENDIX D

FORM SUPPLEMENTAL OPINION OF SPECIAL TAX COUNSEL

[closing date]

E.J. De La Rosa & Co., Inc.
San Francisco, California

\$ _____
San Dieguito Public Facilities Authority
Lease Revenue Bonds, Series 2012A
(Torrey Pines High School Projects)
Supplemental Opinion

[To Come from Special Tax Counsel]

EXHIBIT D

Form of Lease Agreement

Recording requested by
and return to:

SAN DIEGUITO UNION HIGH SCHOOL DISTRICT
c/o Manatt, Phelps & Phillips, LLP
11355 West Olympic Boulevard
Los Angeles, California 90064

Attention: Masood Sohaili, Esq.

FACILITY LEASE

by and between the

SAN DIEGUITO UNION HIGH SCHOOL DISTRICT

and the

SAN DIEGUITO PUBLIC FACILITIES AUTHORITY

Dated as of [March 1], 2012

THIS TRANSACTION IS EXEMPT FROM FILING FEES PURSUANT TO CALIFORNIA GOVERNMENT CODE SECTION 6103 AND
TRANSFER TAXES PURSUANT TO CALIFORNIA REVENUE AND TAXATION CODE SECTION 11928

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FACILITY LEASE

This Facility Lease, dated as of [March 1], 2012 (this “Lease” or “Facility Lease”), by and between the SAN DIEGUITO UNION HIGH SCHOOL DISTRICT, CALIFORNIA, a school district duly organized and existing under and by virtue of the laws of the State of California (herein called the “District”), as lessor, and the SAN DIEGUITO PUBLIC FACILITIES AUTHORITY, a public entity and agency, duly organized and existing pursuant to an Agreement entitled “Joint Exercise of Powers Agreement” by and between the San Dieguito Union High School District and Community Facilities District No. 94-1 of the San Dieguito Union High School District (the “Authority”), as lessee;

WITNESSETH:

WHEREAS, the Board of Trustees (the “Board”) of the District has determined that it is necessary and desirable and that the prudent management of the fiscal affairs of the District requires that the District cause the Authority to execute and deliver lease revenue bonds entitled “[San Dieguito Public Facilities Authority Lease Revenue Bonds, Series 2012A (Torrey Pines High School Projects)]” (the “Bonds”) pursuant to a Trust Agreement, dated as of March 1, 2012, by and between U.S. Bank National Association, as Trustee (herein called the “Trustee”) and the Authority (the “Trust Agreement”), and to apply the proceeds of sale to pay the rental under this Facility Lease, which the district will in turn apply to finance certain public school improvements (the “Project”);

WHEREAS, the District intends to lease to the Authority and the Authority intends to lease from the District the Facility described in Section 1 hereof;

WHEREAS, the District is the owner in fee of the Facility and has sufficient right, title and interest to lease the Facility to the Authority hereunder;

WHEREAS, under a Facility Sublease, dated as of [March 1], 2012, and recorded concurrently herewith (herein called the “Facility Sublease”), between the Authority and the District, the District will be obligated to make base rental payments for the sublease of the Facility; and

NOW, THEREFORE, IT IS HEREBY MUTUALLY AGREED as follows:

SECTION 1. Demised Premises.

The District hereby leases to the Authority and the Authority hereby hires from the District, on the terms and conditions hereinafter set forth, the real property situated in the San Dieguito Union High School District, State of California, and described in Exhibit A attached hereto and made a part hereof (herein called the “Demised Premises”), including the public school facilities and improvements situated thereon other than and specifically excluding the public school facilities and improvements financed directly or indirectly pursuant to the provisions of the Mello Roos Community Facilities Act of 1982, as amended, being Chapter 2.5 of Part 1, Division 2, Title 5 of the Government Code of the State of California (collectively with the Demised Premises, the “Facility”), together with any additional real property added to the

ITEM 3

Demised Premises by any supplement or amendment hereto, or any real property substituted for all or any portion of such property in accordance with this Lease and the Trust Agreement; subject, however, to any conditions, reservations, and easements of record or known to the District. Property constituting the “Facility” may be substituted or released hereunder so long as the requirements of Section 2.03 or Section 7.03 of the Sublease are satisfied.

SECTION 2. Term.

The term of this Lease as to the Facility shall commence on [March __], 2012 and shall end on [March 1], 2020 unless such term is extended or sooner terminated as hereinafter provided. If on such date the Base Rental Payments attributable to the Facility and all other amounts then due under the Facility Sublease shall not be fully paid, or if the rental or other amounts payable under the Facility Sublease shall have been abated at any time and for any reason, then the term of this Lease shall be extended until ten (10) days after the Base Rental Payments and all other amounts then due under the Facility Sublease shall be fully paid, except that the term of this Lease shall in no event be extended beyond ten (10) years after the initial termination date. If prior to such date the Base Rental Payments and all other amounts then due under the Facility Sublease shall be fully paid, the term of this Lease shall end ten (10) days thereafter or upon written notice by the District to the Authority, whichever is earlier.

SECTION 3. Rental

The Authority shall pay to the District from the proceeds of the Bonds as and for rental hereunder an amount, not less than \$[_____], equal to the sum of the proceeds of the Bonds to be transferred to the District for the Project and proceeds applied to pay costs of issuance of the Bonds

SECTION 4. Purpose.

The Authority shall use the Facility solely for the purpose of leasing the Facility to the District pursuant to the Facility Sublease and for such purposes as may be incidental thereto; provided, that in the event of default by the District under the Facility Sublease the Authority may exercise the remedies provided in the Facility Sublease.

SECTION 5. Environmental Law and Regulations.

(a) Definitions used in this Section 5 and in Section 6.

“Asbestos Containing Materials” shall mean material in friable form containing more than one percent (1%) of the asbestiform varieties of (a) chrysotile (serpentine); (b) crocidolite (ricbeckite); (c) amosite (cummington-itegrinerite); (d) anthophyllite; (e) tremolite; and (f) antinolite.

“Asbestos Operations and Maintenance Plan” shall mean that written plan for the Facility relating to monitoring and maintaining all Asbestos Containing Materials used or located on the Demised Premises.

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“Environmental Regulations” shall mean all Laws and Regulations, now or hereafter in effect, with respect to Hazardous Materials, including, without limitation, the Comprehensive Environmental Response, Compensation, and Liability Act, as amended (42 U.S.C. Section 9601, et seq.) (together with the regulations promulgated thereunder, “CERCLA”), the Resource Conservation and Recovery Act, as amended (42 U.S.C. Section 6901, et seq.) (together with the regulations promulgated thereunder, “RCRA”), the Emergency Planning and Community Right-to-Know Act, as amended (42 U.S.C. Section 11001, et seq.) (together with the regulations promulgated thereunder, “Title III”), the Clean Water Act, as amended (33 U.S.C. Section 1321, et seq.) (together with the regulations promulgated thereunder, “CWA”), the Clean Air Act, as amended (42 U.S.C. Section 7401, et seq.) (together with the regulations promulgated thereunder, “CAA”) and the Toxic Substances Control Act, as amended (15 U.S.C. Section 2601, et seq.) (together with the regulations promulgated thereunder, “TSCA”), and any state or local similar laws and regulations and any so-called local, state or federal “superfund” or “superlien” law.

“Hazardous Materials” shall mean any material amount of flammable explosives, polychlorinated biphenyl compounds, heavy metals, chlorinated solvents, cyanide, radon, petroleum products, asbestos or any Asbestos Containing Materials, methane, radioactive materials, pollutants, hazardous materials, hazardous wastes, hazardous, toxic, or regulated substances or related materials, as defined in CERCLA, RCRA, CWA, CAA, TSCA and Title III, and the regulations promulgated pursuant thereto, and in all other Environmental Regulations applicable to the District, any of the Demised Premises, the Facility or the business operations conducted by the District thereon.

“Laws and Regulations” shall mean any applicable law, regulation, code, order, rule, judgment or consent agreement, including, without limitation, those relating to zoning, building, use and occupancy, fire safety, health, sanitation, air pollution, ecological matters, environmental protection, hazardous or toxic materials, substances or wastes, conservation, parking, architectural barriers to the handicapped, or restrictive covenants or other agreements affecting title to the Facility.

(b) No portion of the Facility is located in an area of high potential incidence of radon which has an unventilated basement or subsurface portion which is occupied or used for any purpose other than the foundation or support of the Facility.

(c) The District has not received any notice from any insurance company which has issued a policy with respect to the Facility or from the applicable state or local government agency responsible for insurance standards (or any other body exercising similar functions) requiring the performance of any repairs, alterations or other work, which repairs, alterations or other work have not been completed at the Facility. The District has not received any notice of default or breach which has not been cured under any covenant, condition, restriction, right-of-way, reciprocal easement agreement or other easement affecting the Demised Premises which is to be performed or complied with by it.

SECTION 6. Environmental Compliance.

(a) Neither the District nor the Authority shall use or permit the Facility or any part thereof to be used to generate, manufacture, refine, treat, store, handle, transport or dispose of, transfer, produce or process Hazardous Materials, except, and only to the extent, if necessary to maintain the improvements that are part of the Facility or where Hazardous Materials are involved in classroom or laboratory instruction appropriate for grades 9-12 and then, only in compliance with all Environmental Regulations, and any state equivalent laws and regulations, nor shall it permit, as a result of any intentional or unintentional act or omission on its part or by any tenant, subtenant, licensee, guest, invitee, contractor, employee and agent, the storage, transportation, disposal or use of Hazardous Materials or the pumping, spilling, leaking, disposing of, emptying, discharging or releasing (hereinafter collectively referred to as "Release") or threat of Release of Hazardous Materials on, from or beneath any part of the Facility or onto any other real property excluding, however, those Hazardous Materials in those amounts ordinarily found in the inventory of a high school building, the use, storage, treatment, transportation and disposal of which shall be in compliance with all Environmental Regulations. Upon the occurrence of any Release or threat of Release of Hazardous Materials, the District shall promptly commence and perform, or cause to be commenced and performed promptly, without cost to the Trustee, the Authority, all investigations, studies, sampling and testing, and all remedial, removal and other actions necessary to clean up and remove all Hazardous Materials so Released, on, from or beneath any part of the Facility, in compliance with all Environmental Regulations. Notwithstanding anything to the contrary contained herein, underground storage tanks shall only be permitted subject to compliance with subsection (d) and only to the extent necessary to maintain the improvements that are part of the Facility.

(b) The District and the Authority shall comply with, and shall cause its tenants, subtenants, licensees, guests, invitees, contractors, employees and agents to comply with, all Environmental Regulations, and shall keep the Facility free and clear of any liens imposed pursuant thereto (provided, however, that any such liens, if not discharged, may be bonded). The District and the Authority shall cause all of District's subtenants, agents, licensees, employees, contractors, guests and invitees and the guests and invitees of all of the foregoing to comply with all Environmental Regulations with respect to the Facility; provided, however, that notwithstanding that a portion of this covenant is limited to the District and the Authority's use of its best efforts, the Authority and the District shall remain solely responsible for ensuring such compliance and such limitation shall not diminish or affect in any way the District and the Authority's obligations contained in subsection (c) hereof. Upon receipt of any notice from any Person with regard to the Release of Hazardous Materials on, from or beneath any part of the Facility, the District and the Authority shall give prompt written notice thereof to the Trustee (and, in any event, prior to the expiration of any period in which to respond to such notice under any Environmental Regulation).

(c) Irrespective of whether any representation or warranty contained in Section 5 is not true or correct, the District and the Authority shall, to the extent permitted by law, defend, indemnify and hold harmless the Trustee and the Bondholders, its partners, depositors and each of its and their employees, agents, officers, directors, trustees, successors and assigns, from and against any claims, demands, penalties, fines, attorneys' fees (including,

ITEM 3

without limitation, attorneys' fees incurred to enforce the indemnification contained in this Section 6), consultants' fees, investigation and laboratory fees, liabilities, settlements (five (5) Business Days' prior notice of which the Authority or the Trustee, as appropriate, shall have delivered to the District and the Authority), court costs, damages, losses, costs or expenses of whatever kind or nature, known or unknown, contingent or otherwise, occurring in whole or in part, arising out of, or in any way related to, (i) the presence, disposal, Release, threat of Release, removal, discharge, storage or transportation of any Hazardous Materials on, from or beneath any party of the Facility, (ii) any personal injury (including wrongful death) or property damage (real or personal) arising out of or related to such Hazardous Materials, (iii) any lawsuit brought or threatened, settlement reached (five (5) Business Days' prior notice of which the Authority or the Trustee, as appropriate, shall have delivered to the District and the Authority), or governmental order relating to Hazardous Materials on, from or beneath any part of the Facility, (iv) any violation of Environmental Regulations or subsection (a) or (b) hereof by it or any of its agents, tenants, employees, contractors, licensees, guests, subtenants or invitees, and (v) the imposition of any governmental lien for the recovery of environmental cleanup or removal costs. To the extent that the Authority or the District is strictly liable under any Environmental Regulation, its obligation to the Trustee, Bondholders and the other indemnitees under the foregoing indemnification shall likewise be without regard to fault on its part with respect to the violation of any Environmental Regulation which results in liability to any indemnitee. Its obligations and liabilities under this Section 6(c) shall survive any termination of the Facility Sublease or exercise of any remedies thereunder, and the satisfaction of all Bonds.

(d) The District and the Authority shall conform to and carry out a reasonable program of maintenance and inspection of any underground storage tanks, and shall maintain, repair, and replace such tanks only in accordance with Laws and Regulations, including but not limited to Environmental Regulations.

SECTION 7. Owner in Fee.

The District covenants that it is the owner in fee of the Demised Premises. The District further covenants and agrees that if for any reason this covenant proves to be incorrect, the District will either institute eminent domain proceedings to condemn the property or institute a quiet title action to clarify the District's title, and will diligently pursue such action to completion. The District further covenants and agrees that it will hold the Authority and the Bond owners harmless from any loss, cost or damages resulting from any breach by the District of the covenants contained in this Section.

SECTION 8. Assignments and Subleases.

Unless the District shall be in default under the Facility Sublease, the Authority may not assign its rights under this Lease or sublet the Facility, except pursuant to the Facility Sublease, without the written consent of the District, which consent may be withheld in the District's sole and absolute discretion. Upon the occurrence of a default by the District under the Facility Sublease, the Authority may assign or sell its rights under this Lease or sublet the Facility, without the consent of the District.

SECTION 9. Right of Entry; Easements.

The District reserves the right for any of its duly authorized representatives to enter upon the Facility at any reasonable time to inspect the same or to make any repairs, improvements or changes necessary for the preservation thereof.

The District agrees, upon written request from the Authority, to grant to the Authority a nonexclusive easement of ingress and egress for persons, vehicles and utilities, twenty (20) feet wide, from each parcel of the Demised Premises not having access to a public street, and appurtenant to such parcel, over property owned by the District to a public street. The District, at any time, may satisfy its obligation contained in the preceding sentence as to any such parcel of the Demised Premises by granting to the Authority an easement complying with the requirements of the preceding sentence from such parcel of the Demised Premises to a public street.

SECTION 10. Termination.

The Authority agrees, upon the termination of this Lease, to quit and surrender the Facility in the same good order and condition as it was at the time of commencement of the term hereunder, reasonable wear and tear excepted, and the Authority further agrees that any permanent improvements and structures existing upon the Demised Premises or otherwise part of the Facility at the time of the termination of this Lease shall remain thereon and title thereto shall vest in the District.

Upon the exercise of the option to purchase set forth in Section 7.03 of the Facility Sublease and upon payment of the option price required by said section, the term of this Lease shall terminate as to the portion of the Facility being so purchased.

SECTION 11. Default.

In the event the Authority shall be in default in the performance of any obligation on its part to be performed under the terms of this Lease, which default continues for one hundred and eighty (180) days following notice and demand for correction thereof to the Authority and the Trustee, the District may exercise any and all remedies granted by law, except that no merger of this Lease and of the Facility Sublease shall be deemed to occur as a result thereof; provided, however, that the District shall have no power to terminate this Lease by reason of any default on the part of the Authority if such termination would affect or impair any assignment or sublease of all or any part of the Facility then in effect between the Authority and any assignee or subtenant of the Authority (other than the District under the Facility Sublease). So long as any such assignee or subtenant of the Authority shall duly perform the terms and conditions of this Lease, such assignee or subtenant shall be deemed to be and shall become the tenant of the District hereunder and shall be entitled to all of the rights and privileges granted under any such assignment; provided, further, that so long as any Bonds are outstanding and unpaid in accordance with the terms thereof, the rentals or any part thereof payable to the Authority or Trustee shall continue to be paid to the Trustee on behalf of the Bond owners.

SECTION 12. Quiet Enjoyment.

The Authority at all times during the term of this Lease, shall peaceably and quietly have, hold and enjoy all of the Demised Premises then leased hereunder.

SECTION 13. Waiver of Personal Liability.

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

The Authority and its members, directors, officers, agents, employees and assignees shall not be liable to the District 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 Facility and the Project. The District, to the extent permitted by law, shall indemnify and hold the Authority and its members, directors, officers, agents, employees and assignees, harmless from, and defend each of them against, any and all claims, liens and judgments arising from the construction or operation of the Facility or the Project, including, without limitation, death of or injury to any person or damage to property whatsoever occurring in, on or about the Facility or the Project regardless of responsibility for negligence, but excepting the active negligence of the person or entity seeking indemnity.

SECTION 14. Taxes.

The District 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 Facility.

SECTION 15. Eminent Domain.

In the event the whole or any part of the Demised Premises or the Facility is taken by eminent domain proceedings, the interest of the Authority shall be recognized and is hereby determined to be the amount of the then unpaid or outstanding Bonds and all other amounts due under the Trust Agreement and the Facility Sublease attributable to such part of the Facility and such amount shall be paid to the Trustee, and the balance of the award, if any, shall be paid to the District.

SECTION 16. Partial Invalidity.

If any one or more of the terms, provisions, covenants or conditions of this Lease shall to any extent be declared invalid, unenforceable, void or voidable for any reason whatsoever by a court of competent jurisdiction, the finding or order or decree of which becomes final, none of the remaining terms, provisions, covenants and conditions of this Lease shall be

affected thereby, and each provision of this Lease shall be valid and enforceable to the fullest extent permitted by law.

SECTION 17. Notices.

All notices, statements, demands, consents, approvals, authorizations, offers, designations, requests or other communications hereunder by either party to the other shall be in writing and shall be sufficiently given and served upon the other party if delivered personally or if mailed by United States registered or certified mail, return receipt requested, postage prepaid, in care of San Dieguito Union High School District, 710 Encinitas Boulevard, Encinitas, California 92024, in all cases with a copy to the Trustee, or to such other addresses as the respective parties may from time to time designate by notice in writing.

SECTION 18. 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.

SECTION 19. Amendment.

The Authority and the District may at any time agree to the amendment of this Lease; provided, however, that the Authority and the District agree and recognize that this Lease is entered into as contemplated by the terms of the Trust Agreement and, accordingly, that any such amendment shall only be made or effected in accordance with and subject to the terms of the Trust Agreement.

SECTION 20. Execution.

This Lease 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. It is also agreed that separate counterparts of this Lease may separately be executed by the District and the Authority, all with the same force and effect as though the same counterpart had been executed by both the District and the Authority.

[Remainder of page intentionally left blank.]

ITEM 3

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

SAN DIEGUITO UNION HIGH SCHOOL
DISTRICT, as Lessor

By _____
Associate Superintendent of Business Services

Attest:

By _____
District Clerk

SAN DIEGUITO PUBLIC FACILITIES
AUTHORITY, as Lessee

By _____
Chairperson

Attest:

By _____
Authority Secretary

EXHIBIT A

Description of Demised Premises

Real property in the City of San Diego, County of San Diego, State of California, described as follows:

[To be inserted.]

EXHIBIT E

Form of Sublease Agreement

Recording requested by
and return to:

SAN DIEGUITO UNION HIGH SCHOOL DISTRICT
c/o Manatt, Phelps & Phillips, LLP
11355 West Olympic Boulevard
Los Angeles, California 90064

Attention: Masood Sohaili, Esq.

FACILITY SUBLEASE

by and between

SAN DIEGUITO PUBLIC FACILITIES AUTHORITY

and the

SAN DIEGUITO UNION HIGH SCHOOL DISTRICT

Dated as of [March 1], 2012

THIS TRANSACTION IS EXEMPT FROM FILING FEES PURSUANT TO CALIFORNIA GOVERNMENT CODE SECTION 6103 AND
TRANSFER TAXES PURSUANT TO CALIFORNIA REVENUE AND TAXATION CODE SECTION 11928

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FACILITY SUBLEASE

This Facility Sublease, dated as of [March 1], 2012, by and between SAN DIEGUITO PUBLIC FACILITIES AUTHORITY (the “Authority”), a joint exercise of powers authority duly organized and existing under and by virtue of the laws of the State of California, as lessor, and the SAN DIEGUITO UNION HIGH SCHOOL DISTRICT, CALIFORNIA (the “District”), a school district duly organized and existing under and by virtue of the laws of the State of California, as lessee;

WITNESSETH:

WHEREAS, the Board of Trustees (the “Board”) of the District has determined that it is necessary and desirable and that the prudent management of the fiscal affairs of the District requires that the District cause the Authority to execute and deliver lease revenue bonds entitled “San Dieguito Public Facilities Authority Lease Revenue Bonds, Series 2012A (Torrey Pines High School Projects)” (the “Bonds”) pursuant to a Trust Agreement, dated as of [March 1], 2012, by and between U.S. Bank National Association, as Trustee (herein called the “Trustee”) and the Authority (the “Trust Agreement”);

WHEREAS, to facilitate the issuance and repayment of the Bonds, the District is leasing its Torrey Pines High School to the Authority pursuant to and as further described in a Facility Lease dated as of [March 1], 2012, and recorded concurrently herewith (herein called the “Facility Lease”), between the District and the Authority;

WHEREAS, the Authority will apply the proceeds of the sale of the Bonds to pay the lease payment under the Facility Lease;

WHEREAS, the District will apply the lease payment received under the Facility Lease to finance certain public school improvements (the “Project”);

WHEREAS, under this Facility Sublease, the District will be obligated to make base rental payments to the Authority for the sublease, from the Authority, of the Facility (as defined below);

NOW, THEREFORE, in consideration of the mutual covenants herein, 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 Sublease, 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 Trust Agreement.

Additional Payments

The term “Additional Payments” means all amounts payable to the Authority or the Trustee or any other person from the District as Additional Payments pursuant to Section 3.02 hereof.

Authority

The term “Authority” means (i) San Dieguito Public Facilities Authority, acting as lessor hereunder; (ii) any surviving, resulting or transferee entity; and (iii) except where the context requires otherwise, any assignee of the Authority.

Base Rental Payments

The term “Base Rental Payments” means all amounts payable to the Authority from the District as Base Rental Payments pursuant to Section 3.01 hereof.

Base Rental Payment Schedule

The term “Base Rental Payment Schedule” means the schedule of Base Rental Payments payable to the Authority by the District pursuant to Section 3.01 hereof and attached hereto as Exhibit B. The Base Rental Payment Schedule shall be modified as provided herein in connection with any pre-payment of the Base Rental Payments.

Bonds

The term “Bonds” means the Bonds designated “San Dieguito Public Facilities Authority Lease Revenue Bonds, Series 2012A (Torrey Pines High School Projects)” issued by the Authority under and pursuant to Section 2.01 of the Trust Agreement.

District

The term “District” means the San Dieguito Union High School District, California, a school district duly organized and existing under and by virtue of the laws of the State of California.

Demised Premises

The term “Demised Premises” means that certain real property situated in the San Dieguito Union High School District, State of California, described in Exhibit A attached hereto and made a part hereof, together with any additional real property added thereto or substituted therefor in accordance with this Facility Sublease and the Trust Agreement by any supplement or amendment hereto; subject, however, to any conditions, reservations, and easements of record or known to the District.

Event of Default

The term “Event of Default” shall have the meaning specified in Section 6.01 hereof.

Facility

The term “Facility” shall mean Torrey Pines High School located on and including the Demised Premises (other than and specifically excluding the public school facilities and improvements financed directly or indirectly pursuant to the provisions of the Mello Roos Community Facilities Act of 1982, as amended, being Chapter 2.5 of Part 1, Division 2, Title 5 of the Government Code of the State of California) together with any additional property added or substituted for all or any portion of such property in accordance with this Sublease and the Trust Agreement and less any property released in accordance with this Sublease and the Trust Agreement; subject, however, to any conditions, reservations, and easements of record or known to the District.

Facility Lease

The term “Facility Lease” shall mean the Facility Lease dated as of [March 1], 2012 whereby the District leases the Facility to the Authority, as originally executed and recorded or as it may from time to time be supplemented, modified or amended pursuant to the provisions hereof and of the Trust Agreement.

Facility Sublease or Sublease

The term “Facility Sublease” or “Sublease” means this sublease, as originally executed and recorded or as it may from time to time be supplemented, modified or amended pursuant to the provisions hereof and of the Trust Agreement.

Project

The term “Project” means the various capital projects of the District, and payment of any costs associated with financing of said projects, as set forth in Exhibit C hereto, including, but not limited to, improvements to Torrey Pines High School and various other capital improvements and equipment within the District, as the same may be determined from time to time by the District.

Rental Payment Period

The term “Rental Payment Period” means the twelve month period commencing [March 2] of each year and ending the following [March 1].

Trust Agreement

The term “Trust Agreement” means the Trust Agreement, dated as of [March 1], 2012, by and between the Trustee and the Authority, and acknowledged by the District, pursuant to which the Trustee will execute and deliver the Bonds, as originally executed or as it may from

time to time be supplemented, modified or amended by a Supplemental Trust Agreement entered into pursuant to the provisions of the Trust Agreement.

ARTICLE II

SUBLEASE OF DEMISED PREMISES AND PROJECT; TERM

SECTION 2.01. Sublease of Facility. The Authority hereby subleases to the District and the District hereby subleases from the Authority the Facility, including the Demised Premises, subject, however, to all easements, encumbrances, and restrictions that exist at the time of the commencement of the term of this Sublease. The District hereby agrees and covenants during the term of this Sublease that, except as hereinafter provided, it will use the Facility for public and District purposes so as to afford the public the benefits contemplated by this Sublease.

SECTION 2.02. Term; Occupancy. The term of this Sublease shall commence on the date of recordation of this Sublease in the office of the County Recorder of the County of San Diego, State of California, or on [Closing Date], 2012 whichever is earlier, and shall end on [March 1], 2020, unless such term is extended or sooner terminated as hereinafter provided. If on such date, the Bonds and all other amounts then due hereunder shall not be fully paid, or if the rental payable hereunder shall have been abated at any time and for any reason, then the term of this Sublease shall be extended until all Bonds corresponding to the Base Rental Payments and all other amounts then due hereunder shall be fully paid, except that the term of this Sublease shall in no event be extended beyond ten (10) years after such initial termination date. If prior to such date, all Bonds and all other amounts then due hereunder shall be fully paid, or provision therefor made, the term of this Sublease shall end ten (10) days thereafter or upon written notice by the District to the Authority, whichever is earlier.

SECTION 2.03. Substitution. The District and the Authority may substitute real property in place of the Facility for purposes of the Facility Sublease, but only after the District shall have filed with the Authority and the Trustee, with copies to each rating agency then providing a rating for the Bonds, all of the following:

(a) Executed copies of the Facility Sublease or amendments thereto and the Facility Lease or amendments thereto containing the amended description of the Facility, including the Demised Premises, including the legal description of the Demised Premises as modified if necessary.

(b) A Certificate of the District with copies of the Facility Sublease and the Facility Lease, if needed, or amendments thereto containing the amended description of the Facility stating that such documents have been duly recorded in the official records of the County Recorder of the County of San Diego.

(c) A Certificate of the District, together with an appraisal performed by an independent appraiser, evidencing that the annual fair rental value of the Facility which will constitute the Facility after such substitution will be at least equal to 100% of the maximum amount of Base Rental Payments becoming due in the then current year ending [March 1] or in any subsequent year ending [March 1].

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(d) A Certificate of the District stating that, based upon review of such instruments, certificates or any other matters described in such Certificate of the District, the District has good merchantable title to the Facility which will constitute the Facility after such substitution. The term "Good Merchantable Title" shall mean such title as is satisfactory and sufficient for the needs and operations of the District.

(e) A Certificate of the District stating that such substitution does not adversely affect the District's use and occupancy of the Facility.

(f) An Opinion of Counsel (as such term is defined in the Trust Agreement) stating that such amendment or modification (i) is authorized or permitted by the Constitution and laws of the State and the Trust Agreement; (ii) complies with the terms of the Constitution and laws of the State and of the Trust Agreement; (iii) will, upon the execution and delivery thereof, be valid and binding upon the Authority and the District; and (iv) will not cause interest payable in respect of the Bonds, if any, to be included in gross income for California state or federal income tax purposes.

ARTICLE III

RENTAL PAYMENTS; USE OF PROCEEDS

SECTION 3.01. Base Rental Payments. The District agrees to pay the Authority, as Base Rental Payments for the use and occupancy of the Facility, including the Demised Premises (subject to the provisions of Sections 3.04, 3.06 and 7.01 of this Sublease) the rental payments in the amounts shown on the Base Rental Payment Schedule attached hereto as Exhibit B. Notwithstanding the obligation to pay the Authority, the Authority directs the District to remit the Base Rental Payments directly to the Trustee. The first Base Rental Payment shall be payable on August 15, 2012, and subsequent Base Rental Payments shall be due on each and February 15 and August 15 thereafter continuing until the date of termination of this Sublease. The Base Rental Payment due on August 15, 2012 shall be for the use of the Facility for the year ending on [March 1], 2013. The semi-annual Base Rental Payments thereafter shall be for the use of the Facility for each subsequent year ending on [March 1].

If the term of this Sublease shall have been extended pursuant to Section 2.02 hereof, Base Rental Payments shall continue to be due on February 15 and August 15 in each year, and payable prior thereto as hereinabove described, continuing to and including the date of termination of this Sublease. Upon such extension of this Sublease, the District shall deliver to the Trustee a Certificate setting forth the extended rental payment schedule so that the payments will in the aggregate be sufficient to pay in full the interest on, if any, and the principal of, the Bonds and to pay any Additional Payments due or to become due.

Notwithstanding the District's obligation to make Base Rental Payments as shown on Exhibit B, (a) the District's obligation to make Base Rental Payments on any date shall be reduced by amounts being held by the Trustee in the Revenue Fund under the Trust Agreement on such date and (b) if amounts in the Reserve Fund held under the Trust Agreement are sufficient to pay all remaining Base Rental Payments under this Facility Sublease, no further Base Rental Payments need be paid by the District.

SECTION 3.02. Additional Payments. The District shall also pay such amounts (herein called the “Additional Payments”) as shall be required by the Authority for the payment of all costs and expenses incurred by the Authority in connection with the execution, performance or enforcement of this Sublease and the Trust Agreement, in connection with its interest in the Facility and the sublease of the Facility to the District, including but not limited to payment of all fees, costs and expenses and all administrative costs of the Authority related to the Facility including, without limiting the generality of the foregoing, salaries and wages of employees, all expenses, compensation and indemnification of the Trustee payable by the Authority under the Trust Agreement, fees of auditors, accountants, attorneys or architects, and all other 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 Bonds or of the Trust Agreement; but not including in Additional Payments amounts required to pay the principal of or interest, if any, on the Bonds.

Such Additional Payments shall be billed to the District by the Authority or the Trustee from time to time, together with a statement certifying that the amount billed has been paid by the Authority or by the Trustee on behalf of the Authority, for one or more of the items above described, or that such amount is then payable by the Authority or the Trustee for such items. Amounts so billed shall be paid by the District to the billing party within 30 days after receipt of the bill by the District. The District reserves the right to audit billings for Additional Payments although exercise of such right shall in no way affect the duty of the District to make full and timely payment of all Additional Payments.

The Authority may in the future issue bonds and may in the future enter into leases to finance facilities other than the Project. The administrative costs of the Authority shall be allocated among said facilities and the Facility, as hereinafter in this paragraph provided. The fees of the Trustee under the Trust Agreement, and any other expenses directly attributable to the Facility shall be included in the Additional Payments payable hereunder. The fees of any trustee or paying agent under any Agreement securing bonds of the Authority or any trust agreement other than the Trust Agreement, and any other expenses directly attributable to any facilities other than the Facility, shall not be included in Additional Payments payable hereunder. Any expenses of the Authority not directly attributable to any particular project of the Authority shall be equitably allocated among all such projects, including the Project, in accordance with sound accounting practice. In the event of any question or dispute as to such allocation, the written opinion of an independent firm of certified public accountants, employed by the Authority to consider the question and render an opinion thereon, shall be a final and conclusive determination as to such allocation. The Trustee may conclusively rely upon the Written Request of the Authority, with the approval of an Authorized Officer of the District, or a duly authorized representative of the District, endorsed thereon, in making any determination that costs are payable as Additional Payments hereunder, and shall not be required to make any investigation as to whether or not the items so requested to be paid are expenses of operation of the Facility.

SECTION 3.03. Fair Rental Value. The Base Rental Payments and Additional Payments for each rental period during the term of this Sublease shall constitute the

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total rental for said rental period and shall be paid by the District in each rental payment period for and in consideration of the right of use and occupancy of, and continued quiet use and enjoyment of, the Facility, including the Demised Premises, during each such period for which said rental is to be paid. The parties hereto have agreed and determined that such total rental payable for each twelve-month period beginning [March 2] represents the fair rental value of the Facility, including the Demised Premises for each such period. In making such determination, consideration has been given to the costs of acquisition, design, construction and financing of the Facility, other obligations of the parties under this Sublease, the uses and purposes which may be served by the Facility and the benefits therefrom which will accrue to the District and the general public.

SECTION 3.04. Payment Provisions. Each installment of rental payable hereunder shall be paid in lawful money of the United States of America to or upon the order of the Authority at the corporate trust office of the Trustee, or such other place as the Authority shall designate. Any such installment of rental accruing hereunder which shall not be paid when due and payable under the terms of this Sublease shall bear interest at the rate of twelve percent (12%) per annum, or such lesser rate of interest as may be permitted by law, from the date when the same is due hereunder until the same shall be paid. Notwithstanding any dispute between the Authority and the District, the District 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 District 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 shall be refunded at the time of such determination.

All payments received shall be applied first to the Base Rental Payments due hereunder and thereafter to all Additional Payments due hereunder, but no such application of any payments which are less than the total rental due and owing shall be deemed a waiver of any default hereunder.

Rental is subject to abatement as provided in Section 3.06.

Nothing contained in this Sublease shall prevent the District from making from time to time contributions or advances to the Authority for any purpose now or hereafter authorized by law, including the making of repairs to, or the restoration of, the Facility in the event of damage to or the destruction of the Facility.

SECTION 3.05. Appropriations Covenant. The District covenants to take such action as may be necessary to include all Base Rental Payments and Additional Payments due hereunder in its annual budgets, to make necessary annual appropriations for all Base Rental Payments and Additional Payments as shall be required to provide funds in each year for Base Rental Payments and Additional Payments. The District will deliver to the Authority and the Trustee within sixty (60) days of adoption of the District budget a Certificate of the District stating that the budget as adopted appropriates all moneys necessary for the payment of Base Rental Payments and Additional Payments hereunder. The covenants on the part of the District 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 District 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 District to carry out and perform the covenants and agreements in this Sublease agreed to be carried out and performed by the District.

The Authority and the District understand and intend that the obligation of the District to pay Base Rental Payments and Additional Payments hereunder shall constitute a current expense of the District and shall not in any way be construed to be a debt of the District in contravention of any applicable constitutional or statutory limitation or requirement concerning the creation of indebtedness by the District, nor shall anything contained herein constitute a pledge of the general tax revenues, funds or moneys of the District. Base Rental Payments and Additional Payments due hereunder shall be payable only from current funds which are budgeted and appropriated or otherwise legally available for the purpose of paying Base Rental Payments and Additional Payments or other payments due hereunder as consideration for use of the Facility. This Sublease shall not create an immediate indebtedness for any aggregate payments which may become due hereunder in the event that the term of the Sublease is continued. The District has not pledged the full faith and credit of the District, the State of California or any agency or department thereof to the payment of the Base Rental Payments and Additional Payments or any other payments due hereunder.

SECTION 3.06. Rental Abatement. The Base Rental Payments and Additional Payments shall be abated proportionately during any period in which by reason of any damage or destruction (other than by condemnation which is hereinafter provided for) there is substantial interference with the use and occupancy of the Facility by the District, in the proportion in which the initial cost of that portion of the Facility rendered unusable bears to the initial cost of the whole of the Facility, including the Demised Premises. Such abatement shall continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of any such damage or destruction, this Sublease shall continue in full force and effect and the District waives any right to terminate this Sublease by virtue of any such damage or destruction.

SECTION 3.07. Use of Proceeds. The parties hereto agree that the proceeds of the Bonds will be used to finance the Project and to pay the costs of issuing the Bonds and incidental and related expenses.

ARTICLE IV

MAINTENANCE; ALTERATIONS AND ADDITIONS

SECTION 4.01. Maintenance and Utilities. During such time as the District is in possession of the Facility, all maintenance and repair, both ordinary and extraordinary, of the Facility shall be the responsibility of the District, which shall at all times maintain or otherwise arrange for the maintenance of the Facility in first class condition, and the District shall pay for or otherwise arrange for the payment of all utility services supplied to the Facility, 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 Facility resulting from ordinary wear and tear or want of care on the part of the District or any assignee or

sublessee thereof or from any other cause and shall pay for or otherwise arrange for the payment of all insurance policies required to be maintained with respect to the Facility. In exchange for the rental herein provided, the Authority agrees to provide only the Facility, including the Demised Premises.

SECTION 4.02. Changes to the Facility. Subject to Section 8.02 hereof, the District shall, at its own expense, have the right to remodel the Facility or to make additions, modifications and improvements to the Facility, including the Demised Premises. All such additions, modifications and improvements shall thereafter comprise part of the Facility and be subject to the provisions of this Sublease. Such additions, modifications and improvements shall not in any way damage the Facility or cause it to be used for purposes other than those authorized under the provisions of state and federal law; and the Facility, 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 Facility immediately prior to the making of such additions, modifications and improvements.

SECTION 4.03. Installation of District's Equipment. The District 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 other items of equipment or other personal property in or upon the Facility, including the Demised Premises. All such items shall remain the sole property of such party, in which neither the Authority nor the Trustee shall have any interest, and such items may be modified or removed by such party at any time provided that such party shall repair and restore any and all damage to the Facility resulting from the installation, modification or removal of any such items. Nothing in this Sublease shall prevent the District 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 Facility.

ARTICLE V

INSURANCE

SECTION 5.01. Fire and Extended Coverage Insurance. The District shall procure or cause to be procured and maintain or cause to be maintained, throughout the term of this Sublease, insurance against loss or damage to any structures constituting any part of the Facility by fire and lightning, with extended coverage insurance, vandalism and malicious mischief insurance and sprinkler system leakage insurance and earthquake insurance (provided with respect to earthquake insurance, only if available on the open market from reputable insurance companies at a reasonable cost, as determined by the District). Said extended coverage insurance shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. Such insurance shall be in an amount equal to the replacement cost (without deduction for depreciation) of all structures constituting any part of the Facility, excluding the cost of excavations, of grading and filling, and of the land (except that such insurance may be subject to deductible clauses for any one loss of not to exceed \$250,000 or comparable amount adjusted for inflation or more in the case of earthquake insurance), or, in the alternative, shall be

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in an amount and in a form sufficient (together with moneys held under the Trust Agreement), in the event of total or partial loss, to enable all outstanding Bonds to be redeemed.

In the event of any damage to or destruction of any part of the Facility, caused by the perils covered by such insurance, the Authority, except as hereinafter provided, shall cause the proceeds of such insurance to be utilized for the repair, reconstruction or replacement of the damaged or destroyed portion of the Facility, and the Trustee shall hold said proceeds separate and apart from all other funds, in a special fund to be designated the "Insurance and Condemnation Fund," to the end that such proceeds shall be applied to the repair, reconstruction or replacement of the Facility to at least the same good order, repair and condition as they were in prior to the damage or destruction, insofar as the same may be accomplished by the use of said proceeds. The Trustee shall permit withdrawals of said proceeds from time to time upon receiving the Written Request of the Authority, stating that the Authority has expended moneys or incurred liabilities in an amount equal to the amount therein requested to be paid over to it for the purpose of repair, reconstruction or replacement, and specifying the items for which such moneys were expended, or such liabilities were incurred. Any balance of said proceeds not required for such repair, reconstruction or replacement shall be treated by the Trustee as Base Rental Payments and applied in the manner provided by Section 5.02 of the Trust Agreement. Alternatively, the Authority, at its option, with the written consent of the District, and if the proceeds of such insurance together with any other moneys then available for the purpose are at least sufficient to redeem an aggregate principal amount of outstanding Bonds, equal to the amount of Bonds attributable to the portion of the Facility so destroyed or damaged (determined by reference to the proportion which the cost of such portion of the Facility bears to the total cost of the Facility), may elect not to repair, reconstruct or replace the damaged or destroyed portion of the Facility and thereupon shall cause said proceeds to be used for the redemption of outstanding Bonds pursuant to the provisions of the Trust Agreement. In that event the Base Rental shall be abated in the same proportion, except that the Base Rental shall not be less than the amount necessary to enable the Authority to make all necessary and appropriate payments on and related to the Bonds remaining Outstanding, including but not limited to annual deposits into the Principal Account and its administrative costs.

The Authority and the District shall promptly apply for Federal disaster aid or State of California disaster aid in the event that the Facility is damaged or destroyed as a result of an earthquake occurring at any time. Any proceeds received as a result of such disaster aid shall be used to repair, reconstruct, restore or replace the damaged or destroyed portions of the Facility, or, at the option of the District and the Authority, to redeem outstanding Bonds in accordance with the terms of the Trust Agreement if such use of such disaster aid is permitted.

As an alternative to providing the insurance required by the first paragraph of this Section, or any portion thereof, the District may provide a self insurance method or plan of protection if and to the extent such self insurance method or plan of protection shall afford reasonable coverage for the risks required to be insured against, in light of all circumstances, giving consideration to cost, availability and similar plans or methods of protection adopted by public entities in the State of California other than the District. So long as such method or plan is being provided to satisfy the requirements of this Sublease, there shall be filed annually with the Trustee a statement of an actuary, insurance consultant or other qualified person, stating that, in the opinion of the signer, the substitute method or plan of protection is in accordance with the

requirements of this Section and, when effective, would afford reasonable coverage for the risks required to be insured against. There shall also be filed a Certificate of the District setting forth the details of such substitute method or plan. In the event of loss covered by any such self insurance method, the liability of the District hereunder shall be limited to the amounts in the self insurance reserve fund or funds created under such method.

SECTION 5.02. Liability Insurance. Except as hereinafter provided, the District shall procure or cause to be procured and maintain or cause to be maintained, throughout the term of this Sublease, a standard comprehensive general liability insurance policy or policies in protection of the Authority and its members, directors, officers, agents and employees and the Trustee, indemnifying said parties against all direct or contingent loss or liability for damages for personal injury, death or property damage occasioned by reason of the operation of the Facility and of the Project, with 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 each accident or event, and in a minimum amount of \$200,000 for damage to property resulting from each accident or event. Such public 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 carried by the District.

As an alternative to providing the insurance required by the first paragraph of this Section, or any portion thereof, the District may provide a self insurance method or plan of protection if and to the extent such self insurance method or plan of protection shall afford reasonable protection to the Authority, its members, directors, officers, agents and employees and the Trustee, in light of all circumstances, giving consideration to cost, availability and similar plans or methods of protection adopted by public entities in the State of California other than the District. So long as such method or plan is being provided to satisfy the requirements of this Sublease, there shall be filed annually with the Trustee a statement of an actuary, independent insurance consultant or other qualified person, stating that, in the opinion of the signer, the substitute method or plan of protection is in accordance with the requirements of this Section and, when effective, would afford reasonable protection to the Authority, its members, directors, officers, agents and employees and the Trustee against loss and damage from the hazards and risks covered thereby. There shall also be filed a Certificate of the District setting forth the details of such substitute method or plan.

SECTION 5.03. Rental Interruption or Use and Occupancy Insurance. The District shall procure or cause to be procured and maintain or cause to be maintained, rental interruption or use and occupancy insurance to cover loss, total or partial, of the rental income from or the use of the Facility as the result of any of the hazards covered by the insurance required by Section 5.01 hereof (provided with respect to earthquake insurance, only if available on the open market from reputable insurance companies at a reasonable cost, as determined by the District), in an amount sufficient to pay the part of the total rent hereunder attributable to the portion of the Facility rendered unusable (determined by reference to the proportion which the cost of such portion bears to the cost of the Facility) for a period of at least two years, except that such insurance may be subject to a deductible clause of not to exceed two hundred fifty thousand dollars (\$250,000) or a comparable amount adjusted for inflation (or more in the case of earthquake coverage). Any proceeds of such insurance shall be used by the Trustee to reimburse

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to the District any rental theretofore paid by the District under this Sublease attributable to such structure for a period of time during which the payment of rental under this Sublease is abated, and any proceeds of such insurance not so used shall be applied as provided in Section 3.01 (to the extent required for Base Rental Payments) and in Section 3.02 (to the extent required for the payment of Additional Payments) and any remainder shall be treated as Revenue under the Trust Agreement.

SECTION 5.04. Worker's Compensation. The District shall also maintain worker's compensation insurance issued by a responsible carrier authorized under the laws of the State of California to insure its employees against liability for compensation under the Worker's Compensation Insurance and Safety Act now in force in California, or any act hereafter enacted as an amendment or supplement thereto. As an alternative, such insurance may be maintained as part of or in conjunction with any other insurance carried by the District. Such insurance may be maintained by the District in the form of self-insurance.

SECTION 5.05. Title Insurance. The District shall obtain, for the benefit of the Authority, upon the execution and delivery of this Sublease, title insurance on the Demised Premises, in an amount equal to the aggregate principal amount of the Bonds, issued by a company of recognized standing duly authorized to issue the same, subject only to (1) liens for taxes and assessments not yet delinquent; (2) effect of existing leases and subleases; (3) effect of this Sublease and the Lease, including any amendments thereto; (4) effect of zoning laws, ordinances and regulations, including but not limited to, applicable environmental regulations; (5) effect of all deeds and deed limitations described in the title policy; (6) easements, encumbrances, rights of way, mineral rights, drilling rights, and other rights, reservations, covenants, conditions or restrictions that exist of record as of the date of recordation of this Sublease; (7) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law; (8) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions that will not materially impair the use of the Demised Premises; and (9) all matters which would be revealed by an accurate survey of the Demised Premises.

SECTION 5.06. Insurance Proceeds; Form of Policies. All policies of insurance required by Sections 5.01 and 5.03 hereof shall name the District, the Authority and the Trustee as insured and shall contain a lender's loss payable endorsement in favor of the Trustee substantially in accordance with the form approved by the Insurance Services Office and the California Bankers Association. The Trustee shall, to the extent practicable, collect, adjust and receive all moneys which may become due and payable under any such policies, may compromise any and all claims thereunder and shall apply the proceeds of such insurance as provided in Sections 5.01 and 5.03. All policies of insurance required by this Sublease shall provide that the Trustee shall be given thirty (30) days notice of each expiration thereof or any intended cancellation thereof or reduction of the coverage provided thereby. The Trustee shall not be responsible for the sufficiency of any insurance herein required and 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 District. The District shall pay when due the premiums for all insurance policies required by this Sublease, and shall promptly furnish evidence of such payments to the Authority.

The District will deliver to the Authority and the Trustee on or before July 15 in each year a written Certificate of an officer of the District stating whether such policies satisfy the requirements of this Sublease, setting forth the insurance policies then in force pursuant to this Article, the names of the insurers which have issued the policies, the amounts thereof and the property and risks covered thereby, and, if any self-insurance program is being provided, the annual report of an actuary, independent insurance consultant or other qualified person containing the information required for such self-insurance program and described in Sections 5.01, 5.02 and 5.04. Delivery to the Trustee of the certificate under the provisions of this Section shall not confer responsibility upon the Trustee as to the sufficiency of coverage or amounts of such policies. If so requested in writing by the Trustee, the District shall also deliver to the Trustee certificates or duplicate originals or certified copies of each insurance policy described in such schedule.

Any policies of insurance provided by a commercial insurer to satisfy the requirements of Sections 5.01, 5.02 or 5.03 hereof shall be provided by a commercial insurer rated A or better by Best or in one of the two highest rating categories by Standard & Poor's.

ARTICLE VI

DEFAULTS AND REMEDIES

SECTION 6.01. Defaults and Remedies. (a) If the District shall fail to pay any rental payable hereunder when the same becomes due, time being expressly declared to be of the essence of this Sublease, or the District shall fail to keep, observe or perform any other term, covenant or condition contained herein to be kept or performed by the District for a period of sixty (60) days after notice of the same has been given to the District by the Authority or the Trustee or for such additional time as is reasonably required, in the sole discretion of the Authority, to correct the same, or upon the happening of any of the events specified in subsection (b) of this Section (any such case above being an "Event of Default"), the District 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 Sublease. 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 Sublease in the manner hereinafter provided on account of default by the District, notwithstanding any re-entry or re-letting of the Facility as hereinafter provided for in subparagraph (2) hereof, and to re-enter the Facility and remove all persons in possession thereof and all personal property whatsoever situated upon the Facility and place such personal property in storage in any warehouse or other suitable place located within San Diego County, California. In the event of such termination, the District agrees to surrender immediately possession of the Facility, 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 District, including, without limitation, any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon the Facility 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 rent or to deliver up possession of the Facility given pursuant to law nor any entry or re-entry by the Authority nor any proceeding in unlawful detainer, or

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otherwise, brought by the Authority for the purpose of effecting such re-entry or obtaining possession of the Facility nor the appointment of a receiver upon initiative of the Authority to protect the Authority's interest under this Sublease shall of itself operate to terminate this Sublease, and no termination of this Sublease on account of default by the District 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 District of the election on the part of the Authority to terminate this Sublease. The District covenants and agrees that no surrender of the Facility or of the remainder of the term hereof or any termination of this Sublease shall be valid in any manner or for any purpose whatsoever unless stated or accepted by the Authority by such written notice.

(2) Without terminating this Sublease, (i) collect each installment of rent as it becomes due and enforce any other terms or provision hereof to be kept or performed by the District, regardless of whether or not the District has abandoned the Facility, or (ii) exercise any and all rights of entry and re-entry upon the Facility. In the event the Authority does not elect to terminate this Sublease in the manner provided for in subparagraph (1) hereof, the District shall remain liable and agrees to keep or perform all covenants and conditions herein contained to be kept or performed by the District and, if the Facility is not re-let, to pay the full amount of the rent to the end of the term of this Sublease or, in the event that the Facility is re-let, to pay any deficiency in rent that results therefrom; and further agrees to pay said rent and/or rent deficiency punctually at the same time and in the same manner as hereinabove provided for the payment of rent hereunder (without acceleration), notwithstanding the fact that the Authority may have received in previous years or may receive thereafter in subsequent years rental in excess of the rental 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 entry or re-entry or obtaining possession of the Facility. Should the Authority elect to enter or re-enter as herein provided, the District hereby irrevocably appoints the Authority as the agent and attorney-in-fact of the District to re-let the Facility, 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 Facility and to place such personal property in storage in any warehouse or other suitable place located in the County of San Diego, California, for (to the extent permitted by law) the account of and at the expense of the District, and the District (to the extent permitted by law) hereby exempts 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 Facility and removal and storage of such property by the Authority or its duly authorized agents in accordance with the provisions herein contained. The District agrees that the terms of this Sublease constitute full and sufficient notice of the right of the Authority to re-let the Facility and to do all other acts to maintain or preserve the Facility as the Authority deems necessary or desirable in the event of such re-entry without effecting a surrender of this Sublease, and further agrees that no acts of the Authority in effecting such re-letting shall constitute a surrender or termination of this Sublease 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 District the right to terminate this Sublease shall vest in the Authority to be effected in the sole and exclusive manner provided for in sub-paragraph (1) hereof. The District further waives the right to any rental obtained by the Authority in excess of the rental herein specified and hereby conveys and

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releases such excess to the Authority as compensation to the Authority for its services in re-letting the Facility or any part thereof. The District further agrees to the extent permitted by law to pay the Authority the reasonable cost of any alterations or additions to the Facility necessary to place the Facility in condition for re-letting immediately upon notice to the District of the completion and installation of such additions or alterations.

The District 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 Facility as herein provided and all claims for damages that may result from the destruction of or injury to the Facility and all claims for damages to or loss of any property belonging to the District, or any other person, that may be in or upon the Facility.

(b) If (1) the District's interest in this Sublease or any part thereof be assigned or transferred, either voluntarily or by operation of law or otherwise, without the written consent of the Authority, as hereinafter provided for, or (2) the District 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 District asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of the District's debts or obligations, or offers to the District's creditors to effect a composition or extension of time to pay the District's debts or asks, seeks or prays for reorganization or to effect a plan of reorganization, or for a readjustment of the District'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 District, or if a receiver of the business or of the property or assets of the District shall be appointed by any court, except a receiver appointed at the instance or request of the Authority, or if the District shall make a general or any assignment for the benefit of the District's creditors, or if (3) the District shall abandon or vacate the Facility, then the District shall be deemed to be in default hereunder.

(c) The Authority shall in no event be in default in the performance of any of its obligations hereunder or imposed by any statute or rule of law unless and until the Authority shall have failed to perform such obligations within sixty (60) days or such additional time as is reasonably required to correct any such default after notice by the District to the Authority properly specifying wherein the Authority has failed to perform any such obligation. In the event of default by the Authority, the District shall be entitled to pursue any remedy provided by law.

(d) In addition to the other remedies set forth in this Section, upon the occurrence of an Event of Default as described in this Section, the Authority shall be entitled to proceed to protect and enforce the rights vested in the Authority by this Sublease or by law. The provisions of this Sublease and the duties of the District and of its trustees, officers or employees shall be enforceable by the Authority by mandamus or other appropriate suit, action or proceeding in any court of competent jurisdiction. Without limiting the generality of the foregoing, the Authority shall have the right to bring the following actions:

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(1) Accounting. By action or suit in equity to require the District and its board members, officers and employees and its assigns to account as the trustee of an express trust.

(2) 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.

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

The exercise of any rights or remedies under this Sublease shall not permit acceleration of Base Rental Payments.

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 other or 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 Facility. 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 Sublease, the District 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, whether or not the action culminates in a judgment.

SECTION 6.02. Waiver. Failure of the Authority to take advantage of any default on the part of the District 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 District 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 a similar or any subsequent default. The acceptance of rent hereunder shall not be, or be construed to be, a waiver of any term, covenant or condition of this Sublease.

ARTICLE VII

EMINENT DOMAIN; PREPAYMENT

SECTION 7.01. Eminent Domain. If the whole of the Facility, including the Demised Premises or so much thereof as to render the remainder unusable for the purposes for which it was used by the District shall be taken under the power of eminent domain, the term of this Sublease shall cease as of the day that possession shall be so taken. If less than the whole

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of the Facility shall be taken under the power of eminent domain and the remainder is usable for the purposes for which it was used by the District at the time of such taking, then this Sublease 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 due hereunder in an amount equal to the amount of Base Rental Payments attributable to the portion of the Facility taken (determined by reference to the proportion that the award in eminent domain bears to the total cost of the Facility), except that the Base Rental Payments shall not be less than the amount necessary to enable the Authority to make all necessary and appropriate payments on and related to the Bonds remaining Outstanding, including but not limited to annual deposits into the Principal Account and its administrative costs. So long as any of the Bonds shall be Outstanding, any award made in eminent domain proceedings for taking the Facility, including the Demised Premises or any portion thereof shall be paid to the Trustee and applied to the prepayment of the Base Rental Payments as provided in Section 7.02. Any such award made after all of the Base Rental Payments and Additional Payments have been fully paid, or provision therefor made, shall be paid to the to the District.

SECTION 7.02. Prepayment. (a) The District shall prepay on any date from insurance (including proceeds of title insurance) and eminent domain proceeds not applied for the replacement, repair or restoration of the damaged, destroyed, taken or affected portion of the Facility, to the extent provided in Sections 5.01 and 7.01 hereof, so much as it can of Base Rental Payments then unpaid, being an amount equal to the redemption payment of the maximum amount of Bonds redeemable from such proceeds, including the principal thereof and the interest thereon, if any, to the date of redemption, plus any applicable premium.

(b) Before making any prepayment pursuant to this article, the District shall, within five (5) days following the event creating such right or obligation to prepay, give written notice to the Authority and the Trustee describing such event and specifying the date on which the prepayment will be made, which date shall be not less than forty-five (45) days from the date such notice is given.

SECTION 7.03. Option to Purchase; Sale of Personal Property.

The District shall have the option to purchase the Authority's interest in any part of the Facilities upon payment of an option price consisting of moneys or securities satisfying the requirements of Section 11.01(b) of the Trust Agreement in an amount sufficient (together with the earnings and interest on such securities) to provide funds to pay the aggregate amount for the entire remaining term of this Sublease or the part of the total Base Rental Payments hereunder attributable to such part of the Facilities (determined by reference to the proportion that the acquisition cost of such part of the Facilities bears to the acquisition cost of all of the Facilities). Any such payment shall be made to the Authority on a Business Day and shall be treated as a prepayment of Base Rental Payments. Prior to exercising any such option, the District must first obtain an Opinion of Counsel to the effect that such purchase will not cause interest payable in respect of the Bonds, if any, to be included in gross income for California state or federal income tax purposes. Upon the making of such payment to the Authority, (a) the Base Rental Payments thereafter payable under this Sublease shall be reduced by the amount thereof attributable to such part of the Facilities and theretofore paid pursuant to this Section, (b) Section 3.06 and this Section of this Sublease shall not thereafter be applicable to such part of the Facilities, (c) the

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insurance required by this Sublease need not be maintained as to such part of the Facilities, and (d) title to such part of the Facilities shall vest in the District and the term of this Sublease shall end as to such part of the Facilities.

In addition, the District, in its discretion, may request the Authority to sell or exchange any personal property which may at any time constitute a part of the Facility, and to release said personal property from this Sublease, if (a) in the opinion of the District the property so sold or exchanged is no longer required or useful in connection with the operation of the Facility, (b) the consideration to be received from the property is of a value substantially equal to the value of the property to be released, and (c) if the value of any such property shall, in the opinion of the Authority, exceed the amount of \$100,000, the Authority shall have been furnished a certificate of an independent engineer or other qualified independent professional consultant (satisfactory to the Authority) certifying the value thereof and further certifying that such property is no longer required or useful in connection with the operation of the Facility. In the event of any such sale, the full amount of the money or consideration received for the personal property so sold and released shall be paid to the Authority. Any money so paid to the Authority may, so long as the District is not in default under any of the provisions of this Sublease, be used upon the Written Request of the District to purchase personal property, which property shall become a part of the Facility subleased hereunder. The Authority may require such opinions, certificates and other documents as it may deem necessary before permitting any sale or exchange of personal property subject to this Sublease or before releasing for the purchase of new personal property money received by it for personal property so sold.

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 Facility, including the Demised Premises during reasonable business hours (and in emergencies at all times) (a) to inspect the same, (b) for any purpose connected with the Authority's or the District's rights or obligations under this Sublease, and (c) for all other lawful purposes.

SECTION 8.02. Liens. In the event the District shall at any time during the term of this Sublease cause any changes, alterations, additions, improvements, or other work to be done or performed or materials to be supplied, in or upon the Facility, the District 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 District in, upon or about the Facility and shall keep the Facility free of any and all mechanics' or materialmen's liens or other liens against the Facility or the Authority's interest therein. In the event any such lien attaches to or is filed against the Facility or the Authority's interest therein, the District shall 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 District desires to contest any such lien it may do so 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 District shall forthwith pay and discharge said judgment. The District agrees to and shall, to the

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maximum extent permitted by law, indemnify and hold the Authority and the Trustee and their respective members, directors, agents, successors and assigns, harmless from and against, and defend each of them against, any claim, demand, loss, damage, liability or expense (including attorney's fees) as a result of any such lien or claim of lien against the Facility or the Authority's interest therein.

SECTION 8.03. Quiet Enjoyment. The parties hereto mutually covenant that the District, by keeping and performing the covenants and agreements herein contained and not in default hereunder, shall at all times during the term of this Sublease peaceably and quietly have, hold and enjoy the Facility, including the Demised Premises without suit, trouble or hindrance from the Authority.

SECTION 8.04. Authority Not Liable. The Authority and its members, directors, officers, agents and employees shall not be liable to the District 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 Facility or the Project. The District, to the extent permitted by law, shall indemnify and hold the Authority and its members, directors, officers, agents and employees, harmless from, and defend each of them against, any and all claims, liens and judgments arising from the construction or operation of the Facility or the Project, including, without limitation, death of or injury to any person or damage to property whatsoever occurring in, on or about the Facility or the Project regardless of responsibility for negligence, but excepting the active negligence of the person or entity seeking indemnity.

SECTION 8.05. Assignment and Subleasing. Neither this Sublease nor any interest of the District hereunder shall be mortgaged, pledged, assigned, sublet or transferred by the District by voluntary act or by operation of law or otherwise, except with the prior written consent of the Authority, which, in the case of subletting, shall not be unreasonably withheld; provided such subletting shall not affect the tax-exempt status of the interest, if any, on the Bonds for federal income tax purposes and California state law purposes. No such mortgage, pledge, assignment, sublease or transfer shall in any event affect or reduce the obligation of the District to make the Base Rental Payments and Additional Payments required hereunder.

SECTION 8.06. Title to Facility. During the term of this Sublease, the Authority shall hold a leasehold estate to the Facility and any and all additions which comprise fixtures, repairs, replacement or modifications thereof, except for those fixtures, repairs, replacements or modifications which are added thereto by the District and which may be removed without damaging the Facility, and except for any items added to the Facility by the District pursuant to Section 4.03 hereof. This provision shall not operate to the benefit of any insurance company if there is a rental interruption covered by insurance pursuant to Section 5.03 hereof.

Upon the termination or expiration of this Sublease, the Authority shall execute such conveyances, deeds and other documents as may be necessary to evidence the ownership of the Facility, including the Demised Premises, by the District and to clarify the title of the District on the record thereof.

SECTION 8.07. Tax Covenants of the District.

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(a) The District shall not take any action or inaction, or fail to take any action, or permit any action to be taken on its behalf or cause or permit any circumstances within its control to arise or continue, if such action or inaction would result in a loss of exclusion of the interest on the Bonds from gross income for Federal income tax purposes under Section 103(a) of the Code.

(b) Notwithstanding any provisions of this Section, if the District or Authority shall provide to the Trustee an opinion of Bond Counsel that any specified action required under this Section is no longer required or that some further or different action is required in order to prevent the loss of exclusion of the interest on the Bonds from gross income for Federal income tax purposes under Section 103(a) of the Code, the Trustee may conclusively rely on such opinion in complying with the requirements of this Section, and the covenants hereunder shall be deemed to be modified to that extent

SECTION 8.08. Tax Covenants of the Authority.

(a) The Authority shall not take any action or inaction, or fail to take any action, or permit any action to be taken on its behalf or cause or permit any circumstances within its control to arise or continue, if such action or inaction would result in a loss of exclusion of the interest on the Bonds from gross income for Federal income tax purposes under Section 103(a) of the Code.

(b) Notwithstanding any provisions of this Section, if the Authority or the District shall provide to the Trustee an opinion of Bond Counsel that any specified action required under this Section is no longer required or that some further or different action is required in order to prevent the loss of exclusion of the interest on the Bonds from gross income for Federal income tax purposes under Section 103(a) of the Code, the Trustee may conclusively rely on such opinion in complying with the requirements of this Section, and the covenants hereunder shall be deemed to be modified to that extent.

SECTION 8.09. Continuing Disclosure. The District hereby covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of this Sublease, failure of the District to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default hereunder; however, the Trustee may (and, at the request of any Participating Underwriter (as defined in the Continuing Disclosure Agreement) or the Holders of at least 25% aggregate principal amount of Bonds Outstanding and provided satisfactory indemnification is provided to the Trustee, shall) or any Bondholder may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to compel the District to comply with its obligations under this Section 8.09.

SECTION 8.10. Taxes. The District shall pay or cause to be paid all taxes and assessments of any type or nature charged to the Authority or affecting the Facility or the respective interests or estates therein; provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the District shall be obligated to pay only such installments as are required to be paid during the term of this Sublease as and when the same become due.

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The District shall also pay directly such amounts, if any, in each year as shall be required by the Authority for the payment of all license and registration fees and all taxes (including, without limitation, income, excise, license, franchise, capital stock, recording, sales, use, value-added, property, occupational, excess profits and stamp taxes), levies, imposts, duties, charges, withholdings, assessments and governmental charges of any nature whatsoever, together with any additions to tax, penalties, fines or interest thereon, including, without limitation, penalties, fines or interest arising out of any delay or failure by the District to pay any of the foregoing or failure to file or furnish to the Authority or the Trustee for filing in a timely manner any returns, hereinafter levied or imposed against the Authority or the Facility, the rentals and other payments required hereunder or any parts thereof or interests of the District or the Authority or the Trustee therein by any governmental authority.

The District may, at the District's expense and in its name, in good faith contest any such taxes, assessments 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 District that, in the opinion of independent counsel, by nonpayment of any such items, the interest of the Authority in the Facility will be materially endangered or the Facility, or any part thereof, will be subject to loss or forfeiture, in which event the District 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 8.11. Authority's Purpose. The Authority covenants that, prior to the discharge of this Sublease, it will not engage in any activities inconsistent with the purposes for which the Authority is organized.

SECTION 8.12. Purpose of Sublease. The District covenants that during the term of this Sublease, except as hereinafter provided, (a) it will use, or cause the use of, the Facility for public purposes and for the purposes for which the Facility is customarily used, (b) it will not vacate or abandon the Facility or any part thereof, and (c) it will not make any use of the Facility which would jeopardize in any way the insurance coverage required to be maintained pursuant to Article V hereof.

ARTICLE IX

DISCLAIMER OF WARRANTIES; VENDOR'S WARRANTIES; USE OF THE FACILITY

SECTION 9.01. Disclaimer of Warranties. THE AUTHORITY MAKES NO AGREEMENT, WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY, FITNESS FOR PARTICULAR PURPOSE OR FITNESS FOR USE OF THE FACILITY OR THE PROJECT, OR WARRANTY WITH RESPECT THERETO. THE DISTRICT ACKNOWLEDGES THAT THE AUTHORITY IS NOT A MANUFACTURER OF THE FACILITY OR THE PROJECT OR A DEALER THEREIN, THAT THE DISTRICT LEASES THE FACILITY AS-IS, IT BEING AGREED THAT ALL OF THE AFOREMENTIONED RISKS ARE TO BE BORNE BY THE DISTRICT. In no event shall the Authority be liable for

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any incidental, indirect, special or consequential damage in connection with or arising out of this Sublease or the existence, furnishing, functioning or the District's use of any item or products or services provided for in this Sublease.

SECTION 9.02. Vendor's Warranties. The Authority hereby irrevocably appoints the District its agent and attorney-in-fact during the term of this Sublease, so long as the District shall not be in default hereunder, to assert from time to time whatever claims and rights, including warranties of the Facility or the Project, which the Authority may have against the manufacturers, vendors and contractors of the Facility or the Project. The District's sole remedy for the breach of such warranty, indemnification or representation shall be against the manufacturer or vendor or contractor of the Facility or of the Project, and not against the Authority, nor shall such matter have any effect whatsoever on the rights and obligations of the Authority with respect to this Sublease, including the right to receive full and timely payments hereunder. The District expressly acknowledges that the Authority makes, and has made, no representation or warranties whatsoever as to the existence or availability of such warranties of the manufacturer, vendor or contractor.

SECTION 9.03. Use of the Facility. The District will not install, use, operate or maintain the Facility improperly, carelessly, in violation of any applicable law or in a manner contrary to that contemplated by this Sublease. The District shall provide all permits and licenses, if any, necessary for the installation and operation of the Facility. In addition, the District agrees to comply in all respects (including, without limitation, with respect to the use, maintenance and operation of the Facility) 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 Facility; provided, however, that the District 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 the Facility or its interest or rights under this Sublease.

ARTICLE X

MISCELLANEOUS

SECTION 10.01. Law Governing. This Sublease 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 notices, statements, demands, consents, approvals, authorizations, offers, designations, requests, agreements or promises or other communications hereunder by either party to the other shall be in writing and shall be sufficiently given and served upon the other party if delivered personally or if mailed by United States registered mail, return receipt requested, postage prepaid:

If to the Authority or to the District:

c/o San Dieguito Union High School District
710 Encinitas Boulevard
Encinitas, California 92024

If to the Trustee:

U.S. Bank National Association
Corporate Trust Services
633 West Fifth St., 24th Floor
Los Angeles, California 90071

or to such other addresses as the respective parties may from time to time designate by notice in writing. A copy of any such notice or other document herein referred to shall also be delivered to the Trustee.

SECTION 10.03. Validity and Severability. If for any reason this Sublease shall be held by a court of competent jurisdiction to be void, voidable, or unenforceable by the Authority or by the District, or if for any reason it is held by such a court that any of the covenants and conditions of the District hereunder, including the covenant to pay rentals hereunder, is unenforceable for the full term hereof, then and in such event this Sublease is and shall be deemed to be a lease under which the rentals are to be paid by the District semiannually in consideration of the right of the District to possess, occupy and use the Facility, and all of the rental and other terms, provisions and conditions of this Sublease, 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 Sublease shall be deemed and construed to be a “net-net-net lease” and the District hereby agrees that the rentals provided for herein shall be an absolute net return to the Authority, free and clear of any expenses, charges or set-offs whatsoever.

SECTION 10.05. 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 Sublease.

SECTION 10.06. Amendment or Termination. The Authority and the District may at any time agree to the amendment or termination of this Sublease; provided, however, that the Authority and the District agree and recognize that payments under this Sublease have been pledged to the Bonds and other obligations of the Authority in accordance with the terms of the Trust Agreement, and accordingly, that any such amendment or termination shall only be made or effected in accordance with and subject to the terms of the Trust Agreement.

SECTION 10.07. Execution. This Sublease 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 Sublease. It is also agreed that separate counterparts of this Sublease may

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separately be executed by the Authority and the District, all with the same force and effect as though the same counterpart had been executed by both the Authority and the District.

[Remainder of page intentionally left blank.]

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

SAN DIEGUITO PUBLIC FACILITIES
AUTHORITY,
as Lessor

By: _____
Chairperson

Attest:

By: _____
Authority Secretary

SAN DIEGUITO UNION HIGH SCHOOL
DISTRICT,
as Lessee

By _____
Associate Superintendent of Business Services

Attest:

By _____
District Clerk

EXHIBIT A

Description of Demised Premises

The real property in the San Dieguito Union High School District, County of San Diego, State of California, described as follows:

[To be inserted.]

EXHIBIT B

Base Rental Payment Schedule

Date	Total Base Rental Payments (\$)
------	------------------------------------

[To be inserted.]

EXHIBIT C

The Project

The “Project” means the financing of various capital projects of the District, and payment of any costs associated with the financing of said projects, including, but not limited to, improvements to Torrey Pines High School (including field replacement and track resurfacing, replacement of air conditioning units in Buildings B and E, roof replacement to Building B, and an energy management system tied to Building G) and various other capital improvements and equipment within the District, as the same may be determined from time to time by the District.

EXHIBIT F

Form of Preliminary Official Statement

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No dealer, broker, salesperson or other person has been authorized to give any information or to make any representation other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy nor shall there be any sale of the Series 2012A Bonds by a person in any jurisdiction in which it is unlawful for such person to make an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Series 2012A 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 facts.

The information set forth herein has been obtained from the Authority and the District and from other sources and is believed to be reliable but is not guaranteed as to accuracy or completeness. The information and expressions of opinions herein are subject to change without notice and neither the 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 Authority and the District since the date hereof. This Official Statement is submitted in connection with the sale of the Series 2012A 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 Authority and the District. All summaries of the documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions.

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.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2012A BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

SAN DIEGUITO UNION HIGH SCHOOL DISTRICT

BOARD OF TRUSTEES

Joyce Dalessandro, *President*
Barbara Groth, *Vice President*
Amy Herman, *Clerk*
Beth Hergesheimer, *Trustee*
John Salazar, *Trustee*

DISTRICT ADMINISTRATION

Ken Noah, *Superintendent*
Eric Dill, *Associate Superintendent of Business Services*
John Addleman, *Director of Planning and Financial Management*
Delores Perley, *Director of Financial Services*

PROFESSIONAL SERVICES

Bond Counsel
Manatt, Phelps & Phillips, LLP
Los Angeles, California

Special Tax Counsel
Law Office of Perry Israel
Sacramento, California

District and Authority Counsel
Laura D. Romano, Esq.
San Diego, California

Financial Advisor
Fieldman, Rolapp & Associates
Irvine, California

Trustee
U.S. Bank National Association
Los Angeles, California

Dissemination Agent
Willdan Financial Services
Temecula, California

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OFFICIAL STATEMENT

[\$[Par Amount]*
San Dieguito Public Facilities Authority
Lease Revenue Bonds, Series 2012A
(Torrey Pines High School Projects)

INTRODUCTION

This Official Statement (which includes the cover page and Appendices hereto) (the “Official Statement”), provides certain information concerning the sale and delivery of the \$_____ * San Dieguito Public Facilities Authority Lease Revenue Bonds, Series 2012A (Torrey Pines High School Projects) (the “Series 2012A Bonds”). The Series 2012A Bonds are being issued by the San Dieguito Public Facilities Authority (the “Authority”) pursuant to a Trust Agreement, dated as of March 1, 2012 (the “Trust Agreement”), by and between the Authority and U.S. Bank National Association (the “Trustee”) and acknowledged by the San Dieguito Union High School District (the “District”). See “THE SERIES 2012A BONDS – Authority for Issuance; Purpose” and “TAX MATTERS” herein. The Series 2012A Bonds are limited obligations of the Authority payable solely from certain revenues of the Authority, consisting primarily of Base Rental Payments (as defined herein) to be made by the District for the use of certain real property and improvements (the “Facilities”), as more fully described herein. The Facilities will be leased by the District from the Authority pursuant to a Facility Sublease, dated as of March 1, 2012 (the “Facility Sublease”), by and between the District, as lessee, and the Authority, as lessor.

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The sale and delivery of Series 2012A Bonds to potential investors is made only by means of this Official Statement.

The District

The District was formed in 1936 and is located along the Pacific Ocean in northern San Diego County (the “County”). The District serves students grades 7 through 12, and now covers approximately 85 square miles. Students from five feeder elementary school districts (Encinitas, Cardiff, Solana Beach, Del Mar and Rancho Santa Fe) are educated by the District. The District currently operates four high schools, four middle schools, one continuation high school and one adult education program. The District estimates that total current enrollment is approximately 12,313 students. The District currently employs 521 certificated employees and 324 classified employees and 58 management employees (full-time equivalents).

For more complete information concerning the District, including certain financial information, see “DISTRICT HISTORY, OPERATION AND FINANCIAL INFORMATION” herein. The District’s audited financial statements for the fiscal year ended June 30, 2011 are included as APPENDIX B, and should be read in their entirety.

THE SERIES 2012A BONDS

Authority for Issuance; Purpose

The Series 2012A Bonds are issued pursuant to the Constitution and the laws of the State of California (the “State”), including the Joint Exercise of Powers Act (being Articles 1 through 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State) (the “Act”), resolutions adopted by the Authority and the District, and the Trust Agreement to (i) finance improvements to public schools within the District (the “Project”) and (ii) pay the costs incurred in connection with the issuance of the Series 2012A Bonds.

* Preliminary, subject to change.

General

The Series 2012A Bonds will be dated their date of delivery, and will be issued in fully registered form without coupons, in the denomination of \$5,000 or any integral multiple of \$5,000. The Series 2012A Bonds will mature on March 1, 2020 (the “Principal Payment Date”), and will bear interest at the rate (calculated on the basis of a 360 day year composed of twelve 30 day months), as shown on the cover page hereof, payable on March 1 and September 1 of each year, commencing September 1, 2012 (each an “Interest Payment Date”).

Each Series 2012A Bond authenticated and registered on any date prior to the close of business on the first Record Date shall bear interest from the date of said Series 2012A Bond. Each Series 2012A Bond authenticated during the period between any Record Date and the close of business on its corresponding Interest Payment Date shall bear interest from such Interest Payment Date. Any other Series 2012A Bond shall bear interest from the Interest Payment Date immediately preceding the date of its authentication. If, at the time of authentication of any Series 2012A Bond, interest is in default on outstanding Series 2012A Bonds, such Series 2012A Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment on the outstanding Series 2012A Bonds.

While the Series 2012A Bonds are subject to the Book-Entry System, payments of principal and interest with respect to the Series 2012A Bonds will be made by the Trustee to DTC, which in turn is obligated to remit such principal and interest to its DTC Participants for subsequent disbursement to Beneficial Owners (as defined herein) of the Series 2012A Bonds as described herein. See “APPENDIX E – BOOK-ENTRY ONLY SYSTEM” attached hereto.

Form and Registration of Series 2012A Bonds

The Series 2012A Bonds, when issued, will be registered in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository for the Series 2012A Bonds. Individual purchases of the Series 2012A Bonds will be made in Book-Entry form only under the Book-Entry System, in the principal amount of \$5,000 or integral multiples thereof. Except in the event that use of the Book-Entry System is discontinued for the Series 2012A Bonds, Beneficial Owners will not receive physical certificates representing their ownership interests in the Series 2012A Bonds. Principal of and interest on the Series 2012A Bonds will be paid by the Trustee to DTC, which will in turn remit such principal and interest to its Participants (defined herein), for subsequent distribution to the Beneficial Owners of the Series 2012A Bonds, as described herein. The Series 2012A Bonds may be transferred or exchanged in the manner described in the Series 2012A Bonds and as referenced in related proceedings of the State. See “APPENDIX E – BOOK-ENTRY ONLY SYSTEM” attached hereto.

“Beneficial Owner” means any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Series 2012A Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

Transfer of Series 2012A Bonds

The Series 2012A Bonds will be issued in book-entry only form, as described in the preceding paragraph. Registered ownership of the Series 2012A Bonds, or any portion thereof, may not thereafter be transferred, except as provided in the Trust Agreement: (i) to any successor of Cede & Co., as nominee of DTC, or its nominee, or to any designated substitute depository; or (ii) to any person as provided in the Trust Agreement upon (1) the resignation of DTC or its successor from its function as depository, or (2) if DTC is no longer registered or in good standing under the Securities Exchange Act or other statute or regulation.

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Redemption*

[Mandatory Sinking Fund Redemption. The Term Bonds maturing on March 1, 20__ are also subject to mandatory sinking fund redemption on each March 1 on and after September 1, 20__ in the respective principal amounts as set forth in the following schedule, at a redemption price equal to 100% of the principal amount thereof to be redeemed, without premium:

Mandatory Sinking Fund Redemption Date (March 1)	Principal Amount to be Redeemed
†	
† Maturity	

The principal amount of any maturity to be redeemed in each year as shown above will be reduced proportionately by the amount of any Term Bonds of that maturity optionally redeemed prior to the mandatory sinking fund redemption date unless otherwise directed by the District.]

Optional Redemption After Call Date. The Series 2012A Bonds will be subject to redemption prior to their stated maturity date, at the option of the Authority, from any source of available funds, as a whole or in part in Authorized Denominations, on any date on and after [FIRST CALL DATE], at the respective redemption prices set forth below expressed as percentages of the principal amounts of the Series 2012A Bonds called for redemption, plus accrued interest, if any, to the redemption date:

Redemption Period (Both Dates Inclusive)	Redemption Prices (Expressed as a Percentage)
_____, ____ to _____, ____	[10[_]%
_____, ____ to _____, ____	10[_]
_____, ____ to _____, ____	10[_]
_____, ____ to _____, ____	10[_]
_____, ____ to _____, ____	10[_]
_____, ____ to _____, ____	10[_]
_____, ____ to _____, ____	10[_]
_____, ____ to _____, ____	10[_]
_____, ____ to _____, ____	10[_]
_____, ____ to _____, ____	10[_]

Optional Redemption From General Obligation Bond Proceeds. The Series 2012A Bonds will be subject to redemption in whole prior to their stated maturity date, at the option of the Authority, from a prepayment by the District of Base Rental Payments under the Facility Lease or from the purchase of the Facilities by the District pursuant to the Facility Lease so long as the source of the District's funds are proceeds from a general obligation bond issuance by the District. The redemption price for any such redemption under the Trust Agreement will be the principal amounts of the Series 2012A Bonds called for redemption, plus accrued interest, if any, to the redemption date without any premium.

* Preliminary, subject to change.

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Extraordinary Redemption from Eminent Domain or Insurance Proceeds. The Authority may, with the permission of the District and under the terms of the Facility Sublease, elect not to repair a destroyed or damaged portion of the Facility, and in that event, if the proceeds of insurance together with any other moneys then available for the purpose (including Federal or State disaster relief) are at least sufficient to redeem the aggregate principal amount of outstanding Series 2012A Bonds equal to the amount of Series 2012A Bonds attributable to the portion of the Facility so destroyed or damaged (determined by reference to the proportion which the cost of such portion of the Facility bears to the total cost of the Facility), the Authority will cause said proceeds to be used for the redemption of that portion of the outstanding Series 2012A Bonds at a redemption price equal to the principal amount of the Series 2012A Bonds called for redemption.

If the whole of the Facilities, including the Demised Premises (as defined herein), or so much thereof as to render the remainder unusable, is taken under power of eminent domain, the term of the Facility Sublease will cease as of the day possession is so taken. If less than the whole of the Facilities is taken by eminent domain, there will be a partial abatement of the rental due under the Facility Sublease in an amount equivalent to the amount by which the annual payments of principal of and interest on the Series 2012A Bonds then outstanding will be reduced by the application of the award in eminent domain to the redemption of outstanding Series 2012A Bonds. The Authority will cause the entire award in eminent domain to be used for the redemption of outstanding Series 2012A Bonds at a redemption price equal to the principal amount of the Series 2012A Bonds called for redemption.

Notice of Redemption. Notice of redemption of any Series 2012A Bonds will be given by the Trustee to owners upon the written request of the Authority given to the Trustee not less than 45 days prior to the redemption date. Notice of any redemption of Series 2012A Bonds will be mailed postage prepaid, not less than thirty (30) nor more than sixty (60) days prior to the redemption date (i) by first class mail to the respective owners thereof at the addresses appearing on the bond registration books of the Trustee, and (ii) as may be further required in accordance with the Continuing Disclosure Agreement.

Each notice of redemption will contain all of the following information: (i) the date of such notice; (ii) the name of the Series 2012A Bonds and the date of issue of the Series 2012A Bonds; (iii) the redemption date; (iv) the redemption price, if available; (v) (if less than all of the Series 2012A Bonds are to be redeemed) the distinctive numbers of the Series 2012A Bonds to be redeemed; (vi) (in the case of Series 2012A Bonds redeemed in part only) the respective portions of the principal amount of the Series 2012A Bonds to be redeemed; (vii) the CUSIP number, if any, of the Series 2012A Bonds to be redeemed; (viii) a statement that such Series 2012A Bonds must be surrendered by the owners at the Principal Corporate Trust Office of the Trustee, or at such other place or places designated by the Trustee; and (ix) notice that further interest on such Series 2012A Bonds will not accrue from and after the designated redemption date.

Such redemption notices may state that no representation is made as to the accuracy or correctness of the CUSIP numbers provided therein or on the Series 2012A Bonds.

Effect of Notice. A certificate of the Trustee that notice of call and redemption has been given to owners and as may be further required in the Continuing Disclosure Agreement as herein provided will be conclusive as against all parties. The actual receipt by the owner of any Series 2012A Bond or any other party of notice of redemption will not be a condition precedent to redemption, and failure to receive such notice, or any defect in the notice given, will not affect the validity of the proceedings for the redemption of such Series 2012A Bonds or the cessation of interest on the date fixed for redemption.

When notice of redemption has been given substantially as provided for herein, and when the redemption price of the Series 2012A Bonds called for redemption is set aside for the purpose, the Series 2012A Bonds designated for redemption will become due and payable on the specified redemption date and interest will cease to accrue thereon as of the redemption date, and upon presentation and surrender of such Series 2012A Bonds, at the place specified in the notice of redemption, such Series 2012A Bonds will be redeemed and paid at the redemption price thereof out of the money provided therefor. The owners of such Series 2012A Bonds so called for redemption after such redemption date will look for the payment of such Series 2012A Bonds and the premium thereon, if applicable, only to the funds set aside for such purpose. All Series 2012A Bonds redeemed will be cancelled forthwith by the Trustee and will not be reissued.

Right to Rescind Notice. Upon oral notice, promptly confirmed by written notice from the District that the District has cured the conditions that caused the Series 2012A Bonds to be subject to extraordinary redemption, the Authority may rescind any extraordinary redemption and notice thereof on any date prior to the date fixed for redemption by directing the Trustee in writing to give written notice of the rescission to the owners of the Series 2012A Bonds so called for redemption. Notice of rescission of redemption will be given in the same manner in which notice of redemption was originally given. The actual receipt by the owner of any Series 2012A Bond of notice of such rescission will not be a condition precedent to rescission, and failure to receive such notice or any defect in such notice will not affect the validity of the rescission.

Selection of Series 2012A Bonds for Redemption. If less than all of the Outstanding Series 2012A Bonds are to be redeemed on any one date, the Trustee will select, in accordance with written directions from the Authority, the Series 2012A Bonds to be redeemed in part from the Outstanding Series 2012A Bonds so that the aggregate annual principal amount of and interest on Series 2012A Bonds which will be payable after such redemption date will be as nearly proportional as practicable to the aggregate annual principal amount of and interest on Series 2012A Bonds Outstanding prior to such redemption date.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012A BONDS

General

The Series 2012A Bonds are secured by the Revenues, which consist primarily of rental payments (the "Base Rental Payments") to be made by the District out of its general fund under the Facility Sublease. Pursuant to the Facility Sublease, the Authority leases the Facility, including the Demised Premises to the District. As rental for the use and occupancy of the Facility, including the Demised Premises, the District covenants to pay Base Rental Payments to the Authority, which payments are pledged to the Trustee for the benefit of the owners of the Series 2012A Bonds. The Base Rental Payments, which are subject to abatement, are calculated to generate sufficient Revenues to pay principal of and interest on the Series 2012A Bonds when due.

The District has covenanted in the Facility Sublease to include all Base Rental Payments in its annual budgets and to make the necessary annual appropriations therefor. Beginning on August 15, 2012, and on each February 15 and August 15 thereafter until the date of termination of the Facility Sublease, the District must pay to the Trustee Base Rental Payments (to the extent required under the Facility Sublease) which are scheduled to be sufficient to pay, when due, the principal of and interest on the Series 2012A Bonds. Base Rental Payments are not subject to acceleration. The Base Rental Payment due on August 15, 2012 shall be for the use of the Facility for the year ending on March 1, 2013. The semiannual Base Rental Payments thereafter shall be for the use of the Facility for each subsequent year ending on March 1.

Under the Facility Sublease, the District agrees to pay Additional Payments for the payment of all expenses and all costs of the Authority and the Trustee related to the lease of the Facilities, including expenses of the Trustee payable by the Authority under the Trust Agreement, and fees of accountants, attorneys and consultants. The District is responsible for repair and maintenance of the Facilities during the term of the Facility Sublease.

The Base Rental Payments will be abated proportionately during any period in which by reason of any damage to or destruction of the Facility, there is substantial interference with the use and occupancy of the Facility by the District, in the proportion in which the cost of that portion of the Facility rendered unusable bears to the cost of the whole of the Facility, including the Demised Premises. During any such period of abatement, except to the extent that amounts held by the Trustee in the Revenue Fund are otherwise available to pay the Series 2012A Bonds, Base Rental Payments from the District will not be available to pay the Series 2012A Bonds. Such abatement will continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of any such damage or destruction, the Facility Sublease will continue in full force and effect and the District waives any right to terminate the Facility Sublease by virtue of any such damage or destruction.

If the whole of the Facility or so much thereof as to render the remainder unusable, is taken under power of eminent domain, the term of the Facility Sublease will cease as of the day possession is so taken. If less than the whole of the Facility is taken by eminent domain, there will be a partial abatement of the rental due under the

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Facility Sublease in an amount equivalent to the amount of the Base Rental Payments attributed to the portion of the Facility taken, except that the Base Rental Payments shall not be less than the amount necessary to enable the Authority to make all necessary and appropriate payments on, and related to, the Bonds remaining outstanding. So long as the Bonds remain outstanding, the Authority will cause the entire award in eminent domain (less amounts applied for the replacement, repair or restoration of the taken or affected portion of the Facility) to be used for the redemption of Outstanding Series 2012A Bonds at a redemption price equal to the principal amount of the Series 2012A Bonds called for redemption.

If the District defaults under the Facility Sublease, the Authority may (i) terminate the Facility Sublease and take possession of the Facility for the term of the Facility Lease or (ii) retain the Facility Sublease and seek to hold the District liable for all Base Rental Payments and Additional Payments thereunder (without acceleration) as they become due on a semiannual basis. See "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Facility Sublease – Defaults and Remedies." Base Rental Payments and Additional Payments may not be accelerated. See "RISK FACTORS."

Base Rental Payments

Base Rental Payments are payable semiannually. The first Base Rental Payment is payable on August 15, 2012, and subsequent Base Rental Payments are due on each February 15 and August 15 thereafter until the date of termination of the Facility Sublease. The Base Rental Payment due on August 15, 2012 shall be for the use of the Facility for the year ending on the March 1 immediately following the date the Base Rental Payment is due. The semiannual Base Rental Payments thereafter shall be for the use of the Facility for each subsequent year ending on March 1. The Trust Agreement requires that Base Rental Payments be deposited in the Revenue Fund maintained by the Trustee.

[Notwithstanding the District's obligation to make Base Rental Payments as described above, to the extent the amount that the Trustee is required to transfer from the Revenue Fund to the Principal Account on the [March 1st] immediately following the date of a Base Rental Payment is less than the amount required to be paid by the District pursuant to the Schedule attached to the Facility Sublease (taking into account interest earned on the funds held in the Principal Account, the District shall only be obligated to pay such lesser amount.]

THE OBLIGATION OF THE DISTRICT TO MAKE BASE RENTAL PAYMENTS IS AN OBLIGATION PAYABLE FROM AMOUNTS IN THE GENERAL FUND OF THE DISTRICT, AND DOES NOT CONSTITUTE A DEBT OF THE DISTRICT, THE AUTHORITY OR OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION OR AN OBLIGATION FOR WHICH THE DISTRICT MUST LEVY OR PLEDGE, OR HAS LEVIED OR PLEDGED, ANY FORM OF TAXATION.

Additional Payments

The District will also pay such amounts (herein called the "Additional Payments") as required by the Authority for the payment of all costs and expenses incurred by the Authority in connection with the execution, performance or enforcement of the Facility Sublease and the Trust Agreement, in connection with its interest in the Facility and the sublease of the Facility to the District, including but not limited to payment of all fees, costs and expenses and all administrative costs of the Authority related to the Facility including, without limiting the generality of the foregoing, salaries and wages of employees, all expenses, compensation and indemnification of the Trustee payable by the Authority under the Trust Agreement, fees of auditors, accountants, attorneys or architects, and all other 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 Series 2012A Bonds or of the Trust Agreement; but not including in Additional Payments amounts required to pay the principal of or interest, if any, on the Series 2012A Bonds.

Such Additional Payments will be billed to the District by the Authority or the Trustee from time to time, together with a statement certifying that the amount billed has been paid by the Authority or by the Trustee on behalf of the Authority, for one or more of the items above described, or that such amount is then payable by the Authority or the Trustee for such items. The fees of the Trustee under the Trust Agreement, and any other expenses directly attributable to the Facility will be included in the Additional Payments.

Covenant to Appropriate Funds

The District covenants under the Facility Sublease to take such action as may be necessary to include all Base Rental Payments and Additional Payments due under the Facility Sublease in its annual budgets and to make the necessary annual appropriations therefor as shall be required to provide funds in each year for Base Rental Payments and Additional Payments.

Abatement

The Base Rental Payments and Additional Payments shall be abated proportionately during any period in which by reason of any damage or destruction (other than by condemnation which is otherwise provided for) there is substantial interference with the use and occupancy of the Facility by the District, in the proportion in which the initial cost of that portion of the Facility rendered unusable bears to the initial cost of the whole of the Facility, including the Demised Premises. Such abatement shall continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of any such damage or destruction, the Facility Sublease shall continue in full force and effect and the District waives any right to terminate the Facility Sublease by virtue of any such damage or destruction. If on the stated termination date of the Facility Sublease, the Series 2012A Bonds and all other amounts then due under the Facility Sublease shall not be fully paid, or if the rental payable thereunder shall have been abated at any time and for any reason, then the term of the Facility Sublease shall be extended until all Series 2012A Bonds corresponding to the Base Rental Payments and all other amounts then due hereunder shall be fully paid, except that the term of the Facility Sublease shall in no event be extended beyond ten (10) years after such initial termination date. If prior to such date, all Series 2012A Bonds and all other amounts then due hereunder shall be fully paid, or provision therefor made, the term of the Facility Sublease shall end ten (10) days thereafter or upon written notice by the District to the Authority, whichever is earlier. For information regarding rental interruption insurance, see “– Insurance” below.

The Authority cannot terminate the Facility Sublease solely on the basis of such substantial interference. Abatement of Base Rental Payments is not an event of default under the Facility Sublease and does not permit the Authority to take any action or avail itself of any remedy against the District. For a description of abatement resulting from condemnation of all or part of the Facility, see “APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – THE FACILITY SUBLEASE – Rent Payments; Use of Proceeds – Rental Abatement.”

Insurance

The Facility Sublease requires the District to maintain or cause to be maintained, throughout the term of the Facility Sublease, insurance against loss or damage to any structures constituting any part of the Facility by fire and lightning, with extended coverage insurance, vandalism and malicious mischief insurance and sprinkler system leakage insurance, and earthquake insurance, if available on the open market from reputable insurance companies at a reasonable cost as determined by the District. Such extended coverage insurance will, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. Such insurance will be in an amount equal to the replacement cost (without deduction for depreciation) of all structures constituting any part of the Facility, excluding the cost of excavations, of grading and filling, and of the land (except that such insurance may be subject to deductible clauses for any one loss of not to exceed \$250,000 or comparable amount adjusted for inflation or more in the case of earthquake insurance), or in the alternative, will be in an amount and in a form sufficient (together with moneys held under the Trust Agreement), in the event of total or partial loss, to enable all Series 2012A Bonds then Outstanding to be redeemed.

In the event of any damage to or destruction of any part of the Facility caused by the perils covered by such insurance, the Authority, except as hereinafter described, will cause the proceeds of such insurance to be utilized for the repair, reconstruction or replacement of the damaged or destroyed portion of the Facility, to at least the same condition as they were in prior to the damage or destruction, insofar as the same may be accomplished by the use of said proceeds. The Trustee will hold such proceeds in the Insurance and Condemnation Fund and will permit withdrawals upon written request for such purposes. Any balance of said proceeds not required for such repair, reconstruction or replacement will be treated by the Trustee as Base Rental Payments and applied in the manner provided by the Trust Agreement. Alternatively, if the proceeds of such insurance together with any other moneys

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then available for such purpose are at least sufficient to redeem an aggregate principal amount of Outstanding Series 2012A Bonds equal to the amount of Base Rental attributable to the portion of the Facility so destroyed or damaged (determined by reference to the proportion which the cost of such portion of the Facility bears to the cost of the Facility), the Authority, with the written consent of the District, may elect not to repair, reconstruct or replace the damaged or destroyed portion of the Facility and thereupon will cause said proceeds to be used for the redemption of Outstanding Series 2012A Bonds pursuant to the provisions of the Trust Agreement. In that event the Base Rental Payments shall be abated in the same proportion, except that the Base Rental Payments shall not be less than the amount necessary to enable the Authority to make all necessary and appropriate payments on and related to the Series 2012A Bonds remaining Outstanding, including but not limited to annual deposits into the Principal Account.

The Authority and the District covenant to promptly apply for federal or State disaster aid in the event that the Facility is damaged or destroyed as a result of an earthquake occurring at any time. Any proceeds received as a result of such disaster aid will be used to repair, reconstruct, restore or replace the damaged or destroyed portions of the Facility, or, at the option of the District and the Authority, to redeem Outstanding Series 2012A Bonds if such use of such disaster aid is permitted.

As an alternative to providing the fire and extended coverage insurance, or any portion thereof, required by the Facility Sublease, the District may provide a self-insurance method or plan of protection if and to the extent such self-insurance method or plan of protection will afford reasonable coverage for the risks required to be insured against, in light of all circumstances, giving consideration to cost, availability and similar plans or methods of protection adopted by public entities in the State other than the District. So long as such method or plan is being provided to satisfy the requirements of the Facility Sublease, there will be filed with the Trustee a statement of an actuary, insurance consultant or other qualified person (which may be the Risk Manager of the District), stating that, in the opinion of the signer, the substitute method or plan of protection is in accordance with the requirements of the Facility Sublease and, when effective, would afford reasonable coverage for the risks required to be insured against. There will also be filed a certificate of the District setting forth the details of such substitute method or plan. In the event of loss covered by any such self-insurance method, the liability of the District under the Facility Sublease will be limited to the amounts in the self-insurance reserve fund or funds created under such method.

The Facility Sublease requires the District to maintain or cause to be maintained, rental interruption or use and occupancy insurance to cover loss, total or partial, of the rental income from or the use of the Facility as the result of any of the hazards covered by the fire and extended coverage insurance required by the Facility Sublease described in the preceding paragraphs (provided that earthquake insurance will be required only if it is available on the open market from reputable insurance companies at a reasonable cost, as determined by the District), in an amount sufficient to pay the part of the total rent attributable to the portion of the Facility rendered unusable (determined by reference to the proportion which the cost of such portion bears to the cost of the Facility) for a period of at least two years, except that such insurance may be subject to a deductible clause of not to exceed \$250,000 (or comparable amount adjusted for inflation or more in the case of earthquake coverage). Any proceeds of such insurance will be used by the Trustee to reimburse to the District any rental theretofore paid by the District under the Facility Sublease attributable to such structure for a period of time during which the payment of rental under the Facility Sublease is abated, and any proceeds of such insurance not so used will be applied to pay Base Rental Payments and Additional Payments.

The District is required under the Facility Sublease to purchase commercial insurance to cover damage due to earthquake only if it is available on the open market from reputable insurance companies at a reasonable cost, as determined by the District. See "RISK FACTORS – Risk of Earthquake and Other Natural Disasters."

The District is also required to obtain certain liability insurance coverage in protection of the Authority and the Trustee.

Flow of Funds

The Trust Agreement creates the Revenue Fund, the Principal Account and the Interest Account for the Series 2012A Bonds. The Trust Agreement requires that Base Rental Payments be deposited in the Revenue Fund and from there, transferred in such amounts as are necessary to the Interest and Principal Account to pay principal of and interest on the Series 2012A Bonds as the same become due and payable.

DEMISED PREMISES AND THE FACILITY

The “Demised Premises” include certain real property situated in the San Dieguito Union High School District, State of California, described in the Facility Sublease, together with any additional real property added thereto or substituted therefor in accordance with the Facility Sublease and the Trust Agreement. The Facility consists of Torrey Pines High School located on and including the Demised Premises (other than and specifically excluding the public school facilities and improvements financed directly and indirectly pursuant to the provisions of the Mello Roos Community Facilities Act of 1982, as amended) together with any additional property added or substituted for all or any portion of such property in accordance with the Facility Sublease and the Trust Agreement and less any property released in accordance with the Facility Sublease and the Trust Agreement.

The term “Project” as used in the Facility Sublease means the financing of various capital improvements of the Facility. Improvements to the Facility include field replacement and track resurfacing, replacement of air conditioning units in Buildings B and E, roof replacement to Building B, and an energy management system tied to Building G. The proceeds of the Series 2012A Bonds will be used to finance the Project and to pay costs of issuing the Series 2012A Bonds and incidental and related expenses.

Substitution

The District and the Authority may substitute other real property as part of the Facility for purposes of the Facility Sublease provided the District has filed with the Authority and the Trustee, with copies to each rating agency then providing a rating for the Series 2012A Bonds, all of the following:

- (a) Executed copies of the Facility Sublease or amendments thereto containing the amended description of the Facility, including the legal description of the Demised Premises as modified, if necessary.
- (b) A Certificate of the District with copies of the Facility Sublease or the Facility Lease as applicable, or amendments thereto containing the amended description of the Facility stating that such documents have been duly recorded in the official records of the County Recorder of San Diego County.
- (c) A Certificate of the District, together with an appraisal performed by an independent appraiser, evidencing that the annual fair rental value of the property which will constitute the Facility after such substitution will be at least equal to 100% of the maximum amount of Base Rental Payments becoming due in the then current year ending March 1 or in any subsequent year ending March 1.
- (d) A Certificate of the District stating that, based upon review of such instruments, certificates or any other matters described in such Certificate of the District, the District has good merchantable title to the Facility, which will constitute the Facility after such substitution. The term “good merchantable title” shall mean such title as is satisfactory and sufficient for the needs and operations of the District.
- (e) A Certificate of the District stating that such substitution does not adversely affect the District’s use and occupancy of the Facility.
- (f) An Opinion of Bond Counsel stating that such amendment or modification (i) is authorized or permitted by the Constitution and laws of the State and by the Trust Agreement; (ii) complies with the terms of the Constitution and laws of the State and of the Trust Agreement; (iii) will, upon the execution and delivery thereof, be valid and binding upon the Authority and the District; and (iv) will not cause interest on the Series 2012A Bonds to be included in gross income for California state or federal income tax purposes.

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There is no requirement that any substitute Facility be of the same or a similar nature or function as the then existing Facility.

Release

The District, in its discretion, may request the Authority to sell or exchange any personal property which may at any time constitute a part of the Facility, and to release said personal property from this Sublease, if (a) in the opinion of the District the property so sold or exchanged is no longer required or useful in connection with the operation of the Facility, (b) the consideration to be received from the property is of a value substantially equal to the value of the property to be released, and (c) if the value of any such property shall, in the opinion of the Authority, exceed the amount of \$100,000, the Authority shall have been furnished a certificate of an independent engineer or other qualified independent professional consultant (satisfactory to the Authority) certifying the value thereof and further certifying that such property is no longer required or useful in connection with the operation of the Facility.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of proceeds of the Series 2012A Bonds are shown below.

SOURCES

<i>Sources of Funds:</i>	
Principal Amount of Series 2012A Bonds	\$
<i>Total Sources</i>	\$
 <i>Uses of Funds:</i>	
Project Funds	\$
Costs of Issuance ⁽¹⁾	
<i>Total Uses</i>	\$

⁽¹⁾ Includes legal, rating agency and printing fees, underwriter's discount, and other miscellaneous costs of issuance.

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BASE RENTAL PAYMENTS

The Facility Sublease requires that Base Rental Payments be made semiannually on or before each Base Rental Deposit Date; provided such amounts shall be reduced by certain investment earnings, as described in “APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – THE FACILITY SUBLEASE – Rent Payments; Use of Proceeds – Base Rental Payment.” The following schedule shows scheduled semiannual and annual aggregate Base Rental Payments.

Base Rental Payment Schedule

Date	Semi-Annual Base Rental Payment	Annual Base Rental Payment (for each lease year ending on March 1)
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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 2012A 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 2012A 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

The obligation of the District to make the Base Rental Payments does not constitute a debt of the District or of 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 District or the State is obligated to levy or pledge any form of taxation or for which the District or the State has levied or pledged any form of taxation.

Although the Facility Sublease does not create a pledge, lien or encumbrance upon the funds of the District, the District is obligated under the Facility Sublease to pay the Base Rental Payments from any source of legally available funds and the District has covenanted in the Facility Sublease that it will take such action as may be necessary to include all Base Rental Payments in its annual budgets and to make necessary annual appropriations therefor. The District is currently liable, and may become liable, on other obligations payable from general revenues, some of which may have a priority over the Base Rental Payments.

The District 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 District, the funds available to make Base Rental Payments may be decreased. In the event the District's revenue sources are less than its total obligations, the District could choose to fund other activities before making Base Rental Payments and other payments due under the Facility Sublease.

Abatement

In the event of substantial interference with the District's right to use and occupy any portion of the Facility by reason of material damage to, or destruction or condemnation of, the Facility, or any defect in title to the Facility, Base Rental Payments will be subject to abatement. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012A BONDS – Abatement." In the event that such portion of the Facility, if damaged or destroyed by an insured casualty, could not be replaced during the period of time in which proceeds of the District's rental interruption insurance will be available in lieu of Base Rental Payments, plus the period for which other amounts are available from the Reserve Fund or other funds and accounts established under the Trust Agreement, or in the event that casualty insurance proceeds or condemnation proceeds are insufficient to provide for complete repair or replacement of such portion of the Facility or prepayment of the Series 2012A Bonds, there could be insufficient funds to make payments to Series 2012A Bond owners in full.

Absence of Earthquake

The District has determined that earthquake insurance on the Facility is not available on the open market from reputable insurance companies at a reasonable cost, and therefore, as permitted by the Facility Sublease, has not insured against such risk. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012A BONDS – Insurance." The District does not currently anticipate obtaining such insurance in the future. See "– Seismic Factors" below.

Limited Recourse on Default

If the District defaults on its obligations to make Base Rental Payments, the Authority, may (subject to the restrictions described below) retain the Facility Sublease and hold the District liable for all Base Rental Payments on a semiannual basis and will have the right to reenter and relet the Facility. In the event such reletting occurs, the District would be liable for any resulting deficiency in Base Rental Payments. Alternatively, the Authority may

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(subject to the restrictions described below) terminate the Facility Sublease with respect to the Facility and proceed against the District to recover damages pursuant to the Facility Sublease.

Due to the specialized nature of the Facility, no assurance can be given that the Authority will be able to relet any portion of the Facility so as to provide rental income sufficient to make payments of principal and interest evidenced by the Series 2012A Bonds in a timely manner, and the Authority is not empowered to sell the Facility for the benefit of the owners of the Series 2012A Bonds. In addition, due to the governmental function of the Facility, it is not certain whether a court would permit the exercise of the remedies of repossession and reletting with respect thereto. Any suit for money damages would be subject to limitations on legal remedies against school districts in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest.

No Acceleration Upon Default

In the event of a default, there is no available remedy of acceleration of the Base Rental Payments due over the term of the Facility Sublease. The District would only be liable for Base Rental Payments on a semiannual basis, and the Authority would be required to seek a separate judgment in each fiscal year for that fiscal year's Base Rental Payments.

Substitution or Release of Facility

The Facility Sublease provides that, upon satisfaction of the other conditions specified therein, the District may release from the Facility Sublease any portion of the Facility or substitute alternate real property for all or any portion of the Facility. Such a replacement or release could have an adverse impact on the security for the Series 2012A Bonds, particularly if an event requiring abatement of Base Rental Payments were to occur subsequent to such substitution or release.

Bankruptcy

In addition to the limitations on remedies contained in the Facility Sublease and the Trust Agreement, the rights and remedies provided in the Facility Sublease and the Trust Agreement may be limited by and are subject to provisions of federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect the enforcement of creditors' rights.

Seismic Factors

The District, like most regions in the State, is located in an area of seismic activity from movements along active fault zones and, therefore, could be subject to potentially destructive earthquakes. Additionally, numerous minor faults transect the area. Seismic hazards encompass both potential surface rupture and ground shaking. The occurrence of severe seismic activity in the area of the District could result in substantial damage and interference with the District's right to use and occupy all or a portion of the Facility, which could result in the Base Rental Payments being subject to abatement. See "– Abatement" above. The District is not required by the Facility Sublease or otherwise to obtain or maintain earthquake insurance for the Facility. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012A BONDS – Insurance."

Economic Conditions in California

State income tax and other receipts can fluctuate significantly from year to year, depending on economic conditions in the State and the nation. Because much of the District's revenues derive from payments from the State, the District's revenues can vary significantly from year to year, even in the absence of significant education policy changes. Decreases in the State's general fund revenues may significantly affect appropriations made by the State to school districts, including the District. See "DISTRICT HISTORY, OPERATION AND FINANCIAL INFORMATION – State Funding of Education; State Budget Process" and "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – Proposition 98 and Proposition 111."

No Liability of Authority to the Owners

Except as expressly provided in the Trust Agreement, the Authority will not have any obligation or liability to the owners of the Series 2012A Bonds with respect to the payment when due of the Base Rental Payments by the District, or with respect to the performance by the District of other agreements and covenants required to be performed by it contained in the Facility Sublease or the Trust Agreement, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Trust Agreement.

THE AUTHORITY

The Authority is a joint powers authority, organized pursuant to a Joint Powers Agreement, dated October 22, 1998 (the "JPA Agreement"), between the District and Community Facilities District No. 94-1 of the District. The JPA Agreement was entered into pursuant to the California Government Code, commencing with Section 6500. The Authority is a separate entity constituting a public instrumentality of the State of California and was formed for the public purpose of assisting in acquiring, disposing, financing and refinancing capital improvement projects for the benefit of the District and the other parties to the JPA Agreement.

The Authority is governed by a five member Board of Directors. The Authority's powers include, but are not limited to, the power to issue bonds and to sell such bonds to public or private purchasers at public or by negotiated sale. The Authority is entitled to exercise the powers common to its members and necessary to accomplish the purposes for which it was formed. These powers include the power to make and enter into contracts; to employ agents and employees; to acquire, construct, manage, maintain and operate buildings, works or improvements; to acquire, hold or dispose of property within the District; and to incur debts, liabilities or obligations.

DISTRICT HISTORY, OPERATION AND FINANCIAL INFORMATION

The following information describes the operations of the District and the assessed value and property tax information of the District.

Introduction

The District consists of approximately 85 square miles of territory in the northern portion of San Diego County, California. The District educates students from five feeder elementary school districts: Encinitas, Cardiff, Solana Beach, Del Mar and Rancho Santa Fe. The District operates four high schools, four middle schools, one continuation high school and one adult education program.

The management and policies of the District are administered by a Superintendent of Schools and a staff which provides business, pupil, personnel, administrative personnel, and instruction support services.

Board of Trustees

The District is governed by a common five-member Board of Trustees (the "Board"), each of whom is elected to a four-year term. Elections for positions to the Board are held every two years, alternating between two and three available positions. Current members of the Board, together with their office and the date their term expires, are listed below:

<u>Board Member</u>	<u>Office</u>	<u>Term Expires</u>
Joyce Dalessandro	President	December 2012
Barbara Groth	Vice President	December 2012
Amy Herman	Clerk	December 2014
Beth Hergesheimer	Trustee	December 2014
John Salazar	Trustee	December 2014

Superintendent and Administrative Personnel

The administrative staff of the District includes Ken Noah, Superintendent; Eric Dill, Associate Superintendent of Business Services; Delores Perley, Director of Financial Services; and John Addleman, Director of Planning and Financial Management. Brief biographies of each follows.

Ken Noah, Superintendent. Mr. Noah has been employed with the District as Superintendent of Schools since 2008. Mr. Noah holds Superintendent Certification in the State of Oregon and an Administrative Credential in the State of California. He received a Bachelor of Science Degree in History from Southern Oregon University and an M.Ed. from the University of Oregon College of Education. Prior to joining the District, Mr. Noah served as Superintendent of the Gresham-Barlow School District in suburban Portland, Oregon and is in his 36th year in education.

Eric Dill, Associate Superintendent of Business Services. Mr. Dill has worked for the District since 2001. His current position oversees all non-instructional operations for the District, including the finance, facilities planning, purchasing and risk management functions. Prior to joining the District, Mr. Dill worked for twelve years in various private sector risk management positions. Mr. Dill completed the CBO Mentor Project in 2006 which is a highly selective, intensive and well-respected training program for school district chief business officials sponsored by California's most reputable school district business organizations. He also maintains a Certified Chief Business Official designation with the California Association of School Business Officials.

[insert biography - Delores Perley, Director of Financial Services]

John Addleman, Director of Planning and Financial Management. Mr. Addleman has been employed with the District for 12 years. His current position oversees the District's internal auditing and planning program including Mello Roos bond and tax collection for facility project funding. Prior to joining the District, Mr. Addleman provided trust and general accounting services to a number of local law firms. Mr. Addleman holds a BA in Economics from UC San Diego.

State Funding of Education; State Budget Process

General. As is true for all school districts in California, the District's operating income consists primarily of two components: a State portion funded from the State's general fund and a locally generated portion derived from the District's share of the 1% local *ad valorem* property tax authorized by the State Constitution. School districts may be eligible for other special categorical funding, including for State and federal programs. For fiscal year 2011-12, the District is projected to receive 6% of its general fund revenues from State funds. As a result, decreases in State revenues, or in State legislative appropriations made to fund education, may affect the District's revenues and operations.

State funding is guaranteed to a minimum level for school districts, community college districts, and other State agencies that provide direct elementary and secondary instructional programs. The funding guarantee is known as "Proposition 98," a constitutional and statutory initiative amendment adopted by the State's voters in 1988, and amended by Proposition 111 in 1990 (now found at Article XVI, Sections 8 and 8.5 of the Constitution).

Recent years have seen frequent disruptions in State personal income taxes, sales and use taxes, and corporate taxes, making it increasingly difficult for the State to meet its Proposition 98 funding mandate, which normally commands about 45% of all State general fund revenues, while providing for other fixed State costs and priority programs and services. Because education funding constitutes such a large part of the State's general fund expenditures, it is at the heart of annual budget negotiations and adjustments.

Adoption of Annual State Budget. According to the State Constitution, the Governor of the State (the "Governor") must propose a budget to the State Legislature no later than January 10 of each year. Under an initiative constitutional amendment approved by the State's voters on November 2, 2010 as "Proposition 25," a final budget must be adopted by a majority vote of each house of the Legislature no later than June 15, although this deadline has been routinely breached in the past. The budget becomes law upon the signature of the Governor, who

may veto specific items of expenditure. School district budgets must generally be adopted by July 1, and revised by the school board within 45 days after the Governor signs the budget act to reflect any changes in budgeted revenues and expenditures made necessary by the adopted State budget.

When the State budget is not adopted on time, basic appropriations and the categorical funding portion of each district's State funding are affected differently. Under the rule of *White v. Davis* (also referred to as *Jarvis v. Connell*), a State Court of Appeal decision reached in 2002, there is no constitutional mandate for appropriations to school districts without an adopted budget or emergency appropriation, and funds for State programs cannot be disbursed by the State Controller until that time unless the expenditure is (i) authorized by a continuing appropriation found in statute, (ii) mandated by the Constitution (such as appropriations for salaries of elected state officers), or (iii) mandated by federal law (such as payments to State workers at no more than minimum wage). The State Controller has consistently stated that basic State funding for schools is continuously appropriated by statute, but that special and categorical funds may not be appropriated without an adopted budget. Should the Legislature fail to pass the budget or emergency appropriation before the start of any fiscal year, the District might experience delays in receiving certain expected revenues.

Aggregate State Education Funding. The Proposition 98 guaranteed amount for education is based on prior-year funding, as adjusted through various formulas and tests that take into account State proceeds of taxes, local property tax proceeds, school enrollment, per-capita personal income, and other factors. The State's share of the guaranteed amount is based on State general fund tax proceeds and is not based on the general fund in total or on the State budget. The local share of the guaranteed amount is funded from local property taxes. The total guaranteed amount varies from year to year and throughout the stages of any given fiscal year's budget, from the Governor's initial budget proposal to actual expenditures to post-year-end revisions, as better information regarding the various factors becomes available. Over the long run, the guaranteed amount will increase as enrollment and per capita personal income grow.

If, at year-end, the guaranteed amount is calculated to be higher than the amount actually appropriated in that year, the difference becomes an additional education funding obligation, referred to as "settle-up." If the amount appropriated is higher than the guaranteed amount in any year, that higher funding level permanently increases the base guaranteed amount in future years. The Proposition 98 guaranteed amount is reduced in years when general fund revenue growth lags personal income growth, and may be suspended for one year at a time by enactment of an urgency statute. In either case, in subsequent years when State general fund revenues grow faster than personal income (or sooner, as the Legislature may determine), the funding level must be restored to the guaranteed amount, the obligation to do so being referred to as "maintenance factor."

In recent years, the State's response to fiscal difficulties has had a significant impact on Proposition 98 funding and settle-up treatment. The State has sought to avoid or delay paying settle-up amounts when funding has lagged the guaranteed amount. In response, teachers' unions, the State Superintendent, and others, sued the State or Governor in 1995, 2005, and 2009, to force them to fund schools in the full amount required. The settlement of the 1995 and 2005 lawsuits has so far resulted in over \$4 billion in accrued State settle-up obligations. However, legislation enacted to pay down the obligations through additional education funding over time, including the Quality Education Investment Act of 2006, have also become part of annual budget negotiations, resulting in repeated adjustments and deferrals of the settle-up amounts.

The State has also sought to preserve general fund cash while avoiding increases in the base guaranteed amount through various mechanisms: by treating any excess appropriations as advances against subsequent years' Proposition 98 minimum funding levels rather than current year increases; by temporarily deferring apportionments of Proposition 98 funds one fiscal year to the next; by permanently deferring the year-end apportionment from June 30 to July 2; by suspending Proposition 98, and by proposing to amend the Constitution's definition of the guaranteed amount and settle-up requirement under certain circumstances.

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2011-12 State Budget. The Governor signed the fiscal year 2011-12 State budget (the “2011-12 State Budget”) on June 30, 2011. The 2011-12 State Budget closes a \$26.6 billion budget gap with \$15.0 billion in expenditure reductions, \$0.9 billion in targeted revenue increases, \$8.3 billion in an improvement in the State’s revenue outlook and \$2.9 billion in new loans and transfers.

The 2011-12 State Budget recognizes that school funding has been disproportionately reduced since fiscal year 2007-08 and initially maintained Proposition 98 funding for K-12 programs at similar levels for fiscal year 2011-12 as is in effect for fiscal year 2010-11. However, revenues are projected to fall short by more than \$2 billion of the revenues forecasted in the 2011-12 State Budget, triggering a first round of cuts built in to the state budget should revenue fall below what lawmakers planned. The additional \$1.9 billion in education reductions could result in shortening the school year by seven days, eliminating the home-to-school transportation program and reducing community college apportionments (see, “– *Trigger of Automatic Cuts*” below).

The 2011-12 State Budget, as enacted, slightly lowers Proposition 98 programmatic funding for fiscal year 2011-12 (\$48.7 billion) from fiscal year 2010-11 (\$49.7 billion). Such funding reflects an increase in general fund revenues in fiscal year 2011-12, the expiration of a variety of short-term tax increases and the rebenching of Proposition 98 guarantee for revenue and program shifts (as further described below).

Under Proposition 98, K-14 education is guaranteed the same percentage of State general fund revenue that was provided in fiscal year 1986-87. When a factor in the calculation changes or a new program is added, Proposition 98 is adjusted or “rebenched” to accurately reflect the base year distribution of State revenues to K-14 education. In fiscal year 2011-12, there are four new rebenching impacts:

- An increase of \$578.1 million to ensure that the Proposition 98 guarantee does not decrease with the shift in motor vehicle fuel revenues. Legislation eliminated the sales tax and increased the excise tax on motor vehicle fuel in fiscal year 2010-11, reducing the amount of revenue that is counted as general fund with the State appropriation limit for the purposes of the Proposition 98 calculation.
- An increase of \$221.8 million to reflect the inclusion of mental health and out-of-home care services within the Proposition 98 guarantee. The 2011-12 State Budget shifts responsibility for mental health services, including out-of-home residential services, from local mental health and county welfare departments to school districts.
- A decrease of \$1.134 billion to reflect the exclusion of child care programs, with the exception of part-day preschool programs, from Proposition 98. The 2011-12 State Budget shifts the child care program fund source from Proposition 98 general fund to non-Proposition 98 general fund. The part-day preschool programs are still funded within Proposition 98.
- A decrease of \$1.7 billion to ensure that the total Proposition 98 guarantee is unchanged as a result of new local revenue related to redevelopment agencies. The 2011-12 State Budget requires local agencies to provide remittances totaling \$1.7 billion in fiscal year 2011-12 to K-12 school districts and county offices of education located within the project area of a redevelopment agency.

In addition to the above adjustments, Proposition 98 is decreased \$2.1 billion as a result of the reduction in general fund sales tax revenue related to the realignment of public safety programs to counties.

Certain adjustments to Proposition 98 expenditures adopted as part of the 2011-12 State Budget included (i) the deferral of \$2.1 billion in K-12 education funding, deemed necessary to maintain funding for K-12 education programs at the fiscal year 2010-11 funding level, and (ii) a decrease of \$62.3 million of part-day State preschool expenditures, including a decrease of \$16.1 million to reduce income eligibility to 70% of the State median income, and a decrease of \$46.2 million to reduce provider contracts across-the-board.

The 2011-12 State Budget includes the following significant Proposition 98 general fund policy and workload adjustments:

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- Shift in mental health services from counties to school districts. The 2011-12 State Budget rebench the Proposition 98 guarantee and provides an increase of \$221.8 million Proposition 98 general fund to shift the responsibility for providing mental health services, including out-of-home residential services, required under federal law from county mental health departments and county welfare departments to school districts. The 2011-12 State Budget also reflects the repeal of the AB 3632 mandate. Additionally, the 2011-12 State Budget includes \$2.8 million in one-time federal carryover funds for program oversight and technical assistance while transitioning these services from counties to schools, and for Office of Administrative Hearings caseload resulting from increased AB 3632 mental health service related disputes. The 2011-12 State Budget continues to provide \$98.6 million in Proposition 63 funds to county mental health agencies on a one-time basis in 2011-12. School districts can contract with counties to provide services using Proposition 63 funds, but schools would be responsible for any costs exceeding this amount. In total, the 2011-12 State Budget provides \$389.4 million from all fund sources, including \$69 million in federal funds currently budgeted for mental health services.
- Funding for new charter schools. A total of \$11 million to provide charter schools that commenced operations between fiscal year 2008-09 and fiscal year 2011-12 with supplemental categorical funding. This funding ensures new charter schools have access to the same funding as existing charter schools and traditional public schools. New conversion charter schools would be excluded from this funding and would instead receive a pass-through payment from the school district.
- Extension of flexibility for K-12 school districts. The 2011-12 State Budget extends the following flexibility options to school districts for an additional two years: categorical program flexibility, routine and deferred maintenance expenditure requirements, class size requirements, instructional time requirements, sale of surplus property, instructional materials purchase requirements and local budget reserve requirement.

In addition to the above, a decrease of \$180.4 million to child care and development programs was enacted, reflecting the following: (i) a decrease of \$37.4 million to reduce license-exempt provider rates from 80% to 60% of licensed rates for voucher-based programs; (ii) a decrease of \$12.4 million to reduce income eligibility to 70% of the State median income; and (iii) a decrease of \$130.7 million to reflect an across the board reduction in provider contracts.

The 2011-12 State Budget also makes a one-time change to the A.B. 1200 (see, “– District Budget Process and County Review) reporting process by requiring K-12 districts to adopt a one-year budget for Fiscal Year 2011-12 and not the standard current budget plus two subsequent years. It further specifies that county superintendents cannot force K-12 districts to adopt a three-year budget or a budget based on the worst-case scenario (that is, assuming the trigger for education cuts gets pulled).

The complete 2011-12 State Budget is available from the California Department of Finance website at www.dof.ca.gov. The District can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by such reference.

Trigger of Automatic Cuts. On December 13, 2011, Governor Brown announced that State revenues had fallen \$2.2 billion below projections made at the adoption of the 2011-12 State Budget, thus triggering certain automatic spending reductions discussed above. Reductions in education spending amounted to approximately \$330 million. The majority of reductions (\$248 million) will affect the State’s home-to-school transportation funding. Additional reductions of approximately \$79.6 million will affect Proposition 98 apportionments. Shortly after the reductions to the home-to-school transportation program were implemented by the state administration, the Legislature introduced and passed SB 81, which restored home-to-school transportation funding and offset the increase in funding by adopting a further 0.65% cut to the revenue limits of school districts statewide. In the District’s case, the amount of restored transportation funding is less than the amount lost through the increased Fair Share contribution. The Fair Share contribution is an amount which Basic Aid districts pay back to the state through

their categorical funding to recognize the cuts that have been made to Revenue Limit districts. The District anticipates net reductions of approximately \$335 thousand in 2012-13 as a result of SB 81.

Proposed 2012-13 State Budget. The Governor officially released his proposed fiscal year 2012-13 State budget (the “2012-13 Proposed State Budget”) on January 5, 2012. The 2012-13 Proposed State Budget projects that the State will face a budget gap of \$9.2 billion in fiscal year 2012-13, which is less than the \$26.6 billion budget gap encountered for fiscal year 2011-12 but more than the approximate \$5 billion that was projected when the 2011-12 State Budget was signed. The 2012-13 Proposed State Budget provides that the \$9.2 billion budget gap is the result of a carryover deficit of \$4.1 billion from fiscal year 2011-12 and an operating deficit, absent any solutions, of \$5.1 billion. The carryover deficit of \$4.1 billion from fiscal year 2011-12 is, according to the 2012-13 Proposed State Budget, a result of several developments, including a \$1.9 billion deficit that carried over from the prior fiscal year and court orders and delayed federal approval related to several cuts in the 2011-12 State Budget.

The 2012-13 Proposed State Budget indicates that a total of \$10.3 billion in cuts, taxes and other revenues will be necessary to close the \$9.2 billion budget gap and to build a \$1.1 billion reserve. The 2012-13 Proposed State Budget reduces expenditures by \$4.2 billion, including substantial cuts to major programs, such as a \$946 million cut to CalWORKs, \$447 million cut to subsidized child care, \$842 million cut to Medi-Cal and \$302 million reduction to the Cal Grant program. The 2012-13 Proposed State Budget also plans for a \$544 million savings from the elimination of supplemental funding for schools associated with the elimination of the sales tax on gasoline together with certain other Proposition 98 adjustments. The 2012-13 Proposed State Budget proposes a total of \$6.1 billion in new revenues.

In addition to balancing the budget, the 2012-13 Proposed State Budget aims to set forth a path to meet the State’s long-term fiscal challenges. The 2012-13 Proposed State Budget recognizes that the State’s debt, deferrals and budgetary obligations will total \$33 billion at the end of fiscal year 2011-12. Under the 2012-13 Proposed State Budget, for the first time in the past decade, the budget is projected to be balanced on an ongoing basis and the \$33 billion amount is projected to be paid off by fiscal year 2015-16.

The 2012-13 Proposed State Budget assumes the passage of the Governor’s proposed initiative for increased taxes at the November 2012 election, which initiative increases the income tax on the State’s wealthiest earners and temporarily increases the sales tax by 0.5%. This initiative is projected by the 2012-13 Proposed State Budget to generate an additional \$6.9 billion in revenues in fiscal year 2012-13, which amount results in a net benefit to the State general fund of \$4.4 billion after accounting for the increased Proposition 98 minimum guarantee. If the Governor’s proposed initiative is not approved, the 2012-13 Proposed State Budget specifies a trigger package of cuts to take effect on January 1, 2013, consisting of \$5.4 billion in additional cuts, including a \$4.8 billion cut to schools and community colleges through the reduction in the Proposition 98 guarantee, a \$200 million cut to the State’s public university systems and a \$125 million cut to the State’s court system.

As it relates to K-12 education, the 2012-13 Proposed State Budget recognizes that Proposition 98 funding for K-12 education significantly declined from an all time high of \$56.6 billion in fiscal year 2007-08 to \$47.6 billion in fiscal year 2011-12. The 2012-13 Proposed State Budget, assuming approval of the Governor’s proposed tax initiatives, provides Proposition 98 funding of \$52.5 billion for K-12 education, an increase of \$4.9 billion from the previous fiscal year. When accounting for all state, federal and local property tax resources, total funding for K-12 education is projected to be \$67.1 billion in fiscal year 2012-13. Total per-pupil expenditures from all sources are projected to be \$10,610 in fiscal year 2011-12 and \$11,246 in fiscal year 2012-13, including funds provided for prior year “settle-up” obligations. K-12 Proposition 98 per-pupil expenditures in the 2012-13 Proposed State Budget are \$7,815 in fiscal year 2012-13, up significantly from the \$7,096 per-pupil provided in fiscal year 2011-12. For fiscal year 2011-12, K-12 A.D.A. is estimated to be 5,950,041, an increase of 2,673 from fiscal year 2010-11. The 2012-13 Proposed State Budget estimates that K-12 A.D.A. will increase by an additional 20,734 to 5,970,775 in fiscal year 2012-13.

In addition to the projected, and assumed, new revenues, the 2012-13 Proposed State Budget proposes (i) a series of rebenchings of the Proposition 98 guarantee, which rebenchings are projected to provide for \$373 million of State general fund savings, (ii) a Proposition 98 general fund reduction of \$171 million to special education and community college apportionments in fiscal year 2011-12 to offset the increased property taxes resulting from the

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elimination of redevelopment agencies, and (iii) an increase of more than \$2.3 billion in Proposition 98 general fund to reduce inter-year budgetary deferrals for school districts and community colleges.

Certain major workload adjustments for K-12 programs included in the 2012-13 Proposed State Budget include the following:

- Cost-of-Living Adjustment Increases. The 2012-13 Proposed State Budget does not provide a cost-of-living-adjustment (“COLA”) for any K-14 program in fiscal year 2012-13. The projected COLA for fiscal year 2012-13 is 3.17%, which would have provided a \$1.8 billion increase to the extent Proposition 98 resources were sufficient to provide that adjustment.
- Local Property Tax Adjustment. An increase of \$196 million for school district and county office of education revenue limits in fiscal year 2011-12 as a result of lower offsetting property tax revenues, and an increase of \$627 million for school district and county office of education revenue limits in fiscal year 2012-13 as a result of reduced offsetting property tax revenues.
- Average Daily Attendance. A decrease of \$694 million in fiscal year 2011-12 for school district and county office of education revenue limits as a result of a decrease in projected A.D.A. from the 2011-12 State Budget, and an increase of \$158 million in fiscal year 2012-13 for school district and county office of education revenue limits as a result of projected growth in A.D.A. for fiscal year 2012-13.
- K-14 Mandates Funding. An increase of \$110.1 million to support a new block grant program for K-14 mandates. The 2012-13 Proposed State Budget provides a total of \$200 million to fund a mandates block grant incentive program for K-14, while eliminating almost half of the current K-14 mandates. Incentives are created for schools to continue to comply with remaining previously mandated activities.
- Redevelopment Agency Elimination. An increase of \$1.1 billion in offsetting local property taxes for fiscal year 2012-13 due to the elimination of redevelopment agencies.
- Unemployment Insurance. An increase of \$21.8 million in fiscal year 2012-13 to fully fund the additional costs of unemployment insurance for local school districts and county offices of education.
- Charter Schools. An increase of \$50.3 million in Proposition 98 general fund for charter school categorical programs due to charter school growth. The 2012-13 Proposed State Budget proposes to improve in general the operational and financial playing field for charter schools through a series of changes.
- Reduce Child Care Costs. A decrease of \$446.9 million in non-Proposition 98 general fund and \$69.9 million in Proposition 98 general fund to State Department of Education child care programs to reflect changes to reimbursement rates, and to reflect the alignment of eligibility for low-income working family child care services with federal welfare-to-work work participation requirements.
- Transitional Kindergarten. A decrease of \$223.7 million Proposition 98 general fund to reflect the elimination of the requirement that schools provide transitional kindergarten instruction beginning in the 2012-13 academic year. These savings will be used to support existing education programs.
- Child Nutrition Program. A decrease of \$10.4 million in non-Proposition 98 general fund in fiscal year 2012-13 to reflect the elimination of supplemental reimbursement for free and reduced-price breakfast and lunch served at private schools and private child care centers. And an increase of \$37.2 million for fiscal year 2012-13 in State Department of Education federal local assistance funds to reflect growth of nutrition programs at schools and other participating agencies.

In addition, the 2012-13 Proposed State Budget proposes a new weighted pupil funding formula that will provide significant and permanent additional flexibility to school districts by consolidating the vast majority of categorical programs (excluding federally required programs such as special education) and revenue limit funding into a single source of funding. The formula will distribute these combined resources to school based on weighted factors that account for the variability in costs of educating specific student populations, thereby ensuring that funding will continue to be targeted to schools with large populations of disadvantaged pupils. The formula will be phased in over a period of five years. The programs that will be replaced by the new formula will immediately be made completely flexible for use in supporting any locally determined education purpose. The 2012-13 Proposed State Budget also adds a system of accountability measures that will be the basis for evaluating and rewarding school performance under this new finance model, which includes the current quantitative, test-based accountability measures and locally developed assessments and qualitative measures.

The complete 2012-13 Proposed State Budget is available from the California Department of Finance website at www.dof.ca.gov. The District can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by such reference.

LAO Overview of 2012-13 Proposed State Budget. The Legislative Analyst's Office ("LAO"), a nonpartisan State office which provides fiscal and policy information and advice to the State Legislature, released its report on the 2012-13 Proposed State Budget entitled "The 2012-13 Budget: Overview of the Governor's Budget" on January 11, 2012 (the "2012-13 Budget Overview") in which the LAO disagreed with the \$9.2 billion budget gap estimated by the 2012-13 Proposed State Budget and projected a \$12.8 billion budget gap, a \$3.6 billion difference. This difference is mainly due to the different forecasts of personal income tax revenues, particularly for high-income tax filers. If the LAO's estimates are closer to the target than that in the 2012-13 Proposed State Budget, the State Legislature would have to pursue billions of dollars more in budget-balancing solutions. Further, the 2012-13 Budget Overview recognizes that the State's budget is already dependent on volatile income tax payments by the State's wealthiest individuals and raises concern that the 2012-13 Proposed State Budget is centered on the plan to have these wealthiest individuals pay more taxes, making the State more dependent on this uncertain revenue source.

In the 2012-13 Budget Overview, although the LAO disagrees with the projections provided by the 2012-13 Proposed State Budget, the LAO does agree that the 2012-13 Proposed State Budget, whether with the Governor's proposed tax initiatives or with the trigger package of cuts, would move the State's budget closer to balance over the next several years. The 2012-13 Budget Overview recommends the State Legislature adopt the basic restructuring approaches to the K-12 finance system, community college categorical funding model and education mandate system included in the 2012-13 Proposed State Budget regardless of the State's revenue situation, albeit with a few modifications to specific proposals such as the amount of mandates block grant funding provided or the specific mix of mandated programs that are eliminated versus made discretionary. The 2012-13 Budget Overview also recommends that the State Legislature adopt the proposal in the 2012-13 Proposed State Budget to avoid initiating major new programs beginning in fiscal year 2012-13, such as the transitional kindergarten program. While the 2012-13 Budget Overview finds that there are advantages to the proposed changes and reductions for CalWORKs and subsidized child care, it recognizes that there are potential trade-offs such as the negative impact on many of the State's low-income families.

The LAO believes that the Proposition 98 proposal in the 2012-13 Proposed State Budget generates significant uncertainty for schools districts as it is based upon revenues that would not materialize until midyear with a severe trigger package of cuts in case such revenues, dependent on the Governor's proposed tax initiatives, ultimately do not materialize. Such a scenario, according to the 2012-13 Budget Overview, would force school districts to adopt budgets assuming the \$2.4 billion in programmatic cuts and implement adjustments and reductions that the 2012-13 Proposed State Budget sought to avoid. In contrast, school districts that build budgets assuming the tax initiatives would be adopted could face very difficult midyear fiscal situations if the projected revenues do not materialize. The 2012-13 Budget Overview provides that the State Legislature should consider the unintended consequences of the trigger approach in the 2012-13 Proposed State Budget and be very deliberate in structuring a trigger package, as it in essence would determine the size and quality of the State's K-14 education program in fiscal year 2012-13. The LAO recommends that the State Legislature be cautious when considering the size of the trigger

reduction, determining the specific K-14 reductions to impose in advance and designing tools to help school districts respond given the constraints they face in making midyear adjustments.

The 2012-13 Budget Overview is available on the LAO website at www.lao.ca.gov. The District can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by such reference.

Changes in State Budget. The final fiscal year 2012-13 State budget, which requires approval by a majority vote of each house of the State Legislature, may differ substantially from the Governor's budget proposals. Accordingly, the District cannot predict the impact that the 2012-13 Proposed State Budget, or subsequent budgets, will have on its finances and operations. The final fiscal year 2012-13 State budget will be affected by national and State economic conditions and other factors which the District cannot predict.

State Cash Management Legislation. On March 1, 2010, the Governor signed a bill (and on March 4, 2010, subsequently signed a clean-up bill to clarify certain provisions of such bill) to provide additional cash management flexibility to State fiscal officials (the "Cash Management Bill"). The Cash Management Bill authorized deferral of certain payments during the 2010-11 fiscal year for school districts (not to exceed \$2.5 billion in the aggregate at any one time, and a maximum of three deferrals during the fiscal year). Similar legislation has been enacted for fiscal year 2011-12. The legislation, sets forth a specific deferral plan for K-12 education payments. In the legislation, both the July 2011 and August 2011 K-12 payments of \$1.4 billion are deferred and the October 2011 payment of \$2.4 billion is deferred. In September 2011, \$700 million of the July deferral is to be paid, in January 2012, \$4.5 billion from the remaining July, August and October deferrals are paid, and in March 2012, \$1.4 billion is to be deferred and paid in April 2012. The District is authorized to temporarily borrow from among its other funds to cover its annual cash flow deficits and, as a result of this legislation, the District expects to increase the size of its cash flow borrowings in fiscal year 2011-12.

Dissolution of Redevelopment Agencies. The adopted State budget for fiscal 2011-12, as signed by the Governor of the State on June 30, 2011, included as trailer bills Assembly Bill No. 26 (First Extraordinary Session) ("AB1X 26") and Assembly Bill No. 27 (First Extraordinary Session) ("AB1X 27"), which the Governor signed on June 29, 2011. AB1X 26 suspended most redevelopment agency activities and prohibited redevelopment agencies from incurring indebtedness, making loans or grants, or entering into contracts after June 29, 2011. AB1X 26 dissolves all redevelopment agencies in existence and designates "successor agencies" and "oversight boards" to satisfy "enforceable obligations" of the former redevelopment agencies and administer dissolution and wind down of the former redevelopment agencies. Certain provisions of AB1X 26 are described further below. As signed by the Governor, AB1X 27 would have allowed a redevelopment agency to continue to exist, notwithstanding AB1X 26, upon the enactment by the city or county that created the redevelopment agency of an ordinance to comply with AB1X 27's provisions and the satisfaction of certain other conditions.

In July of 2011, various parties filed an action before the Supreme Court of the State of California (the "Court") challenging the validity of AB1X 26 and AB1X 27 on various grounds (California Redevelopment Association v. Matosantos). The Court subsequently stayed the implementation of a portion of AB1X 26 and all of AB1X 27 pending its decision in Matosantos. On December 29, 2011, the Court rendered its decision in Matosantos upholding virtually all of AB1X 26 and invalidating AB1X 27. In its decision, the Court also modified various deadlines for the implementation of AB1X 26. The deadlines for implementation of AB1X 26 below take into account the modifications made by the Court in Matosantos.

After Matosantos, AB1X 26 continues to suspend most redevelopment agency activities and continues to prohibit redevelopment agencies from incurring indebtedness, making loans or grants, or entering into contracts. On February 1, 2012, when redevelopment agencies are dissolved, AB1X 26 requires redevelopment agencies to continue to make scheduled payments on and perform obligations required under its "enforceable obligations." For this purpose, AB1X 26 defines "enforceable obligations" to include "bonds, including the required debt service, reserve set-asides, and any other payments required under the indenture or similar documents governing the issuance of outstanding bonds of the former redevelopment agency" and "any legally binding and enforceable agreement or contract that is not otherwise void as violating the debt limit or public policy." AB1X 26 specifies that only payments included on an "enforceable obligation payment schedule" adopted by a redevelopment agency shall be made by a redevelopment agency until its dissolution.

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On February 1, 2012, and pursuant to Matosantos, AB1X 26 dissolved all redevelopment agencies in existence and designated “successor agencies” and “oversight boards” to satisfy “enforceable obligations” of the former redevelopment agencies and administer dissolution and wind down of the former redevelopment agencies. With limited exceptions, all assets, properties, contracts, leases, records, buildings and equipment, including cash and cash equivalents of a former redevelopment agency will be transferred to the control of the successor agency and, unless otherwise required pursuant to the terms of an enforceable obligation, distributed to various taxing agencies pursuant to AB1X 26.

AB1X 26 requires each successor agency to continue to make payments on enforceable obligations of the former redevelopment agencies. However, until a successor agency adopts a “recognized obligation payment schedule” the only payments permitted to be made are payments on enforceable obligations included on an enforceable obligation payment schedule. The initial enforceable obligation payment schedule will be the enforceable obligation payment schedule adopted by the former redevelopment agency. A successor agency may amend the enforceable obligation payment schedule at any public meeting, subject to the approval of its oversight board.

Under AB1X 26, commencing February 1, 2012, property taxes that would have been allocated to each redevelopment agency if the agencies had not been dissolved will instead be deposited in a “redevelopment property tax trust fund” created for each former redevelopment agency by the related county auditor-controller and held and administered by the related county auditor-controller as provided in AB1X 26. AB1X 26 generally requires each county auditor-controller, on May 16, 2012 and June 1, 2012 and each January 16 and June 1 thereafter, to apply amounts in a related redevelopment property tax trust fund, after deduction of the county auditor-controller’s administrative costs, in the following order of priority:

- To pay pass-through payments to affected taxing entities in the amounts that would have been owed had the former redevelopment agency not been dissolved; provided, however, that if a successor agency determines that insufficient funds will be available to make payments on the recognized obligation payment schedule and the county auditor-controller and State Controller verify such determination, pass-through payments that had previously been subordinated to debt service may be reduced;
- To the former redevelopment agency’s successor agency for payments listed on the successor agency’s recognized obligation payment schedule for the ensuing six-month period;
- To the former redevelopment agency’s successor agency for payment of administrative costs; and
- Any remaining balance to school entities and local taxing agencies.

It is likely that there will be additional legislation proposed and/or enacted to “clean up” various inconsistencies contained in AB1X 26 and there may be additional legislation proposed and/or enacted in the future affecting the current scheme of dissolution and winding up of redevelopment agencies currently contemplated by AB1X 26. No assurances can be given as to the effect of any such future proposed and/or enacted legislation on the Series 2012A Bonds.

Future Budgets and Budgetary Actions. The District cannot predict what actions will be taken in the future by the State Legislature and the Governor to address changing State revenues and expenditures or the impact such actions will have on State revenues available in the current or future years for education. The State budget will be affected by national and State economic conditions and other factors over which the District will have no control. Certain actions could result in a significant shortfall of revenue and cash, and could impair the State’s ability to fund schools during fiscal year 2011-12 and in future fiscal years. Continued State budget shortfalls in fiscal year 2011-12 and future fiscal years could have a material adverse financial impact on the District.

Prohibitions on Diverting Local Revenues for State Purposes. Beginning in 1992-93, the State satisfied a portion of its Proposition 98 obligations by shifting part of the property tax revenues otherwise belonging to cities, counties, special districts, and redevelopment agencies, to school and college districts through a local Educational Revenue Augmentation Fund (ERAF) in each county. Local agencies, objecting to invasions of their local revenues

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by the State, sponsored a statewide ballot initiative intended to eliminate the practice. In response, the Legislature proposed an amendment to the State Constitution, which the State's voters approved as Proposition 1A at the November 2004 election. That measure was generally superseded by the passage of a new initiative constitutional amendment at the November 2010 election, known as "Proposition 22."

The effect of Proposition 22 is to prohibit the State, even during a period of severe fiscal hardship, from delaying the distribution of tax revenues for transportation, redevelopment, or local government projects and services. It prevents the State from redirecting redevelopment agency property tax increment to any other local government, including school districts, or from temporarily shifting property taxes from cities, counties and special districts to schools, as in the ERAF program. This is intended to, among other things, stabilize local government revenue sources by restricting the State's control over local property taxes. One effect of this amendment will be to deprive the State of fuel tax revenues to pay debt service on most State bonds for transportation projects, reducing the amount of State general fund resources available for other purposes, including education.

Prior to the passage of Proposition 22, the State invoked Proposition 1A to divert \$1.935 billion in local property tax revenues in Fiscal Year 2009-10 from cities, counties, and special districts to the State to offset State general fund spending for education and other programs, and included another diversion in the adopted 2009-10 State budget of \$1.7 billion in local property tax revenues from local redevelopment agencies. The California Redevelopment Association (CRA) and several local redevelopment agencies sued the State over this latter diversion, and the lawsuit was decided against the redevelopment agencies on May 1, 2010.

Passage of Proposition 22 (and of Proposition 1A before it) will generally have the effect of constricting State funding for education by reducing the State's options for enhancing its revenues.

Allocation of State Funding to School Districts. Under Education Code Section 42238 and following, each school district is determined to have a target funding level: a "base revenue limit" per student multiplied by the district's student enrollment measured in units of average daily attendance ("A.D.A."). The base revenue limit is calculated from the district's prior-year funding level, as adjusted for a number of factors, such as inflation, special or increased instructional needs and costs, employee retirement costs, especially low enrollment, increased pupil transportation costs, etc. Generally, the amount of State funding allocated to each school district is the amount needed to reach that district's base revenue limit after taking into account certain other revenues, in particular, locally generated property taxes. This is referred to as State "equalization aid." To the extent local tax revenues increase due to growth in local property assessed valuation, the additional revenue is offset by a decline in the State's contribution.

Enrollment can fluctuate due to factors such as population growth or decline, competition from private, parochial, and public charter schools, inter-district transfers in or out, and other causes. Losses in enrollment will cause a school district to lose operating revenues, without necessarily permitting the district to make adjustments in fixed operating costs.

Enrollment

Enrollment in the District has increased by 14.6% over the past ten years. The following table shows an eight-year history of enrollment for the District based on the California Basic Educational Data System's (CBEDS) October count in each school year.

**SAN DIEGUITO UNION HIGH SCHOOL DISTRICT
7-12 Student Enrollment
Fiscal 2004-05 through 2011-12**

<u>Year</u>	<u>CBED Enrollment</u>	<u>Annual Change</u>	<u>Annual % Change</u>
2004-05	11,935	–	–
2005-06	12,190	255	2.1%
2006-07	12,375	185	1.5
2007-08	12,482	107	0.9
2008-09	12,606	124	1.0
2009-10	12,661	55	0.4
2010-11	12,499	(162)	(1.3)
2011-12*	12,448	(51)	(0.4)

* Estimate from the District's Fiscal Year 2011-12 adopted budget.

Source: California Department of Education.

The following table shows the District's A.D.A. and the deficated revenue limit per A.D.A. for the most recent seven years and a projection for the current year.

**SAN DIEGUITO UNION HIGH SCHOOL DISTRICT
Average Daily Attendance and Base Revenue Limit
Fiscal Years 2004-05 through 2011-12**

<u>Fiscal Year</u>	<u>Average Daily Attendance⁽¹⁾</u>	<u>Annual Change in A.D.A.</u>	<u>Base Revenue Limit per A.D.A.⁽²⁾</u>
2004-05	11,524	–	\$5,532.98
2005-06	11,739	1.87%	5,844.55
2006-07	11,961	1.89	6,350.08
2007-08	12,022	0.51	6,640.08
2008-09	12,075	0.44	7,019.08
2009-10	12,140	0.54	7,319.08
2010-11	11,923	(1.78)	7,298.46
2011-12 ⁽²⁾	11,898	(0.20)	7,506.77

Note: All amounts are rounded to the nearest whole number.

⁽¹⁾ Average daily attendance for the second period of attendance, typically in mid-April of each school year. Data for fiscal year 1998-99 and thereafter are based on state legislation which reconfigured Average Daily Attendance to represent actual attendance without regard to excused absences.

⁽²⁾ Figures are projections.

Source: The District.

In its fiscal year 2011-12 budget, the District projects that it will receive approximately \$78 million in property tax revenues in fiscal year 2011-12, or approximately 80.6% of its general fund revenues. This amount represents an increase of 0.5% from the \$77.5 million that the District received in fiscal year 2010-11. State funds for special programs are budgeted to be \$5.9 million for fiscal year 2011-12. This amount includes a small portion from State Lottery funds, which may not be used for non-instructional purposes, such as the acquisition of real property or the construction of facilities. School districts receive lottery funds proportional to their total A.D.A.

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The District's State lottery revenue was \$1.5 million in fiscal year 2010-11 and is projected at approximately \$1.3 million for fiscal year 2011-12. See “– State Funding of Education; State Budget Process” above.

The District cannot make any predictions regarding how the current economic environment or changes thereto will affect the State's ability to meet the revenue and spending assumptions in the State's adopted budget, and the effect of these changes on school finance. The District's adopted budget and budgeted A.D.A. are used for planning purposes only, and do not represent a prediction as to the actual financial performance, attendance, or the District's actual funding level for fiscal year 2011-12 or beyond. Certain adjustments will have to be made throughout the year based on actual State funding and actual attendance.

Local Sources of Education Funding

The principal component of local revenues is a school district's property tax revenues, i.e., each district's share of the local one percent property tax, received pursuant to Sections 75 and following and Sections 95 and following of the California Revenue and Taxation Code. Education Code Section 42238(h) itemizes the local revenues that are counted towards the base revenue limit before calculating how much the State must provide in State aid. The more local property taxes a district receives, the less State aid it is entitled to; ultimately, a school district whose local property tax revenues exceed its base revenue limit is entitled to receive no State aid, and receives only its special categorical aid, which is deemed to include the “basic aid” of \$120 per student per year guaranteed by Article IX, Section 6 of the Constitution. Such districts are known as “basic aid districts.” Districts that receive some State aid are commonly referred to as “revenue limit districts.”

The District is a basic aid district. The District's deficated base revenue limit per A.D.A. is budgeted to be \$7,462.65 for Fiscal Year 2011-12, resulting in total base revenue limit income of \$72.7 million for Fiscal Year 2011-12. Local general property tax revenues, meanwhile, are expected to be \$77.9 million, providing in excess of 100% of the District's total base revenue limit. Therefore, for Fiscal Year 2011-12, the District has budgeted to receive no equalization aid. The County is a “Teeter Plan” county, which means that the District is made whole for any delinquencies in payment of property taxes by local property owners. Property tax levy and collection procedures (including the Teeter Plan) are discussed herein under the section “LOCAL PROPERTY TAXATION – TAX LEVIES, COLLECTIONS AND DELINQUENCIES.” For a discussion of legal limitations on the ability of the District to raise revenues through local property taxes, see “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS” below.

Changes in local property tax income and student enrollment (A.D.A.) affect revenue limit districts and basic aid districts differently. In a revenue limit district, increasing enrollment increases the total revenue limit and thus generally increases a district's entitlement to State equalization aid, assuming property tax revenues are unchanged. Operating costs increase disproportionately slowly—and only at the point where additional teachers and classroom facilities are needed. Declining enrollment has the reverse effect on revenue limit districts, generally resulting in a loss of State equalization aid, while operating costs decrease slowly and only when, for example, the district decides to lay off teachers or close schools. Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, and public charter schools, inter-district transfers in or out, and other causes. In basic aid districts, the opposite is generally true: increasing enrollment does increase the revenue limit, but since all revenue limit income (and more) is already generated by local property taxes, there is no increase in State income. Meanwhile, as new students impose increased operating costs, the fixed property tax income is stretched further. Declining enrollment does not reduce property tax income, and has a negligible impact on State aid, but eventually reduces operating costs, and thus is financially beneficial to a basic aid district. Accordingly, the District has undertaken measures to ensure that only residents and other authorized students are enrolled at District schools.

Local Property Taxation

General. Taxable property located in the District has a 2011-12 assessed value of \$47,986,931,349. All taxable property is assessed using full cash value as defined by Article XIII A of the State Constitution. State law provides exemptions from *ad valorem* property taxation for certain classes of property such as churches, colleges, non-profit hospitals, and charitable institutions. State law also exempts from taxation \$7,000 of the full cash value

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of an owner-occupied dwelling provided that the owner files for such exemption. This exemption does not result in any loss of revenue to local agencies, since the State reimburses local agencies for the value of the exemptions.

The assessment of all property and levy and collection of local property taxes is required to be performed for the District by the County. District property taxes are assessed and collected by the County at the same time and on the same rolls as county, special district, and city property taxes. The valuation of secured property and a statutory tax lien is established as of January 1 and is subsequently equalized in August of each year. The resulting secured property tax is payable in two equal installments due November 1 and February 1, and payments become delinquent on December 10 and April 10, respectively. Taxes on unsecured property (personal property and leasehold) are due on August 31 of each year. Taxes on unsecured property are levied at the preceding fiscal year's tax rate and become delinquent on October 31.

Future assessed valuation growth allowed under Article XIII A (as a result of new construction, certain changes of ownership, and increases in the cost of living of up to 2% per year) will be 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 will share the growth of "base" revenues from the tax rate area. Each year's growth allocation becomes part of each agency's allocation in the following year. The availability of revenue from growth in an agency tax base is affected by the existence or establishment of redevelopment agencies which, under certain circumstances, may be entitled to such revenues.

Classification of Locally Taxed Property. Locally taxed property is classified either as "secured" or "unsecured," and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State-assessed property and property (real or personal) for which there is a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes. All other property is "unsecured," and is assessed on the "unsecured roll." Secured property assessed by the State Board of Equalization is commonly identified for taxation purposes as "utility" property.

Under California law, a city or county could, and did, prior to recent California legislation dissolving redevelopment agencies, create a redevelopment agency in territory within one or more school districts. Upon formation of a "project area" of a redevelopment agency, most property tax revenues attributable to the growth in assessed value of taxable property within the project area (known as "tax increment") belong to the redevelopment agency, causing a loss of general fund tax revenues (relating to the 1% countywide general fund levy) to other local taxing agencies, including school districts, from that time forward. However, special *ad valorem* property taxes (in excess of the 1% general fund levy) collected for payment of debt service on school bonds are based on assessed valuation before reduction for redevelopment increment and such special *ad valorem* property taxes are not affected or diverted by the operation of a redevelopment agency project area. The application of such revenues diverted by redevelopment agencies is now substantially limited to meeting existing debt service of the redevelopment agencies. For more information on the dissolution of redevelopment agencies, see "DISTRICT FINANCIAL AND OPERATING INFORMATION – State Funding of Education; State Budget Process – *Dissolution of Redevelopment Agencies*" above.

As to operating revenues, any loss of local property taxes that contribute to the revenue limit target of a revenue limit district is made up by an increase in State equalization aid, until the base revenue limit is reached. "Pass-through" payments of local tax revenues required by law to be paid to the school district by a local redevelopment agency will count toward the revenue limit, except for any portion dedicated to capital facilities or deferred maintenance.

For basic aid districts, the State will not make the district whole for loss of tax increment to the redevelopment agency unless and only to the extent that such loss reduces the district's local property tax revenues below the district's revenue limit. In addition, the basic aid district may be entitled to a pass-through payment from the redevelopment agency: for any redevelopment project plan adopted or amended after 1993, a basic aid district is entitled to its pre-plan share of taxes collected district-wide, plus the lesser of (i) property tax revenues from the incremental growth in assessed valuation in that part of the district not included in the project area, and (ii) property tax revenues on 80% of the incremental growth in assessed valuation within the project area. For any redevelopment plan adopted before 1994 and not subsequently amended, either a revenue limit district or a basic aid district may continue to receive pass-through payments at the level negotiated with the redevelopment agency

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instead of the statutory pass-through; such payments do not count against the district's revenue limit for State aid purposes, but must generally be used for capital facilities improvements. The District receives tax-increment pass-through payments from the former Solana Beach Redevelopment Project. See "Redevelopment Payments" herein,

State-Assessed Property. Under the State Constitution, the State Board of Equalization assesses property of State-regulated transportation and communications utilities, including railways, telephone and telegraph companies, and companies transmitting or selling gas or electricity. The Board of Equalization also is required to assess pipelines, flumes, canals and aqueducts lying within two or more counties. The value of property assessed by the Board of Equalization is allocated by a formula to local jurisdictions in the county, including school districts, and taxed by the local county tax officials in the same manner as for locally assessed property. Taxes on privately owned railway cars, however, are levied and collected directly by the Board of Equalization. Property used in the generation of electricity by a company that does not also transmit or sell that electricity is taxed locally instead of by the Board of Equalization. Thus, the reorganization of regulated utilities and the transfer of electricity-generating property to non-utility companies, as often occurred under electric power deregulation in the State, affects how those assets are assessed, and which local agencies benefit from the property taxes derived. In general, the transfer of State-assessed property located in the District to non-utility companies will increase the assessed value of property in the District, since the property's value will no longer be divided among all taxing jurisdictions in the County. The transfer of property located and taxed in the District to a State-assessed utility will have the opposite effect: generally reducing the assessed value in the District, as the value is shared among the other jurisdictions in the County. The District is unable to predict future transfers of State-assessed property in the District and the County, the impact of such transfers on its utility property tax revenues, or whether future legislation or litigation may affect ownership of utility assets, the State's methods of assessing utility property, or the method by which tax revenues of utility property is allocated to local taxing agencies, including the District. So long as the District is a "revenue limit district," any reduction in the District's property tax revenues for general operating purposes will be offset by an increase in State funding.

Assessed Valuation of Property Within District. Shown in the following table are the assessed valuations of property in the District for fiscal years 2005-06 through 2011-12.

SAN DIEGUITO UNION HIGH SCHOOL DISTRICT
Assessed Valuations
Fiscal Years 2005–06 through 2011-12

Fiscal Year	Local Secured	Utility	Unsecured	Total
2005-06	\$ 36,414,272,677	\$ 14,787,293	\$ 436,341,120	\$ 36,865,401,090
2006-07	40,368,051,922	14,403,645	454,281,978	40,836,737,545
2007-08	44,063,521,878	8,732,983	508,226,447	44,580,481,308
2008-09	47,017,777,341	0	523,898,857	47,541,676,198
2009-10	47,622,252,375	0	511,644,705	48,133,897,080
2010-11	47,112,545,585	0	465,371,780	47,577,917,365
2011-12	47,530,327,546	0	456,603,803	47,986,931,349

Source: California Municipal Statistics, Inc.

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Largest Taxpayers in District. The 20 largest taxpayers in the District, ranked by aggregate assessed value of taxable property, as shown on the 2011-12 secured tax roll, and the amount of each owner’s assessed valuation for all taxing jurisdictions within the District, are shown below.

The more property (by assessed value) owned by a single taxpayer, the more tax collections are exposed to weakness in the taxpayer’s financial situation and ability or willingness to pay property taxes. In 2011-12, no single taxpayer owned more than [___]% of the total taxable property in the District.

**SAN DIEGUITO UNION HIGH SCHOOL DISTRICT
Twenty Largest
Fiscal Year 2011-12 Local Secured Taxpayers**

Property Owner	Primary Land Use	2011-12 Assessed Valuation	% of Total ⁽¹⁾
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⁽¹⁾ 2011-12 Local Secured Assessed Valuation: \$47,530,327,546.
Source: California Municipal Statistics, Inc.

Assessed Valuation by Land Use. The following table gives a distribution of taxable property located in the District on the fiscal year 2011-12 tax roll by principal purpose for which the land is used, and the assessed valuation and number of parcels for each use.

**SAN DIEGUITO UNION HIGH SCHOOL DISTRICT
Assessed Valuation and Parcels by Land Use
Fiscal Year 2011-12**

[To Come]

Source: California Municipal Statistics, Inc.

Assessed Valuation of Single Family Homes. The following table shows the assessed valuation of single family homes located in the District for fiscal year 2011-12.

**SAN DIEGUITO UNION HIGH SCHOOL DISTRICT
Per Parcel 2011-12 Assessed Valuation of Single Family Homes**

[To Come]

Source: California Municipal Statistics, Inc.

Tax Rates. The following table summarizes the total *ad valorem* property tax rates levied by all taxing entities for the last several years in the tax rate area (“TRA”) of the District: TRA 8-119.

**SAN DIEGUITO UNION HIGH SCHOOL DISTRICT
Typical Tax Rate per \$100 Assessed Valuation
Fiscal Years 2007-08 Through 2011-12**

	2007-08	2008-09	2009-10	2010-11	2011-12
General	1.00000	1.00000	1.00000	1.00000	1.00000
City of San Diego	.00619	.00608	.00613	.00616	.00500
Metropolitan Water District	.00450	.00430	.00430	.00370	.00370
Total	1.01069	1.01038	1.01043	1.00986	1.00870

Source: California Municipal Statistics, Inc.

Tax Collections and Delinquencies. A school district’s share of the 1% countywide tax is based on the actual allocation of property tax revenues to each taxing jurisdiction in the county in fiscal year 1978-79, as adjusted according to a complex web of statutory modifications enacted since that time. Revenues derived from special *ad valorem* taxes for voter-approved indebtedness are reserved to the taxing jurisdiction that approved and issued the debt, and may only be used to repay that debt.

The county treasurer prepares the property tax bills. Property taxes on the regular secured assessment roll are due in two equal installments: the first installment is due on November 1, and becomes delinquent after December 10. The second installment is due on February 1 and becomes delinquent after April 10. If taxes are not paid by the delinquent date, a ten percent penalty attaches. If taxes remain unpaid by June 30, the tax is deemed to be in default. Penalties then begin to accrue at the rate of 1.5% per month. The property owner has the right to redeem the property by paying the taxes, accrued penalties, and costs within five years of the date the property went into default. If the property is not redeemed within five years, it is subject to sale at a public auction by the county treasurer.

Annual bills for property taxes on the unsecured roll are generally issued in July, are due in a single payment within 30 days, and become delinquent after August 31. A ten percent penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue on November 1. To collect unpaid taxes, the county treasurer may obtain a judgment lien upon and cause the sale of all property owned by the taxpayer in the county, and may seize and sell personal property, improvements and possessory interests of the taxpayer. The county treasurer may also bring a civil suit against the taxpayer for payment.

The date on which taxes on supplemental assessments are due depends on when the supplemental tax bill is mailed.

The County secured roll tax charges with respect to property located in the District for the five year period from 2004-05 through 2010-11 are set forth in the following table.

SAN DIEGUITO UNION HIGH SCHOOL DISTRICT
Secured Tax Charges ⁽¹⁾
Fiscal Years 2004-05 Through 2010-11

Fiscal Year	Secured Tax Charge ⁽²⁾
2004-05	\$52,185,359.22
2005-06	58,415,112.41
2006-07	64,996,262.61
2007-08	71,278,013.63
2008-09	75,871,930.52
2009-10	76,419,860.66
2010-11	75,149,869.28

⁽¹⁾ The County utilizes the Teeter Plan (defined below) for assessment levy and distribution. This method guarantees distribution of 100% of the assessments levied to the taxing entity, with the County retaining all penalties and interest.

⁽²⁾ 1% General Fund apportionment.

Source: California Municipal Statistics, Inc.

San Diego County utilizes the Teeter Plan (defined below) for assessment levy and distribution and, therefore, does not provide real property tax delinquencies information for the District. This method guarantees distribution of 100% of the assessments levied to the participating taxing agency, with the County retaining all penalties. See “– Teeter Plan” below.

Teeter Plan. The County has adopted the alternative method of secured property tax apportionment available under Chapter 3, Part 8, Division 1 (commencing Section 4701) of the California Revenue and Taxation Code (also known as the “Teeter Plan”). This alternative method provides for funding each taxing entity included in the Teeter Plan with its total secured property taxes during the year the taxes are levied, including any amount uncollected at fiscal year end. Under the Teeter Plan, the County assumes an obligation under a debenture or similar demand obligation to advance funds to cover expected delinquencies, and, by such financing, its general fund receives the full amount of secured property taxes levied each year and, therefore, no longer experiences delinquent taxes. In addition, the County’s general fund benefits from future collections of penalties and interest on all delinquent taxes collected on behalf of participants in this alternative method of apportionment.

Upon adopting the Teeter Plan, the County was required to distribute to participating local agencies, 95% of the then-accumulated, secured roll property tax delinquencies and to place the remain 5% in a tax losses reserve fund. Taxing entities that maintain funds in the County Treasury are all included in the Teeter Plan; other taxing entities may elect to be included in the Teeter Plan. Taxing entities that do not elect to participate in the Teeter Plan will be paid as taxes are collected. Since the District maintains funds in the County Treasury, the District is included in the Teeter Plan.

Once adopted, a county’s Teeter Plan will remain in effect in perpetuity unless the board of supervisors orders its discontinuance or unless prior to the commencement of a fiscal year a petition for discontinuance is received and joined in by resolutions of the governing bodies of not less than two-thirds of the participating agencies in the county. An electing county may, however, opt to discontinue the Teeter Plan with respect to any levying agency in the county if the board of supervisors, by action taken not later than July 15 of a fiscal year, elects to discontinue the procedure with respect to such levying agency and the rate of secured tax delinquencies in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured roll by that agency. The County has never discontinued the Teeter Plan with respect to any levying agency.

Developer Fees

The District collects developer fees to finance essential school facilities within the District. The following table of developer fee revenues reflects the collection of fees from fiscal year 2005-06 through fiscal year 2011-12.

SAN DIEGUITO UNION HIGH SCHOOL DISTRICT
Developer Fees
Fiscal Years 2005-06 to 2011-12

Year	Total Revenues
2005-06	\$1,286,870
2006-07	844,482
2007-08	725,045
2008-09	641,754
2009-10	422,001
2010-11	466,485
2011-12 ⁽¹⁾	480,000

⁽¹⁾ Estimated.

Source: The District.

Redevelopment Payments

The former Solana Beach Redevelopment Project is the only redevelopment project area located in the District. In fiscal year 2010-11, the District received \$26,981 in revenue from the Solana Beach Redevelopment Agency as a pass-through payment to the District. For fiscal year 2011-12, the District has budgeted approximately \$26,711 to be received from the Solana Beach Redevelopment Agency. In future years, the District cannot predict amounts it may receive from the redevelopment property tax trust fund administered by the County auditor.

Significant Accounting Policies and Audited Financial Reports

The State Department of Education imposes by law uniform financial reporting and budgeting requirements for K through 12 school districts. Financial transactions are accounted for in accordance with the Department of Education's *California School Accounting Manual*. This manual, according to Section 41010 of the California Education Code, is to be followed by all California school districts, including the District. Significant accounting policies followed by the District are explained in Note 1 to the District's audited financial statements for the fiscal year ended June 30, 2011, which are included as APPENDIX B. Independently audited financial reports are prepared annually in conformity with generally accepted accounting principles for educational institutions. The annual audit report is generally available about six months after the June 30 close of each fiscal year.

The following tables contain District general fund data abstracted from financial statements prepared by the District's independent auditor Wilkinson Hadley King & Co. LLP, Certified Public Accountants & Advisors, El Cajon, California, for fiscal year 2005-06 through fiscal year 2011-12. The District's auditor has not been requested to consent to the use or to the inclusion of its report in this Official Statement, and it has neither audited nor reviewed this Official Statement. The District is required by law to adopt its financial statements after a public meeting to be conducted no later than January 31 following the close of each fiscal year.

The District categorizes its general fund revenues into four sources: (i) revenue limit sources, (ii) federal revenues, (iii) other State revenues, and (iv) other local revenues. Each of these revenue sources is described below:

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Revenue Limit Sources. In general, revenue limits are calculated for each school district by multiplying (i) the A.D.A. for such district by (ii) the school district's base revenue limit per unit of A.D.A. The base revenue limit is calculated from the school district's prior-year funding level, as adjusted for a number of factors, such as inflation, special or increased instructional needs and costs, declining enrollment, etc. Funding of the District's revenue limit is provided by a mix of local property taxes and State aid. As a basic aid district in 2011-12, the revenue limit sources consisted of local property taxes only. Revenue limit revenues comprised approximately 80.5% of the District's general fund revenues in 2011-12.

Federal Revenues. The federal government provides funding for several District programs, including special education programs, programs under The No Child Left Behind Act (NCLB) of 2001 (PL 107-110), and specialized programs such as nutrition education and Indian education. The federal revenues, most of which are restricted, comprised approximately 5.5% of the District's general fund revenues in 2011-12.

Other State Revenues. As discussed above, the District receives State apportionment of aid in an amount equal to the difference between the District's revenue limit and its property tax revenues. In addition to such apportionment revenue, the District receives substantial other State revenues. These other State revenues are primarily restricted revenues funding items such as the Special Education Master Plan, Instructional Materials and various Block Grants. The other State revenues comprised approximately 6.1% of the District's general fund revenues in 2011-12.

The District receives revenue from the California State Lottery (the "Lottery"), which was established by a constitutional amendment approved in the November 1984 general election. Lottery revenues must be used for the education of students and cannot be used for non-instructional purposes such as real property acquisition, facility construction, or the financing of research.

Other Local Revenues. In addition to property taxes, the District receives additional local revenues from items such as interest earnings and other local sources. Other local revenues comprised approximately 7.9% of the District's general fund revenues in 2011-12.

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SAN DIEGUITO UNION HIGH SCHOOL DISTRICT
Statement of General Fund Revenues, Expenditures and Changes in Fund Balance
Fiscal Years 2006-07 through 2010-11

	Fiscal Year 2006-07	Fiscal Year 2007-08	Fiscal Year 2008-09	Fiscal Year 2009-10	Fiscal Year 2010-11
Revenues:					
Revenue Limit Sources:					
State Apportionment	\$13,487,498	\$11,486,832	\$(71,461)	\$(25,567)	\$(22,844)
Local Sources	63,681,897	69,469,850	81,657,153	79,555,036	77,547,264
Federal Revenue	2,786,914	2,685,128	7,431,217	2,831,138	6,387,085
Other State Revenue	13,202,260	9,652,123	7,235,432	5,933,931	5,146,872
Other Local Revenue	11,096,120	9,729,422	9,727,849	9,277,607	9,290,931
Total Revenues	\$104,254,689	\$103,023,355	\$105,980,190	\$97,572,145	\$98,349,308
Expenditures:					
Instruction	\$59,080,175	\$61,944,570	\$59,956,990	\$58,928,997	\$58,599,593
Instruction – Related Services	13,288,818	13,809,501	13,564,005	12,894,850	11,879,099
Pupil Services	10,282,404	9,504,013	9,563,906	9,929,315	9,281,635
Ancillary Services	1,863,087	1,884,089	1,903,711	1,973,844	2,064,691
General Administration	6,061,642	5,380,551	6,141,610	5,581,927	5,436,047
Plant Services	9,735,851	10,058,120	10,175,975	10,050,592	9,844,861
Other Outgo	11,739	289,035	387,246	394,415	875,918
Debt Service:					
Principal	-	-	-		765,588
Interest	-	-	-		819,623
Total Expenditures	\$100,323,716	\$102,869,879	\$101,693,443	\$99,753,940	\$99,866,478
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,930,973	153,476	4,286,747	(2,181,795)	(1,517,170)
Other Financing Sources (Uses):					
Transfers In	\$1,313,606	\$533,154	\$75,478	\$1,098,916	\$525,773
Transfers Out	(2,837,291)	(736,780)	(118,943)	(1,112,191)	(208,584)
Proceeds from Sale of Bonds	-	-	-		
Other Uses	-	-	-		
Total Other Financing Sources (Uses)	\$(1,523,685)	\$(203,626)	\$(43,465)	\$(13,275)	\$317,189
Net Change in Fund Balance	\$2,407,288	\$(50,150)	\$4,243,282	\$(2,195,070)	\$(1,199,981)
Fund Balance – July 1	10,118,938	12,526,226	12,476,076	18,722,241	18,937,909
Fund Balance – June 30	\$12,526,226	\$12,476,076	\$16,719,358	\$16,527,171	\$17,737,928

Source: District Audited Financial Reports for Fiscal Years 2006-07 through 2010-11.

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The following table shows the general fund balance sheets of the District for the fiscal years 2006-07 through 2010-11.

SAN DIEGUITO UNION HIGH SCHOOL DISTRICT
Summary of General Fund Balance Sheet
as of June 30, 2007 through 2011

	Fiscal Year 2006-07	Fiscal Year 2007-08	Fiscal Year 2008-09	Fiscal Year 2009-10	Fiscal Year 2010-11
ASSETS					
Cash in County Treasury	\$8,144,669	\$9,096,112	\$21,173,432	\$15,827,293	\$16,147,365
Cash on Hand and in Banks	-	-	-	35,695	-
Cash in Revolving Fund	30,000	30,000	30,000	50,020	181,451
Cash with Fiscal Agent/Trustee	-	-	-	-	-
Accounts Receivable	6,092,329	4,983,304	4,237,951	4,317,272	4,029,735
Due from other funds	231,804	228,034	259,850	220,931	240,344
Stores inventories	46,403	1,144	884	1,117	817
Prepaid Expenditures	-	-	3,000	-	5,192
Total Assets	<u>\$14,545,205</u>	<u>\$14,305,594</u>	<u>\$25,705,117</u>	<u>\$20,452,328</u>	<u>\$20,604,904</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable	\$1,863,790	\$1,799,518	\$8,330,783	\$3,854,366	\$2,126,022
Due to Other Funds	17	6,393	105,449	4,337	3,525
Deferred Revenue	155,172	23,607	549,527	66,454	737,429
Total Liabilities	<u>\$2,018,979</u>	<u>\$1,829,518</u>	<u>\$8,985,759</u>	<u>\$3,925,157</u>	<u>\$2,866,976</u>
Fund Balance:					
Nonspendable Fund Balances:					
Reserve for Revolving Cash	\$30,000	\$30,000	\$30,000	\$50,020	\$181,451
Reserve for Stores Inventories	46,403	1,144	883	1,117	817
Reserve for All Others	12,449,823	1,375,000	3,000	-	5,192
Restricted Fund Balances	-	-	-	-	631,566
Committed Fund Balances					
Committed for Deferred Maintenance	-	-	-	-	-
Assigned Fund Balances	-	-	-	11,377,174	12,191,995
Unassigned:					
Reserve for Economic Uncertainty	-	-	-	4,739,384	4,503,378
Other Unassigned	-	11,069,932	16,685,475	359,476	223,529
Total Fund Balance	<u>\$12,526,226</u>	<u>\$12,476,076</u>	<u>\$16,719,358</u>	<u>\$16,527,171</u>	<u>\$17,737,928</u>
Total Liabilities and Fund Balances	<u>\$14,545,205</u>	<u>\$14,305,594</u>	<u>\$25,705,117</u>	<u>\$20,452,328</u>	<u>\$20,604,904</u>

Source: District Audited Financial Report for fiscal years 2006-07 through 2010-11.

Budgets

State law requires school districts to maintain a balanced budget in each fiscal year. The State Department of Education imposes a uniform budgeting and accounting format for school districts.

Under current law, a school district governing board must adopt and file with the county superintendent of schools a tentative budget by July 1 in each fiscal year. The District is under the jurisdiction of the San Diego County Superintendent of Schools.

The County Superintendent must review and approve or disapprove the budget no later than August 15. The County Superintendent is required to examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Education and identify technical corrections necessary to bring the budget into compliance with the established standards. If the budget is disapproved, it is returned to the District with recommendations for revision. The District is then required to revise the budget, hold a public hearing thereon, adopt the revised budget, and file it with the County Superintendent no later than September 8. Pursuant to State law, the County Superintendent has available various remedies by which to impose and enforce a budget that complies with State criteria, depending on the circumstances, if a budget is disapproved. After approval of an adopted budget, the school district's administration may submit budget revisions for governing board approval.

Subsequent to approval, the County Superintendent will monitor each district under its jurisdiction throughout the fiscal year pursuant to its adopted budget to determine on an ongoing basis if the district can meet its current or subsequent year financial obligations. If the County Superintendent determines that a district cannot meet its current or subsequent year obligations, the County Superintendent will notify the district's governing board of the determination and may then do either or both of the following: (a) assign a fiscal advisor to enable the district to meet those obligations, or (b) if a study and recommendations are made and a district fails to take appropriate action to meet its financial obligations, the County Superintendent will so notify the State Superintendent of Public Instruction, and then may do any or all of the following for the remainder of the fiscal year: (i) request additional information regarding the district's budget and operations; (ii) develop and impose, after also consulting with the district's governing board, revisions to the budget that will enable the district to meet its financial obligations; and (iii) stay or rescind any action inconsistent with such revisions. However, the County Superintendent may not abrogate any provision of a collective bargaining agreement that was entered into prior to the date upon which the County Superintendent assumed authority.

A State law adopted in 1991 (known as "A.B. 1200") imposed additional financial reporting requirements on school districts, and established guidelines for emergency State aid apportionments. Under the provisions of A.B. 1200, each school district is required to file interim certifications with the County Superintendent (on December 15, for the period ended October 31, and by mid-March for the period ended January 31) as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent fiscal year. The County Superintendent reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that will meet its financial obligations for the current fiscal year and subsequent two fiscal years. A negative certification is assigned to any school district that is deemed unable to meet its financial obligations for the remainder of the fiscal year or subsequent fiscal year. A qualified certification is assigned to any school district that may not meet its financial obligations for the current fiscal year or two subsequent fiscal years. A school district that receives a qualified or negative certification may not issue tax and revenue anticipation notes or Lease revenue bonds without approval by the County Superintendent. The District has never received a qualified or negative certification.

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The following table summarizes the District's projected year-end totals general fund budget for fiscal year 2011-12 and audited actuals for fiscal year 2010-11.

SAN DIEGUITO UNION HIGH SCHOOL DISTRICT
Revenues, Expenditures and Fund Balances
Fiscal Years 2010-11 and 2011-12

	2010-11 Audited	2011-12 Projected
Revenue/Receipts		
Revenue Limit Sources:		
State Apportionments	\$ (22,844)	\$ (22,848)
Local Sources	77,547,264	77,963,975
Federal Revenue	6,387,085	5,293,696
Other State Revenue	5,146,872	5,865,829
Other Local Revenue	9,290,931	7,665,103
TOTAL	\$98,349,308	\$96,765,765
Expenditures/Disbursements		
Certificated Salaries	\$48,799,613	\$48,567,887
Classified Salaries	16,322,369	16,173,011
Employee Benefits	18,877,001	19,868,859
Books and Supplies	3,690,892	5,246,246
Services/Other Operating Expenditures	9,571,181	10,361,360
Other Outgo	875,918	1,643,239
Direct Support/Indirect Costs	(160,728)	-
Capital Outlay	305,021	106,600
Debt Service		
Principal	765,588	-
Interest	819,623	-
TOTAL	\$99,866,478	\$101,967,202
Excess of Revenues Over/(Under) Expenditures	\$(1,517,170)	\$(5,201,437)
Other Financing Sources/(Uses)		
Transfers In	\$525,773	-
Transfers Out	(208,584)	\$(44,600)
Other Sources	-	-
Other Uses	-	-
TOTAL	\$317,189	\$(44,600)
Net Change in Fund Balance	\$(1,199,981)	\$(5,246,037)
Fund Balance, Beginning	18,937,909	15,311,185
Fund Balance, Ending	\$17,737,928	\$10,109,748

Source: District's audited Financial Statement for fiscal year ended June 30, 2011; fiscal year 2011-12 First Interim Report approved by the District on December 8, 2011.

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District Debt

Long-Term Debt Summary. Long-term obligations include debt and other long-term liabilities. The changes in the District's long-term obligations during fiscal year 2010-11 consisted of the following:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Special revenue bonds	\$86,560,000	-	\$1,710,000	\$84,500,000	\$1,780,000
Unamortized discount	(1,457,344)	-	(45,542)	(1,411,802)	-
Lease Revenue Bonds	13,015,000	-	-	13,015,000	-
Unamortized discount	(437,262)	-	(27,329)	(409,933)	-
Net OPEB Obligation	3,042,132	\$1,221,934	-	4,264,066	-
Compensated absences*	1,133,614	-	46,065	1,087,549	1,087,549
State loan payable	3,000,000	-	-	3,000,000	300,000
Total governmental activities	<u>\$104,856,140</u>	<u>\$1,221,934</u>	<u>\$1,683,194</u>	<u>\$104,394,880</u>	<u>\$3,167,549</u>

* Other long-term liabilities.

The funds typically used to liquidate other long-term liabilities in the past are as follows:

<u>Liability</u>	<u>Activity Type</u>	<u>Fund</u>
Compensated absences	Governmental	General

Debt service requirements on long-term debt at June 30, 2011 are as follows:

Year Ending June 30,	Governmental Activities		
	Principal	Interest	Total
2012	\$3,167,549	\$4,843,445	\$8,010,994
2013	2,150,000	4,770,845	6,920,845
2014	2,225,000	4,695,345	6,920,345
2015	2,325,000	4,615,970	6,940,970
2016	2,435,000	4,531,645	6,966,645
2017-2021	13,495,000	21,241,366	34,736,366
2022-2026	27,750,000	18,081,281	45,831,281
2027-2031	18,505,000	9,907,800	28,412,800
2032-2036	20,280,000	4,863,000	25,143,000
2037-2041	9,105,000	1,065,139	10,170,139
2041-2042	515,000	12,875	527,875
Totals	<u>\$101,952,549</u>	<u>\$78,628,711</u>	<u>\$180,581,260</u>

Qualified School Construction Bonds. In May 2010, the District entered into a facility lease agreement with the Authority to execute and deliver Lease Revenue Bonds, Series 2010A (Qualified School Construction Bonds - Direct Subsidy) in the amount of \$13,015,000 with an interest rate of 6.46% for various capital projects and public school improvements, including the installation of solar power facilities at La Costa Canyon High School and the Canyon Crest Solar Facility. Through the facility lease, the District is obligated to make semi-annual base revenue payments to a principal account beginning April 2011 and continuing through April 2027. An annual base rental deposit to the principal account of \$2,005,030 was paid in 2011 with remaining base rental deposits of \$1,606,227 due annually thereafter through April 2027. Interest on the lease revenue bonds is to be paid annually from the principal account beginning May 2011 with the entire principal balance of \$13,015,000 on the bonds due at the maturity date of May 1, 2027. Because the Series 2010A Bonds are designated as qualified school construction bonds under Section 54F of the Code, the District receives a direct subsidy from the federal government under Section 6431 of the Code. The District will receive \$736,649 in subsidy payments from the federal government in fiscal year 2011-12.

Tax and Revenue Anticipation Notes. In July 2011, the District entered into the County of San Diego and San Diego County School Districts 2011 Pooled Tax and Revenue Anticipation Notes in the amount of \$16,540,000. The notes mature on April 30, 2012 and bear an interest rate of 2.00%. The notes were sold by the District to supplement the District's cash flow.

Future Bond Elections. The Board of the District currently evaluating whether to put before the voters a general obligation bond measure on the June 2012 or November 2012 ballot. At a February 2, 2012 board meeting, the Board agreed to hire a financial advisor and underwriter to oversee financial details of a school construction bond. The Board also discussed at the meeting hiring a third firm to conduct a feasibility study, help prepare the ballot measure and organize a public information campaign. Proceeds from the bond measure would be used to renovate campuses and build a middle school. No assurances can be given as to the outcome of any such future proposed bond measure.

Direct and Overlapping Debt

Set forth below is a schedule of direct and overlapping debt prepared by California Municipal Statistics Inc. and effective [_____, 2012] for debt issued as of [_____ 1, 20__]. The table is included for general information purposes only. The District has not reviewed this table for completeness or accuracy and makes no representations in connection therewith. The first column in the table names each public agency which has outstanding debt as of the date of the schedule and whose territory overlaps the District in whole or in part. Column 2 shows the percentage of each overlapping agency's assessed value located within the boundaries of the District. This percentage, multiplied by the total outstanding debt of each overlapping agency (which is not shown in the table) produces the amount shown in column 3, which is the apportionment of each overlapping agency's outstanding debt to taxable property in the District.

The schedule generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the District. Such long-term obligations generally are not payable from revenues of the District (except as indicated) nor are they necessarily obligations secured by land within the District. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

SAN DIEGUITO UNION HIGH SCHOOL DISTRICT
Statement of Direct And Overlapping Bonded Debt
As of [_____, 2012]

[To Come]

Source: California Municipal Statistics, Inc.

Retirement Programs

The District participates in the State Teachers' Retirement System ("STRS"). This plan basically covers all full-time certificated and some classified District employees. Each school district is required by statute to contribute 8.25% of eligible employee's salaries to STRS on a monthly basis. Employees are required to contribute 8% of eligible salary. The State is required to contribute as well. The District's employer contribution to STRS from the general fund was \$4,427,966 for fiscal year 2010-11 and is projected at \$4,250,529 in fiscal year 2011-12.

The District also participates in the California Public Employees' Retirement System ("CalPERS") for all full-time and some part-time classified employees. The District is required to contribute toward CalPERS, at a State-determined percentage of CalPERS-eligible salaries. For fiscal year 2011-12, the contribution percentage is 10.923%. The District's employer contribution to CalPERS from the general fund was \$1,715,818 for fiscal year 2010-11 and is projected at \$1,717,631 in fiscal year 2011-12.

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The District is unable to predict what the amount of State pension liabilities will be in the future, or the amount of the contributions which the District may be required to make. STRS and CalPERS liabilities are more fully described in “APPENDIX B – FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2011,” Note K.

Other Post-Employment Benefits (OPEBs). In addition to the retirement plan benefits with STRS and CalPERS, the District provides certain post retirement healthcare benefits, in accordance with District employment contracts, to certificated, management and administrative employees who chose to continue district-sponsored health care coverage.

Governmental Accounting Standards Board (“GASB”) has recently released its Statement Number 45 (“GASB 45”), which requires accrual accounting for the expensing of other post-employment benefits (“OPEBs”) much like municipalities are required to account for pension benefits. The expense is generally accrued over the working career of employees, rather than on a pay-as-you-go basis, which has been the practice for most municipalities and public sector organizations. OPEBs generally include post-employment health benefits (medical, dental, vision, prescription drug and mental health), life insurance, disability benefits and long term care benefits. The District implemented GASB 45 in Fiscal Year 2007-08. The District has not established an irrevocable trust to prefund its OPEB liability, and no prefunding of benefits has been made by the District. However, the District has determined that it will continue to address its OPEB liability on a pay-as-you-go basis. In Fiscal Year 2010-11 the District contributed \$669,805 for premiums for health care benefits for retirees. For Fiscal year 2011-12 the District budgeted \$715,782 for such purposes.

The Epler Company, San Diego, California, prepared an actuarial valuation of the District’s retiree health insurance benefits and reported that, as of June 30, 2011, the District had an accrued unfunded liability of \$15.2 million. However, as indicated above, the District currently intends to continue on a pay-as-you-go basis and not to pre-fund its OPEB obligations.

Insurance and Joint Ventures

Self Insurance. The District 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 District is self-insured through the San Diego County Schools and Imperial County Schools Risk Management Joint Powers Authority (the “JPA”) which provides workers’ compensation insurance, general liability, property, automobile and other miscellaneous coverage. Under this program the JPA provides coverage through a Workers’ Compensation Fund. The District receives user charges based upon each member’s respective covered payroll. Coverage is provided for workers compensation with \$100,000 per occurrence being self-funded. Costs above the first \$100,000 are covered by an excess insurance policy of up to \$25,000,000. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The District receives property/casualty loss and general liability insurance coverage through the JPA. A \$5,000,000 insurance policy is in effect with a deductible per occurrence of up to \$25,000 and a \$100,000 self-insured retention. The JPA pool covers losses in excess of the self-insured retention up to \$500,000. The nest \$4.5 million is covered by an excess insurance policy through a commercial carrier. The Schools Excess Liability Fund then provides an additional \$20,000,000 of coverage. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

Joint Powers Authorities. In addition to the Authority, as noted above the District participates in the San Diego County Schools and Imperial County Schools Risk Management Joint Powers Authority. The relationship between the District and the JPA is such that the JPA is not a component unit of the District for financial reporting purposes. Financial statements for the JPA are available from such entity.

The JPA was created for the purpose of arranging for and providing various types of insurance for its member districts as requested. The JPA is governed by a board consisting of a representative from each member district. The board of the JPA controls the operations of the JPA, including selection of arrangement and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board.

Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in the JPA.

San Diego County Treasury Pool

In accordance with Education Code Section 41001, substantially all District operating funds are required to be held by the Treasurer-Tax Collector of the County (the "County Treasurer"). The following information has been provided by the County Treasurer. The District has not independently verified this information and takes no responsibility for the accuracy or completeness thereof. Further information may be obtained from the County Treasurer.

In accordance with Government Code Section 53600 et seq., the County Treasurer manages funds deposited with it by the District. Each county is required to invest such funds in accordance with California Government Code Sections 53601 et seq. In addition, counties are required to establish their own investment policies which may impose limitations beyond those required by the Government Code.

All investments in the County Treasurer's investment portfolio conform to the statutory requirements of Government Code Section 53601 et seq., authorities delegated by the County Board of Supervisors and the County Treasurer's investment policy.

General. Pursuant to a resolution adopted July 8, 1958, the Board of Supervisors delegated to the County Treasurer the authority to invest and reinvest funds of the County. Applicable law limits this delegation of authority to a one-year period and must be renewed annually by action of the Board of Supervisors. In addition to funds of the County (and the various departments in the County, such as Public Works and Public Administration), funds of certain local agencies within the County, including school districts in the County, are required under state law to be deposited into County treasury ("Involuntary Depositors"). In addition, certain agencies, including community college districts, invest certain of their funds in the County treasury on a voluntary basis ("Voluntary Depositors" and together with the Involuntary Depositors, the "Depositors"). Deposits made by the County and the various local agencies are commingled in a pooled investment fund (the "Treasury Pool" or the "Pool"). No particular deposits are segregated for separate investment.

Under State law, Depositors in the Pool are permitted to withdraw funds which they have deposited on 30 days notice. The County does not expect that the Pool will encounter liquidity shortfalls based on its current portfolio and investment guidelines or realize any losses that may be required to be allocated among all Depositors in the Pool.

The County has established an Oversight Committee pursuant to State law. The Oversight Committee consists of members appointed from the County Treasurer-Tax Collector, the County Auditor and Controller, a representative appointed by the Board of Supervisors, the County Superintendent of Schools or his or her designee, a representative selected by a majority of the presiding officers of the governing bodies of the school districts and community college districts in the county, a representative selected by a majority of the presiding officers of the legislative bodies of the special districts in the county that are required or authorized to deposit funds in the County Treasury and up to five other members of the public. The Oversight Committee directs the preparation of an annual audit, which audit may include issues relating to the structure of the investment portfolio and its related risk, to determine the County Treasury's compliance with law.

The Treasury Pool's Portfolio. As of January 31, 2012, the securities in the Treasury Pool had a market value of \$6,626,533,937 and a book value of \$6,605,708,195, for a net unrealized gain of \$20,825,742 of the book value of the Treasury Pool. As of January 31, 2012, the weighted average maturity of the Pool portfolio was approximately 299 days. The effective duration for the Treasury Pool was 0.592 years as of January 31, 2012. "Duration" is a measure of the price volatility of the portfolio and reflects an estimate of the projected increase or decrease in the value of the portfolio based upon a decrease or increase in interest rates. A duration of 0.592 means that for every one percent increase in interest rates the market value of the portfolio would decrease by 0.592%

Standard & Poor's, a Division of The McGraw-Hill Companies, Inc., maintains ratings on the Pool's ability to meet its financial commitments of "AAA" (long-term) and "S1" (short-term volatility). The rating reflects only the view of the rating agency and any explanation of the significance of such rating may be obtained from such rating agency as follows: Standard & Poor's, 55 Water Street, New York, New York 10041.

Investments of the Treasury Pool.

Authorized Investments. Investments of the Pool are placed in those securities authorized by various sections of the California Government Code, which include obligations of the United States Treasury, Agencies of the United States Government, local and State bond issues, bankers acceptances, commercial paper of prime quality, certificates of deposit (both collateralized and negotiable), repurchase and reverse repurchase agreements, medium term corporate notes, shares of beneficial interest in diversified management companies (mutual funds), and asset backed (including mortgage related) and pass-through securities. Generally, investments in repurchase agreements cannot exceed a term of one year and the security underlying the agreement shall be valued at 102% or greater of the funds borrowed against the security. In addition, reverse repurchase agreement generally may not exceed 20% of the base value of the portfolio and the term of the agreement may not exceed 92 days unless the agreement includes a written guarantee of a minimum earning or spread for the entire period of the agreement. The Investment Policy states that the purpose of reverse repurchase agreements is to invest the proceeds from the agreement into permissible securities that have the highest short-term credit rating, to supplement the yield on securities owned by the Pool or to provide funds for the immediate payment of an obligation. The maturity of the reverse repurchase agreement and the maturity of the security purchased shall be the same.

The County from time to time has engaged in securities lending transactions. Generally, these transactions involve the transfer by the governmental entity, through an agent, of securities to certain broker-dealers and financial institutions or other entities in exchange for collateral, and this collateral may be cash or securities. Most commonly, these transactions provide for the simultaneous return of the collateral to the securities borrower upon receipt of the same securities at a later date. Presently, the County has suspended its securities lending transactions program, but may decide to enter into a securities lending agreement in the future. Any such securities lending transactions are considered reverse repurchase agreements under the Investment Policy and, accordingly, the total principal amount of reverse repurchase agreements and securities lending agreements may not exceed 20% of the Pool. Since the inception of the County's securities lending program in 1987, there has not been any loss of principal to the Pool resulting from these securities lending transactions or the investment of the related collateral.

Legislation which would modify the currently authorized investments and place restrictions on the ability of municipalities to invest in various securities is considered from time to time by the State Legislature. Therefore, there can be no assurances that the current investments in the Treasury Pool will not vary significantly from the investments described herein.

The Treasury Pool halted all investments in asset-backed commercial paper in early July 2007 and has no plans to resume investment in this type of security until financial markets and credit conditions have stabilized. Further, the Treasury Pool is not invested in any structured investment vehicles and has never invested in collateralized debt obligations.

In order to limit exposure to credit risk, the County Pool has limited purchases of corporate securities to maturities less than 60 days.

The Investment Policy. The Pool's Investment Policy (the "Investment Policy"), as approved by the County Board of Supervisors, currently states that the objectives of the Treasurer when investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds are as follows: the primary objective is to safeguard the principal of the funds under the Treasurer's control, the secondary objective is to meet the liquidity needs of the Pool Participants, and the third objective is to achieve an investment return on the funds under the control of the Treasurer within the parameters of prudent risk management. The Investment Policy contains a goal that 50% of the Pool should be invested in securities maturing one year or less with the remainder of the portfolio being invested in debt securities with maturities spread over more than one year to five years. Furthermore, at least 25% of the Pool must mature within 90 days. The maximum effective duration shall be 1.50 years. The Investment Policy also authorizes investments in covered call options or put options, which are options on the part of a third

party to buy from the Pool a specified security within a finite time at a specified price. Under the Investment Policy, securities subject to covered calls are not to be used for reverse repurchase agreements, cash sufficient to pay for outstanding puts are to be invested in securities maturing on or before the expiration date of the option, the maximum maturity of a covered call option/put option is to be 90 days and not more than 10% of the total investments in the Pool could have options (in contrast to “derivatives”) written against them at any given time.

Pool Benchmark. The Pool is managed as two portfolios; a short-term portfolio to meet liquidity needs and a long-term portfolio to achieve incremental yield. All reporting with respect to the Pool is on a combined portfolio basis to facilitate financial transparency from the perspective of Pool participants. The long-term portfolio is managed to mirror a composite of bond indices with weightings of 60% U.S. Treasury and 40% U.S. Government Agencies. It has a duration of approximately 1.6 years and reflects an appropriate risk/return profile considering the Pool objectives and constraints. The Pool complies with all applicable sections of California Government Code and the Pool’s Investment Policy.

Neither the District nor the Underwriter has made an independent investigation of the investments in the County Pool and has made no assessment of the current County Investment Policy. The value of the various investments in the County Pool will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Additionally, the County Treasurer, with the consent of the County Board of Supervisors, may change the County Investment Policy at any time. Therefore, there can be no assurance that the values of the various investments in the County Pool will not vary significantly from the values described herein.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

Article XIII A of the California Constitution

On June 6, 1978, California voters approved Proposition 13 (“Proposition 13”), which added Article XIII A to the State Constitution (“Article XIII A”). Article XIII A limits the amount of any *ad valorem* tax on real property to 1% of the full cash value thereof, except that additional *ad valorem* taxes may be levied to pay debt service on (i) indebtedness approved by the voters prior to July 1, 1978, (ii) bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978 by two-thirds of the voters on such indebtedness, and (iii) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district, but only if certain accountability measures are included in the proposition. Article XIII A defines full cash 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 when purchased, newly constructed, or a change in ownership have occurred after the 1975 assessment.” This full cash value may be increased at a rate not to exceed two percent per year to account for inflation.

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, 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 other minor or technical ways.

County of Orange v. Orange County Assessment Appeals Board No. 3. Section 51 of the Revenue and Taxation Code permits county assessors who have reduced the assessed valuation of a property as a result of natural disasters, economic downturns or other factors, to subsequently “recapture” such value (up to the pre-decline value of the property) at an annual rate higher than 2%, depending on the assessor’s measure of the restoration of value of the damaged property. The constitutionality of this procedure was challenged in a lawsuit brought in 2001 in the Orange County Superior Court, and in similar lawsuits brought in other counties, on the basis that the decrease in assessed value creates a new “base year value” for purposes of Proposition 13 and that subsequent increases in the assessed value of a property by more than 2% in a single year violate Article XIII A. On appeal, the California Court

of Appeal upheld the recapture practice in 2004, and the State Supreme Court declined to review the ruling, leaving the recapture law in place.

Legislation Implementing Article XIII A. Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The one percent property tax is automatically levied by the county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1989.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the two percent annual adjustment are allocated among the various jurisdictions in the “taxing area” based upon their respective “situs.” Any such allocation made to a local agency continues as part of its allocation in future years.

Beginning in the 1981-82 fiscal year, assessors in the State no longer record property values on tax rolls at the assessed value of 25% of market value which was expressed as \$4 per \$100 assessed value. All taxable property is now shown at full market value on the tax rolls. Consequently, the tax rate is expressed as \$1 per \$100 of taxable value. All taxable property value included in this Official Statement is shown at 100% of market value (unless noted differently) and all tax rates reflect the \$1 per \$100 of taxable value.

Article XIII B of the California Constitution

An initiative to amend the State Constitution entitled “Limitation of Government Appropriations” was approved on September 6, 1979, thereby adding Article XIII B to the State Constitution (“Article XIII B”). Under Article XIII B state and local governmental entities have an annual “appropriations limit” and are not permitted to spend certain moneys which are called “appropriations subject to limitation” (consisting of tax revenues, state subventions 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 subject to limitation,” including debt service on indebtedness existing or authorized as of January 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 consumer prices, populations, and services provided by these entities. Among other provisions of Article XIII B, if these 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.

In fiscal year 2010-11, the District had an appropriations limit of \$78,502,022.52 and appropriations subject to the limit of \$78,502,022.52. For fiscal year 2011-12, the District has estimated its appropriations limit at \$80,424,139.00.

Article XIII C and Article XIII D of the California Constitution

On November 5, 1996, the voters of the State of California approved Proposition 218, popularly known as the “Right to Vote on Taxes Act.” Proposition 218 added to the California Constitution Articles XIII C and XIII D, which contain a number of provisions affecting the ability of local agencies, including school districts, to levy and collect both existing and future taxes, assessments, fees and charges.

According to the “Title and Summary” of Proposition 218 prepared by the California Attorney General, Proposition 218 limits “the authority of local governments to impose taxes and property-related assessments, fees and charges.” Among other things, Article XIII C establishes that every tax is either a “general tax” (imposed for general governmental purposes) or a “special tax” (imposed for specific purposes), prohibits special purpose government agencies such as school districts from levying general taxes, and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote; and also provides that the initiative power will not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. Article XIII C further provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIII and XIII A of the California Constitution and

special taxes approved by a two-thirds vote under Article XIII A, Section 4. Article XIII D deals with assessments and property-related fees and charges, and explicitly provides that nothing in Article XIII C or XIII D will be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

The District does not impose any taxes, assessments, or property-related fees or charges which are subject to the provisions of Proposition 218. It does, however, receive a portion of the basic one percent *ad valorem* property tax levied and collected by the County pursuant to Article XIII A of the California Constitution. The provisions of Proposition 218 may have an indirect effect on the District, such as by limiting or reducing the revenues otherwise available to other local governments whose boundaries encompass property located within the District thereby causing such local governments to reduce service levels and possibly adversely affecting the value of property within the District.

Statutory Limitations

On November 4, 1986, State voters approved Proposition 62, an initiative statute limiting the imposition of new or higher taxes by local agencies. The statute (a) requires new or higher general taxes to be approved by two-thirds of the local agency's governing body and a majority of its voters; (b) requires the inclusion of specific information in all local ordinances or resolutions proposing new or higher general or special taxes; (c) penalizes local agencies that fail to comply with the foregoing; and (d) required local agencies to stop collecting any new or higher general tax adopted after July 31, 1985, unless a majority of the voters approved the tax by November 1, 1988.

Appellate court decisions following the approval of Proposition 62 determined that certain provisions of Proposition 62 were unconstitutional. However, the California Supreme Court upheld Proposition 62 in its decision on September 28, 1995 in *Santa Clara County Transportation Authority v. Guardino*. This decision reaffirmed the constitutionality of Proposition 62. Certain matters regarding Proposition 62 were not addressed in the Supreme Court's decision, such as whether the decision applies retroactively, what remedies exist for taxpayers subject to a tax not in compliance with Proposition 62, and whether the decision applies to charter cities.

Proposition 98 and Proposition 111

On November 8, 1988, voters approved Proposition 98, a combined initiative constitutional amendment and statute called the "Classroom Instructional Improvement and Accountability Act" (the "Accountability Act"). The Accountability Act changed State funding of public education below the university level, and the operation of the State's Appropriations Limit. The Accountability Act guarantees State funding for K through 12 school districts and community college districts (collectively, "K-14 districts") at a level equal to the greater of (a) the same percentage of general fund revenues as the percentage appropriated to such districts in 1986-87, which percentage is equal to 40.9 %, or (b) the amount actually appropriated to such districts from the general fund in the previous fiscal year, adjusted for growth in enrollment and inflation.

Since the Accountability Act is unclear in some details, there can be no assurance that the Legislature or a court might not interpret the Accountability Act to require a different percentage of general fund revenues to be allocated to K-14 districts than the 40.9% percentage, or to apply the relevant percentage to the State's budgets in a different way than is proposed in the Governor's Budget. In any event, the Governor and other fiscal observers expect the Accountability Act to place increasing pressure on the State's budget over future years, potentially reducing resources available for other State programs, especially to the extent the Article XIII B spending limit would restrain the State's ability to fund such other programs by raising taxes.

The Accountability Act also changes how tax revenues in excess of the State Appropriations Limit are distributed. Any excess State tax revenues up to a specified amount would, instead of being returned to taxpayers, be transferred to K-14 districts. Such transfer would be excluded from the Appropriations Limit for K-14 districts and the K-14 school Appropriations Limits for the next year would automatically be increased by the amount of such transfer. These additional moneys would enter the base funding calculation for K-14 districts for subsequent years, creating further pressure on other portions of the State budget, particularly if revenues decline in a year following an Article XIII B surplus. The maximum amount of excess tax revenues which could be transferred to

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schools is four percent of the minimum State spending for education mandated by the Accountability Act, as described above.

On June 5, 1990, California voters approved Proposition 111 (Senate Constitutional Amendment 1), which further modified the Constitution to alter the spending limit and education funding provisions of Proposition 98. Most significantly, Proposition 111 (1) liberalized the annual adjustments to the spending limit by measuring the “change in the cost of living” by the change in State per capita personal income rather than the Consumer Price Index, and specified that a portion of the State’s spending limit would be adjusted to reflect changes in school attendance; (2) provided that 50% of the “excess” tax revenues, determined based on a two-year cycle, would be transferred to K-14 school districts with the balance returned to taxpayers (rather than the previous 100% but only up to a cap of four percent of the districts’ minimum funding level), and that any such transfer to K-14 school districts would not be built into the school districts’ base expenditures for calculating their entitlement for State aid in the following year and would not increase the State’s appropriations limit; (3) excluded from the calculation of appropriations that are subject to the limit appropriations for certain “qualified capital outlay projects” and certain increases in gasoline taxes, sales and use taxes, and receipts from vehicle weight fees; (4) provided that the Appropriations Limit for each unit of government, including the State, would be recalculated beginning in the 1990-91 fiscal year, based on the actual limit for fiscal year 1986-87, adjusted forward to 1990-91 as if Senate Constitutional Amendment 1 had been in effect; and (5) adjusted the Proposition 98 formula that guarantees K-14 school districts a certain amount of general fund revenues, as described below.

Under prior law, K-14 school districts were guaranteed the greater of (a) 40.9% of general fund revenues (the “first test”) or (b) the amount appropriated in the prior year adjusted for changes in the cost of living (measured as in Article XIII B by reference to per capita personal income) and enrollment (the “second test”). Under Proposition 111, school districts would receive the greater of (a) the first test, (b) the second test or (c) a third test, which would replace the second test in any year when growth in per capita general fund revenues from the prior year was less than the annual growth in State per capita personal income. Under the third test, school districts would receive the amount appropriated in the prior year adjusted for change in enrollment and per capita general fund revenues, plus an additional small adjustment factor. If the third test were used in any year, the difference between the third test and the second test would become a “credit” to be paid in future years when general fund revenue growth exceeds personal income growth.

Applications of Constitutional and Statutory Provisions

The application of Proposition 98 and other statutory regulations has become increasingly difficult to predict accurately in recent years. For a discussion of how the provisions of Proposition 98 have been applied to school funding see “DISTRICT HISTORY, OPERATION AND FINANCIAL INFORMATION – State Funding of Education; State Budget Process.”

Future Initiatives

Article XIII A, Article XIII B, Article XIII C, Article XIII D, as well as Propositions 98 and 111 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 District revenues or the District’s ability to expend revenues.

RATINGS

Standard & Poor’s Rating Services (“S&P”) has assigned the Series 2012A Bonds the rating of “___.” The rating agency may have obtained and considered information and material which has not been included in this Official Statement. Generally, rating agencies base their rating on information and material so furnished and on investigations, studies and assumptions made by them. The ratings are not a recommendation to buy, sell or hold the Series 2012A Bonds. The ratings reflect only the view of the rating agency and an explanation of the significance of such ratings may be obtained from it. No assurance can be given that the rating of the rating agency will be maintained for any given period of time or that the rating may not be revised downward or withdrawn entirely by the rating agency, if in its own judgment, circumstances warrant. Any such downward change in or withdrawal may have an adverse effect on the market price of the Series 2012A Bonds. The Underwriter and the

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District have not undertaken any responsibility after the offering of the Series 2012A Bonds to assure the maintenance of the ratings or to oppose any such revision or withdrawal.

TAX MATTERS

In the opinion of Perry Israel (“Special Tax Counsel”), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2012A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”) and is exempt from State of California personal income taxes. In the further opinion of Special Tax Counsel, interest on the Series 2012A Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, although Special Tax Counsel notes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Special Tax Counsel expects to deliver an opinion at the time of issuance of the Series 2012A Bonds substantially in the form set forth in APPENDIX C-2 hereto.

[To the extent the issue price of any maturity of the Series 2012A Bonds is less than the amount to be paid at maturity of such Series 2012A Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2012A Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Series 2012A Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Series 2012A Bonds is the first price at which a substantial amount of such maturity of the Series 2012A Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2012A Bonds accrues daily over the term to maturity of such Series 2012A Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series 2012A Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2012A Bonds. Beneficial Owners of the Series 2012A Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2012A Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Series 2012A Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2012A Bonds is sold to the public.]

[Series 2012A Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.]

The Code imposes various restrictions, conditions, and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2012A Bonds. The Issuer has made certain representations and covenanted to comply with certain restrictions, conditions, and requirements designed to ensure that interest on the Series 2012A Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2012A Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2012A Bonds. The opinion of Special Tax Counsel assumes the accuracy of these representations and compliance with these covenants. Special Tax Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Special Tax Counsel’s attention after the date of issuance of the Series 2012A Bonds may adversely affect the value of, or the tax status of interest on, the Series 2012A Bonds.

Although Special Tax Counsel is of the opinion that interest on the Series 2012A Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the

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ownership or disposition of, or the accrual or receipt of interest on, the Series 2012A Bonds may otherwise affect a Beneficial Owner's federal, state, or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Special Tax Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code, or court decisions may cause interest on the Series 2012A Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. As one example, the Obama Administration recently announced a legislative proposal which, for tax years beginning on January 1, 2013, generally would limit the exclusion from gross income of interest on obligations like the Series 2012A Bonds to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. Other proposals have been made that could significantly reduce the benefit of, or otherwise affect, the exclusion from gross income of interest on obligations such as the Series 2012A Bonds. The introduction or enactment of any such future legislative proposals, clarification of the Code, or court decisions may also affect the market price for, or marketability of, the Series 2012A Bonds. Prospective purchasers of the Series 2012A Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Special Tax Counsel expresses no opinion.

The opinion of Special Tax Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Special Tax Counsel's judgment as to the proper treatment of the Series 2012A Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Special Tax Counsel cannot give and has not given any opinion or assurance about the future activities of the Issuer or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Issuer has covenanted, however, to comply with the requirements of the Code.

Special Tax Counsel's engagement with respect to the Series 2012A Bonds ends with the issuance of the Series 2012A Bonds, and, unless separately engaged, Special Tax Counsel is not obligated to defend the Issuer or the Beneficial Owners regarding the tax-exempt status of the Series 2012A Bonds in the event of an audit examination by the IRS. Under current procedures, parties (such as the Beneficial Owners) other than the Issuer and its appointed counsel would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Issuer legitimately disagrees may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2012A Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2012A Bonds, and may cause the Issuer or the Beneficial Owners to incur significant expense.

CERTAIN LEGAL MATTERS

Manatt, Phelps & Phillips, LLP, Bond Counsel to the Authority, will render opinions with respect to the legality of the Series 2012A Bonds, the Facility Sublease and the Trust Agreement. The form of such legal opinion proposed to be delivered by Bond Counsel is included as APPENDIX C-1 to this Official Statement. Certain tax matters related to the Series 2012A Bonds will be passed upon by the Law Office of Perry Israel. A form of such opinion is included as APPENDIX C-2. Certain legal matters will be passed upon for the Underwriter by Orrick, Herrington & Sutcliffe LLP; and for the District and the Authority by Laura D. Romano, Esq., San Diego, California, as counsel to the District and the Authority.

ABSENCE OF MATERIAL LITIGATION

At the time of delivery of and payment for the Series 2012A Bonds, the District will certify that there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court or governmental or public entity pending or, to the best knowledge of the District, threatened against the District (i) which affects or seeks to prohibit, restrain or enjoin the issuance of the Series 2012A Bonds, the Facility Sublease, the Facility Lease, the Trust Agreement, or the Continuing Disclosure Certificate, (ii) contesting the validity of the Facility Sublease, the Facility Lease, the Trust Agreement or the Continuing Disclosure Certificate, the powers of the District to enter into or perform its obligations under the Facility Sublease, the Facility Lease, the Trust Agreement or the Continuing Disclosure Certificate, or the existence or powers of the District, or (iii) which, if determined adversely to the District, would materially impair the District's ability to meet its obligations under the Facility Sublease or materially and adversely affect the District's financial condition.

The District does have claims pending against it. The aggregate amount of the uninsured liabilities of the District which may result from all claims will not, in the opinion of the District, materially affect the District's finances or impair its ability to make Base Rental Payments under the Facility Sublease.

CONTINUING DISCLOSURE

Pursuant to the Continuing Disclosure Certificate of the District, dated as of March 1, 2012 (the "Continuing Disclosure Certificate"), the District will covenant for the benefit of holders and Beneficial Owners of the Series 2012A Bonds to provide certain financial information and operating data relating to the District by not later than nine months following the end of the District's fiscal year (which currently would be April 1) commencing with the report for the 2011-12 Fiscal Year (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and notices of material events will be filed by the District with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system or such other electronic system designated by the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth in "APPENDIX D – FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5). The District has never failed to comply in all material respects with any previous undertakings with regard to S.E.C. Rule 15c2-12(b)(5) to provide annual reports or notices of material events.

UNDERWRITING

The Series 2012A Bonds are to be purchased by De La Rosa & Co. (the "Underwriter"). The Underwriter has agreed, subject to certain terms and conditions set forth in the Bond Purchase Agreement, dated [_____] , 2012, by and between the Underwriter and the District, to purchase the Series 2012A Bonds at a purchase price of \$[_____] (representing an aggregate principal amount of \$[_____] , less an underwriter's discount of \$[_____]). The Underwriter will purchase all the Series 2012A Bonds if any are purchased. The Series 2012A Bonds may be offered and sold to certain dealers (including dealers depositing said Series 2012A Bonds into investment trusts) and others at prices lower than the initial public offering price, and the public offering price may be changed from time to time by the Underwriter.

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.

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 District and the purchasers or owners of any of the Series 2012A Bonds.

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

SAN DIEGUITO UNION HIGH SCHOOL DISTRICT

By: _____
Associate Superintendent of Business Services

SAN DIEGUITO PUBLIC FACILITIES AUTHORITY

By: _____
Treasurer

APPENDIX A
SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

[To Come]

APPENDIX B

**FINANCIAL STATEMENTS OF THE DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

[To Come]

APPENDIX C-1
FORM OF BOND COUNSEL OPINION

[To Come]

APPENDIX C-2
FORM OF SPECIAL TAX COUNSEL OPINION

[To Come]

APPENDIX D
FORM OF CONTINUING DISCLOSURE CERTIFICATE

[To Come]

APPENDIX E**BOOK-ENTRY ONLY SYSTEM**

The information in this APPENDIX E has been provided by DTC for use in securities offering documents, and the District takes no responsibility for the accuracy or completeness thereof. The District notes that it will issue one fully registered certificate for each maturity of the Bonds in the principal amount of such maturity, and suggests that this is what the first numbered paragraph below intends to convey. The District cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners either (a) payments of interest, principal or premium, if any, with respect to the Bonds or (b) certificates representing ownership interest in or other confirmation of ownership interest in the Bonds, or that they will so do on a timely basis or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC. As used in this appendix, "Securities" means the Bonds, "Issuer" means the District, and "Agent" means the Paying Agent.

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 series and maturity of the Securities, each in the principal amount of such series and maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any series and maturity 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 series and maturity.

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 and 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

ITEM 3

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.

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.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within a series and maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such series and 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 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. 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.

10. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.