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July 15, 2010

Honorable Board of Supervisors
County of El Dorado
330 Fair Lane
Placerville, California 95667-4103

Re: Community Facilities District No. 1992-1 (El Dorado Hills Development)

Dear Supervisors:

Serrano Associates LLC ("Serrano") has previously filed with you a claim for refund of some of the special taxes levied on its property in Community Facilities District No. 1992-1 (El Dorado Hills Development) (the "CFD"). In connection with that claim, Serrano has engaged us to review the legal documents that govern the levy, collection and disposition of the CFD's special taxes, primarily the rate and method of apportionment of special tax that was approved by you and by Serrano's predecessor in title (the "RMA") and the August 1, 1999 Indenture and the May 1, 2004 First Supplemental Indenture pursuant to which bonds were issued on behalf of the CFD (collectively, the "Indenture"). Based on our review thereof and of the other materials mentioned in this letter, we have concluded that provisions of the RMA and the Indenture that pertain to the calculation of the amount of special taxes to be levied each year have been ignored, misinterpreted and misapplied with the result that the amounts levied have substantially exceeded both the amounts that have been promised to the owners of the bonds issued on behalf of the CFD (the "Bonds") in the Indenture and the amounts permitted to be levied under the RMA.

Perhaps the best evidence that special tax levies have been extraordinarily excessive is shown in Attachment 1 to this letter. It was prepared for Serrano by Ueltzen & Company, LLP, and it shows the cash balances on deposit in various funds and accounts established by the Indenture as of May 20, 2010 as well as the liabilities that are payable from those funds and accounts. The bottom line is that the debt service on the CFD's bonds has always been paid in full and on time, all of the costs of administering the CFD have been completely covered every year, the debt service reserve account for the Bonds (the "Reserve Account") has always been fully funded (in fact, as will be shown below, it is overfunded), Serrano and others have already received refunds of a portion (approximately \$1,088,000) of the excessive taxes previously paid by them, and yet there is an estimated cash surplus of over \$3,400,000! Clearly, this result never would have been intended by the parties who approved the RMA at the time the CFD was formed. Something has gone wrong along the way.

We believe that this massive accumulation of surplus revenues is the result of at least four errors in the administration of the financial affairs of the CFD: (1) the failure to credit earnings from the investment of funds on deposit in the Reserve Account against the amount of special taxes to be levied, (2) the overfunding of the Reserve Account, (3) the failure to credit earnings from the investment of funds on deposit in the redemption account for the Bonds (the "Redemption Account") against the amount of special taxes to be levied and (4) the failure to recognize in any way the collection of delinquent special taxes attributable to previous fiscal years. Other errors in the levy of the special tax have been previously acknowledged and refunds relating thereto have been previously paid, so these errors are not discussed in this letter.

Before focusing on the four errors referred to above, we would like to first explain the nature of Serrano's request of the Board. That request includes, to be sure, a claim seeking the refund of the excess special taxes that Serrano has previously paid. That aspect of the request is intended to satisfy the requirements of California Revenue and Taxation Code Section 5097, which requires the submittal of a claim as a condition precedent to judicial proceedings to recover taxes that have been erroneously or illegally assessed or collected. However, a second aspect of Serrano's request is also deserving of the Board's attention. That aspect relates to the extremely important authority that has been vested in the Board in connection with the administration of the RMA, authority that is in addition to the Board's authority in connection with general tax refund matters under the Revenue and Taxation Code. Specifically, pursuant to Section 8 of the RMA, the Board has the power to make interpretations "for purposes of clarifying any vagueness or ambiguity as it relates to the Special Tax rate, the method of apportionment, the classification of properties or any definition applicable to the CFD" as well as the responsibility to make the final decision with respect to taxpayers' appeals of special taxes. The exercise of the Board's power under the RMA will not only facilitate a just and equitable resolution of the refund claim, it will also put an end to the misguided application of the RMA that has caused the CFD's special taxes to be levied at such extraordinarily excessive levels.

Thus, the essence of Serrano's request is that, in the exercise of its powers and duties under Section 8 of the RMA, the Board: (a) find and determine that special taxes heretofore levied have been excessive for the reasons set forth below, (b) direct that the mistakes, misinterpretations and misapplications that are described below be corrected in connection with the calculation of the special tax levy for fiscal year 2010/11 and for all future fiscal years and (c) instruct the County's officers and consultants to meet and confer with Serrano to calculate the amounts of the special taxes that should have been levied each year consistent with the corrected interpretation and application of the RMA and to refund the excess special taxes to the parties that have paid them.

We will now describe and discuss in detail the four errors in the administration of the CFD that we believe have helped to cause the overlevy of the special tax applicable to a portion of Serrano's ownership in the CFD. This discussion supplements the correspondence and materials heretofore submitted to you by and on behalf of Serrano in connection with this matter.

1. **Failure To Credit Reserve Account Earnings Against Amount To Be Levied.**
Pursuant to Section 6 of the RMA, the first step in setting the special tax rate for the taxable property

in the CFD each fiscal year is to determine the "Annual Costs" for that fiscal year. The term "Annual Costs" is defined in the RMA to mean the sum of various items: "Debt Service" (which is discussed under headings 3 and 4 below), "Administrative Expenses" (about which there is no dispute), reserve fund replenishment (which is discussed under heading 2 below), past and anticipated delinquencies (which is discussed under heading 4 below) and pay-as-you-go expenditures for authorized facilities (about which there is no dispute), *minus* certain other items: credits from earnings on the bond reserve fund (which is discussed under this heading), credits for development fees (about which there is no dispute), reimbursements (which are discussed under heading 4 below) and funds available from prepaid special taxes (about which there is no dispute). The total amount that results from the calculation described in the definition of Annual Costs is the aggregate amount of special taxes to be levied in the applicable fiscal year. Thus, accuracy in calculating Annual Costs is critical to a correct determination of the special tax levy.

One of the items in the second category of the definition of Annual Costs, that is one of the items that are intended to reduce the otherwise applicable total special levy, is earnings derived from the investment of money on deposit in the reserve account. The language of the RMA is clear and unambiguous in this regard. After listing four items which are included in the first category and which are to be added up in calculating Annual Costs, the language of the definition states, "less any credit from earnings on the 'bond reserve fund'."

The Indenture mirrors the RMA with respect to this credit concept. It refers to the "bond reserve fund" as the "Reserve Account;" and Section 3.6 thereof sets forth the provisions that govern the Reserve Account. Among the provisions of Section 3.6 is a requirement that the investments in the Reserve Account are to be valued on the last business day of each March and that, upon such valuation, "amounts in the Reserve Account, if any, that exceed the Reserve Requirement [an amount equal to the maximum annual debt service on the Bonds], shall be deposited into the Special Tax Fund." Pursuant to Section 3.4 of the Indenture, the Special Tax Fund is a fund that is held and administered by CFD's Fiscal Agent, and the highest priority use of money on deposit in the Special Tax Fund is disbursement to the Redemption Account in said fund "to the extent necessary to fully fund all scheduled payments of interest and principal . . . coming due on the Bonds through the next succeeding September 1 . . ." In effect then, absent any withdrawals of money from the Reserve Account to pay debt service on the bonds (something that has never happened in the CFD), all net earnings from the investment of the Reserve Account must be applied to help pay debt service.

In light of these provisions of the RMA and the Indenture, there can be no doubt that the aggregate amount that would otherwise be levied as special taxes each fiscal year should be reduced by the earnings on the Reserve Account that are required to be transferred to the Special Tax Fund pursuant to the Indenture. Indeed, the County Auditor-Controller acknowledged this in a January 25, 2010 letter to Mike Cook, counsel to Serrano, in which the Auditor-Controller attributes the failure to have applied Reserve Account earnings to an error by the Fiscal Agent in determining the amount required to be maintained in the Reserve Account. The Auditor-Controller indicated in that letter that his estimate of the overlevy of special taxes as a result of this error was approximately \$634,000, and he further indicated that his office would work with the County Counsel's office to process appropriate refunds of the overlevy. Serrano has received refunds of approximately \$560,141, for

which it is very grateful. However, Serrano believes that it is still entitled to an additional refund relative to the foregoing.

Pursuant to its authority under Section 8 of the RMA, the Board of Supervisors should direct that all Reserve Account earnings that have not been previously refunded should be promptly returned to the taxpayers whose special taxes were higher than they should have been as a result of this error in the administration of the CFD; and the Board should further direct that future computations of "Annual Costs" should reflect the credit required by the applicable legal documents.

2. *Overfunding of Reserve Account.* Pursuant to Section 3.6 of the Indenture, the Reserve Account is to be maintained in an amount equal to the lowest of three amounts: (a) ten percent of the original principal amount of "the Bonds," (b) one hundred percent of maximum annual debt service on "the Bonds" and (c) one hundred twenty-five percent of average annual debt service on "the Bonds." There is no disagreement that the lowest of these three amounts in the case of the Bonds is one hundred percent of maximum annual debt service. The Indenture refers to this amount as the "Reserve Requirement." As will be demonstrated beyond reasonable doubt below, the unmistakably clear meaning of this term in the context of the Indenture is an amount equal to the combined maximum annual debt service on the Bonds. The term was consistently so interpreted by the County's bond counsel, by the County's bond underwriter, the County's underwriter's counsel, the County itself and, until fiscal year 2008/09, by the County's officers and/or consultants who calculated the annual special tax levy. In fiscal year 2008/09, for reasons known only to the County's officers and/or consultants who calculated the annual special tax levy for that year, and in clear violation of the governing legal documents, and with no authority of any kind to do so, those officers and/or consultants re-interpreted the term "Reserve Requirement" to no longer mean the combined maximum annual debt service on the Bonds, but instead to mean the sum of maximum annual debt service on the Series 1999 Bonds plus maximum annual debt service on the Series 2004 Bonds. This unauthorized, incorrect and illegal re-interpretation increased the Reserve Requirement by over \$272,000, an amount of special tax revenues that should never have been levied or that should have been applied as a credit to reduce the tax levy.

When the Series 1999 Bonds were issued, they were the only bonds of the CFD outstanding. (A portion of the proceeds of the Series 1999 Bonds were used to defease the then remaining Series 1994 Bonds, so that the Series 1994 Bonds were no longer deemed to be outstanding under the terms of the Indenture.) Thus, when the Series 1999 Bonds were issued, the Reserve Requirement was equal to maximum annual debt service on the Series 1999 Bonds, which was then \$3,339,408.76; and the Reserve Account was funded in that amount from bond proceeds.

Approximately five years later, the Series 2004 Bonds were issued. They were issued on parity with the Series 1999 Bonds, that is they share equally with the Series 1999 Bonds the security of the Indenture's pledge of the revenues securing the Series 1999 Bonds. Section 5.5 of the Indenture permits subsequent series of bonds to be issued on parity with previously issued series only if certain conditions are satisfied. One of these conditions is that, "the County shall cause the increase in the amount of the Reserve Requirement occasioned by the issuance of the additional bonds to be made available to the Reserve Account . . ." Given this requirement, it was clearly

critical to the issuance of the Series 2004 Bonds as valid parity debt that the amount of the increase in the Reserve Requirement be accurately ascertained and that said amount be made available to the Reserve Account.

Ascertaining the increase in the Reserve Requirement obviously involved applying the definition of that term to a scenario in which both the Series 1999 Bonds and the Series 2004 Bonds would be outstanding. Because the two series would be on parity with one another, Section 10.03 of the First Supplemental Indenture between the County and the Fiscal Agent (the document providing for the issuance of the Series 2004 Bonds) specified that, "The term 'Bonds' as used in the Original Indenture shall, unless the context requires otherwise, include the Series 2004 Bonds." Especially in the context of the Reserve Account, this made perfect sense because the original Indenture established a single Reserve Account for both the Series 1999 Bonds and all subsequent parity bonds. The definition of "Reserve Requirement" in the Indenture refers to maximum annual debt service on "the Bonds;" it does *not* refer to the sum of maximum annual debt service on the Series 1999 Bonds plus maximum annual debt service on the Series 2004 Bonds. Accordingly, the parties involved in the issuance of the Series 2004 concluded that it was necessary only to deposit into the Reserve Account the amount required to make the balance therein equal maximum annual debt service on the Bonds. Thus, Section 11.03(1) of the First Supplemental Indenture directs the Fiscal Agent to deposit into the Reserve Account proceeds from the sale of the Series 2004 Bonds "the amount of \$1,328,724, representing the increase in the Reserve Requirement as a result of the issuance of the Series 2004 Bonds . . ." Page 88 of the Official Statement relating to the Series 2004 Bonds confirms this by observing, "The amount previously deposited in the Reserve Account from proceeds of the sale of the [Series 1999] Bonds shall be supplemented by a further deposit from proceeds of the sale of the Series 2004 Bonds [the \$1,328,724.83 mentioned above], with the result that the amount on deposit therein shall equal the Reserve Requirement . . ." In other words, the Reserve Requirement (maximum annual debt service on the Bonds) was satisfied by the addition of \$1,328,724.83. If the Reserve Requirement had been the sum of maximum annual debt service on the Series 1999 Bonds plus maximum annual debt service on the Series 2004 Bonds, the amount required to have been deposited into the Reserve Account would have been the maximum annual debt service on the Series 2004 Bonds, which according to the 2004 Official Statement was \$1,615,500. That larger amount was *not* deposited into the Reserve Requirement. If the Reserve Requirement had been the sum of maximum annual debt service on the Series 1999 Bonds plus maximum annual debt service on the Series 2004 Bonds, the County could not have found and determined, as it did in Section 10.02 of the First Supplemental Indenture, that, ". . . each and every condition specified by Section 5.5 [of the original Indenture] as a condition precedent to issuance of the Series 2004 Bonds as Parity Bonds is satisfied as of the date hereof."

The Continuing Disclosure Annual Reports that were prepared for the County for each fiscal year through 2007/08 reaffirmed the conclusions described above. Each of those reports referred to a single Reserve Requirement for a single Reserve Account applicable to both the Series 1999 Bonds and the Series 2004 Bonds; and each of those reports indicated that the Reserve Requirement was an amount equal to the maximum annual debt service on the Bonds, not the sum of maximum annual debt service on the Series 1999 Bonds plus maximum annual debt service on the Series 2004 Bonds.

In light of the foregoing, there can be no doubt that the single Reserve Requirement specified by and defined in the Indenture is an amount equal to the maximum annual debt service on the Bonds. Yet, notwithstanding the foregoing, at some point between the preparation of the Continuing Disclosure Annual Report for the Fiscal Year Ending June 30, 2008 and the preparation of the Continuing Disclosure Annual Report for the Fiscal Year Ending June 30, 2009, the people who calculated Annual Costs for fiscal year 2008/09 decided to change the amount of the Reserve Requirement and to increase it to the sum of maximum annual debt service on the Series 1999 Bonds plus maximum annual debt service on the Series 2004 Bonds. The Continuing Disclosure Annual Report for the Fiscal Year Ending June 30, 2009 prepared for the County and the CFD by NBS makes it clear that the County is now maintaining separate "reserve requirements" for the Series 1999 Bonds and the Series 2004 Bonds, each in an amount equal to the maximum annual debt service with respect to the applicable series. See Section 2.4 on page 2 of the Annual Report (a copy of which is attached to this letter as "Attachment 2"). The sum of these two amounts is approximately \$4,906,656, or approximately \$272,702 larger than the approximately \$4,633,954 Reserve Requirement provided for in the Indenture. The people making this change had *absolutely no authority to do so*.

The significantly excessive amount on deposit in the Reserve Account obviously did not come from bond proceeds; the Official Statement for the Series 2004 Bonds makes that clear. The only sources of funds from which it could have come are Reserve Account earnings or excess special tax levies. Neither of those sources could be legally applied to maintain the Reserve Account at a level in excess of that provided for in the Indenture. Whatever the source of the excessive amount in the Reserve Account, that amount represents money which could and should have been applied to reduce special tax levies in fiscal year 2008/09.

Pursuant to the authority vested in the Board under Section 8 of the RMA, the Board should direct that the Reserve Account should be maintained in strict compliance with the provisions of the Indenture as described above and that the excess balance therein should be refunded to the taxpayers who were billed more than they should have been as a result of this obvious error in the administration of the CFD.

3. **Failure To Credit Redemption Account Earnings Against Amount To Be Levied.**
As discussed above under the first heading, the initial step in setting the special tax rate for the taxable property in the CFD each fiscal year is to determine the "Annual Costs" for that fiscal year. The first item to be included in the computation of Annual Costs is "Debt Service." The term "Debt Service" is defined in the RMA as follows, "'Debt Service' means, for each Fiscal Year or Bond Year, the total amount of principal and interest for any bonds, notes or certificates of participation of the CFD during that Fiscal Year, *less any applicable credits* that may be available from any other sources available to the County to pay principal and interest for the previous or current Fiscal Year or Bond Year." [Emphasis supplied.]

Just as Section 3.6 of the Indenture contains provisions for the establishment and administration of the Reserve Account, so Section 3.5 thereof contains provisions for the establishment and administration of the Redemption Account, the account from which the Fiscal

Agent pays the debt service on the bonds. Section 3.5 is very clear with respect to the disposition of earnings derived from the investment of money on deposit in the Redemption Account. It provides, "Earnings on investments in the Redemption Account shall be deposited into the Special Tax Fund." Pursuant to Section 3.4 of the Indenture, the highest priority use of money on deposit in the Special Tax Fund is to be disbursed to the Redemption Account in said fund "to the extent necessary to fully fund all scheduled payments of interest and principal . . . coming due on the Bonds through the next succeeding September 1 . . ." In other words, earnings derived from the investment of amounts on deposit in the Redemption Account will eventually be recycled to that account and must be applied to pay debt service.

Ueltzen & Company, LLP has analyzed the portions of the County's general ledger that pertain to the CFD and has determined that interest income of \$42,218 is indicated as having been earned by the "1999 Redemption Account" through June 30, 2009. No amount of interest income is shown for the portion of the Redemption Account attributable to the Series 2004 Bonds. So, at the very least \$42,218 should have been applied as credits against Debt Service resulting in reduced special tax levies, but the precise amount may be even higher. We have been unable to find any indication that any of the earnings from the investment of the Redemption Account have ever been so credited.

If and to the extent that annual levies of special taxes were not reduced to reflect Redemption Account earnings, those levies were excessive in an amount at least equal to the amount of such earnings. If this is in fact the case, the Board should exercise its powers under Section 8 of the RMA and direct that such amounts should be promptly returned to the taxpayers whose special taxes were higher than they should have been as a result. The Board should also direct that future computations of "Annual Costs" should reflect the credit for Redemption Account earnings that is required by the Indenture and the RMA.

4. **Improper Exclusion of Collections of Previous Years' Delinquencies and Related Revenues in Calculating the Amount To Be Levied as a Result of Past and Anticipated Delinquencies.** The definition of "Annual Costs" set forth in the RMA requires that the computation must include, ". . . an amount equal to the amount of delinquencies in payments of Special Taxes levied in the previous Fiscal Year and an amount for anticipated delinquencies for the current Fiscal Year, less any credit from earnings on the bond reserve fund, less credit for applicable development fees, less any reimbursements . . ." To the best of Serrano's ability to determine the tax calculation process, this language has been interpreted (or, more accurately, *misinterpreted*) by the persons making the calculation of Annual Costs on behalf of the County so that no credit has been given for the reimbursements received by the County as a result of recoveries of prior years' delinquencies and the penalties and interest associated therewith. These reimbursements are substantial each year. Because they include penalties equal to 10% of the delinquent amounts and interest on the delinquent amounts, and because the County's recovery rate has been very strong, the reimbursements generally equal or exceed the total amount of the delinquencies in the second fiscal year preceding the year for which Annual Costs is being calculated. Thus, ignoring these reimbursements results in a significantly higher special tax levy than is actually required by the legal documents.

It is important to understand that all reimbursements representing recoveries of past delinquencies and related penalties and interest clearly constitute special tax revenues which are governed by the Indenture and the RMA. In this context, Section 3.8 of the Indenture provides in relevant part as follows, "All moneys received by the County on account of the special tax obligations of property owners within CFD 1992-1, including without limitation . . . (b) *reinstatement of delinquent special taxes, including the late charges and monthly penalties . . . shall be deposited in the CFD Fund.*" [Emphasis supplied.] (The CFD Fund is a fund held by the County from which the County disburses money for the various purposes permitted by the Indenture, including transfers to the Fiscal Agent to enable the payment of debt service.)

It is also important to understand that delinquencies in the payment of property taxes are a common occurrence, especially in the case of taxing jurisdictions that encompass a relatively large number of taxpayers. The percentage of the total levy that is delinquent at the end of a fiscal year may vary depending on a variety of factors, however it would be a highly unusual event for an entity, such as the CFD, with approximately 3,700 taxable parcels to end its fiscal years without a single delinquency. In the case of the CFD, the data in the County's Continuing Disclosure Annual Reports indicate that the fiscal year end delinquency rates in the last several years have been in the 2% to 4.3% range. This is quite normal and is to be expected in the administration of the financial affairs of entities such as the CFD.

Finally, it is important to understand that the overwhelming majority of property tax delinquencies in community facilities districts, such as the CFD, with the power and the contractual obligation to commence judicial foreclosure proceedings, are typically cured within a fiscal year or two following the initial delinquency. The CFD has a very enviable record in this regard. The County's Continuing Disclosure Annual Report for the Fiscal Year Ending June 30, 2009 indicates that of the total amount of all special taxes levied from the formation of the CFD through and including fiscal year 2007/08 only \$8,595.68 was delinquent as of June 30, 2009. *All other delinquencies attributable to fiscal years prior to 2008/09 had been recovered by the end of that fiscal year (and with them the applicable penalties and interest).*

The foregoing is all important because it compels the conclusion that it would be irrational in the extreme and extraordinarily unfair to the taxpayers to administer the CFD and to levy its special taxes each year on *the assumption that no delinquent special tax will ever be recovered* and on *the premise that no credit or recognition of any kind will be ever be given in the calculation of the tax levy for delinquent special taxes that are in fact recovered.* Yet that assumption and that premise appear to be embodied in the methodology apparently being used by the people who calculate the special tax on behalf of the County; and it is that assumption and that premise that have, along with the other factors discussed above, caused the accumulation of the massive surplus special tax revenues that are now held in the CFD Fund. As you will hear from Bill Parker and Tim Youmans, both of whom were involved in the formulation and approval of the RMA in the first place, it was never their intention that the RMA should be so construed. A different approach is needed.

As noted above the amount to be included in the calculation of Annual Costs for past and anticipated future delinquencies is required to be reduced by certain amounts. These include "any

reimbursements.” While the term “reimbursements” is at best somewhat vague, it makes sense in this context to interpret it to include the revenues that the County receives when past delinquent amounts and related penalties and interest are recovered by the County. Pursuant to Section 8 of the RMA you have the authority to make interpretations in such situations, and in this particular situation it makes perfect sense for you to do so.

Another place in the calculation of Annual Costs at which the reimbursements in question can and should be applied to reduce the total if they aren't so applied through a credit for reimbursements is a credit against Debt Service. As discussed under heading 3 above, the defined term “Debt Service” refers to gross debt service less credits that “may be available from any other sources available to the County”; and, as discussed above under this heading, Section 3.8 of the Indenture provides that the “reinstatement of delinquent special taxes, including the late charges and monthly penalties” shall be deposited in the CFD Fund. The first priority use for money so deposited into the CFD Fund is to enable the payment of debt service. Thus, the amounts in question should be applied as a credit against Debt Service if and to the extent that they are not used to offset the delinquency component of Annual Costs.

In short, calculating the delinquency component of Annual Costs without regard to the receipt of special tax revenues representing recoveries of past delinquencies and related penalties and interest is inconsistent with the expectations of people who participated in the approval of the RMA, and it is obviously irrational and inequitable. It has given rise to an accumulated surplus of special tax dollars that serves no apparent purpose. Under the power granted to it pursuant to Section 8 of the RMA, the Board can and should remedy this situation by directing either (i) that such special tax revenues be recognized as “reimbursements” which are applied in the definition of Annual Costs to the reduction of the delinquency component thereof or (ii) that money held by the County in the CFD Fund be applied as a credit to reduce the delinquency component. The Board should further direct that refunds should be paid to the taxpayers who have paid excess special taxes because of calculations of Annual Costs that have been inconsistent with the foregoing.

Conclusion. This letter is addressed to you because under Section 8 of the RMA you have been given the power to make interpretations “for purposes of clarifying any vagueness or ambiguity as it relates to the Special Tax rate, the method of apportionment, the classification of properties or any definition applicable to the CFD” as well as to make the final decision with respect to taxpayers’ appeals of special taxes.

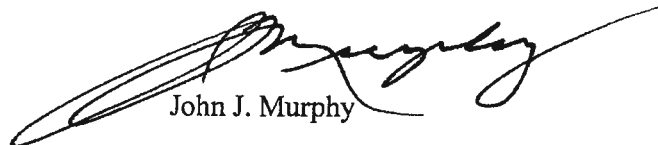
Serrano believes that it has demonstrated conclusively that the administration and calculation of the CFD’s annual special tax levy have incorporated mistakes, misinterpretations and misapplications that have unnecessarily, unfairly and illegally increased the special tax burden that it (and others) have been required to bear and that corrective action by the Board is necessary and appropriate. As we mention in the second paragraph of this letter, the fact that the special tax levies have been excessive is demonstrated very dramatically by the accumulated surplus exceeding \$3,400,000.

To this point in the existence of the CFD, the overlevies of special taxes appear to have been borne primarily by Serrano. However, unless the current method of administering the RMA is changed, as the property within the CFD continues to develop *it will soon be the case that all of the property owners in the CFD will be the victims of the overlevies.*

Serrano is not asking the Board to approve a refund to Serrano in a specific dollar amount at this time. However, for itself and for the other past and future taxpayers in the CFD who have been and who will be asked to bear the burden of overlevies of special taxes, Serrano is requesting that the Board exercise its powers under Section 8 of the RMA and: (a) find and determine that special taxes heretofore levied have been excessive for the reasons set forth above, (b) direct that the mistakes, misinterpretations and misapplications that have been identified above be corrected in connection with the calculation of the special tax levy for fiscal year 2010/11 and for all future fiscal years and (c) instruct the County's staff and consultants to meet and confer with Serrano to calculate the amounts of the special taxes that should have been levied each year consistent with the corrected interpretation and application of the RMA and to refund the excess special taxes to the parties that have paid them.

Thank you for your consideration.

Very truly yours,



John J. Murphy

cc: Jonathan Cristy
Kirk Bone
Michael J. Cook

ATTACHMENT I

**Community Services District No. 1992-1
Estimated Cash Surplus at May 20, 2010**

Cash Balance as of May 20, 2010 (Per General Ledger) (1)	
Special Tax Fund (with County)	\$ 2,144,796
CFD Fund (with County)	1,678,029
Special Tax Fund (Fiscal Agent)	<u>2,509,583</u>
	6,332,408
Plus Excess Funds Held in Reserve Account (2)	273,648
Less Estimated Funds needed for September 2010 Debt Service (3)	(3,053,699)
Less Estimated Annual Administrative Expenses	<u>(86,000)</u>
Estimated Cash Surplus as of May 20, 2010	\$ 3,466,357

- (1) May 20, 2010 is the date of the last General Ledger received
- (2) \$4,907,602 Reserve account balance at 5/20/2010 less maximum annual debt service of \$4,633,954
- (3) \$1,573,699 Interest plus \$1,480,000 Principal (Per Exhibit B)

ATTACHMENT 2

2. CONTENT OF ANNUAL REPORT

2.1. Audited Financial Statements

The Audited Financial Statements for Fiscal Year ending June 30, 2009, are not available at the time of writing this report. The Audited Financial Statements will be provided to EMMA as soon as they become available.

NOTE: The County has not obligated itself to incur any liability in the event the special taxes are not adequate to pay principal and interest on the Bonds. Further, the County will under no circumstances, advance any of its funds (other than the special taxes and funds and accounts established under the Indenture) to the payment of principal or interest on the Series 1999 and 2004 Bonds. Therefore, the County believes its audited financial statements are not material to the Series 1999 and 2004 Bonds and for that reason they were not included in the Official Statement for the Series 1999 and 2004 Bonds. They are being submitted as part of the continuing disclosure, solely due to an interpretation of Rule 15c2-12 by the staff of the Securities and Exchange Commission that is required under the Rule. Investors and others should not infer from the inclusion of the County's financial statements in any continuing disclosure that the County considers its financial statements to be material to the Series 1999 and 2004 Bonds, or that the County will, under any circumstances, advance any of its funds (other than the special taxes and funds and accounts established under the Indenture) for the payment of principal or interest on the Series 1999 and 2004 Bonds.

2.2. Summary Report

A copy of the summary report prepared by El Dorado County pursuant to Section 5.6 of the Indenture can be found in Appendix A of this report.

2.3. CDIAC Report

Copies of the California Debt and Investment Advisory Commission (CDIAC) filing for the 2008/09 Fiscal Year can be found in Appendix B of this report.

2.4. Reserve Account

The Reserve Requirement as of June 30, 2009 was \$3,291,156.25 for the 1999 Series and \$1,615,500.00 for the 2004 Series. There have been no draws on Reserve account over the past Fiscal Year.

2.5. Parcel Category of the Rate and Method of Apportionment

A table showing the number of parcels in each Special Tax Category (Class) of the Rate and Method of Apportionment can be found in Appendix C of this report.