

**HERITAGE SHORES SPECIAL DEVELOPMENT DISTRICT  
BRIDGEVILLE, DELAWARE**

**Question and Answers  
Regarding Creation of Special Development District  
and Issuance of Special Obligation Bonds**

**1. What is a special development district?**

A “special development district” is a defined geographic area within a town or a county created by the government at the request of the owners of the property in the proposed district.

**2. What is the purpose of a special development district?**

The purpose of a special development district is to provide means for planning, financing and constructing various public improvements and community facilities within or for the benefit of the district.

**3. What is the authority for the Town of Bridgeville (the “Town”) to create special development districts?**

The Delaware General Assembly amended the Town Charter to grant the Commissioners of Bridgeville (the “Commissioners”) the authority to create special development districts. Pursuant to such amendment, codified as Section 29(A) of the Town Charter (Section 29A of 51 Delaware Laws, Chapter 237, as amended) (the “Bridgeville Statute”), the Commissioners have the same powers to create special development districts as those granted by the General Assembly in Chapter 18 of Title 22 of the Delaware Code (the “Municipal Statute” and, collectively with the Bridgeville Statute, the “Act”) to towns with a population in excess of 50,000 people. Therefore, the authorization granted by the Municipal Statute to towns with a population in excess of 50,000 people applies to the Town to the same extent as if the Town were such a town within the meaning of the Municipal Statute.

**4. When and how was the Heritage Shores Special Development District (the “District”) created?**

The District was created at the request of 100% of the then owners of the property to be located in the District (i.e., Passwaters Farm LLC). The Commissioners, having made certain legislative findings concerning the public benefit and purpose of such district, designated by a resolution an area within the geographic boundaries of the Town to be known as the “Heritage Shores Special Development District” (the “Resolution”). The Resolution was adopted on March 22, 2005 in accordance with the requirements of the Town Charter and the Act.

**5. When and how were the Series 2005 Bonds issued?**

On May 9, 2005, the Commissioners enacted Ordinance No. A05-7 pursuant to which the Commissioners authorized the issuance of special obligation bonds in one or more series in an aggregate principal amount not to exceed \$65,000,000 (the “Bonds”). On July 28, 2005, pursuant to an Executive Order of the President of the Commissioners, the Series 2005A Bonds in the principal amount of \$19,847,000 and the Series 2005B Bonds in the principal amount of \$8,600,000 (collectively, the “Series 2005 Bonds”) were issued.

**6. What were the proceeds of the Series 2005 Bonds used to finance?**

The proceeds of the Series 2005 Bonds were used to finance the following improvements:

(i) public road, storm, water and sewer improvements procured by the Developer within the District or outside the District providing service or benefit to the District and dedicated to the Town (collectively, the “Developer’s Facilities”), and

(ii) a public library (the “Library”) and various miscellaneous public improvements procured by the Commissioners providing service or benefit to the District (“Miscellaneous Improvements” and, collectively with the Library, “Commissioners’ Facilities”).

\$20,695,909.91 of the Series 2005 Bonds proceeds was allocated to the Developer’s Facilities and \$1,600,000 was allocated to the Commissioners’ Facilities.

**7. What portion of the costs of the Commissioners’ Facilities is financed with the proceeds of the Series 2005 Bonds?**

The Commissioners’ Facilities consist of the Miscellaneous Improvements and the Library. Since the Commissioners’ Facilities benefit residents of the District and residents of the Town not in the District, it was necessary to establish the relative benefit of the Commissioners’ Facilities to each group of residents. It was estimated that, upon the completion of the residential development, the residents of Heritage Shores will comprise 73% of the total population of the Town. Therefore, the portion of the proceeds of the Series 2005 Bonds expended for the Miscellaneous Improvements represents 73% of the total cost of such improvements. It is estimated that the portion of the Series 2005 Bonds proceeds used for the Commissioner’s contribution to the cost of the Library represents [less than 50%] of the total estimated cost of the Library project.

**8. How are the proceeds of the Series 2005 Bonds being disbursed?**

The portion of Series 2005 Bonds proceeds allocated to the Developer’s Facilities is being disbursed pursuant to a Construction and Funding Agreement dated as of July 1, 2005 between Passwaters Farm LLC (the “Developer”) and the Commissioners

(the “Construction and Funding Agreement”). Pursuant to the Construction and Funding Agreement, the Developer submits requisitions for payment of construction costs to Manufacturers and Traders Trust Company, as indenture trustee (the “Trustee”). Each requisition, and the work on a Developer’s Facility to which it relates, must be approved by an independent engineering firm hired by the Commissioners to provide construction quality assurance and verification services. The Trustee pays an approved requisition from proceeds of the Series 2005 Bonds on deposit with the Trustee. As of February 29, 2008, \$250,819.56 of the Series 2005 Bonds proceeds allocated to the Developer’s Facilities has not yet been disbursed.

The portion of Series 2005 Bonds proceeds allocated to the Commissioners’ Facilities is being disbursed pursuant to a Trust Indenture (the “Trust Indenture”) dated as of July 1, 2005 between the Commissioners and the Trustee. Pursuant to the Trust Indenture, the Commissioners submit requisitions for improvement costs to the Trustee for payment from the proceeds of the Series 2005 Bonds on deposit with the Trustee. As of February 29, 2008, \$1,164,577.24 of the Series 2005 Bonds proceeds allocated to the Commissioners’ Facilities has not yet been disbursed.

**9. Will any additional bonds be issued to finance infrastructure for the District?**

The Ordinance authorized the issuance of Bonds in a maximum aggregate principal amount of \$65,000,000. \$28,447,000 of that maximum principal amount has been allocated to Series 2005 Bonds. The Trust Indenture permits the issuance of additional bonds for refunding purposes and to finance infrastructure improvements for the District in addition to those financed with the Series 2005 Bonds. No additional bonds will be issued for Commissioners’ Facilities. The Limited Offering Memorandum for the Series 2005 Bonds contemplates that additional bonds would be issued to finance infrastructure improvements for future phases of the Heritage Shores development.

Additional bonds can only be issued if certain financial tests set forth in the Trust Indenture relating to debt service coverage on the Bonds and the amount of the special taxes levied within the District (“Special Taxes”) prepayments have been satisfied.

**10. What is the term of the Series 2005 Bonds and the Special Taxes?**

The Series 2005 Bonds will mature on July 1, 2035. The Special Taxes will not be levied on a parcel within the District after the earlier of (i) repayment or defeasance of the Bonds or (ii) the 30<sup>th</sup> fiscal year in which such parcel was taxed as Developed Property.

**11. What happens upon any prepayment of Special Taxes?**

The proceeds from a prepayment of Special Taxes are used to redeem Bonds. A notice of such prepayment will be recorded in the Sussex County Land Records, and the

Special Tax roll will be amended to indicate that the Special Tax has been prepaid for a parcel.

**12. What is the security for the Bonds?**

The Bonds are secured by (i) proceeds of Special Taxes, including any scheduled payments and any prepayments thereof, interest thereon and proceeds of the sale of property sold or other remedies taken as a result of a delinquent Special Taxes sale action (but excluding any penalties collected in connection with delinquent Special Taxes) and (ii) moneys on deposit in the funds and accounts that are pledged in the Trust Indenture for the repayment of Bonds.

Neither the Developer's Facilities nor the Commissioners' Facilities are pledged as security for the Bonds. The Bonds are not a general obligation debt of the Commissioners and they do not constitute a pledge of the Commissioners' full faith and credit or taxing power.

**13. What happens if a homeowner defaults in the payment of his/her Special Taxes?**

A failure of a homeowner to pay his/her Special Taxes will not affect any other homeowner in the District. If a homeowner defaults in the payment of his/her Special Taxes, the Commissioners will employ the normal collection procedures available to them for all delinquent general ad valorem tax collection efforts.

**14. What happens if there is a default on the Bonds?**

The only time the Bonds would be in default is if proceeds of the Special Taxes and amounts in the Debt Service Reserve Fund (defined below) were not sufficient to pay the principal of, or interest or any premium on, the Bonds. The Bonds are structured to manage this risk by establishing a Debt Service Reserve Fund to be maintained by the Trustee in an amount prescribed by the Trust Indenture (the "Debt Service Reserve Fund"). If, on a date on which a payment of principal of or interest on the Bonds is to be made, the Trustee did not have sufficient funds from the proceeds of Special Taxes to pay all amounts due, the Trustee would draw on the Debt Service Reserve Fund to cover the deficiency. The Debt Service Reserve Fund would then be replenished to the required reserve level from future Special Taxes proceeds in accordance with the procedures set forth in the Trust Indenture. Although unlikely, it is possible that Special Tax proceeds may not be sufficient to pay the principal of, and interest and any premium on, the Bonds or to replenish the Debt Service Reserve Fund to the required reserve level following a deficiency draw. This risk factor, present in all financings of this type, has been disclosed to the bondholders at the time of the sale of the Series 2005 Bonds and is routinely taken into consideration by such investors in their purchase analysis.

**15. What is the impact on the Bonds of the sale of Lennar Corporation's ("Lennar") interest in the Heritage Shores project to Brookfield Homes Corporation ("Brookfield")?**

A material change in the ownership of the Developer is required to be disclosed to the municipal bond market pursuant to a Continuing Disclosure Agreement dated as of July 1, 2005 among the Developer, the Commissioners and MuniCap, Inc. The sale of Lennar's interest in the Developer to Brookfield has been disclosed to the appropriate municipal securities repositories in accordance with the applicable disclosure requirements. The sale will have no impact on the homeowners.

**16. Where can a homeowner review copies of the documents related to the Bonds?**

Copies of all of the documents related to the Bonds are on file with the Commissioners at the Town Hall.