

# DEVELOPMENT ACTIVITY AND DISCLOSURE REPORT

For the Quarter Ending June 30, 2006

*Frederick County, Maryland*  
*Special Obligation Bonds*  
*(Urbana Community Development Authority)*  
*\$30,000,000 Series 1998*  
*\$26,513,000 Series 2004A*  
*\$6,461,000 Series 2004B*

Prepared by

**MUNICAP, INC.**

November 6, 2006

**DEVELOPMENT ACTIVITY AND  
DISCLOSURE REPORT**  
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## *I. UPDATED INFORMATION*

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Information updated for the quarter ending June 30, 2006 is as follows:

- Monocacy reports construction plan approvals were received and a State Highway Access Permit issued for Phase Two of the Maryland State Route 355 relocation project on April 13, 2006 from MDSHA. The developer also reports that construction is continuing on the installation of storm drainage facilities and grading operations outside of the existing right-of-way.
- Monocacy reports the landscaping for the second phase of Carriage Hill Drive, which extends the road from the entrance at Village 11 into Village 12, is expected to begin during the autumn of 2006.
- Monocacy reports that the design phase of the North Regional Wastewater Pumping Station is approximately 95 percent complete.
- Monocacy reports that construction of homes in Villages X, XI, XII and Town Center I, II and III is continuing.
- Monocacy reports that there have been four hundred and sixty-two settlements between builders and home buyers in Villages X, XI and XIV (formerly X) Section M7.
- Monocacy reports that there have been ninety settlements between builders and home buyers in Village XII, compared to forty-three during the previous reporting period.
- Monocacy reports that active development is continuing in Village XIII and deliveries of residential lots to builders should begin during the first quarter of 2007.
- Monocacy reports that residential lot deliveries for the development of Phase II in Town Center II should occur during the third quarter of 2006.
- Urbana Highlands, LLC reports that engineering for the Section P-1 public improvement plan is complete. Site development work is underway and development of Section P-5 is projected to commence in late 2007, depending upon the development pace of the adjacent land.
- As of June 30, 2006, Urbana Highlands, LLC reports that 371 final plats have been recorded, representing approximately 79 percent of the total approved residential units in Urbana Highlands.
- As of June 30, 2006, Urbana Highlands, LLC reports that 371 building permits have been issued, compared to 329 in the prior reporting period. (According to the developer, Advantage homes has pulled four building permits for their Section P-1 models that are not yet under contract.)
- As of June 30, 2006, Monocacy has reported that 1,882 final plats have been recorded, compared to 1,871 in the previous reporting period, which represents approximately 77

percent of the total approved residential units in the Villages of Urbana.

- As of June 30, 2006, Monocacy has entered into rolling option takedown contracts or bulk sale agreements for 2,429 lots in the Villages of Urbana.
- As of June 30, 2006, Monocacy has reported that 1,718 lots have been settled with builders, compared to 1,688 in the previous reporting period.
- As of June 30, 2006, Monocacy has reported that 1,716 building permits were issued by Frederick County, compared to 1,713 for the previous reporting period.
- As of June 30, 2006, Monocacy has reported that contracts with homebuyers have been executed for 1,703 units, compared to 1,650 units in the previous reporting period.
- As of June 30, 2006, Monocacy has reported that 1,644 homes had been settled with homeowners, compared to 1,563 for the previous reporting period.
- Sales teams for Monocacy report an estimated 435 people visited the model homes, compared to 1,155 in the same period for 2005. The developer reports that with the opening of additional sections, they expect traffic levels in 2006 to be reasonably steady although below 2005 levels.
- As reported by Monocacy, the Branch Banking and Trust Company of Virginia (BB&T) acquisition and development loan and letter of credit balances, repayments, and amounts available to fund as of March 31, 2006 and June 30, 2006 are shown in the following page.

	<u>March 31, 2006</u>	<u>June 30, 2006</u>
Revolving loan funded	\$54,583,946	\$54,583,946
Amount repaid	\$54,583,946	\$54,583,946
Revolving loan balance	\$0	\$0
Letters of credit issued	\$6,802,372	\$6,602,251
Total borrowings & LOC	\$6,802,372	\$6,602,251
Maximum balance	\$61,000,000	\$61,000,000
Amount available to fund	\$54,197,628	\$54,397,749

- According to the Trustee, bond proceeds disbursed for public improvements as of June 30, 2006 were \$42,154,430.43, compared to \$41,935,617.88 in the previous reporting quarter. As of June 30, 2006, CDA draw requests were \$34,036,029, which is equal to 84.7 percent of the revised budget.
- According to Frederick County, there are no delinquent special taxes for fiscal years 1998-1999 through 2005-2006. As of September 30, 2006, Frederick County reported collecting \$3,477,877.34 in fiscal year 2006-2007 special taxes. The county also reported transferring to the trustee fiscal year 2006-2007 special taxes in the amount of \$3,474,636.53 as of October 10, 2006.

## *II. INTRODUCTION*

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The Frederick County, Maryland Special Obligation Bonds (Urbana Community Development Authority) Series 1998 bonds were issued pursuant to a Trust Indenture between the county and Manufacturers and Traders Trust Company (formerly Allfirst Trust Company, National Association), dated as of November 1, 1998, and a Limited Offering Memorandum for the bonds dated November 6, 1998. The Frederick County, Maryland Special Obligation Bonds (Urbana Community Development Authority) Series 2004A bonds and the Frederick County, Maryland Subordinate Special Obligation Bonds (Urbana Community Development Authority) Series 2004B bonds were issued pursuant to a Trust Indenture between the county and Manufacturers and Traders Trust Company, dated as of November 1, 1998, as amended by a First Supplemental Trust Indenture, dated as of June 5, 2002, a Second Supplemental Trust Indenture, dated as of April 1, 2004, a Third Supplemental Trust Indenture, dated as of April 1, 2004, and a Limited Offering Memorandum for the bonds dated April 5, 2004.

The public improvements to be built with the proceeds of the Series 1998 Bonds include the following:

- (a) the design, construction, and alteration of interchange improvements to I-270, Maryland Route 80, and Maryland Route 355 located within and adjacent to the authority;
- (b) the design, construction, and alteration of interchange improvements to state highway intersections and collector roads within the authority; and
- (c) the design, construction, establishment, extension, and alteration of an adequate water and sewer system, including water and sewer lines from approximately three miles north of the authority to the boundary of and through the authority.

The public improvements to be built with the proceeds of the Series 2004A and B Bonds include the following:

- (a) two regional water storage tanks, an interim wastewater pumping station and subsequent regional wastewater pumping station within the ORI/MXD zoned property, and trunk water and sewer mains located within the PUD and ORI/MXD portions of the CDA;
- (b) the relocation of Maryland State Route 355; and
- (c) the construction of local streets, water and sewer lines, storm drain lines and structures, and other improvements located within the public rights-of-way.

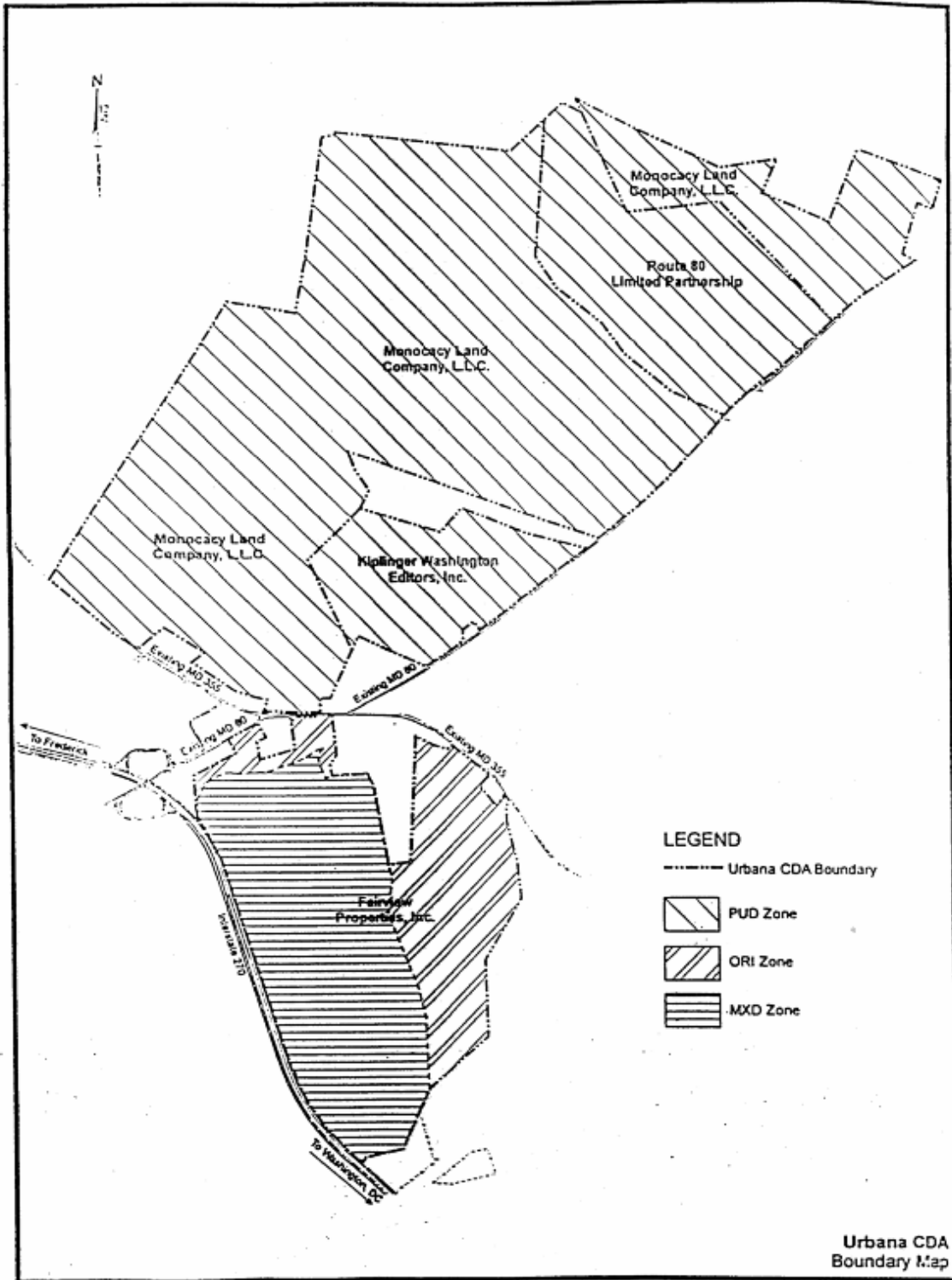
The Urbana Community Development Authority consists of approximately 1,378 acres of land in Frederick County, Maryland and is located generally at the confluence of Interstate 270, Maryland Route 80, and Maryland Route 355. The property in the district is under development and is approved for up to 3,484 residential units, 221,000 square feet of retail space, 361,000 square feet of office space, and 2,000,000 square feet of office/research industrial and additional retail space. Development plans contemplate three discreet projects known as Villages of Urbana, Urbana

Highlands, and Bennett Creek Center.

The developers of Villages of Urbana and Bennett Creek Center are Monocacy Land Company, LLC. On October 1, 2003, Urbana Communities, LLC, a Maryland Limited Liability Company and managing member of Monocacy, acquired all of the membership interests of Fairview Properties, Inc. and the Kiplinger Washington Editors, Inc. in Monocacy, LLC. As a result of this change in ownership, Monocacy acquired title of record to all of the real estate formerly owned by the Kiplinger Washington Editors within the boundaries of the CDA. Following the completion of this transaction, Urbana Communities, LLC became the sole and managing member of Monocacy. Concurrent with the transfer of interests in Monocacy, Urbana Corporate Center, LLC, a Maryland Limited Liability Company managed and controlled by the principals of Natelli Communities, acquired title to all of the real estate formerly owned by Fairview Properties, Inc. within the boundaries of the CDA. Urbana Corporate Center has contracted with Monocacy to provide management and development services for all of the lands within the CDA that it owns. Urbana Highlands is being developed by Urbana Highlands, LLC, which is the contract purchaser of the 167 acres of land owned within the special assessment district by Route 80 Limited Partnership, which – in turn – holds the land as an investment. Pleasants reports that as of July 14, 2005, Route 80 Limited Partnership was converted from a partnership to a Maryland Limited Liability Company named Urbana Highlands Development, LLC. All partnership interests have been assigned to Urbana Highlands Investments, Inc., sole member of Urbana Highlands Development, LLC. William D. Pleasants, Jr. is the President of Urbana Highlands Investments, Inc. There have been no changes to the entity structure of Urbana Highlands, LLC.

Special obligation bonds in the amount of \$30,000,000.00 (Series 1998) were issued in November 1998. Series 1998 bond proceeds in the amount of \$21,491,008.00 are to be used to construct the public improvements. Special obligation bonds in the amount of \$26,513,000.00 (Series 2004A) and subordinate special obligation bonds in the amount of \$6,461,000.00 (Series 2004B) were issued in April 2004. Series 2004A and B bond proceeds in the amount of \$26,951,536.00 are to be used to construct the public improvements. The bonds are payable solely from special taxes levied on taxable property within the authority. According to the Limited Offering Memorandum, the project is expected to be developed over approximately nineteen years.

Continuing disclosure pursuant to Rule 15c2-12 of the Securities and Exchange Commission is not required for the bonds. However, development activity and disclosure reports are being provided pursuant to continuing disclosure agreements between Monocacy Land Company, LLC, Urbana Highlands Development Limited Liability Company (formerly Route 80 Limited Partnership), and MuniCap, Inc. and between MuniCap, Inc., Frederick County, and M&T Trust (formerly Allfirst Trust). These reports are not provided pursuant to Rule 15c2-12. The information in this report on development activity and significant events was provided by the developer and is believed to be accurate; however, no effort has been made to independently verify the information.



### ***III. DEVELOPMENT ACTIVITY***

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The property in the CDA is being developed as the Villages of Urbana, Urbana Highlands, and Bennett Creek Center. The Villages of Urbana includes the PUD property owned or being developed by Monocacy Land Company, consisting of proposed land uses of 3,013 residential units, 216,000 square feet of retail space, and 361,000 square foot of office space. Urbana Highlands includes the PUD property owned by The Urbana Highlands Development Limited Liability Company (formerly Route 80 Limited Partnership), consisting of 471 proposed residential units. Bennett Creek Center includes the ORI and MXD property. Proposed land uses for Bennett Creek were recently revised to 563,500 square feet of retail space and 1,200,000 square feet of office flex space. Villages of Urbana and Bennett Creek Center are being developed by Monocacy Land Company. Urbana Highlands is being developed by Urbana Highlands, LLC with the Urbana Highlands Development Limited Liability Company and its general partner, Pleasants Enterprises, Inc., responsible for obtaining record plats.

#### **A. STATUS OF GOVERNMENTAL PERMITS**

##### **(i). Background Information**

Development in Frederick County generally requires the following permits or approvals from the county:

- Zoning
- Phase II plan
- Adequate public facilities testing (APFO)
- Subdivision plan
- Site plan
- Improvement plans
- Public works agreements
- Final record plat
- Building permits

APFO testing is done concurrently with Phase II plan approval. APFO testing includes phasing restrictions, which are more fully described in the engineer's report included in the Limited Offering Memorandum. Final improvement plans, record plats and building permits are administrative approvals: that is, they are approved if the relevant criteria are met and do not require discretionary approval of a legislative body. The approvals other than zoning are generally based on objective criteria. Adequate public facilities testing is the primary growth management tool in Frederick County and, other than zoning, is the most critical approval required to proceed with development. APFO testing is used to regulate the road, school, water and sewer capacity that must be available for new development to proceed. The property in the CDA is zoned and has received Phase II plan and adequate public facilities testing approval for the following development:

Residential dwelling units	3,484
PUD retail space	216,000 SF
PUD office space	361,000 SF
Office/research employment	1,200,000 SF
Convenience employment retail/services	31,500 SF

Restaurant	32,000 SF
Retail center	350,000 SF
Cinema	4,000 seats
Hotel	300 rooms

This description has been changed from the Limited Offering Memorandum, but is generally consistent with the MXD zoning for Bennett Creek Center as described therein. These uses, as described above, are based on the “Adequate Public Facilities Letter of Understanding” between Fairview Properties, Inc. and the Frederick County Planning Commission. A comparison of the description of the MXD zoning in the Limited Offering Memorandum and the letter of understanding is contained in the table below:

**Table III-1  
Land Use Changes**

Land Use		Limited Offering Memorandum	Letter of Understanding
<u>LOM</u>	<u>LOU</u>		
Office/flex/R&D space	General office/research employment	1,200,000 SF	1,268,000 SF
Retail	Retail center	350,000 SF	250,000 SF
Restaurants	Restaurant	50,000 SF	30,300 SF
Hotels/motels	Hotel	300 rooms	300 rooms
Business services	Convenience retail/services employment	25,000 SF	34,900 SF
Recreation/entertainment	Data Center	90,000 SF	130,000 SF

A summary of the letter of understanding is included in the next section, “Government Permits Received Subsequent to Issuance of Bonds.”

The AFPO approval includes several restrictions, which are more fully described in the engineer’s report included in the Limited Offering Memorandum.

At the time the bonds were issued, subdivision plan approval had been received for all of the ORI property. The individual users of the ORI and MXD property will process their site plans and obtain their building permits. The improvement plans for the initial development of the ORI and MXD property were in design at the time the bonds were issued. The public works agreements for the ORI and MXD property will follow preparation of the improvement plans. Record plats will be prepared and recorded for the ORI and MXD parcels as property is sold. The APFO testing includes phasing restrictions, which are more fully described in the engineer’s report included in the Limited Offering Memorandum.

For the PUD property, at the time the bonds were issued, subdivision plan and site plan approval had been received for the initial phases of development. Improvement plans, public works agreements, and final plats for the initial phase of development of the PUD property was under review by the county.

In addition to the development approval process regulated by Frederick County, the proposed development within the CDA requires wetlands permits under the jurisdiction of the U.S. Army Corps of Engineers and Maryland Department of the Environment. Development requiring wetlands permits includes the following:

- Extension of regional water and sewer trunk lines
- Monocacy PUD infrastructure
- Route 80 PUD infrastructure
- ORI infrastructure

The permit for the extension of the regional water and sewer line was approved at the time the bonds were issued. The other three permits were under final review.

**(ii). Government Permits Received Subsequent to Issuance of Bonds**

Frederick County has approved the improvement plans, public works agreements, and final plats for the initial development in the PUD. As of June 30, 2006, Monocacy has recorded final plats for the following amount of development:

Large single-family units	738
Small single-family units	323
Townhomes	821
Sub-total	1,882

Route 80 has recorded plats for the following amount of development:

Large single-family units	145
Small single-family units	154
Townhomes	72
Sub-total	371

Concurrent with the plat recording, financial guarantees have been posted with Frederick County and/or the Maryland State Highway Administration. The financial guarantees cover 110% to 150% of the estimated costs of completing the public improvements in the form of CDA Secured Funds, Letters of Credit, Surety Bonds, Cash Escrows or a combination thereof.

During the fourth quarter of 1999, the Frederick County Planning Commission approved an amendment to the Villages of Urbana APFO, which shifted the deadline for recording plats from December 31 of each calendar year to June 30 of each subsequent year so as to better match the platting schedule with the anticipated need for lots.

On January 12, 2000, the Frederick County Planning Commission approved revisions to Monocacy's preliminary subdivision plan, which reflected zoning changes to a 354-acre parcel within the Bennett Creek Center. An ordinance adopted by the Board of County Commissioners of Frederick County on August 4, 1998, rezoned 211.6 acres of the 354 acre parcel in the Bennett Creek Center to MXD, allowing additional retail, restaurant, entertainment, and hotel uses. The ordinance required that Fairview Properties, Inc. obtain a revised traffic study to show the impact of such uses on road capacities as well as a revised APFO approval for the project based on the rezoned uses.

On January 24, 2000, Fairview Properties executed an amended and restated "Adequate Public Facilities Letter of Understanding." This letter of understanding incorporates the revised APFO approval for the MXD zoning, in effect vesting the zoning for ten years. The approved densities are substantially identical to those specified in the Limited Offering Memorandum. According to the developer, the revised preliminary plan did not materially alter the assumptions concerning the development of Bennett Creek Center as contained in the Development Pro Forma. Design of the improvement plans is complete.

On July 12, 2000, the Frederick County Planning Commission granted conditional approval of Monocacy's Phase II Revision, which makes some minor modifications to the existing Land Use, Development Phasing, Water and Sewer, and Green Space Plans, but does not alter the total development yield or dwelling unit mix. These modifications consist of consolidating certain tracts into a Mixed Use Village Center (MXVC) for the purpose of creating a larger neighborhood of integrated residential unit types, modifications to the Street "C" alignment to facilitate better access to interior residential tracts, a reconfiguration of School Site Number One to conform with the Street "C" modifications, an expansion of School Sites One and Two from 15 acres to 25 acres each, and the identification of a proposed district park to the northwest of the PUD. Approval of these modifications are conditional and based on the confirmation of the final configuration of School Site Number Two and Monocacy's providing a site plan concurrent with the preliminary plan for the consolidated MXVC.

On September 13, 2000, Route 80 petitioned and received approval from the Frederick County Planning Board to change the Phase II Plan for Urbana Highlands, which will revise the dwelling mix in several sections, as well as the number of units in several sections to reflect the number of recorded plats, and combine the two single-family neighborhoods by altering Street D.

An amendment to the Phase II plan was filed by Monocacy and approved by the Frederick County Planning Board on February 14, 2001. The amendment added the Richard Ward parcel of approximately 27 acres to Section M-9 and a remnant piece from the Kiplinger lands, resulting in the creation of Village IX. Village IX will consist of 105 lots (66 single-family and 39 townhouse lots). The Preliminary Plan was conditionally approved by the Frederick County Planning Commission on April 11, 2001. Resolution Number 02-13 was approved by the Frederick County Board of Commissioners on June 25, 2002, which annexed 30.25 acres of property consisting of the Richard Ward parcel and a remnant piece from the Kiplinger lands to the CDA.

In June 2003, the County Commissioners of Frederick County adopted the Frederick County Capital Improvements Program (CIP) for fiscal years 2004 through 2009. Included in the CIP budget for fiscal years 2004 and 2005 was the construction funding for new elementary and middle schools and the expansion of the existing high school to serve the build-out of the residential portion of the Urbana CDA. The county's "Adequate Public Facilities Letter of Understanding" covering the PUD-zoned sections of the CDA required a re-test for school capacity before approval could be obtained to plat lots through build-out of the residential areas. In order to allow programmed school construction contained in the CIP, construction funding for the schools needed to be included in the first two years of the current CIP. Having met this requirement with the adoption of the CIP, Monocacy requested a hearing before the Frederick County Planning Commission to approve the revision of the platting schedule for fiscal years 2004 through and including 2008, which would result in full build-out of the approved residential density of those sections of the CDA. The Frederick County Planning Commission has approved the revised platting

schedule and Monocacy anticipates that there will be no further impediments to the issuance of additional CDA bonds, which are expected to be issued in the fourth quarter of 2003.

On June 11, 2003, Monocacy received approval from the Frederick County Planning Commission for a change in the land use plan for Bennett Creek Center in conjunction with the signing of a letter of intent with FNMA for a 710,000 square foot office and data center facility. In order to hold the overall road infrastructure program constant, the approved density of the various land uses within Bennett Creek Center was altered to accommodate FNMA's anticipated build-out requirements.

In order to accommodate FNMA's anticipated build-out requirements in Bennett Creek Center, the "Second Amended Adequate Public Facilities Letter of Understanding," dated March 30, 2001, was amended on July 8, 2003 by the Frederick County Planning Commission. The First Amendment to the Second Amended APFO approved a site plan for a data center in the MXD, which has a lower maximum trip generation factor than general office/research employment uses, and slightly revises the other anticipated uses in the MXD, as shown above, for the purposes of determining the total maximum trip generation for such uses. The Frederick County Planning Commission also agreed to modify the obligation of the developer to construct two water towers in both the Phase II and Phase IV stages of the development. The developer must now construct one elevated water storage tank and transmission mains in Phase II (Water Tower # 1) prior to or concurrent with the connection of a total of 1,777 water taps to the regional system, provided that the interconnection of the regional system to the Urbana High School water tank is completed prior to or concurrent with the connection of a total of 1,533 water taps to the regional system. The developer must also construct one additional elevated water storage tank and transmission mains in Phase IV (Water Tower # 2) prior to or concurrent with either (i) the connection of a total of 2,937 water taps to the regional system if, at that time, Frederick County has not constructed a portion of its Potomac River/New Design Water Treatment Plant Project (the "Potomac River Project") formerly known as the "East County Connector Phase IV" project; or (ii) the connection of a total of 4,193 water taps to the regional system if the East County Connector Phase IV portion of the Potomac River Project is completed at the time 2,937 water taps are connected to the regional system.

The developer reports that county approval of the plans covering the construction of roads, storm drains, water and sewer lines, an interim wastewater pump station and forced sewer main in Bennett Creek Center was received in August 2003. County approval of the Bennett Creek Center plan covering construction of water tower number one (1.5 million gallons), and related access roads, storm water management facilities and water service lines was received in October 2003.

Wetlands permits have been received for the Monocacy and Route 80 PUD infrastructure. The wetlands permit for the ORI infrastructure is still under review and is expected to be approved once the U.S. Army Corps of Engineers has approved the construction plans for the stream crossing.

Urbana Highlands reports that a revised Phase II Plan converting the 74 townhouse lots in Section P-1 to 74 single-family detached lots was approved in August 2004 by the Frederick County Planning Commission and the associated site plan was approved on October 13, 2004.

## **B. STATUS OF CONSTRUCTION**

### **(i). Background Information**

The Series 1998 Bond proceeds included a deposit to the improvement fund in the amount of \$21,491,008.00. This includes \$7,116,333.00 deposited to the county water and sewer account to be used for the extension of the water and sewer trunk lines from Francis Scott Key Mall to the boundary of the CDA. The Series 2004A and B Bond proceeds included deposits to the respective improvement funds in the amount of \$21,674,242.60 and \$5,047,033.94. A summary of the budget for the CDA (the Series 1998, 2004A and 2004B Bonds) is shown in the table on page 25.

In addition to the public improvements, the developers identified \$11,097,934.00 of private improvements for the Villages of Urbana and Bennett Creek Center and \$4,928,989.00 of private improvements for Urbana Highlands in the initial phases of development (the development that corresponds to the improvements to be made from proceeds of the Series 1998, 2004A and 2004B Bonds). These private improvements include amenities, paths and trails, storm water management ponds, and subdivision improvements that are not public.

The developer reports that the Fat Oxen Recreation Center and pool are complete and that this facility opened on July 4, 2003. The lot and improvements to the Fat Oxen Recreation Center and pool have been inspected and ownership has been transferred to the Villages of Urbana Community Association.

### **(ii). Status of Construction**

The construction efforts currently in progress include the following:

Extension of Water and Sewer to the CDA:	These developments are complete and operational.
Extension of Water and Sewer through the CDA:	The extension of water and sewer lines from the northern boundary of the Urbana PUD to Bennett Creek Center is complete.
Water Booster Pump Station:	The entire regional water and sewer system was reported complete and operational on April 24, 2000.
Route 80 By-Pass:	On September 21, 2000, the ribbon cutting ceremony officially opening the Maryland Route 80 By-Pass took place. The final inspection was held on June 19, 2001, and the state has accepted the road for maintenance. Street lighting and landscaping along this section are complete and the Route 355/Route 80 traffic signal is operational.
Route 355 By-Pass:	Monocacy reports that construction of the first phase of relocating Maryland State Route 355 through the Villages of Urbana Town Center (Sugarloaf Parkway rotary to Route 355 north of the PUD) commenced in March 2004 and that construction of Phase One is

complete with the sole exception of final landscaping and decorative monumentation in the median strip through the Town Center. The road was officially opened to traffic December 31, 2005. Following the completion of median landscaping, the improvements will be inspected by MDSHA and accepted into the state's public roads network in the later half of 2006. Phase One redirected MDSR 355 from just north of the PUD boundary to a roundabout at its intersection with Sugarloaf Parkway. Through traffic has been directed to rejoin the existing MDSR 355 at a new signalized intersection via Sugarloaf Parkway. Monocacy reports that design of Phase Two of the Maryland State Route 355 relocation project is complete. Monocacy reports construction plan approvals were received and a State Highway Access Permit issued for Phase Two of the Maryland State Route 355 relocation project on April 13, 2006 from MDSHA and construction, including installation of stormwater drainage facilities, beyond grading operations that have been proceeding outside of the existing right-of-way, began on May 1, 2006. Phase Two will extend relocated MDSR 355 relocated beyond Sugarloaf Parkway to a signalized intersection at MDSR 80 and is expected to be opened to traffic by the fourth quarter of 2006. All construction is expected to be complete by the second or third quarter of 2007.

Villages of Urbana  
Public Roads:

These roads include Sugarloaf Parkway, Campus Drive, Addison Woods, Singleton Road, Carriage Hill Drive and Sprigg Street. Paving and landscaping of Sugarloaf Parkway from Maryland Route 355 to John Simmons Court is complete. Storm drain structures, curbs and gutters, sub grading, and utility adjustments on Sugarloaf Parkway to the intersection of Bush Creek Drive have been completed. Base paving along this section was completed in the third quarter of 2000. The Phase I improvements to Sugarloaf Parkway have been approved for inclusion in the Frederick County road system. The developer reports that the Phase II improvements to Sugarloaf Parkway (Bush Creek to Spicebush), including the Con Span bridge, guardrail and retaining walls, have been completed. Base paving of Phase II was completed in the fourth quarter of 2002 and the roadway is open to traffic from Bush Creek Drive to its intersection with Addison Woods Road at Villages VII and VIII. The developer reports that work under an MDSHA approved plan for the intersection of Singleton Drive, the most direct entrance to Villages V and VI, and MD State Route 80 has been completed. The developer reports that the improvements to Sugarloaf Parkway and Addison Woods Road have been approved by Frederick County for inclusion in the county's road network and bonds have been released for these improvements. Construction of the first phase of Carriage Hill Drive, connecting MD Route 80 with the entrance to Village 11 through the Village Center (Village X), is complete and this section of Carriage Hill Drive has been accepted for maintenance by Frederick County.

This second residential collector provides direct access to the heart of the Villages of Urbana and provides an internal link between the eastern and northwestern sections of the project. This road also provides the primary access to Centerville Elementary, a new school within the Frederick County system, which commenced construction in June 2004 and opened in August 2005. Monocacy also reports the second phase of Carriage Hill Drive, which extends the road from the entrance at Village 11 into Village 12, has been completed and has been accepted for maintenance by Frederick County.

ORI Roads:

Preliminary site engineering has begun and engineering firms have been retained to design the regional wastewater pumping station and to perform soil test borings throughout the site to develop better base information from which to design the layout of roads, water, sewer, and other utilities for the property zoned ORI/MXD. An engineered plan has been submitted for county review for the interim pump station to serve some of the building pads in the ORI/MXD area. Comments from the county are anticipated from the county in the near future, however, the lower cost alternative has been agreed to in principle by county staff.

Water Tower #2:

Water Tower #2 is to be constructed as a replacement to the 150,000 gallon storage tank presently located on the campus of Urbana High School. Frederick County is evaluating future elevated water storage needs as part of the process of deciding if this second tank should be sized at 750,000 gallons or at 1,000,000 gallons. Design should be completed in 2006 and construction should occur in 2007.

North Regional  
Wastewater Pumping  
Station:

This pumping station is located in the Urbana Corporate Center. It is designed to drain the balance of the Urbana Corporate Center property located south of the Fannie Mae site as well as adjacent properties to the north and east. The design of this facility is virtually complete and construction will be coordinated with the demand for service.

Further Improvements to  
Maryland Route 80  
Relocated:

The design phase to widen Maryland Route 80 under Interstate 270 and construct a roundabout at the Interstate 270 southbound ramps is ninety-five percent complete. Plans are pending final approval by Maryland State Highway Administration. Construction is expected to commence in 2006 with completion in 2007.

Water Booster Pump  
Station:

The design of a water booster pump station, located at Ijamsville Road, to serve those portions of the Villages of Urbana and Urbana Highlands located at higher elevations will be completed in 2006 and

the station will commence construction with delivery expected to occur by late 2007.

Villages of Urbana  
Land Bays:

Village I (121 units)	The construction of public improvements in Village I (Sections K-1, M-2, and M-3) is complete, and the developer reports that there have been one hundred and twenty one reported settlements between builders and homebuyers.
Village II (65 units)	The construction of public improvements in Village II is complete, and the developer reports that there have been sixty-five settlements between builders and homebuyers.
Village III (123 units)	The construction of public improvements in Village III is complete, and the developer reports that there have been one hundred twenty-three settlements between builders and homebuyers.
Village IV (101 units)	The construction of public improvements in Village IV is complete, and the developer reports that there have been one hundred and one settlements between builders and homebuyers.
Village V (76 units)	The construction of public improvements in Village V is complete, and the developer reports that there have been seventy-six settlements between builders and homebuyers.
Village VI (30 units)	The construction of public improvements in Village VI is complete, and the developer reports that there have been thirty settlements between builders and homebuyers.
Village VII (173 units)	The construction of public improvements in Village VII is complete, and the developer reports that there have been one-hundred and seventy-three settlements between builders and home buyers.
Village VIII (106 units)	The construction of public improvements in Village VIII is complete, and the developer reports that there have been one-hundred and six settlements between builders and home buyers.
Village IX (105 units)	The construction of public improvements in Village IX is complete, and the developer reports that there have been one-hundred and five settlements between builders and home buyers.
Villages X and XI (545 units)	Monocacy reports that clearing, rough grading and the installation of the storm water management system in Village X are complete and that sewer, water and the installation of storm water drainage is complete. Monocacy reports that mass-grading is complete and that the installation of underground utilities in Phases 2 and 3 for Villages

X and XI is complete. Plats for the first 100 single-family detached units were recorded in July 2003. The developer anticipates that a total of 245 single-family detached units and 300 townhomes will be constructed in these two villages. The developer reports that there have been four hundred and sixty-two settlements between builders and home buyers in Village X and XI. The developer reports that the Village Center Neighborhood is being developed in phases so as to make additional lots building permit ready. All of Village X is based paved and building permit “ready” with the exception of 11 townhouse lots that will be developed in conjunction with the 210 multi-family “2-Over-2” condominiums in Section M-7.

Village XII (170 units)

Monocacy reports the installation of water lines, sewer lines, all underground utilities, curbing, gutters and base course paving are complete. All 170 single-family lots are “building permit ready”. Ryan Homes and NV Homes have been allocated the first 119 lots in this section with the developer holding 51 units pending contract. The construction of the stream crossing between Villages XI and XII (Carriage Hill Drive Extended) is complete. The developer reports forty three homes are under construction. Monocacy reports that as of June 30, 2006, there have been ninety settlements between builders and home buyers in Village XII.

Village XIII  
(55 units)

Monocacy reports that the preliminary subdivision plan and site plans for Village XIII have been completed and that these plans were approved on January 31, 2006 by the Frederick County Planning Commission and the improvements are bonded. The developer reports that development commenced in February 2006 and anticipates delivering residential lots to builders in the first quarter of 2007.

Village XIV (formerly X) –  
Section M7  
(210 units)

Monocacy reports that the Village XIV multi-family pad at the southern end of Village X is being mass graded and served with infrastructure utility lines in conjunction with the development of Villages X and XI. Monocacy reports that development work for two hundred and ten 2-over-2 condominium townhouse finished lots in Village XIV is nearly complete. Monocacy anticipates that the initial delivery of these finished residential lots should take place in the third quarter of 2006. Monocacy reports that all of the units have been allocated to Ryan Homes.

Town Center I  
(53 units)

Main Street Builders and Parkwood Homes continue to construct homes in this area. Monocacy reports that the public improvements to the first phase of Town Center I are complete. Construction of Main Street Homes’ and Parkwood’s model homes is complete and

open to the public. Forty-four settlements between builders and homebuyers in Town Center I have taken place. The remaining two units have been allocated to Main Street Homes, which is contemplating a duplex lot approach that may necessitate architectural revisions and possible re-subdivision. Seven additional neo-traditional single-family detached residential units were platted during the second quarter of 2005 and are base paved and ready for allocation to a neo-traditional builder. The initial twelve live-work non-residential buildings were platted in the second quarter of 2005 and are being constructed. Parkwood Homes has been allocated these live-work townhouse units, which consist of two floors of commercial space and a third level accessory residential apartment. Additional non-residential buildings will be developed in this land bay, mostly in conjunction with construction of MD Route 355 through the Villages of Urbana Town Center area. Construction of the neighborhood park and gazebo in Town Center I is complete. Landscaping in Town Center I is complete.

Town Center II  
(202 units)

Monocacy reports that the public improvements to Phase 1 of Town Center II are complete. The playground lot in Town Center II is complete and final landscaping for the units settled is also complete. One-hundred and thirty-seven settlements between builders and homebuyers in Town Center II have taken place. Monocacy reports that the construction of entry features in Town Centers I and II is complete. Existing 4x4 wood sign posts continue to be replaced with decorative metal sign posts throughout the residential areas. Monocacy reports that landscaping for the first phase in Town Center I is complete. The developer reports Preliminary Subdivision and Site Plans for Phase Two of Town Center II were approved by the Frederick County Planning Commission in 2005. The developer reports development on Phase Two commenced in February 2006 and utility work is substantially complete. Monocacy reports the second phase of Town Center II was platted in May 2006. Monocacy reports that residential lot deliveries for the development of Phase II in Town Center II should occur during the third quarter of 2006.

Town Center III  
(12 units)

Monocacy reports the installation of water lines, sewer lines, all underground utilities, curbing, gutters and base paving are complete in Town Center III. The developer reports that building permits for all twelve townhouse units to be constructed by Classic Communities have been approved. Classic Communities is building these rear load garage townhouses and reports that eleven of these units have settled with home buyers.

Bennett Creek Center:

Monocacy reports that mass grading operations serving the first 300,000 square feet of the ORI/MXD property in Bennett Creek Center commenced in June 2003 under a major grading permit

following Monocacy's bonding of sediment erosion control, stormwater management ponds and forest conservation improvements. The developer reports, that county approval of the plans covering the construction of roads, storm drains, water and sewer lines, an interim wastewater pump station and forced sewer main were granted in August 2003. County approval of the plan covering construction of water tower number one (1.5 million gallons) and related access roads, stormwater management facilities and water service lines occurred in October 2003. The developer reports that construction of Water Tower One was completed during the fourth quarter of 2004 and that the tower has been connected to the county-operated regional water system.

Extension of Water and Sewer to Urbana Highlands: Work on these improvements has been completed.

Urbana Highlands Water and Sewer: The portion of the installation of on-site water and sewer funded with bond proceeds began in the fourth quarter of 1999 and is complete.

Urbana Highlands Connector Roads: Public improvements to the connector roads are 53.3% complete. The developer has reported no additional changes.

Urbana Highlands Land Bays: The entrance feature and most of Urbana Highlands frontage improvements along Maryland Route 80 are complete. Site clearing, grading and the installation of water, sewer, storm drain, base and final paving, landscaping and lighting is complete for all single-family and village home areas of Section P-3 and all townhome areas of Section P-2. Additionally, water, sewer, storm drain, and base paving improvements are complete in Section P-4 with remaining improvements to be concluded as home building activities progress. The construction of five model homes is complete. The water booster pump station serving Section P-4 was completed in April 2003. In the summer of 2003, the community celebrated the opening of the bathhouse, pool, tennis and multi-purpose courts. Urbana Highlands, LLC reports that construction on Caledonia Drive, which will provide direct access from Urbana Highlands to the Villages of Urbana, is complete and open for traffic. Engineering for the Section P-1 improvement plans is complete, and site development work is underway with lot delivery tentatively scheduled for August 2006. Development of Section P-5 is projected to commence in late 2007 depending upon the development pace of the adjacent land. The remaining properties in Sections P-1 and P-5 are currently approved for 74 single-family units and 70 townhouse units, respectively.

## C. STATUS OF SALES

### (i.) Status of Contracts With Builders

#### Villages of Urbana

Monocacy Land Company anticipates developing 3,013 residential units within the Villages of Urbana portion of the CDA. Table III-2 below shows the status of lots under contract, lots settled with builders, and building permits issued. As of June 30, 2006, Monocacy has entered into rolling option takedown contracts or bulk sale agreements for 2,429 lots. The contracts signed to date reflect lot prices 35 percent higher than those of the project pro forma and price escalators in the contracts meet pro forma. There have been 1,718 lots settled with builders, including eight model home lots. Frederick County has issued 1,680 building permits (including the eight permits that had previously been issued for the construction of model home lots). Construction of homes in Villages X, XI, XII and Town Center I, II and III continues. Construction of homes in Villages I, II, III, IV, V, VI, VII, VIII and IX are complete.

**Table III-2**  
**Villages of Urbana**  
**Status of Lots Under Contract, Settled, and Building Permits**

<b>Builder</b>	<b>Village</b>	<b>Lots Under Contract</b>	<b>Lots Settled with Builders</b>	<b>Building Permits Issued</b>
Ausherman	I,II,III,IV,V,VII, VIII & IX	232	232	232
M/I	I,III,IV,VII, & IX	89	89	89
NV	I,III,IV,VII, IX, X, XI & XII	578	361	367
Ryan Homes	I, III,IV,V, VI VII,VIII, IX, X, XI, XII, TCI & TCII	1,034	558	558
Classic Communities	I,II,IV,VII,VIII, IX, X, XI, TCII & TCIII	270	270	270
Main Street/Parkwood	Village X, TCI, TCII	226	208	200
<b>TOTAL</b>		<b>2,429</b>	<b>1,718</b>	<b>1,716</b>

The cash flow projections prepared by the developers (dated as of September 1, 1998) projected that Monocacy would close on 2,406 residential lots by June 30, 2006. The actual number of lots closed was 1,718, which fell short of the cash-flow projections by 28.6 percent. Monocacy reports that Ausherman Homes and M/I Schottenstein have exited the project. Monocacy reports that commitments to NVR, Inc. (Ryan and NV Homes) dictated a reduction in the number of active builders in the project; however product mix objectives are being met and sales are expected to continue in the range of 200 to 250 plus units per year.

#### Urbana Highlands

Urbana Highlands Development Limited Liability Company (formerly Route 80 Limited Partnership) anticipates developing 471 residential units within Urbana Highlands portion of the CDA. Table III-3 below shows the status of lots under contract, lots settled with builders, and

building permits issued as of June 30, 2006. During the first quarter of 2000, Urbana Highlands, LLC contracted to sell 40 single-family lots to Winchester Homes. Simultaneously, Urbana Highlands, LLC also contracted to sell 72 townhouse lots and 38 single-family lots to Advantage Homes, LLC, which shares common management with Urbana Highlands Development Limited Liability Company (formerly Route 80 Limited Partnership) and Urbana Highlands, LLC. Urbana Highlands, LLC has subsequently sold an additional 37 single-family lots to Advantage Homes, LLC. In the quarter ending June 30, 2001 Winchester executed a contract addendum for an additional 20 single-family lots. Also during this quarter, NV Homes entered into and executed a contract for the purchase of 25 single-family homes in Section P-3. During the fourth quarter of 2002, Urbana Highlands, LLC contracted to sell all 94 lots in Section P-4 to Advantage Homes. The developer reports that all contracts with builders have been signed and ratified.

According to the developer, Winchester and Advantage have completed construction of one single-family model home each in the model park on Braveheart Lane. Advantage Homes has completed construction on their second small single-family model home to showcase their neo-traditional niche product, and completed construction on a townhouse model in March 2002. NV Homes completed construction of a model home in December 2001. During the third quarter of 2003, Advantage Homes completed construction of two additional models in Section P-4. The developer has settled 325 lots with home builders. (According to the developer, lots with Advantage Homes—an affiliate of Urbana Highlands Development Limited Liability Company and Urbana Highlands—will be settled at closing with end users in order to minimize transfer tax expenses.) Building permits have been issued for 333 homes, including the model homes.

**Table III-3**  
**Urbana Highlands**  
**Status of Lots Under Contract, Settled, and Building Permits**

<b>Builder</b>	<b>Section</b>	<b>Lots Under Contract</b>	<b>Lots Settled with Builders</b>	<b>Building Permits Issued</b>
Winchester Homes	P-3	60	60	60
Advantage Homes	P-2, P-3 & P-4	240	240	248
NV Homes	P-3	25	25	25
<b>TOTAL</b>		325	325	333

As of June 30, 2006, 333 residential permits have been issued for 143 large single family detached homes, 118 small neo-traditional single family detached homes, and 72 townhomes. The cash flow projections prepared by the developers (dated as of September 1, 1998) projected that Urbana Highlands would close on 417 residential lots by June 30, 2006. The actual number of lots closed was 325, which fell short of the cash-flow projections by 22.1 percent. According to the developer, the reason why closings with builders fell short of projections is because, as mentioned above, the lots under contract with Advantage Homes will be settled at closing with end users in order to minimize transfer tax expenses.

**(ii.) Status of Home Sales**

Villages of Urbana

Monocacy has retained an advertising agency, which is assisting with the design and

development of marketing materials. Monocacy is continuing to revise its web site on the internet at: [www.villagesofurbana.com](http://www.villagesofurbana.com). According to the developer, the model home court in Villages I and VII have been closed and new model home courts have opened in Villages X and XI. Marketing activities, including a print advertising campaign, targeting the areas of the I-270 corridor that began in mid-December 1999 is continuing with ads in the Frederick News Post and New Homes Guide. NVR, Inc. has included the Villages of Urbana in both Ryan Homes and NV Homes advertising since the beginning of the fourth quarter of 1999.

Monocacy and the CDA Administrator have conducted an educational session with the sales teams of the homebuilders to explain the special taxes and comparable housing costs in areas outside the Urbana CDA. In addition, a consumer education brochure has been drafted to answer the tax questions of potential homebuyers regarding the CDA.

The status of homes settled with end users for each builder within the Villages of Urbana is shown in Table III-4 below. Through June 30, 2006, there were 1,644 reported settlements between homebuilders and end users. From the date of opening pre-sales in mid-December 1999 through June 30, 2006, builders are reporting that sales contracts have been executed for 1,703 homes. These include 675 large single-family homes, 274 small single-family homes, 739 townhomes, and 15 multi-family 2-over-2 condominiums. Sales teams for Monocacy report an estimated 435 people visited the model homes during the second quarter of 2006, compared to 1,155 during the same quarter in 2005.

**Table III-4**  
**Villages of Urbana**  
**Status of Homes Settled with End Users**

Builder	Village	Homes Settled
Ausherman	I,II,III,IV,V,VII, VIII & IX	232
M/I	I,III,IV,VII, & IX	89
NV	I,III,IV,VII, IX, X, XI & XII	348
Ryan Homes	I, III,IV,V, VI VII,VIII, IX, X, XI, XII, TCI & TCII	543
Classic Communities	I,II,IV,VII,VIII, IX, X, XI, TCII & TCIII	254
Main Street/Parkwood	Village X, TCI, TCII	178
<b>TOTAL</b>		<b>1,644</b>

### Urbana Highlands

Urbana Highlands, LLC reports that construction of the Winchester and Advantage model homes on Braveheart Lane are complete. Advantage Homes has also completed an additional small single-family model home and construction on a townhouse model was complete in March 2002. NV Homes completed construction on a model in December 2001. With the completion of the model homes on Braveheart Lane, Winchester and Advantage have moved their sales staffs into their respective model homes. Advantage Homes has relocated their sales trailer to the model home

park on Braveheart Lane adjacent to their model home and will market the townhouse product from that location.

The status of homes sold and settled with end users for each builder within Urbana Highlands is shown in Table III-5 below. Winchester, Advantage, and NV Homes report combined sales of 139 large single-family homes through the second quarter of 2006. Advantage reported selling an additional 114 small single-family units and 72 townhouse units through the second quarter of 2006. As of June 30, 2006, total combined sales were 253 single-family units and 72 townhouse units.

**Table III-5**  
**Urbana Highlands**  
**Status of Homes Settled with End Users**

<b>Builder</b>	<b>Section</b>	<b>Home Sales</b>	<b>Homes Settled</b>
Winchester Homes	P-3	60	60
Advantage Homes	P-2, P-3 & P-4	240	240
NV Homes	P-3	25	25
<b>TOTAL</b>		325	325

**(iii.) Status of Marketing Commercial Property**

Monocacy reports that negotiations with prospective retail center developers for the PUD Town Center resulted in a letter of intent being signed on July 10, 2001 with Kimco Realty Corporation, formerly Mid-Atlantic Realty Trust (MART). (The developer reports that MART was sold to Kimco Realty Corporation in the fourth quarter of 2003.) A master list of commercial, office, and quasi-public pad sites has been provided to Monocacy’s commercial realtors in order to market the space to prospective users.

According to the developer, the Frederick County Planning Commission overwhelmingly approved the site plan proposed for the grocery-anchor retail center along the north side of future Maryland Route 355 in January 2002. The developer reports that Kimco settled on the purchase of lot 1200 in November 2003, contractually purchasing the development rights totaling 122,316 square feet for a grocery-anchored retail center, which will include a number of pad-sited freestanding leased buildings. The developer reports that Giant Grocery Stores formally announced signing a long-term lease for a grocery store, which is scheduled to open by the end of 2006 concurrent with the completion of the relocation of Maryland State Route 355 Phases One and Two. The developer reports that construction on lot 1200, which is owned by Kimco, is continuing and the developer anticipates that construction of Phase One will be completed by the end of 2006 or early 2007 based on information provided by Giant Foods and Kimco Realty. Monocacy reports Phase Two of the retail development will be completed by the end of 2007. The developer reports shell building permits for five buildings, including Giant Foods, BB&T Bank and three retail buildings, have been issued by Frederick County for a total of 87,662 square feet which is approximately 72 percent capacity of the site. Monocacy reports that the remaining capacity of the site is expected to be retail and office space.

Settlement of a contract with Giant will require the bonding of the relocated Route 355

through the Town Center. The grocer has informed Kimco that completion of the second phase of the relocated Route 355 from Sugarloaf Parkway to Route 80 by December 31, 2005, is a required settlement condition. The developer reports that construction plans have been filed with MDSHA and that construction commenced in March 2004 and that Phase 1, Sugarloaf Parkway rotary to Route 355 north of the PUD, was substantially complete through base course paving on December 31, 2004.

The developer reports that Kimco has completed final design and that construction on lot 1200 commenced in the first quarter of 2005. The developer reports that BB&T Bank will be occupying the bank pad located on the retail center site as a tenant of Kimco at the corner of relocated Maryland Route 355 and Sugarloaf Parkway. Monocacy reports BB&T is complete and open for business. The developer reports that Kimco continues to market the grocery-anchored retail center to other potential tenants.

Monocacy reports that approval of the site plan with the retail center developer for the PUD Town Center, which was filed in November 2001, was received in late 2004. The developer reports that site development work commenced in early 2005. The developer is continuing to review a proposal to develop a retail cluster around the Historic Dudderar House and surrounding area. The developer anticipates that development plans for the first phase will yield a FAR of 300,000 square feet. A letter of intent has been submitted by prospective antique/gift shop users. Sales negotiations for PUD pad 5B with Bar T for a 46,632 square foot day care facility and with the Gorman School for pad site 17B have ceased. Sales negotiations with a veterinarian, an office space developer, a printing company and various other small professional office space users are continuing. New prospects include a liquor store. Sales negotiations with Frederick County Hospital for medical office space have now shifted to MXD/ORI pad site 9 and the developer has sketched a site plan consisting of a 100,000 square foot facility.

The developer reports that settlement of the purchase of PUD pad site 4A with Chevy Chase Bank, which is located at the corner of Sugarloaf Parkway and the relocated Route 355, took place on November 18, 2002. Construction of the Chevy Chase Bank began in the third quarter of 2003 and was completed and opened for business in December 2003.

The developer reports that settlement of the purchase of PUD lot 270 for a proposed Day Care/Medical Office facility comprising approximately 15,000 square feet of space occurred in the first quarter of 2005. Monocacy reports receiving conditional approval of the site plans for both the proposed daycare and the proposed medical office from the Frederick County Planning Commission on June 14, 2006. The developer reports that a building permit for the day care facility should be issued in 2006.

The developer reports that Sandy Springs Bank has closed on Lot 2 in the Bennett Creek Center. Site plan approval for a banking facility was approved and construction was completed in the third quarter of 2003. The developer reports that the bank is now open for business.

The developer reports that the sale of a 38-acre ORI/MXD site to FNMA settled on September 4, 2003. FNMA will initially construct a 250,000 square foot office building/data center on this site in the Bennett Creek Center. An additional 500,000 square feet of office space is also proposed to be constructed by FNMA on this site in the future. Monocacy reports that on site construction of the first 250,000 square foot facility housing an office building/data center is substantially complete and that initial occupancy began with Fannie Mae in January 2005. The

developer reports that staged occupancy of this facility is continuing.

**D. STATUS OF FINANCING**

**(i.) BB&T Bank Revolving Acquisition & Development Loan and Letter of Credit Facility (Monocacy, LLC)**

The developer reports that the Riggs Bank Revolving Development Loan and Stand-By Line of Credit was retired on October 1, 2003. The developer reports that a new revolving acquisition and development loan and letter of credit facility with Branch Banking and Trust Company of Virginia (BB&T) was obtained on September 29, 2003.

The BB&T Revolving Acquisition and Development Loan and Letter of Credit Facilities include the following components:

- \$31,000,000 Revolving Acquisition and Development Loan;
- \$10,000,000 Revolving Letter of Credit Facility established for the purpose of giving guarantees to Frederick County securing the developer’s obligations under the public works agreements related to the developments;
- \$1,400,000 Letter of Credit Facility pertaining to collateral posted with Frederick County to secure Monocacy’s promise to partially fund the debt service to be incurred by the county related to the design and construction of a new middle school to serve the Urbana CDA.

The BB&T Facilities carry a term of 36 months maturing on September 29, 2006 and are secured by senior indemnity pledges of real estate including all of the real estate owned by Monocacy, LLC and Urbana Corporate Center, LLC within the boundaries of the CDA. Full repayment of the BB&T Facilities is guaranteed by Urbana Communities, LLC, and is further credit enhanced by limited personal guarantees of the principals of Natelli Communities.

The BB&T Facilities will be repaid during the term from the proceeds of residential building lot and commercial/office pad sales generally at a rate of 75% of the contract value of each sale. Gross draws of \$61,000,000 are permitted on the loan during the term.

The acquisition and development loan and letter of credit balances, repayments, and amounts available to fund as of March 31, 2006 and June 30, 2006 are shown below.

	<u>March 31, 2006</u>	<u>June 30, 2006</u>
Revolving loan funded	\$54,583,946	\$54,583,946
Amount repaid	\$54,583,96	\$54,583,946
Revolving loan balance	\$0	\$0
Letters of credit issued	\$6,802,372	\$6,602,251
Total borrowings & LOC	\$6,802,372	\$6,602,251
Maximum balance	\$61,000,000	\$61,000,000
Amount available to fund	\$54,197,628	\$54,397,749

**(ii.) BB&T Bank (formally FCNB Bank) Letter of Credit (Urbana Highlands, LLC)**

Pleasants reports that as of December 31, 2004, the amended BB&T \$4,000,000

development loan and all collateral was released. All outstanding letters of credit were transferred to and collateralized under a new line of credit with BB&T. This new line of credit is secured by investment property of affiliate companies and is not related to the development of the Urbana CDA.

**(iii.) Series 1998, 2004A and 2004B Bonds**

According to the developers, draw requests of bond proceeds for the construction of public improvements as of June 30, 2006 were \$34,036,029, which is equal to 84.7 percent of the revised budget. (The revised budget shows an additional \$1,696,982 in interest income on the Series 1998 Bonds' construction funds that were applied to the payment of public improvements.) The following table provides a summary of the draw requests made as of June 30, 2006 for the construction of public improvements:

**Table III-6  
Construction Funded  
From Bond Issues**

<b>Project Description</b>	<b>Original Budget</b>	<b>Budget Changes</b>	<b>Revised Budget</b>	<b>Aggregate Draws 03/31/06</b>	<b>Aggregate Draws 06/30/06</b>	<b>Percent Complete</b>
<b>County Improvements</b>						
Extension of Water & Sewer to CDA	\$7,116,333	(\$630,056)	\$6,486,277	\$6,361,277	\$6,361,277	98.1%
<b>Villages of Urbana and Bennett Creek Center</b>						
<i>Series 1998 Bonds:</i>						
Water & Sewer through CDA to ORI	\$1,101,924	(\$436,700)	\$665,224	\$665,224	\$665,224	100.0%
Route 80 By-Pass	\$3,789,990	\$1,109,204	\$4,899,194	\$4,899,194	\$4,899,194	100.0%
Route 355 By-Pass	\$274,080	(\$154,080)	\$120,000	\$120,000	\$120,000	100.0%
Connector Roads	\$5,568,935	(\$992,031)	\$4,576,904	\$4,576,904	\$4,576,904	100.0%
ORI Roads	\$651,300	\$1,780,600	\$2,431,900	\$2,431,900	\$2,431,900	100.0%
Series 1998 Bonds Public Improvements in Land Bays	\$585,972	\$83,158	\$669,130	\$669,130	\$669,130	100.0%
Series 1998 Sub-total	\$11,972,201	\$1,390,151	\$13,362,352	\$13,362,352	\$13,362,352	100.0%
<i>Series 2004 A &amp; B Bonds:</i>						
Infrastructure Roads, Culverts & Storm Drains Villages of Urbana PUD	\$13,835,380	\$300,000	\$14,135,380	\$10,468,212	\$10,637,951	75.3%
Infrastructure Roads, Culverts & Storm Drains Villages of Urbana ORI/MXD	\$2,564,750	\$0	\$2,564,750	\$643,321	\$855,991	33.4%
Infrastructure Water & Sewer Villages of Urbana PUD	\$3,991,670	(\$1,659,329)	\$2,332,341	\$2,332,341	\$2,332,341	100.0%
Public Roads & Storm Drain	\$1,738,884	\$0	\$1,738,884	\$1,336,615	\$1,371,185	78.9%
Public Water & Sewer	\$1,021,174	\$600,000	\$1,621,174	\$1,021,174	\$1,057,418	65.2%
Series 2004 Sub-total	\$23,151,858	(\$759,329)	\$22,392,529	\$15,801,663	\$16,254,886	72.6%
<b>Urbana Highlands</b>						
<i>Series 1998 Bonds:</i>						
Extension of Water & Sewer to Project	\$700,257	\$82,475	\$782,732	\$782,732	\$782,732	100.0%
Extension of Water & Sewer through Project	\$287,424	\$352,644	\$640,068	\$640,068	\$640,068	100.0%
Connector Roads	\$1,114,200	\$299,622	\$1,413,822	\$1,413,822	\$1,413,822	100.0%
Public Improvements in Land Bays	\$300,593	\$259,132	\$559,725	\$559,725	\$559,725	100.0%
Series 1998 Sub-total	\$2,402,474	\$993,873	\$3,396,347	\$3,396,347	\$3,396,347	100.0%
<i>Series 2004 A &amp; B Bonds:</i>						
Infrastructure Water & Sewer	\$267,577	\$2,397	\$269,974	\$198,977	\$269,974	100.0%
Public Roads & Storm Drain	\$752,419	\$51	\$752,470	\$752,470	\$752,470	100.0%
Series 2004 Sub-total	\$1,019,996	\$2,448	\$1,022,444	\$951,447	\$1,022,444	100.0%
<b>Total CDA Funded</b>	<b>\$38,546,529</b>	<b>\$1,627,143</b>	<b>\$40,173,672</b>	<b>\$33,511,809</b>	<b>\$34,036,029</b>	<b>84.7%</b>

#### ***IV. TRUSTEE ACCOUNTS***

The trustee for the Series 1998 and the Series 2004A and B Bonds is Manufacturers and Traders Trust Company (formerly Allfirst Trust Company, National Association). The balance at December 31, 2005, interest paid, disbursements, special tax collections and additional proceeds, and account balances for each fund as of June 30, 2006 are shown by the following table:

**Table IV-1  
Account Balances**

	<b>Balance 12/31/05</b>	<b>Interest Paid</b>	<b>Additional Proceeds</b>	<b>Disbursements</b>	<b>Balance 06/30/2006</b>
Series 1998 Reserve Fund	\$3,177,875	\$2,962	\$0	\$0	\$3,180,837
County Water and Sewer	\$1,345,655	\$26,830	\$0	\$0	\$1,372,484
Series 1998 Monocacy Infra.	\$77,131	\$1,638	\$0	\$0	\$78,769
Series 1998 Monocacy Local Infra. Fund	\$12,561	\$121	\$0	(\$12,599)	\$82
Series 1998 Rt. 80 Infra. Fund	\$859,207	\$9,460	\$0	(\$864,605)	\$4,063
Series 1998 Bond Fund	\$0	\$0	\$955,931	(\$955,931)	\$0
Special Tax Fund	\$2,880,631	\$119,600	\$850,784	(\$1,736,420)	\$2,114,595
Rt. 80 Special Tax Prepayment Fund	\$0	\$0	\$0	\$0	\$0
Monocacy Special Tax Prepayment Fund	\$0	\$0	\$0	\$0	\$0
Series 1998 Admin Expense	\$94,366	\$1,792	\$0	(\$24,112)	\$72,046
Series 2004B Bond Fund	\$0	\$0	\$226,066	(\$201,906)	\$24,160
Series 2004B Cap I	\$200,766	\$671	\$0	(\$201,437)	\$0
Series 2004B Reserve Fund	\$563,131	\$11,228	\$0	(\$23,489)	\$550,871
Series 2004B Route 80 Acquisition Fund	\$0	\$0	\$0	\$0	\$0
Series 2004B Monocacy Acquisition Fund	\$1,103	\$22	\$0	\$0	\$1,125
Series 2004B County Water & Sewer Fund	\$0	\$0	\$0	\$0	\$0
Series 2004B Admin Expense	\$21,231	\$424	\$0	\$0	\$21,654
Series 2004A Bond Fund	\$0	\$0	\$781,006	(\$781,006)	\$0
Series 2004A Cap I	\$1,658	\$5	\$0	(\$1,658)	\$5
Series 2004A Reserve Fund	\$2,307,027	\$45,998	\$0	\$0	\$2,353,025
Series 2004A Route 80 Acquisition Fund	\$79,552	\$1,208	\$0	(\$80,052)	\$708
Series 2004A Monocacy Acquisition Fund	\$11,174,383	\$218,432	\$0	(\$941,845)	\$10,450,970
Series 2004A County Water & Sewer Fund	\$0	\$0	\$0	\$0	\$0
Series 2004A Special Tax Fund	\$0	\$0	\$0	\$0	\$0
Series 2004A Admin Expense	\$91,632	\$1,714	\$0	(\$15,000)	\$78,347
<b>Total</b>	<b>\$22,887,909</b>	<b>\$442,104</b>	<b>\$2,813,788</b>	<b>(\$5,840,060)</b>	<b>\$20,303,742</b>

Additional Proceeds to the Special Tax Fund represent special tax collections transferred to the trustee during the quarter. Disbursements from the Reserve Fund 2004B and Capitalized Interest Fund 2004B were transfers of bond proceeds to pay debt service. Disbursements from the Administrative Fund were paid to the Administrator for financial administration services. Disbursements from the various project funds, Route 80 Acquisition Fund and Monocacy Acquisition Fund, are for costs of construction. Additional proceeds to the Special Taxes Fund represent taxes transferred to the trustee during the quarter.

The interest paid through June 30, 2006 does not include interest accrued but not yet paid. Proceeds in the Series 1998 Reserve Fund are invested in a CDC Funding Corporation Guaranteed Investment Contract (GIC) earning 5.35 percent per annum and maturing on July 1, 2025. The GIC pays interest semi-annually. The majority of the remaining account balances are invested in conventional money market accounts. The table below shows the average rate of return on the investments in each fund or account.

Investment income on the capitalized interest accounts will remain in those accounts and be used for the purposes of such accounts. Investment income in the reserve funds will be transferred to the bond funds and applied to debt service unless the reserve fund is at the reserve requirement and the county financial officer directs the trustee to transfer investment income to pay arbitrage rebate or to the administrative expense funds. Investment income on the improvement accounts will remain in each account and may be disbursed as provided for other funds in the accounts.

**Table IV-2**  
**Rates of Return**

<b>Account</b>	<b>Rate of Return</b>
Series 1998 Reserve Fund	5.35%
Series 2004A Reserve Fund	4.42%
Series 2004B Reserve Fund	4.42%
Special Tax Fund	4.42%
Series 1998, and 2004A & B Admin Expense Funds	4.42%
Series 1998 County Water and Sewer	4.42%
Series 1998 Monocacy Infrastructure	4.42%
Series 1998 Monocacy Local Infrastructure	4.90%
Series 1998 Rt. 80 Infrastructure	4.43%
Series 2004A Monocacy Acquisition Fund	4.42%
Series 2004A Route 80 Acquisition Fund	4.38%
Series 2004B Monocacy Acquisition Fund	4.44%

## ***V. DISTRICT OPERATIONS***

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### **A. LEVY OF SPECIAL TAXES**

According to the “Rate and Method of Apportionment of Special Taxes,” for the Urbana Community Development Authority, special taxes are to be levied at the assigned special tax on each parcel of developed property. Property is classified for each taxable year based on its status as of the previous February 1. For example, property is classified based on its status as of February 1, 2006 for the 2006-2007 tax year. Developed property is property (i) for which a building permit has been issued, or (ii) which is subject to an owner association by the filing of a supplemental declaration (this is private property subject to an association, not property owned by an association). Undeveloped property includes all taxable property that is not developed property.

As of February 1, 2006, 2,537 parcels, including nineteen commercial parcels (lots 2, 270, 701A, 1200, 1304, 1309 through 1320, Parcel A and Parcel Addition 1), within the CDA had been made subject to an owner’s association. (As of February 1, 2006, Lot 1200 also had building permits approved or submitted for 87,662 square feet of development.) Of those, there have been no building permits issued, or subdivision plans, site plans or final recorded plats determining the amount of development likely to occur for Parcel A or Parcel Addition 1 that were approved by the county prior to February 1, 2006. As a result, Parcel A and Parcel Addition 1 will be taxed as Developed Property at the Undeveloped Property Tax Rate. Accordingly, for the purpose of levying the special tax, 2,535 parcels are considered and have been classified as Developed Property for fiscal year 2006-2007 subject to the Developed Property Special Tax Rate.

For any taxable year, the RMA provides for special taxes to be levied on developed property at the greater of (i.) the Assigned Special Tax and (ii.) the Backup Special Tax for the parcel. The applicable special tax rates for fiscal year 2006-2007 are shown in Table V-1. As mentioned above, the commercial lots 2, 270, 701A, 1304, and 1309 through 1320 have been classified as developed commercial property. The commercial special tax rates that are applicable for these sixteen parcels are shown in Table V-1.

The developed property in the Urbana Community Development Authority and the assigned special tax rates for the 2006-2007 tax year are shown in Table V-1:

**Table V-1**  
**Assigned Special Tax Rates**  
**Special Tax 2006-2007**

Section	No. of Units	Special Tax Per Unit	2006-2007 Special Taxes
SFD Large Unit	905	\$1,581.74	\$1,431,474.88
SFD Small Unit	510	\$1,193.92	\$608,899.71
SF-Attached	893	\$868.20	\$775,302.15
Multifamily	210	\$700.65	\$147,136.98
PUD Office	1	\$0.61 per square foot	\$4,873.60
PUD Retail	14	\$0.88 per square foot	\$108,735.61
ORI Office	1	\$1.12 per square foot	\$281,225.00
ORI Retail	1	\$1.71 per square foot	\$4,957.32
TOTAL	2,535		3,362,605.26

Special taxes are levied on undeveloped property at the same rate per square foot of land area in an amount necessary to pay the “Special Tax Requirement” not paid from special taxes to be levied on developed property. The special tax levied on undeveloped property may not exceed the maximum special tax for such property (\$.07 per square foot of land area). The special tax requirement for the 2006-2007 tax year is \$4,600,000.00 as shown by Table V-2. Special taxes levied on developed property in the 2006-2007 tax year are estimated to be \$3,362,613.26. As a result, special taxes in the amount of \$1,237,386.74 will be levied on undeveloped property in fiscal year 2006-2007.

Special Tax Requirement

Special taxes are levied in an amount equal to the special tax requirement. Prior to the completion of construction, the special tax is levied on each parcel of developed property at the assigned special tax for such property. This applies even if the developed property special taxes exceed the special tax requirement. The special tax requirement, generally, is equal to (i.) annual debt service and administrative expenses, less (ii.) reserve fund investment income, capitalized interest, and any surplus or deficit from the previous year. Table V-2 provides a summary of the special tax requirement for fiscal year 2006-2007. The special tax requirement for fiscal year 2006-2007 is \$4,600,000.00. Each of these numbers is explained in the following sections.

*Debt Service*

Debt service includes the interest payments on the Series 1998, 2004A and 2004B Bonds due on January 1, 2007 and July 1, 2007. Each semi-annual interest payment on the Series 1998 Bonds is \$943,743.75. This is based on an outstanding principal amount of \$2,290,000.00 earning 6.25% annually and an outstanding principal amount of \$26,330,000.00 earning 6.625% annually. Each semi-annual interest payment on the Series 2004A Bonds is \$781,006.00. This is based on an outstanding principal amount of \$10,341,000.00 earning 5.80% annually and an outstanding principal amount of \$16,172,000.00 earning 5.95% annually. Each semi-annual interest payment on the Series 2004B Bonds is \$201,906.25. This is based on an outstanding principal amount of \$6,461,000.00 earning 6.25% annually. The principal amount due on July 1, 2007 on the Series 1998 Bonds is \$460,000.00. The principal amount due on the Series 2004A

and B Bonds on July 1, 2007 is \$442,000.00 and \$100,000.00, respectively. As a result, total debt service is \$4,855,312.00.

**Table V-2**  
**Special Tax Requirement**  
**Fiscal Year 2006-2007**

	<b>Series 1998 Bonds</b>	<b>Series 2004A Bonds</b>	<b>Series 2004B Bonds</b>	<b>Total</b>
<b>Debt Service:</b>				
Interest on January 1, 2007	\$943,744	\$781,006	\$201,906	\$1,926,656
Interest on July 1, 2007	\$943,744	\$781,006	\$201,906	\$1,926,656
Principal on July 1, 2007	\$460,000	\$442,000	\$100,000	\$1,002,000
<i>Sub-total debt service</i>	\$2,347,488	\$2,004,012	\$503,813	\$4,855,312
<b>Administrative Expenses</b>	\$21,271	\$15,948	\$7,281	\$44,500
<b>Contingency</b>	\$82,215	\$76,163	\$18,560	\$176,938
<i>Sub-total expenses</i>	\$2,450,974	\$2,096,123	\$529,654	\$5,076,750
<b>Reserve Fund Investment Income</b>	(\$161,346)	(\$92,003)	(\$22,420)	(\$275,769)
<b>Capitalized Interest Account</b>	(\$0)	(\$0)	(\$0)	(\$0)
<b>Surplus from Prior Year</b>	\$88,548	(\$239,365)	(\$50,164)	(\$200,981)
<i>Sub-total revenues</i>	(\$72,798)	(\$331,368)	(\$72,585)	(\$476,750)
<b><i>Special Tax Requirement</i></b>	\$2,378,176	\$1,764,755	\$457,069	\$4,600,000

*Administrative Expenses*

Administrative expenses include the trustee, the administrator, and the expenses of the county related to the district. For the Series 1998, 2004A and 2004B Bonds, the annual charges of the trustee are estimated to be \$6,000.00, \$4,500.00 and \$4,500.00, respectively. The annual charge of the administrator is estimated to be \$15,000.00, plus an additional \$2,500.00 for the fifth year arbitrage rebate calculation on the Series 1998 Bonds. The expenses of the county are estimated to be \$12,000.00. Accordingly, total administrative expenses are estimated to be \$44,500.00.

*Contingency*

A contingency, equal to approximately 3.5 percent of annual expenses plus an additional amount to round the special tax requirement to the nearest hundred thousand, has been added in the event that there are special tax delinquencies, unanticipated expenses, or investment income is less than estimated.

### *Reserve Fund Income*

As of March 31, 2006, there was a balance of \$3,179,116.02 in the Series 1998 Reserve Fund. The reserve requirement for the Series 1998 Bonds is \$3,000,000.00. Bond proceeds in the amount of \$3,015,803.76 are invested in a CDC Funding Corporation Guaranteed Investment Contract (GIC) earning a 5.35% rate of return per annum maturing on July 1, 2025. The Series 1998 Reserve Fund balance in excess of the amount in the GIC may be applied to debt service on the Series 1998 Bonds on July 1, 2006. Accordingly, the Series 1998 Reserve Fund investment income is estimated based on the investment in the GIC of \$3,015,803.76, resulting in estimated Series 1998 Reserve Fund interest income of \$161,345.50.

As of March 31, 2006, there was a balance of \$2,328,486.41 in the Series 2004A Reserve Fund. The reserve requirement for the Series 2004A Reserve Fund is \$2,260,522.31. The reserve requirement is expected to be invested in a Guaranteed Investment Contract (GIC) or Repurchase Agreement (REPO), but is currently invested in a money market fund earning 4.07 percent per annum. The Series 2004A Reserve Fund balance in excess of the reserve requirement may be applied to debt service on the Series 2004B Bonds on July 1, 2006. Accordingly, interest income is estimated based on the reserve requirement and the interest rate of 4.07 percent paid by the money market through July 1, 2007, resulting in \$92,003.26 of interest income that may be applied to pay debt service and administrative expenses on the Series 2004A Bonds in fiscal year 2006-2007.

As of March 31, 2006, there was a balance of \$568,369.59 in the Series 2004B Reserve Fund. The reserve requirement for the Series 2004B Reserve Fund is \$550,870.69. The reserve requirement is expected to be invested in a Guaranteed Investment Contract (GIC) or Repurchase Agreement (REPO), but is currently invested in a money market fund earning 4.07 percent per annum. The Series 2004B Reserve Fund balance in excess of the reserve requirement may be applied to debt service on the Series 2004B Bonds on July 1, 2006. Accordingly, interest income is estimated based on the reserve requirement and the interest rate of 4.07 percent paid by the money market through July 1, 2006, resulting in \$22,420.44 of interest income that may be applied to pay debt service and administrative expenses on the Series 2004B Bonds in fiscal year 2006-2007.

### *Available Capitalized Interest*

As of March 31, 2006, there was a balance of \$5.49 in the Series 2004A Capitalized Interest Account. As of the same date, there was a balance of \$664.37 in the Series 2004B Capitalized Interest Account. These funds will be used to pay a portion of the debt service on the Series 2004A and B Bonds on July 1, 2006, resulting in a balance of zero to be made available to pay debt service on the Series 2004A and B Bonds in 2007.

### *Surplus from Prior Year*

The surplus revenues available from fiscal year 2005-2006 are shown by Table V-3. The surplus includes funds available in the respective administrative expense funds, the current balance in the respective reserve funds in excess of the funds invested in the GIC or the reserve requirements, and the interest expected to be earned on each respective reserve fund through

July 1, 2006.

The surplus also includes the balances in the Series 2004A and B capitalized interest accounts, the special tax fund and the bond fund as of March 31, 2006. According to the county, special taxes in the amount of \$3,488,890.70 were levied in fiscal year 2005-2006. As of May 4, 2006, the county reports that special taxes totaling \$3,442,306.68 have been collected, of which, \$3,381,948.76 had been transferred to the trustee by March 31, 2006. The county anticipates transferring the balance of \$60,357.92 to the trustee in May 2006. (The uncollected special tax balance of \$6,584.02 will be transferred to the trustee after the tax sale on May 8, 2006 and is, therefore, excluded from the calculation of the surplus.)

**Table V-3**  
**Surplus From Prior Year**  
**Fiscal Year 2005-2006**

	Series 1998 Bonds	Series 2004A Bonds	Series 2004B Bonds	Total
<b>Available Funds:</b>				
Capitalized Interest Account at March 31, 2006	\$0	\$5.49	\$664.37	\$669.86
Administrative expense fund at March 31, 2006	\$88,742	\$80,485	\$21,428	\$190,655
Reserve fund surplus at March 31, 2006	\$163,312	\$67,964	\$17,499	\$248,775
Interest on reserve fund to June 30, 2006	\$80,673	\$15,334	\$3,737	\$99,743
Special tax fund balance at March 31, 2006	\$904,322	\$837,746	\$204,152	\$1,946,219
Bond fund balance at March 31, 2006	\$0	\$0	\$0	\$0
FY 2005-06 special taxes to be transferred	\$28,046	\$25,981	\$6,331	\$60,358
<i>Total available funds</i>	\$1,265,095	\$1,027,515	\$253,811	\$2,546,421
<b>Debt Service:</b>				
Semi-annual interest payment on July 1, 2006	(\$955,931)	(\$781,006)	(\$201,906)	(\$1,938,844)
Principal payment on July 1, 2006	(\$390,000)	(\$0)	(\$0)	(\$390,000)
<i>Total debt service</i>	(\$1,345,931)	(\$781,006)	(\$201,906)	(\$2,328,844)
<b>Outstanding Administrative Expenses:</b>	(\$7,711)	(\$7,144)	(\$1,741)	(\$16,596)
<i>Total expenses</i>	(\$1,353,643)	(\$788,150)	(\$203,647)	(\$2,345,440)
<b>Surplus Funds FY05-06</b>	(\$88,548)	\$239,365	\$50,164	\$200,981

The interest and principal payments on the Series 1998, 2004A and 2004B Bonds due on July 1, 2006 are equal to \$1,345,931.25, \$781,006.00 and \$201,906.25, respectively.

Administrative expenses for fiscal year 2005-2006 were estimated to be \$44,500.00. As of March 31, 2006, administrative expenses totaling \$27,904.00 had been paid by the trustee, resulting in a balance of \$16,596.00 in fiscal year 2005-2006 administrative expenses that will have to be funded with the special taxes collected in fiscal year 2005-2006.

Debt service on the Series 1998 and 2004A Bonds and the outstanding administrative expenses for fiscal year 2005-2006 are subtracted from the available funds, resulting in a deficit of \$88,547.94 for the Series 1998 Bonds and a surplus of \$239,364.94, and \$50,164.22 for the Series 2004A and B Bonds, respectively. Totaling these sums results in an aggregate surplus of \$200,981.22, which may be applied to pay debt service for fiscal year 2006-2007.

#### Undeveloped Property Special Tax Rate

Special taxes are levied on undeveloped property at the same rate per square foot of land area in an amount necessary to pay the “Special Tax Requirement” not paid by special taxes levied on developed property. The special tax requirement for fiscal year 2006-2007 is \$4,600,000.00. Special taxes levied on developed property in fiscal year 2006-2007 are estimated to be \$3,362,613.26. As a result, special taxes in the amount of \$1,237,386.74 will be levied on undeveloped property for fiscal year 2006-2007.

The special tax levied on undeveloped property may not exceed the maximum special tax for such property (\$.07 per square foot of land area). The total acreage of undeveloped property within the CDA is 511.0788 acres or 22,262,600.03 square feet of land area. The special tax per square foot is equal to \$0.0556 ( $\$1,237,386.74 \div 22,262,600.03 = \$0.0556$  per square foot).

#### *Summary*

The expenses of the CDA for fiscal year 2006-2007 are equal to \$5,076,750. The available funds to pay the expenses are estimated to be \$476,750. As a result, the special tax requirement for fiscal year 2005-2006 is \$4,600,000.

### **B. DELINQUENT SPECIAL TAXES**

There are no delinquent special taxes for fiscal years 1998-1999 through 2005-2006. Special taxes were levied in the amount of \$4,600,404.72 for fiscal year 2006-2007. Special taxes are payable in two equal semi-annual installments due on September 30 and December 31, 2006. As of September 30, 2006, Frederick County reported collecting \$3,477,877.34 in fiscal year 2006-2007 special taxes. The county also reported transferring to the trustee \$3,474,636.53 in fiscal year 2006-2007 special taxes as of October 10, 2006. According to the county, \$1,170.51, representing the outstanding fiscal year 2005-2006 special tax on one small single-family detached unit was collected as of September 30, 2006.

### **C. COLLECTION EFFORTS**

As mentioned above, there is \$1,170.51 in uncollected fiscal year 2005-2006 special taxes on one small single-family detached unit. According to the county, the property owner of this unit made payment but the check was later returned for insufficient funds. According to the

county, if payment is not made prior to the tax sale for fiscal year 2006-2007, the outstanding fiscal year 2005-2006 special tax on this unit will be collected at tax sale in May 2007.

## **VI. DISTRICT FINANCIAL INFORMATION**

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### **A. BONDS OUTSTANDING AND RESERVE FUND**

The amount of Series 1998 Bonds outstanding as of June 30, 2006 was \$29,010,000.00. The balance in the Series 1998 Reserve Fund as of June 30, 2006 was \$3,180,837.10. This includes the original deposit of \$3,000,000.00 plus interest income of \$180,837.1. The amount of Series 2004A and B Bonds outstanding as of June 30, 2006 was \$26,513,000 and \$6,461,000, respectively. The balance in the Series 2004A Reserve Fund as of June 30, 2006 was \$2,353,025.07. This includes the original deposit of \$2,260,522.31 plus interest income of \$92,502.76. The balance in the Series 2004B Reserve Fund as of June 30, 2006 was \$550,870.69, which represents the original deposit.

### **B. PROPERTY BY OWNERSHIP AND CLASSIFICATION**

The following table shows property in the district by ownership and classification (developed or undeveloped) as of February 1, 2006:

**Table VI-1**  
**Property By Ownership**  
**And Classification**

	<b>Total</b>	<b>Developed</b>	<b>Undeveloped</b>
Monocacy	1,450	629	821
Route 80	147	2	145
Individual property owners	1,887	1,887	0
Total	3,484	2,518	966

Developed property is determined pursuant to the definition for levying special taxes: (i) property for which a building permit has been issued or (ii) property that is subject to an owner's association by the filing of a supplemental declaration. As of February 1, 2006, the total number of lots annexed to the HOA, including seventeen commercial parcels, was 2,535. As of June 30, 2006, builders had closed on the purchase of 2,043 lots. (The parcels listed above include the residential property annexed to the CDA on June 25, 2002, which included the Richard Ward parcel of approximately 27 acres and a remnant piece of approximately 3.25 acres from the Kiplinger lands.)

### **C. SPECIAL TAXES PAID BY OWNER AND CLASSIFICATION**

The following table shows the special taxes to be paid by property owner and by class of property (developed or undeveloped) for fiscal year 2006-2007, based on the status and ownership of property as of February 1, 2006:

**Table VI-2**  
**Special Taxes Paid**  
**By Owner and Classification**

	Developed	Undeveloped	Total	Percent
Monocacy	\$660,007	\$1,151,691	\$1,811,698	39.4%
Route 80	\$2,388	\$86,117	\$88,505	1.9%
Individual homeowners	\$2,300,418	\$0	\$2,300,418	50.0%
Commercial property	\$399,792	\$0	\$399,792	8.7%
Total	\$3,362,205	\$1,237,808	\$4,600,413	100.0%
	73.1%	26.9%	100%	

The total amount of special taxes that could be levied in 2006-2007 was \$4,921,003, equal to 101.4% of debt service.

## ***VII. SIGNIFICANT EVENTS***

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### **A. DEVELOPER SIGNIFICANT EVENTS**

Developer significant events generally include the following:

- (i) failure to pay any real property taxes (including the special taxes) levied within the authority on a parcel owned by the developer or any affiliate thereof;
- (ii) material damage to or destruction of any development or improvements within the authority;
- (iii) material default by the developer or any affiliate thereof on any loan with respect to the construction or permanent financing of district development;
- (iv) material default by the developer or any affiliate thereof on any loan secured by property within the district owned by the developer or any affiliate thereof;
- (v) the filing of the developer or any affiliate thereof or any owners of more than 25% interest in the developer in bankruptcy or any determination that any of these entities or any related or affiliated entity is unable to pay its debts as they become due; and
- (vii) the filing of any lawsuit against the developer with claim for damage in excess of \$1,000,000 or which may adversely affect the completion of authority development or litigation in excess of \$1,000,000 which would materially adversely affect the financial conditions of the developer.

Inquiries have been made to Monocacy Land Company L.L.C. and the Urbana Highlands Development Limited Liability Company regarding the occurrence of any significant event and they have reported that no significant events have occurred.

### **B. LISTED EVENTS**

Listed events include the following:

- (i) Delinquency in payment when due of any principal of or interest on the bonds;
- (ii) Occurrence of any default under the indenture (other than described above) or the funding agreement;
- (iii) Amendment to the indenture modifying the rights of the bondowners;
- (iv) Giving notice of optional or unscheduled redemption of bonds;
- (v) Defeasance of bonds or any portion thereof;
- (vi) Any change in the rating, if any, on the bonds;

- (vii) Adverse tax opinions or events affecting the tax-exempt status of the bonds;
- (viii) Any unscheduled draws on any credit enhancement reflecting financial difficulties;
- (ix) Any change or substitution in the provider of any credit enhancement reflecting financial difficulties;
- (x) The release, substitution or sale of property securing repayment of the bonds (including property released, mortgaged or pledged as security).

No listed events have been reported as of the date of this report. Additionally, there have been no reports of (i) any changes to the “Rate and Method of Apportionment of Special Taxes,” (ii) any significant amendments to land use entitlements or legal challenges to the construction of the project, or (iii) any changes in the type of public facilities to be constructed from those described in the Limited Offering Memorandum.