

NEW ISSUE—BOOK-ENTRY ONLY

RATING
S&P: "A-"
See "RATING" herein.

In the opinion of Quint & Thimmig LLP, San Francisco, California, Bond Counsel, subject to the Agency's compliance with certain covenants, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and, under section 55 of the Code, is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations under the Code, but is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. Failure by the Agency to comply with one or more of such covenants could cause interest on the Bonds to not be excludable from gross income under section 103 of the Code for federal income tax purposes retroactively to the date of issuance of the Bonds. In addition, in the opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxation imposed by the State of California. See "TAX MATTERS" herein.



\$10,625,000
YUCCA VALLEY REDEVELOPMENT AGENCY
(San Bernardino County, California)
(Yucca Valley Redevelopment Project No. 1)
Tax Allocation Bonds, Series 2008

Dated: Date of Delivery

Due: June 1, as shown below

Proceeds from the sale of the \$10,625,000 Yucca Valley Redevelopment Agency (Yucca Valley Redevelopment Project No. 1) Tax Allocation Bonds, Series 2008 (the "Bonds"), will be used to (a) finance and refinance redevelopment activities within and for the benefit of the Yucca Valley Redevelopment Project No. 1 (the "Redevelopment Project") in the Town of Yucca Valley (the "Town"), including to (i) finance new redevelopment activities, (ii) refund the Agency's Yucca Valley Redevelopment Agency, Yucca Valley Redevelopment Project Area, Tax Allocation Bonds, Series 1995 (the "1995 Bonds"), and (iii) refund the Agency's Yucca Valley Redevelopment Agency (Yucca Valley Redevelopment Project No. 1) Tax Allocation Bonds, Series 2004 (the "2004 Bonds"), (b) fund a reserve account for the Bonds, and (c) provide for the costs of issuing the Bonds. See "FINANCING PLAN" herein.

Interest on the Bonds will be payable semi-annually on each June 1 and December 1, 2008 (each, an "Interest Payment Date"). The Bonds will be issued in fully registered form without coupons and will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Purchases of beneficial interests in the Bonds will be made in book-entry form only in denominations of \$5,000 or any integral multiple thereof. Purchasers of such beneficial interests will not receive physical certificates representing their interests in the Bonds. Payment of principal of, interest and premium, if any, on the Bonds will be made directly to DTC or its nominee, Cede & Co., so long as DTC or Cede & Co. is the registered owner of the Bonds. Disbursement of such payments to the DTC Participants (as defined herein) is the responsibility of DTC and disbursement of such payments to the Beneficial Owners (as defined herein) is the responsibility of the DTC Participants, as more fully described herein. See "THE BONDS—Book-Entry System" herein.

The Bonds will be issued under and pursuant to an Indenture of Trust, dated as of May 1, 2008 (the "Indenture"), by and between the Yucca Valley Redevelopment Agency (the "Agency") and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"). The Bonds are special obligations of the Agency and are payable solely from and secured by a pledge of the Tax Revenues (as defined herein), subject to the provisions of the Indenture permitting the application thereof for other purposes, and by a pledge of amounts in certain funds and accounts established under the Indenture, as further discussed herein.

The Bonds will be sold by the Agency to the Yucca Valley Public Financing Authority (the "Authority") for concurrent resale to the Underwriter named below.

The Bonds are subject to optional and mandatory sinking account redemption prior to maturity. See "THE BONDS—Redemption" herein.

THE BONDS ARE SPECIAL OBLIGATIONS OF THE AGENCY PAYABLE SOLELY FROM THE TAX REVENUES, AS DESCRIBED HEREIN, AND AMOUNTS IN CERTAIN FUNDS AND ACCOUNTS MAINTAINED UNDER THE INDENTURE AND ARE NOT A DEBT OF THE AUTHORITY, THE TOWN OR THE STATE OF CALIFORNIA (THE "STATE") OR ANY POLITICAL SUBDIVISIONS THEREOF (OTHER THAN THE AGENCY, TO THE LIMITED EXTENT SET FORTH IN THE INDENTURE), AND NONE OF THE AUTHORITY, THE TOWN OR THE STATE OR ANY POLITICAL SUBDIVISIONS THEREOF (OTHER THAN THE AGENCY), IS LIABLE THEREFOR. THE BONDS ARE NOT PAYABLE FROM, AND ARE NOT SECURED BY, ANY FUNDS OF THE AGENCY, OTHER THAN THE TAX REVENUES PLEDGED PURSUANT TO THE INDENTURE. THE BONDS DO NOT CONSTITUTE AN INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. NEITHER THE MEMBERS OF THE AGENCY NOR ANY PERSONS RESPONSIBLE FOR THE EXECUTION OF THE BONDS IS LIABLE PERSONALLY FOR PAYMENT OF THE BONDS BY REASON OF THEIR ISSUANCE.

MATURITY DATES, PRINCIPAL AMOUNTS, INTEREST RATES, PRICES OR YIELDS AND CUSIPS

\$3,030,000 Serial Bonds

CUSIP Prefix: 988411+

Maturity (June 1)	Principal Amount	Interest Rate	Price or Yield	CUSIP Suffix†	Maturity (June 1)	Principal Amount	Interest Rate	Price or Yield	CUSIP Suffix†
2009	\$165,000	3.10%	100%	BT0	2016	\$215,000	4.70%	4.80%	CA0
2010	170,000	3.70	100	BU7	2017	225,000	5.00	100	CB8
2011	175,000	4.00	100	BV5	2018	235,000	5.10	100	CC6
2012	180,000	4.20	100	BW3	2019	250,000	5.20	5.25	CD4
2013	190,000	4.20	4.35	BX1	2020	260,000	5.30	100	CE2
2014	195,000	4.40	4.50	BY9	2021	275,000	5.40	100	CF9
2015	205,000	4.50	4.65	BZ6	2022	290,000	5.50	100	CG7

\$2,110,000 5.50% Term Bonds due June 1, 2028, Price: 98.208%, to Yield 5.65%; CUSIP: 988411 CH5†

\$5,485,000 5.75% Term Bonds due June 1, 2038, Price: 98.587%, to Yield 5.85%; CUSIP: 988411 CJ1†

This cover page is not intended to be a summary of the Bonds or the security therefor. Investors are advised to read the Official Statement in its entirety to obtain information essential to the making of an informed investment decision with respect to the Bonds.

The Bonds are offered when, as and if issued and accepted by the Underwriter, subject to the approval as to their legality by Quint & Thimmig LLP, San Francisco, California, Bond Counsel. Certain other legal matters related to this offering will be passed upon for the Authority and the Agency by Naomi Silvergleid, Esq., Truckee, California, Agency Counsel, and by Quint & Thimmig LLP, San Francisco, California, Disclosure Counsel. It is expected that the Bonds in definitive form will be available for delivery to DTC in New York, New York on or about May 8, 2008.

WULFF, HANSEN & CO.
ESTABLISHED 1931
INVESTMENT BANKERS

April 23, 2008

† Copyright 2008, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by the CUSIP Service Bureau, operated by Standard & Poor's, a division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services Bureau. CUSIP numbers have been assigned by an independent company not affiliated with the Agency and are included solely for the convenience of the registered owners of the Bonds. The Agency is not responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

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

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

The information set forth herein has been obtained from sources which are believed to be reliable but such information is not guaranteed as to accuracy or completeness. The information and expressions of opinions herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Agency since the date hereof. The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with and as part of this transaction but the Underwriter does not guarantee the accuracy or completeness of such information. All summaries of the Indenture and other documents are made subject to the provisions of such documents and do not purport to be complete statements of any or all such provisions.

This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

This Official Statement contains forward looking statements by the Agency concerning future conditions affecting the Agency, the Town, the State and the United States which may relate to its business operations and financial condition of the Agency. The Official Statement contains the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "forecast," "expect," "intend" or variations of those terms to identify "forward looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 Section 21E of the U.S. Securities and Exchange Act of 1934, as amended, and Section 27A of the U.S. Securities and Exchange Act of 1933, as amended. You should not rely on these forward-looking statements which speak only as to the Agency's expectations as of the date of this Official Statement. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Except as required by law, neither the Agency, the Town or the Underwriter undertake any duty to update any forward looking statements after the date of this Official Statement, either to confirm any statement to reflect actual results or to reflect the occurrence of unanticipated events.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXCEPTION FROM THE REGISTRATION REQUIREMENTS CONTAINED IN SECTION 3(a)(2) OF SUCH ACT. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE. THE INDENTURE HAS NOT BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT.

TABLE OF CONTENTS

	Page		Page
INTRODUCTION.....	1	THE AUTHORITY.....	36
General.....	1	BONDOWNERS' RISKS.....	37
Purpose of Issuance.....	1	Limited Obligations.....	37
The Town.....	1	No Acceleration on Default.....	37
The Agency.....	2	Bankruptcy.....	37
The Redevelopment Project.....	2	Federal Tax-Exempt Status of the Bonds.....	38
Tax Allocation Financing.....	2	Investment Risk.....	38
The Bonds.....	2	Secondary Market.....	38
Source of Payment for the Bonds.....	3	Reduction in Taxable Values.....	39
Reserve Account.....	3	Concentration of Land Ownership.....	39
Parity Debt.....	3	Risks to Real Estate Market.....	39
Fiscal Consultant's Report.....	4	Development Risks.....	40
Risk Factors.....	4	Changes in the Law.....	40
Continuing Disclosure.....	4	Reductions in Inflationary Rate.....	40
Tax Matters.....	4	Assessment Appeals.....	41
Professionals Involved in the Offering.....	4	Additional Obligations.....	41
Forward-Looking Statements.....	5	Proposition 8 Adjustments.....	41
Other Matters.....	5	Levy and Collection of Taxes.....	41
Other Information.....	6	Real Estate and General Economic Risks.....	42
ESTIMATED SOURCES AND USES OF FUNDS.....	6	Future Land Use Regulations and Growth Control	
FINANCING PLAN.....	6	Initiatives.....	42
DEBT SERVICE SCHEDULE.....	8	Estimates of Tax Revenues.....	42
THE BONDS.....	8	Hazardous Substances.....	43
General Provisions.....	8	Seismic Risk and Flood Risk.....	43
Redemption.....	9	State Budget; ERAF Shift.....	44
Book-Entry System.....	11	CONSTITUTIONAL AND STATUTORY PROVISIONS	
SECURITY FOR THE BONDS.....	12	AFFECTING TAX REVENUES.....	45
Tax Revenues.....	12	Property Tax Limitations-Article XIII A.....	45
Pledge of Tax Revenues.....	13	Challenges to Article XIII A.....	45
Security of Bonds; Equal Security.....	13	Implementing Legislation.....	45
Special Fund; Deposit of Tax Revenues.....	14	Unitary Property.....	46
Deposit of Amounts by Trustee.....	14	Property Tax Collection Procedures.....	46
Issuance of Parity Debt.....	15	Appropriations Limitations-Article XIII B.....	47
Issuance of Subordinate Debt.....	16	State Board of Equalization and Property	
THE TOWN AND THE COUNTY.....	17	Assessment Practices.....	48
THE AGENCY.....	17	Exclusion of Tax Revenues for General Obligation	
Agency Members.....	17	Bonds Debt Service.....	48
Agency Administration.....	18	Proposition 218.....	48
Agency Powers.....	18	AB 1290.....	48
Outstanding Indebtedness of the Agency.....	18	Future Initiatives.....	49
Agency Financial Statements.....	19	Low and Moderate Income Housing.....	49
THE REDEVELOPMENT PROJECT.....	19	Statement of Indebtedness.....	49
General.....	19	CERTAIN LEGAL MATTERS.....	50
Description of the Redevelopment Project.....	20	Legal Opinions.....	50
Redevelopment Projects.....	22	Enforceability of Remedies.....	50
Redevelopment Plan Limitations.....	23	VERIFICATION OF MATHEMATICAL	
Assessed Valuation.....	28	COMPUTATIONS.....	51
Annual Tax Receipts to Tax Levy.....	30	RATING.....	51
Appeals of Assessed Values.....	31	CONTINUING DISCLOSURE.....	51
Tax Sharing Agreements.....	31	ABSENCE OF LITIGATION.....	51
Fiscal Consultant's Report.....	32	TAX MATTERS.....	52
Tax Revenue Projections and Debt Service Coverage.....	33	UNDERWRITING.....	53
Tax Increment Revenue Projections and Debt Service		MISCELLANEOUS.....	54
Coverage.....	34		
Adjustments to Tax Increment Revenues.....	36		
APPENDIX A		SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE	
APPENDIX B		GENERAL INFORMATION REGARDING THE TOWN AND THE COUNTY	
APPENDIX C		AUDITED FINANCIAL STATEMENTS OF THE AGENCY FOR THE FISCAL YEAR	
		ENDED JUNE 30, 2007	
APPENDIX D		FISCAL CONSULTANT'S REPORT	
APPENDIX E		FORM OF BOND COUNSEL'S OPINION	
APPENDIX F		FORM OF CONTINUING DISCLOSURE CERTIFICATE	
APPENDIX G		BOOK-ENTRY ONLY SYSTEM	

YUCCA VALLEY REDEVELOPMENT AGENCY

Agency Board

Robert J. Leone, *Chair*
Frank Luckino, *Vice Chair*
Lori Herbel, *Board Member*
George Huntington, *Board Member*
Chad J. Mayes, *Board Member*

Agency/Town Staff and Officials

Andrew J. Takata, *Executive Director/Town Manager*
Shane Stueckle, *Deputy Town Manager*
Curtis Yakimow, *Treasurer/Director of Administrative Services*
Tom Best, *Community Development Director*
Janet M. Anderson, *Agency Secretary/Town Clerk*

Special Services

Fitzgerald Public Finance
A Division of Wulff Hansen & Co.
Los Angeles, California
Underwriter

Quint & Thimmig LLP
San Francisco, California
Bond Counsel and Disclosure Counsel

Naomi Silvergleid, Esq.
Truckee, California
Agency Counsel

The Bank of New York Trust Company, N.A.
Los Angeles, California
Trustee

HdL Coren & Cone
Diamond Bar, California
Fiscal Consultant

Grant Thornton LLP
Minneapolis, Minnesota
Verification Agent

OFFICIAL STATEMENT

\$10,625,000

YUCCA VALLEY REDEVELOPMENT AGENCY (Yucca Valley Redevelopment Project No. 1) Tax Allocation Bonds, Series 2008

INTRODUCTION

General

This Official Statement of the Yucca Valley Redevelopment Agency (the "Agency") provides information regarding the sale by the Agency of \$10,625,000 aggregate principal amount of its Yucca Valley Redevelopment Agency (Yucca Valley Redevelopment Project No. 1) Tax Allocation Bonds, Series 2008 (the "Bonds").

Definitions of certain capitalized terms used in this Official Statement are set forth in APPENDIX A—"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE." This Official Statement contains brief descriptions of the Bonds, the Indenture, the Agency and the Agency's Yucca Valley Redevelopment Project No. 1 (the "Redevelopment Project"). Such descriptions do not purport to be comprehensive or definitive. All references in this Official Statement to specific documents are qualified in their entirety by reference to such documents and references to the Bonds are qualified in their entirety by reference to the form of the Bonds included in the Indenture. Copies of the Indenture and other documents described in this Official Statement may be obtained from the Agency as described under the subheading "Other Information" below.

The Bonds will be sold by the Agency to the Yucca Valley Public Financing Authority (the "Authority") for concurrent resale to the underwriter named on the cover of this Official Statement.

Purpose of Issuance

Proceeds from the sale of the Bonds will be used to (a) finance and refinance redevelopment activities within and for the benefit of the Redevelopment Project, including to (i) finance new redevelopment activities, (ii) refund the Agency's Yucca Valley Redevelopment Agency, Yucca Valley Redevelopment Project, Tax Allocation Bonds, Series 1995 (the "1995 Bonds"), and (iii) refund the Agency's Yucca Valley Redevelopment Agency (Yucca Valley Redevelopment Project No. 1) Tax Allocation Bonds, Series 2004 (the "2004 Bonds"), (b) fund a reserve account for the Bonds, and (c) provide for the costs of issuing the Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" and "FINANCING PLAN" herein.

The Town

The Town of Yucca Valley (the "Town"), is a general law city, incorporated on November 27, 1991, and located in San Bernardino County (the "County") about 125 miles east of Los Angeles and 25 miles north of Palm Springs, California. The Town has a Council-Manager form of municipal government. The Town encompasses an area of approximately 38 square miles situated 3,224 feet above sea level. The Town enjoys a California high desert climate with winter low temperatures averaging 33 degrees, and summer high temperatures

averaging 99 degrees. See "THE TOWN AND THE COUNTY" herein and APPENDIX B—"GENERAL INFORMATION REGARDING THE TOWN AND THE COUNTY."

The Agency

The Agency was activated in 1992 by ordinance of the Town Council. Four members of the Town Council Four five members of the Town Council and one appointed member serve as the governing body of the Agency and exercise all rights, powers, duties and privileges of the Agency. See "THE AGENCY" herein.

The Redevelopment Project

The Town Council adopted a redevelopment plan (the "Redevelopment Plan") for the Redevelopment Project pursuant to Ordinance No. 37, enacted on August 5, 1993. The Redevelopment Project consists of approximately 2,358 acres or approximately 10% of the total area of the Town. The Redevelopment Project includes the central business district of the Town and a residential area in the eastern portion of the Town. The Redevelopment Project is zoned for mixed land uses with commercial, industrial, residential and public facility uses. The total assessed valuation of taxable property in the Redevelopment Project in Fiscal Year 2007-2008 is approximately \$431,445,307, \$217,288,191 greater than the adjusted assessed valuation in the base year (1992-93). Assessed valuations in the Redevelopment Project are subject to numerous risks which could result in decreases from those reported for Fiscal Year 2007-2008. See "BONDOWNERS' RISKS" herein. Also see "THE REDEVELOPMENT PROJECT" herein and APPENDIX D—"FISCAL CONSULTANT'S REPORT."

Tax Allocation Financing

The Redevelopment Law provides a means for financing redevelopment projects based upon an allocation of taxes collected within a project area. The taxable valuation of a project area last equalized prior to adoption of the redevelopment plan, or "base roll," is established and, except for any period during which the taxable valuation drops below the base year level, the taxing agencies thereafter receive the taxes produced by the levy of the then current tax rate upon the base roll. Taxes collected upon any increase in taxable valuation over the base roll (the tax increment revenues) are allocated to the applicable redevelopment agency and may be pledged by the redevelopment agency to the repayment of any indebtedness incurred in financing or refinancing a redevelopment project. Redevelopment agencies themselves have no authority to levy property taxes and must look specifically to the allocation of taxes produced as above indicated.

The Bonds

The Bonds are being issued pursuant to the Redevelopment Law, a resolution adopted by the Agency on April 10, 2008, and an Indenture of Trust, dated as of May 1, 2008 (the "Indenture"), by and between the Agency and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"). See "THE BONDS" herein and APPENDIX A—"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."

The Bonds will be issued in denominations of \$5,000 each or integral multiples thereof. Interest on the Bonds will be payable on each June 1 and December 1, commencing December 1, 2008. Principal of and interest on the Bonds will be payable by the Trustee to The Depository Trust Company ("DTC") which will be responsible for remitting such principal and interest to the DTC participants which will in turn be responsible for remitting such principal and interest to the beneficial owners of the Bonds. No physical distribution of the Bonds will be made to the public. See "THE BONDS—Book-Entry System" herein.

Source of Payment for the Bonds

The Bonds are special obligations of the Agency and are payable from and secured by a pledge of Tax Revenues and amounts in certain funds and accounts held under the Indenture. The term "Tax Revenues" is defined in the Indenture as all taxes pledged and annually allocated within the Plan Limitations, following the Closing Date, and paid to the Agency with respect to the Redevelopment Project pursuant to Article 6 of Chapter 6 (commencing with section 33670) of the Law and section 16 of Article XVI of the Constitution of the State, or pursuant to other applicable State laws, and as provided in the Redevelopment Plan, and all payments, subventions and reimbursements, if any, to the Agency specifically attributable to *ad valorem* taxes lost by reason of tax exemptions and tax rate limitations, excluding all other amounts of such taxes (if any) (i) which are required to be deposited into the Low and Moderate Income Housing Fund of the Agency pursuant to section 33334.3 of the Law for increasing and improving the supply of low and moderate income housing (other than amounts required to pay principal or interest or other financing charges with respect to Bonds issued to increase, improve or preserve the supply of low and moderate income housing within or of benefit to the Redevelopment Project), (ii) which constitute supplemental subventions payable by the State to the Agency under and pursuant to Chapter 1.5 of Part 1 of Division 4 of Title 2 (commencing with section 16110) of the California Government Code, (iii) which constitute amounts payable by the Agency under sections 33607.5 or 33607.7 of the Law for payments to affected taxing entities, except and to the extent such amounts so payable are payable on a basis subordinate to the payment of the Bonds, and (iv) which constitute amounts payable by the Agency under the Pass-Through Agreements except, and to the extent that any amounts so payable are payable on a basis subordinate to the payment of the Bonds.

The Tax Revenues are not subject to the pledge and lien of any indebtedness of the Agency other than the Bonds and any Parity Debt hereafter issued in accordance with the Indenture, and certain other obligations which are made or are by their terms subordinate to the payment of the Bonds. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING TAX REVENUES" and "THE AGENCY—Outstanding Indebtedness of the Agency" herein. The Bonds are not payable from, and are not secured by, any funds of the Agency other than the Tax Revenues and amounts in certain funds and accounts pledged therefore under the Indenture. See "SECURITY FOR THE BONDS" herein.

Reserve Account

A reserve account (the "Reserve Account") will be established and held under the Indenture in order to secure the payment of principal of and interest on the Bonds in an amount, as of the Closing Date, equal to the Reserve Requirement. If, on any Interest Payment Date for the Bonds, the amounts on deposit under the Indenture to pay the principal of or interest due on the Bonds are insufficient therefor, the Trustee will draw on the Reserve Account to replenish the Interest Account, the Principal Account or the Sinking Account, in that order, to make up such deficiencies. See "SECURITY FOR THE BONDS—Deposit of Amounts by Trustee-Reserve Account" herein and APPENDIX A—"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" for additional information on the Reserve Account.

Parity Debt

The Indenture provides that in addition to the Bonds, the Agency may provide for the issuance of Parity Debt secured by a lien on Tax Revenues on a parity with the Bonds to finance redevelopment activities in or for the benefit of the Redevelopment Project in such principal amount as shall be determined by the Agency. The Agency may deliver Parity Debt subject to

certain specific conditions set forth in the Indenture. See "SECURITY FOR THE BONDS—Issuance of Parity Debt."

Fiscal Consultant's Report

HdL Coren & Cone, Diamond Bar, California (the "Fiscal Consultant") has been retained to prepare a report (the "Fiscal Consultant's Report") for the Bonds. See APPENDIX D—"FISCAL CONSULTANT'S REPORT."

Risk Factors

Prospective investors should review this Official Statement and the appendices hereto in their entirety and should consider certain risk factors associated with the purchase of the Bonds, some of which have been summarized in the section herein entitled "BONDOWNERS' RISKS" herein.

Continuing Disclosure

The Agency will covenant, pursuant to a continuing disclosure certificate (the "Continuing Disclosure Certificate") to be executed on the date of delivery of the Bonds, for the benefit of owners and beneficial owners of the Bonds, to provide certain financial information and operating data related to the Agency and the Redevelopment Project by not later than seven months following the end of the Agency's Fiscal Year (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the Agency with each Nationally Recognized Municipal Securities Information Repository (as defined in the Continuing Disclosure Certificate), and with the appropriate State information depository, if any. The notices of material events will be filed by the Agency with the Municipal Securities Rulemaking Board (and with the appropriate State information depository, if any). The specific nature of the information to be contained in the Annual Report and any notices of material events is summarized below under the caption "CONTINUING DISCLOSURE" herein. The form of the Continuing Disclosure Certificate is set forth in APPENDIX F—"FORM OF CONTINUING DISCLOSURE CERTIFICATE." The covenants of the Agency in the Continuing Disclosure Certificate have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

Tax Matters

In the opinion of Quint & Thimmig LLP, San Francisco, California, Bond Counsel, subject to the Agency's compliance with certain covenants, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and, under section 55 of the Code, is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations under the Code, but is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. Failure by the Agency to comply with one or more of such covenants could cause interest on the Bonds to not be excludable from gross income under section 103 of the Code for federal income tax purposes retroactively to the date of issuance of the Bonds. In addition, in the opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxation imposed by the State of California.

Professionals Involved in the Offering

The proceedings of the Agency in connection with the issuance of the Bonds are subject to the approval as to their legality of Quint & Thimmig LLP, San Francisco, California, Bond

Counsel. Certain legal matters will be passed upon for the Agency by Quint & Thimmig LLP, San Francisco, California, as Disclosure Counsel, and by Naomi Silvergleid, Esq., Truckee, California, as counsel to the Agency. The Fiscal Consultant has been retained to prepare a Fiscal Consultant's report for the Bonds. The fees of Quint & Thimmig LLP and the Trustee are contingent upon the sale and delivery of the Bonds.

Forward-Looking Statements

This Official Statement, and particularly the information contained under the headings entitled "FINANCING PLAN," "ESTIMATED SOURCES AND USES OF FUNDS," "SECURITY FOR THE 2008 BONDS," "THE REDEVELOPMENT PROJECT," APPENDIX B—"GENERAL INFORMATION REGARDING THE TOWN AND THE COUNTY," and APPENDIX D—"FISCAL CONSULTANT'S REPORT" contains statements relating to future results that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. When used in this Official Statement, the words "estimate," "forecast," "intend," "expect" and similar expressions identify forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. The Agency is not obligated to issue any updates or revisions to the forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur. See "BONDOWNERS' RISKS" and "LIMITATIONS ON TAX REVENUES."

Other Matters

There follows in this Official Statement brief descriptions of the Bonds, the security for the Bonds, the Indenture, the Agency, the Town, the Redevelopment Project, and certain other information relevant to the issuance of the Bonds. The descriptions and summaries of documents herein do not purport to be comprehensive or definitive, and reference is made to each such document for the complete details of all its respective terms and conditions. All statements herein with respect to such documents are qualified in their entirety by reference to each such document for the complete details of all of their respective terms and conditions. All statements herein with respect to certain rights and remedies are qualified by reference to laws and principles of equity relating to or affecting creditors' rights generally. Copies of the Indenture are available for inspection during business hours at the corporate trust office of the Trustee.

The information and expressions of opinion herein speak only as of the date of this Official Statement and are subject to change without notice. Neither delivery of this Official Statement nor any sale made hereunder nor any future use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority, the Agency or the Town since the date hereof.

All financial and other information presented in this Official Statement has been provided by the Authority, the Agency and the Town from their records, except for information expressly attributed to other sources. The presentation of information, including the table of receipts from taxes and other revenues, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial or other affairs of the Authority, the Agency or the Town. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future.

Other Information

This Official Statement speaks only as of its date and the information contained herein is subject to change without notice. Copies of the Indenture are available from the Agency upon written request to the Agency, 57090 29 Palms Highway, Yucca Valley, CA 92284, Attention: Administrative Services Director. The Agency may impose a charge for copying, mailing and handling expenses related to any request for documents.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth a summary of the estimated sources and uses of funds associated with the issuance and sale of the Bonds.

Sources of Funds

Par Amount of Bonds	\$10,650,000.00
Less: Original Issue Discount	(121,956.80)
Plus: Released Moneys Relating to the 1995 Bonds	162,038.81
Plus: Released Moneys Relating to the 2004 Bonds	256,678.52
Total Sources	<u>\$10,921,760.53</u>

Uses of Funds

Deposit to Redevelopment Fund	\$5,500,000.00
Deposit to 1995 Escrow Fund (1)	1,466,293.75
Deposit to 2004 Escrow Fund (2)	2,876,984.22
Deposit to Reserve Account (3)	739,662.50
Costs of Issuance (4)	338,820.06
Total Uses	<u>\$10,921,760.53</u>

- (1) Represents the amount required to defease the 1995 Bonds. See. "FINANCING PLAN" herein.
- (2) Represents the amount required to defease the 2004 Bonds. See. "FINANCING PLAN" herein.
- (3) Represents an amount equal to the initial Reserve Account Requirement for the Bonds.
- (4) Includes Underwriter's discount, fees and expenses of the Trustee, Bond Counsel and Disclosure Counsel, printing expenses and other costs of issuance.

FINANCING PLAN

Proceeds from the sale of the Bonds will be used to (a) finance redevelopment activities within and for the benefit of the Redevelopment Project, (b) refund the 1995 Bonds, (c) refund the 2004 Bonds, (d) fund a reserve account for the Bonds, and (e) provide for the costs of issuing the Bonds. Potential projects currently expected to be funded in whole or in part using proceeds of the Bonds include the following:

- Property acquisition;
- Preliminary design, engineering and special studies;
- Street improvements;
- Public infrastructure construction;
- Flood control improvements;
- Median islands and island landscaping;
- Sidewalk improvements; and
- Park improvements

A portion of the proceeds of the Bonds, together with certain moneys released from the indenture relating to the 1995 Bonds, will be deposited in an escrow fund (the "1995 Escrow Fund") held in trust by The Bank of New York Trust Company, N.A., as escrow bank (the "Escrow Bank"), under an escrow deposit and trust agreement with the Agency. A portion of the amounts deposited in the 1995 Escrow Fund will be invested in direct obligations of the United States (the "Federal Securities") in an amount which, together with investment earnings thereon and the uninvested cash in the 1995 Escrow Fund, will be sufficient to provide for the payment of the principal of and interest on the 1995 Bonds to an including June 1, 2008, and to provide for the redemption of the 1995 Bonds in full on June 1, 2008, at the redemption price of 100% of the principal amount thereof to be redeemed, plus accrued interest. The mathematical accuracy of the calculation as to the sufficiency of anticipated receipts from the Federal Securities and cash in the Escrow Fund to meet the redemption requirements of the 1995 Bonds will be verified by Grant Thornton LLP (the "Verification Agent"). See "VERIFICATION OF MATHEMATICAL COMPUTATIONS" herein. Upon the delivery of the Bonds and the deposit in the 1995 Escrow Fund of moneys sufficient to provide for the refunding of the 1995 Bonds, and assuming the accuracy of the Verification Agent's computations, the 1995 Bonds will be deemed defeased and no longer outstanding. The holders of the 1995 Bonds will be entitled to payment solely out of the moneys or securities deposited in the 1995 Escrow Fund.

A portion of the proceeds of the Bonds, together with certain moneys released from the indenture relating to the 2004 Bonds, will be deposited in an escrow fund (the "2004 Escrow Fund") held in trust by the Escrow Bank under an escrow deposit and trust agreement with the Agency. A portion of the amounts deposited in the 2004 Escrow Fund will be invested in direct obligations of the United States (the "Federal Securities") in an amount which, together with investment earnings thereon and the uninvested cash in the 2004 Escrow Fund, will be sufficient to provide for the payment of the principal of and interest on the 2004 Bonds to an including June 1, 2014, and to provide for the redemption of the 2004 Bonds in full on June 1, 2014, at the redemption price of 100% of the principal amount thereof to be redeemed, plus accrued interest. The mathematical accuracy of the calculation as to the sufficiency of anticipated receipts from the Federal Securities and cash in the Escrow Fund to meet the redemption requirements of the 2004 Bonds will be verified by the Verification Agent. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS" herein. Upon the delivery of the Bonds and the deposit in the 2004 Escrow Fund of moneys sufficient to provide for the refunding of the 2004 Bonds, and assuming the accuracy of the Verification Agent's computations, the 2004 Bonds will be deemed defeased and no longer outstanding. The holders of the 2004 Bonds will be entitled to payment solely out of the moneys or securities deposited in the 1995 Escrow Fund.

DEBT SERVICE SCHEDULE

The following table sets forth the scheduled annual debt service for the Bonds.

<u>Bond Year Ending (June 1)</u>	<u>Principal Amount (1)</u>	<u>Interest</u>	<u>Total</u>
2009	\$165,000	\$610,786.59	\$775,786.59
2010	170,000	568,992.50	738,992.50
2011	175,000	562,702.50	737,702.50
2012	180,000	555,702.50	735,702.50
2013	190,000	548,142.50	738,142.50
2014	195,000	540,162.50	735,162.50
2015	205,000	531,582.50	736,582.50
2016	215,000	522,357.50	737,357.50
2017	225,000	512,252.50	737,252.50
2018	235,000	501,002.50	736,002.50
2019	250,000	489,017.50	739,017.50
2020	260,000	476,017.50	736,017.50
2021	275,000	462,237.50	737,237.50
2022	290,000	447,387.50	737,387.50
2023	305,000	431,437.50	736,437.50
2024	325,000	414,662.50	739,662.50
2025	340,000	396,787.50	736,787.50
2026	360,000	378,087.50	738,087.50
2027	380,000	358,287.50	738,287.50
2028	400,000	337,387.50	737,387.50
2029	420,000	315,387.50	735,387.50
2030	445,000	291,237.50	736,237.50
2031	470,000	265,650.00	735,650.00
2032	500,000	238,625.00	738,625.00
2033	525,000	209,875.00	734,875.00
2034	555,000	179,687.50	734,687.50
2035	590,000	147,775.00	737,775.00
2036	625,000	113,850.00	738,850.00
2037	660,000	77,912.50	737,912.50
2038	695,000	39,962.50	734,962.50

(1) Includes sinking fund installments

THE BONDS

General Provisions

The Bonds will be delivered in fully registered form, without coupons, in the denomination of \$5,000 each or any integral multiple thereof. Interest on the Bonds will be payable semiannually on each June 1 and December 1, commencing December 1, 2008 (each, an "Interest Payment Date"), to the Owner thereof as of the close of business on the fifteenth (15th) calendar day of the month preceding each Interest Payment Date, whether or not such fifteenth (15th) calendar day is a business day (each, a "Record Date"). Principal of the Bonds will be payable on June 1 in each of the years and in the amounts shown on the cover page hereof.

The Bonds will be dated as of their date of delivery. Each Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof, unless (i) it is executed during the period from the day after the Record Date for an Interest Payment Date to and including such Interest Payment Date, in which event it will bear interest from such Interest Payment Date, or (ii) it is executed on or prior to the Record Date for the first Interest Payment

Date, in which event it will bear interest from the date of its initial delivery; provided, however, that if, at the time of registration of any Bond interest with respect to such Bond is in default, such Bond will bear interest from the Interest Payment Date to which interest has been paid or made available for payment with respect to such Bond.

Interest on the Bonds will be payable in lawful money of the United States of America on each Interest Payment Date to the Owner thereof as of the close of business on the Record Date. Subject to the book-entry system established for the Bonds (see "Book-Entry System" below), such interest to be paid by check of the Trustee, mailed by first class mail no later than the Interest Payment Date to the Owners at their addresses as they appear, on such Record Date, on the bond registration books maintained by the Trustee; provided, however, that at the written request of the Owner of at least \$1,000,000 in aggregate principal amount of Outstanding Bonds filed with the Trustee prior to any Record Date, interest on such Bonds will be paid to such Owner on each succeeding Interest Payment Date (unless such request has been revoked in writing) by wire transfer of immediately available funds to an account in the continental United States designated in such written request. Payments of defaulted interest with respect to the Bonds will be paid by check to the registered Owners of the Bonds as of a special record date to be fixed by the Trustee, notice of which special record date shall be given to the Owners of the Bonds not less than ten days prior thereto. The principal of and premium, if any, on the Bonds are payable when due upon surrender thereof at the principal corporate trust office of the Trustee in San Francisco, California, in lawful money of the United States of America.

Redemption

Optional Redemption of Bonds. The Bonds maturing on or before June 1, 2018, are not subject to optional redemption prior to maturity. The Bonds maturing on or after June 1, 2019, are subject to redemption, at the option of the Agency on any date on and after June 1, 2018, as a whole or in part, from any available source of funds, at a redemption price equal to the principal amount thereof, together with accrued interest to the date fixed for redemption, without premium.

The Agency is required to give the Trustee written notice of its intention to optionally redeem Bonds under the Indenture with a designation of the maturities to be redeemed at least forty-five (45) days, but not more than seventy-five (75) days, or such shorter period as shall be acceptable to the Trustee, prior to the date fixed for such redemption, and shall transfer to the Trustee for deposit in the Debt Service Fund all amounts required for such redemption on or prior to the date fixed for such redemption. The maturity or maturities of Bonds to be called for redemption shall be determined by the Agency. If the Agency shall fail to select a particular maturity or maturities for redemption, such redemption shall be made on a pro rata basis.

Sinking Account Redemption of Bonds. The Bonds maturing on June 1, 2028 (the "2028 Term Bonds") are subject to mandatory redemption, in part by lot, from Sinking Account payments set forth in the following schedule on June 1, 2023, and on June 1 in each year thereafter to and including June 1, 2028, at a redemption price equal to the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption; *provided, however,* that if some but not all of the 2028 Term Bonds have been optionally redeemed, the total amount of Sinking Account payments to be made subsequent to such redemption shall be reduced in an amount equal to the principal amount of the 2028 Term Bonds so redeemed by reducing each such future Sinking Account payment on a pro rata basis (as nearly as practicable) in integral multiples of \$5,000, as shall be designated pursuant to written notice filed by the Agency with the Trustee.

<u>Redemption Date</u> <u>(June 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Redemption Date</u> <u>(June 1)</u>	<u>Principal</u> <u>Amount</u>
2023	\$305,000	2026	\$360,000
2024	325,000	2027	380,000
2025	340,000	2028†	400,000

† Maturity.

In lieu of such redemption, the Trustee may apply amounts in the Sinking Account to the purchase of 2028 Term Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as may be directed by the Agency, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price then applicable to the 2028 Term Bonds, as set forth in a Written Request of the Agency.

The Bonds maturing on June 1, 2038 (the "2038 Term Bonds") are subject to mandatory redemption, in part by lot, from Sinking Account payments set forth in the following schedule on June 1, 2029, and on June 1 in each year thereafter to and including June 1, 2038, at a redemption price equal to the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption; *provided, however*, that if some but not all of the 2038 Term Bonds have been optionally redeemed, the total amount of Sinking Account payments to be made subsequent to such redemption shall be reduced in an amount equal to the principal amount of the 2038 Term Bonds so redeemed by reducing each such future Sinking Account payment on a pro rata basis (as nearly as practicable) in integral multiples of \$5,000, as shall be designated pursuant to written notice filed by the Agency with the Trustee.

<u>Redemption Date</u> <u>(June 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Redemption Date</u> <u>(June 1)</u>	<u>Principal</u> <u>Amount</u>
2029	\$420,000	2034	\$555,000
2030	445,000	2035	590,000
2031	470,000	2036	625,000
2032	500,000	2037	660,000
2033	525,000	2038†	695,000

† Maturity.

In lieu of such redemption, the Trustee may apply amounts in the Sinking Account to the purchase of 2038 Term Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as may be directed by the Agency, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price then applicable to the 2038 Term Bonds, as set forth in a Written Request of the Agency.

Notice of Redemption. The Trustee on behalf and at the expense of the Agency is required to mail (by first class mail, postage prepaid) notice of any redemption at least fifteen (15) but not more than sixty (60) days prior to the redemption date, to (i) the Owners of any Bonds designated for redemption at their respective addresses appearing on the Registration Books, and (ii) the Securities Depositories and to one or more Information Services designated in a Written Request of the Agency filed with the Trustee; but such mailing is not a condition precedent to such redemption and neither failure to receive any such notice nor any defect therein will affect the validity of the proceedings for the redemption of such Bonds or the cessation of the accrual of interest thereon. Such notice must state the redemption date and the redemption price, must designate the CUSIP number of the Bonds to be redeemed, must state the individual number of each Bond to be redeemed or must state that all Bonds between two

stated numbers (both inclusive) or all of the Bonds Outstanding are to be redeemed, and must require that such Bonds be then surrendered at the Principal Corporate Trust Office for redemption at the redemption price, giving notice also that further interest on such Bonds will not accrue from and after the redemption date.

Notwithstanding the foregoing, in the case of any optional redemption of the Bonds, the notice of redemption shall state that the redemption is conditioned upon receipt by the Trustee of sufficient moneys to redeem the Bonds on the anticipated redemption date, and that the optional redemption shall not occur if, by no later than the scheduled redemption date, sufficient moneys to redeem the Bonds have not been deposited with the Trustee. In the event that the Trustee does not receive sufficient funds by the scheduled optional redemption date to so redeem the Bonds to be optionally redeemed, such event shall not constitute an Event of Default, the Trustee shall send written notice to the owners of the Bonds, to the Securities Depositories and to one or more of the Information Services to the effect that the redemption did not occur as anticipated, and the Bonds for which notice of optional redemption was given shall remain Outstanding for all purposes of the Indenture.

Partial Redemption of Bonds. In the event only a portion of any Bond is called for redemption, then upon surrender of such Bond the Agency is required to execute and the Trustee is required to authenticate and deliver to the Owner thereof, at the expense of the Agency, a new Bond or Bonds of the same interest rate and maturity, of authorized denominations, in aggregate principal amount equal to the unredeemed portion of the Bond to be redeemed.

Effect of Redemption. From and after the date fixed for redemption, if funds available for the payment of the redemption price of and interest on the Bonds so called for redemption have been duly deposited with the Trustee, such Bonds so called shall cease to be entitled to any benefit under the Indenture other than the right to receive payment of the redemption price and accrued interest to the redemption date, and no interest shall accrue thereon from and after the redemption date specified in such notice.

Manner of Redemption. Whenever any Bonds or portions thereof are to be selected for redemption by lot, the Trustee shall make such selection, in such manner as the Trustee shall deem appropriate, and shall notify the Agency thereof. In the event of redemption by lot of Bonds, the Trustee shall assign to each Bond then Outstanding a distinctive number for each \$5,000 of the principal amount of each such Bond. The Bonds to be redeemed shall be the Bonds to which were assigned numbers so selected, but only so much of the principal amount of each such Bond of a denomination of more than \$5,000 shall be redeemed as shall equal \$5,000 for each number assigned to it and so selected. All Bonds redeemed or purchased shall be canceled.

Book-Entry System

The Bonds will be subject to a book-entry system of registration, transfer and payment and each Bond will initially be registered in the name of Cede & Co, as nominee of The Depository Trust Company, New York, New York ("DTC"). As part of such book-entry system, DTC has been appointed securities depository for the Bonds, and registered ownership may not thereafter be transferred except as provided in the Indenture. The Bonds are being delivered in book-entry form only. Purchasers will not receive securities certificates representing their interests in the Bonds. Rather, in accordance with the book-entry system, purchasers of the Bonds will have beneficial ownership interest in the purchased Bonds through DTC Participants (as hereinafter defined). For more information concerning the book-entry system, see APPENDIX G—"BOOK-ENTRY SYSTEM."

SECURITY FOR THE BONDS

Tax Revenues

Tax Allocations. The Redevelopment Law provides a means for financing redevelopment projects based upon an allocation of taxes collected within a project area. The taxable valuation of a project area last equalized prior to adoption of the redevelopment plan for the project area, or base roll, is established as of the adoption of the redevelopment plan. Thereafter, except for any period during which the taxable valuation drops below the base year level, the taxing bodies receive the taxes produced by the levy of the then current tax rate upon the base roll. Taxes collected upon any increase in taxable valuation over the base roll (with the exception of taxes derived from increases in the tax rate imposed by Taxing Agencies (hereinafter defined) to support new bonded indebtedness) (the "Tax Increment Revenues") are allocated to the redevelopment agency and may be pledged to the repayment of any indebtedness incurred in financing or refinancing redevelopment. Redevelopment agencies themselves have no authority to levy property taxes and must look exclusively to such allocation of taxes.

As provided in the redevelopment plan for the project area, and pursuant to Article 6 of Chapter 6 of the Redevelopment Law and Section 16 of Article XVI of the State Constitution, taxes levied upon taxable property in the project area each year by or for the benefit of the State, cities, counties, districts or other public corporations (collectively, the "Taxing Agencies"), for fiscal years beginning after the effective date of the redevelopment plan, will be divided as follows:

(1) *To Taxing Agencies:* The portion equal to the amount of those taxes which would have been produced by the then current tax rate, applied to the taxable valuation of such property in the redevelopment project area as last equalized prior to the establishment of the redevelopment project, or base roll, is paid into the funds of those respective Taxing Agencies as taxes by or for said Taxing Agencies; and

(2) *To the Agency:* The portion of said levied taxes each year in excess of the amount referred to in (1) above is allocated to, and when collected, is paid to the agency; provided that the portion of the tax increment revenues which are attributable to a tax rate levied by a taxing agency to pay indebtedness approved by the voters of that taxing agency on or after January 1, 1989, shall be allocated to, and when collected shall be paid into, the fund of such taxing agency.

Housing Set-Aside Amounts. Sections 33334.2 and 33334.3 of the Redevelopment Law require each agency to set aside not less than 20% of all Tax Increment Revenues in a low and moderate income housing fund (the "Low and Moderate Income Housing Fund") to be expended for authorized low and moderate income housing purposes (the "Housing Set-Aside Amount"). Amounts on deposit in the Low and Moderate Income Housing Fund may also be applied to pay debt service on bonds, loans or advances used to provide financing for such low and moderate income housing purposes. Under the Redevelopment Law, the Housing Set-Aside Amount could be reduced or eliminated if the agency finds that (1) no need exists in the community to improve or increase the supply of low and moderate income housing, (2) that some stated percentage less than 20% of the tax increment is sufficient to meet the housing need or (3) that other substantial efforts, including the obligation of funds from certain local, state or federal sources for low and moderate income housing, or equivalent impact are being provided for in the community. See "LIMITATIONS ON TAX REVENUES—Low and Moderate Income Housing" herein. The Agency has made no such finding and is, therefore, obligated to make such set-aside. No portion of the proceeds of the Bonds is expected to be deposited in the Low and Moderate Income Housing Fund.

Approximately 20% of the proceeds of the 1995 Bonds and approximately 20% of the proceeds of the 2004 Bonds were used to finance low and moderate income housing projects and moneys in the Low and Moderate Income Housing Fund were used to pay approximately 20% of the debt service on each of those issues. Approximately 9% of the debt service on the Bonds is allocable to the portions of the 1995 Bonds and the 2004 Bonds that funded low and moderate income housing projects. Therefore, approximately 9% of the debt service on the Bonds (approximately \$65,000 per year) will be paid from amounts that that would have otherwise been deposited in the Low and Moderate Income Housing Fund. See "Tax Revenue Projections and Debt Service Coverage" and "Tax Increment Revenue Projections and Debt Service Coverage" herein and APPENDIX D—"FISCAL CONSULTANT'S REPORT."

Tax Sharing Payments. Pursuant to the Redevelopment Law, the Agency is required to make certain payments to affected taxing entities, payable from Tax Revenues. Certain of these obligations have been subordinated to the payment of debt service on the Bonds. See "REDEVELOPMENT PROJECT—Tax Sharing Payments" herein.

Pledge of Tax Revenues

The Bonds and all payments required of the Agency under the Indenture are not general obligations of the Agency but are limited special obligations of the Agency and are secured by an irrevocable pledge of, and are payable as to principal and interest, from Tax Revenues and other funds as hereinafter described. The Bonds and interest thereon are not a debt of the Town, the State or any of its political subdivisions, and neither the Town, the State nor any of its political subdivisions is liable on them. In no event shall the Bonds or interest thereon be payable out of any funds or properties other than those of the Agency as set forth in the Indenture. The Bonds do not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction. Neither the members of the Agency nor any persons executing the Bonds are liable personally on the Bonds by reason of their issuance.

Security of Bonds; Equal Security

The Bonds are secured by a pledge of, security interest in and a first and exclusive lien on all of the Tax Revenues, and a first and exclusive pledge of, security interest in and lien upon all of the moneys in the Special Fund, the Debt Service Fund, the Interest Account, the Principal Account, the Sinking Account, and the Redemption Account, without preference or priority for series, issue, number, dated date, sale date, date of execution or date of delivery. Except for the Tax Revenues and such other moneys, no funds or properties of the Agency shall be pledged to, or otherwise liable for, the payment of principal of or interest or redemption premium (if any) on the Bonds.

In consideration of the acceptance of the Bonds by those who shall hold the same from time to time, the Indenture shall be deemed to be and shall constitute a contract between the Agency and the Owners from time to time of the Bonds, and the covenants and agreements set forth in the Indenture to be performed on behalf of the Agency shall be for the equal and proportionate benefit, security and protection of all Owners of the Bonds without preference, priority or distinction as to security or otherwise of any of the Bonds over any of the others by reason of the number or date thereof or the time of sale, execution and delivery thereof, or otherwise for any cause whatsoever, except as expressly provided therein.

The Agency has no power to levy and collect property taxes, and any property tax limitation, legislative measure, voter initiative or provision of additional sources of income to Taxing Agencies having the effect of reducing the property tax rate or collections, could reduce the amount of Tax Revenues that would otherwise be available to pay the principal of, and

interest on, the Bonds. Likewise, broadened property tax exemptions could have a similar effect. See "BONDOWNERS' RISKS" herein.

Special Fund; Deposit of Tax Revenues

There is established in the Indenture a special fund to be known as the "Special Fund," which shall be held by the Agency. The Agency shall transfer all of the Tax Revenues received in any Bond Year to the Special Fund promptly upon receipt thereof by the Agency, until such time during such Bond Year as the amounts on deposit in the Special Fund equal the aggregate amounts required to be transferred to the Trustee for deposit into the Interest Account, the Principal Account and the Sinking Account in such Bond Year.

All Tax Revenues received by the Agency during any Bond Year in excess of the amount required to be deposited in the Special Fund during such Bond Year, including delinquent amounts if any, shall be released from the pledge and lien under the Indenture for the security of the Bonds and may be applied by the Agency for any lawful purposes of the Agency, including but not limited to the payment of Subordinate Debt, or the payment of any amounts due and owing to the United States of America. Prior to the payment in full of the principal of and interest and redemption premium (if any) on the Bonds and the payment in full of all other amounts payable under the Indenture and under any Supplemental Indenture, the Agency shall not have any beneficial right or interest in the moneys on deposit in the Special Fund, except as may be provided in the Indenture and in any Supplemental Indenture.

Deposit of Amounts by Trustee

There is established in the Indenture a trust fund to be known as the Debt Service Fund, which shall be held by the Trustee in trust. Moneys in the Special Fund shall be transferred by the Agency to the Trustee in the following amounts, at the following times, and deposited by the Trustee in the following respective special accounts, which are established in the Debt Service Fund, and in the following order of priority:

Interest Account. On or before the fifth Business Day preceding each Interest Payment Date, the Agency shall withdraw from the Special Fund and transfer to the Trustee, for deposit in the Interest Account an amount which when added to the amount contained in the Interest Account on that date, will be equal to the aggregate amount of the interest becoming due and payable on the Outstanding Bonds on such Interest Payment Date. No such transfer and deposit need be made to the Interest Account if the amount contained therein is at least equal to the interest to become due on the next succeeding Interest Payment Date upon all of the Outstanding Bonds. All moneys in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds redeemed or purchased prior to maturity pursuant to the Indenture).

Principal Account. On or before the fifth Business Day preceding June 1 in each year, the Agency shall withdraw from the Special Fund and transfer to the Trustee for deposit in the Principal Account an amount which, when added to the amount then contained in the Principal Account, will be equal to the principal becoming due and payable on the Outstanding Bonds on the next June 1. No such transfer and deposit need be made to the Principal Account if the amount contained therein is at least equal to the principal to become due on the next June 1 on all of the Outstanding Bonds. All moneys in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds as it shall become due and payable.

Sinking Account. On or before the fifth Business Day preceding each Sinking Account payment date in each year, the Agency shall withdraw from the Special Fund and transfer to the Trustee for deposit in the Sinking Account an amount which, when added to the amount then contained in the Sinking Account, will be equal to the Sinking Account installment becoming due and payable on the Outstanding Bonds on the next June 1. No such transfer and deposit need be made to the Sinking Account if the amount contained therein is at least equal to the Sinking Account installment to become due on the next June 1 on all of the Outstanding Bonds. All moneys in the Sinking Account shall be used and withdrawn by the Trustee solely for the purpose of paying the aggregate principal amount of the Term Bonds required to be redeemed on such June 1.

Reserve Account. In the event that the Trustee has actual knowledge that the amount on deposit in the Reserve Account at any time is less than the Reserve Requirement, the Trustee shall promptly notify the Agency of such fact. Promptly upon receipt of any such notice, the Agency shall transfer to the Trustee, Tax Revenues sufficient to maintain the Reserve Requirement on deposit in the Reserve Account. If there shall then not be sufficient Tax Revenues to transfer an amount sufficient to maintain the Reserve Requirement on deposit in the Reserve Account, the Agency shall be obligated to continue making transfers as Tax Revenues become available in the Special Fund until there is an amount sufficient to maintain the Reserve Requirement on deposit in the Reserve Account. No such transfer and deposit need be made to the Reserve Account so long as there shall be on deposit therein a sum at least equal to the Reserve Requirement. Amounts in the Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of making transfers to the Interest Account, the Principal Account and the Sinking Account in such order of priority, in the event of any deficiency at any time in any of such accounts or for the retirement of all the Bonds then Outstanding, except that so long as the Agency is not in default under the Indenture, any amount in the Reserve Account in excess of the Reserve Requirement (as determined by the Trustee based upon a valuation of investments held in such account) shall be withdrawn from the Reserve Account semiannually on or before the Business Day preceding each June 1 and December 1 by the Trustee and deposited in the Interest Account. If a valuation discloses that amounts in the Reserve Account are less than the Reserve Requirement, which valuation must occur not less than semi-annually, the Agency shall immediately cause the cure thereof from any available moneys. All amounts in the Reserve Account on the Business Day preceding the final Interest Payment Date shall be withdrawn from the Reserve Account and shall be transferred either (i) to the Interest Account and the Principal Account, in such order, to the extent required to make the deposits then required to be made pursuant to the Indenture or, (ii) if the Agency shall have caused to be transferred to the Trustee an amount sufficient to make the deposits required by the Indenture, then, at the Written Request of the Agency, to the Agency for deposit by the Agency into the Debt Service Fund. The Trustee may conclusively presume that there has been no change in the Reserve Requirement unless notified in writing by the Agency. Amounts in the Reserve Account will also be applied to pay the final payments of principal of and interest on the Bonds.

As defined in the Indenture, the term "Reserve Requirement" means, at any time of calculation, an amount, calculated by or on behalf of the Agency and certified to the Trustee in writing, equal to the least of (a) Maximum Annual Debt Service on all Outstanding Bonds, (b) 125% of average annual debt service on all Outstanding Bonds, and (c) 10% of the principal amount of all Outstanding Bonds.

Issuance of Parity Debt

In addition to the Bonds, the Agency may issue or incur Parity Debt payable from Tax Revenues on a parity with the Bonds to finance redevelopment projects within or for the benefit of the Redevelopment Project in such principal amount as shall be determined by the Agency. The Agency may issue and deliver any such other Parity Debt subject to the following specific

conditions precedent to the issuance and delivery of such Parity Debt, among other requirements set forth in the Indenture:

(a) Tax Revenues for the then current Fiscal Year, based on the most recent assessed valuation of property in the Redevelopment Project, as evidenced in written documentation from an appropriate official of the County, plus, at the option of the Agency, the Additional Revenues, shall be at least equal to one hundred forty-five percent (145%) of Maximum Annual Debt Service on all Bonds and Parity Debt which will be Outstanding following the issuance of such Parity Debt.

(b) The aggregate amount of the principal and sinking fund installments of and interest on all Outstanding Bonds, Parity Debt and Subordinate Debt coming due and payable following the issuance of such Parity Debt shall not exceed the maximum amount of Tax Revenues permitted under the Plan Limitations;

(c) The aggregate amount of all Bonds, Parity Debt and Subordinate Debt to be outstanding following the issuance of such Parity Debt shall not exceed the maximum amount of obligations permitted under the Plan Limitations to be outstanding at any time; and

(d) The document providing for the issuance of such Parity Debt shall provide for the creation of a reserve fund funded therefor in an amount equal to the least of (i) maximum annual debt service on such Parity Debt, (ii) 10% of the principal amount of such Parity Debt, and (iii) 125% of average annual debt service on such Parity Debt or shall provide for a reserve account credit instrument equal to the maximum annual debt service on such Parity Debt.

For purposes of calculating Tax Revenues in applying the Parity Debt provisions, such Tax Revenues shall be calculated on the basis of a tax rate of \$1.00 per \$100 of assessed value.

If such Parity Debt is payable at a variable interest rate, interest should be calculated assuming the 30-year Revenue Bond Index as published by The Bond Buyer no more than two weeks prior to date of sale.

Issuance of Subordinate Debt

In addition to the Bonds, the Agency may issue or incur Subordinate Debt in such principal amount as shall be determined by the Agency. The Agency may issue and deliver any such other Subordinate Debt subject to the following specific conditions precedent to the issuance and delivery of such Subordinate Debt, among other requirements set forth in the Indenture:

(a) The Tax Revenues for the then current Fiscal Year, based on the most recent assessed valuation of property in the Redevelopment Project as evidenced in written documentation from an appropriate official of the County, after deducting all amounts required for the payment of the Bonds and any Parity Debt, shall be at least equal to one hundred percent (100%) of Maximum Annual Debt Service on all Subordinate Debt which will be outstanding following the issuance of such Subordinate Debt;

(b) If, and to the extent, such Subordinate Debt is payable from Tax Revenues within the Plan Limitations, then principal and sinking fund installments of and interest on all Outstanding Bonds, Parity Debt and Subordinate Debt coming due and payable following the issuance or incurrence of such Subordinate Debt shall not exceed the maximum amount of Tax Revenues permitted within the Plan Limitations; and

(c) The aggregate amount of all Bonds, Parity Debt and Subordinate Debt to be outstanding following the issuance of such Subordinate Debt shall not exceed the maximum amount of obligations permitted under the Plan Limitations to be outstanding at any time.

THE TOWN AND THE COUNTY

The Town, a general law city, was incorporated on November 27, 1991 and is located in San Bernardino County (the "County") about 125 miles east of Los Angeles and 25 miles north of Palm Springs, California. The Town has a Council-Manager form of municipal government. The Town encompasses an area of approximately 38 square miles situated 3,224 feet above sea level. The Town enjoys a California high desert climate with winter low temperatures averaging 33 degrees, and summer high temperatures averaging 99 degrees. See APPENDIX B—"GENERAL INFORMATION REGARDING THE TOWN AND THE COUNTY."

The County, located in Southern California, was established by an act of the State Legislature on April 23, 1853, forming the County from the eastern part of Los Angeles County. The County encompasses an area of over 20,000 square miles and includes twenty-four incorporated cities. In terms of population, it is one of the fastest growing metropolitan areas (defined as Riverside-San Bernardino-Ontario) in the United States and is the largest county in the continental United States in terms of area. A large and well diversified economy ranging from agriculture to scientific equipment characterizes the County. It is widely known for its temperate climate, geographical location and its educational and recreational facilities. See APPENDIX B—"GENERAL INFORMATION REGARDING THE TOWN AND THE COUNTY."

THE AGENCY

Agency Members

The Agency was activated in 1992 by ordinance of the Town Council pursuant to the Law. Four members of the Town Council and one appointed member serve as the governing body of the Agency and exercise all rights, powers, duties and privileges of the Agency. The members of the governing body of the Agency are as follows:

Member	Term Expires
Robert J. Leone, <i>Chair</i>	December, 2008
Frank Luckino, <i>Vice Chair</i>	December, 2008
Lori Herbel, <i>Board Member</i>	December, 2010
George Huntington, <i>Board Member</i>	December, 2010
Chad J. Mayes, <i>Board Member</i>	December, 2010

Agency Administration

The Town has agreed to provide the Agency with staff, office space and supplies and the Agency has agreed to reimburse the Town for such services, supplies and equipment. The Agency and the Town adopt an annual administrative budget delineating the costs of such services. The Agency reimburses the Town out of available tax increment revenues. Such reimbursement is subordinate to any outstanding bonded indebtedness of the Agency including the Bonds.

The Agency is administered by certain staff of the Town:

- *Andrew J. Takata*, Executive Director (who also serves as Town Manager).
- *Curtis Yakimow*, Treasurer (who also serves as Town Director of Administrative Services).
- *Janet M. Anderson*, Secretary (who also serves as Town Clerk).
- *Naomi Silvergleid, Esq.*, Agency Counsel (who also serves as Town Attorney).

See APPENDIX B—"GENERAL INFORMATION CONCERNING THE TOWN AND THE COUNTY."

Agency Powers

All powers of the Agency are vested in its members. Pursuant to the Law, the Agency is a separate public body and exercises governmental functions, including planning and implementing redevelopment projects.

The Agency may exercise the right to issue bonds for authorized purposes and to expend their proceeds, and the right to acquire, sell, rehabilitate, develop, administer or lease property. The Agency may demolish buildings, clear land and cause to be constructed certain improvements, including streets, sidewalks, and utilities, and can further prepare for use as a building site any real property which it owns or administers.

The Agency may, from any funds made available to it for such purposes, pay for all or part of the value of land and the cost of buildings, facilities or other improvements to be publicly owned and operated, provided that such improvements are of benefit to a redevelopment project and cannot be financed by any other reasonable method. The Agency may not construct or develop buildings, with the exception of public buildings and housing, and must sell or lease cleared property which it acquires within a redevelopment project for redevelopment in conformity with a particular redevelopment plan, and may further specify a period within which such redevelopment must begin and be completed.

Outstanding Indebtedness of the Agency

Certification of Agency Indebtedness. Pursuant to section 33675 of the Law, on or before October 1 of each year the Agency must file with the County Auditor a statement of indebtedness certified by the chief fiscal officer of the Agency for each redevelopment project that receives tax increment. The statement of indebtedness is required to contain the date on which any bonds were delivered, the principal amount, term, purpose and interest rate of bonds and the outstanding balance and amount due on bonds. Similar information must be given for each loan, advance or indebtedness that the Agency has incurred or entered into to be payable from tax increment. The Agency has complied with the requirements of section 33675 each year since adoption of the Redevelopment Plan.

Section 33675 also provides that the County Auditor is limited in payment of tax increment to the Agency to the amounts shown on the Agency's statement of indebtedness. The section further provides that the statement of indebtedness is prima facie evidence of the indebtedness of the Agency but that the County Auditor may dispute the amount of indebtedness shown on the statement in certain cases. Provision is made for time limits under which the dispute can be made by the County Auditor as well as provisions for determination by the Superior Court in a declaratory relief action of the proper disposition of the matter. The issue in any such action must involve only the amount of the indebtedness and not the validity of any contract or debt instrument, or any expenditures pursuant thereto. An exception is made for payments to a public agency in connection with payments by such public agency pursuant to a bond issue which shall not be disputed in any action under section 33675.

Bonded Indebtedness. Other than the 1995 Bonds and the 2004 Bonds, the Agency has incurred no bonded indebtedness. Following the issuance of the Bonds and the refunding of the 1995 Bonds and the 2004 Bonds, the Bonds will be the only outstanding bonded indebtedness of the Agency.

Agency Financial Statements

The Law requires redevelopment agencies to have an independent financial audit conducted each year. The financial audit is also required to include an opinion of the Agency's compliance with laws, regulations and administrative requirements governing activities of the Agency. Audited financial statements for the Agency for the Fiscal Year that ended June 30, 2007, included in Appendix A attached hereto, have been prepared by Mayer Hoffman McCann P.C., Irvine, California. The firm's audit was made in accordance with generally accepted auditing standards. See APPENDIX C—"AUDITED FINANCIAL STATEMENTS OF THE AGENCY FOR THE FISCAL YEAR ENDED JUNE 30, 2007."

THE REDEVELOPMENT PROJECT

The following is a summary description of the Redevelopment Project. Included within this description are sections discussing the present and current conditions of the Redevelopment Project and the future development within the Redevelopment Project. These descriptions have been supplied by the Agency. There can be no assurance that the future developments discussed below will be completed in the manner or in the time periods set forth.

General

Under the Law every redevelopment agency is required to adopt, by ordinance, a redevelopment plan for each redevelopment project specifically authorized in the adopted redevelopment plan. A redevelopment plan is a legal document, the content of which is largely prescribed in the Law, rather than a "plan" in the customary sense of the word.

The overall objective of the redevelopment plan is to eliminate blighted conditions in the project area by undertaking all appropriate projects pursuant to the Law.

The Town Council of the Town adopted a redevelopment plan (the "Redevelopment Plan") for the Yucca Valley redevelopment project area (the "Redevelopment Project") pursuant to Ordinance No. 37 enacted on August 5, 1993.

Description of the Redevelopment Project

The Redevelopment Project consists of approximately 2,358 acres or approximately 10% of the total area of the Town. The Redevelopment Project includes the central business district of the Town and a residential area in the eastern portion of the Town. The Redevelopment Project is zoned for mixed land uses with commercial, industrial, residential and public facility uses. The Redevelopment Project consists of two sub-areas, the East End Residential Redevelopment Project and the Downtown Redevelopment Project. The East End Residential Area is 925.82 acres in size and the Downtown Redevelopment Project is 1,432 acres in size. These sub-areas are for reference only and the two taken together constitute the Redevelopment Project. There is no differentiation between the sub-areas in regards to the Redevelopment Project limits or redevelopment activities.

As adopted with the Agency's Five-Year Implementation Plan (2000/2005) (the "Implementation Plan"), numerous goals and objectives were identified as critical keys to success of the Agency's long range plans. The adopted goals and objectives within the Implementation Plan played a lead role in determining the actual implementation programs adopted by the Agency Board on September 21, 1995. The Agency's Five-Year Implementation Plan contains the following goals and objectives.

- Eliminate and prevent the spread and recurrence of blight and deterioration.
- Redevelop, rehabilitate, conserve, restore and renew the project area. In addition, work in conjunction with Town of Yucca Valley programs which encourage proper maintenance of residential properties, facilitate the productive use of abandoned housing, as well as emphasize the need for proper maintenance of streets and public pedestrian facilities.
- Expand the Town's supply of decent, safe, and affordable housing to persons and families of low, very low and moderate-income and encourage home ownership. Additionally, facilitate the productive use of abandoned housing and monitor adverse effects of absentee-owned property.
- Develop and maintain, in accordance with the Town Center Specific Plan, a quality Yucca Valley Town Center area that will provide public/quasi-public, institutional, and financial services to the Town and the Morongo Basin.
- Maintain and expand upon existing shopping opportunities within the Redevelopment Project that will provide the Basin with retail shopping opportunities as well as encourage project investment and merchants to locate within the Redevelopment Project.
- Encourage Basin-wide technical training programs and the hiring of area residents for area construction projects.
- Emphasize social service needs in the Basin and strengthen participation of existing and new community organizations in related programs such as Neighborhood Improvement and Youth Services.
- Through the Gateway Specific Plan and the Town Center Specific Plan, establish a positive identity for Yucca Valley and undertake efforts to improve the attractiveness of the existing business district towards increasing tourism-related commercial enterprises.
- Emphasize economic development opportunities for the Basin that will promote job creation and entrepreneurial opportunities for the Basin as well as encourage commercial and industrial, and small business development and ownership. Facilitating new development through its completion is a major goal.
- The removal of substandard buildings and incompatible uses to permit the development of the Project through new construction and better economic use.

- The removal of impediments to land disposition and development through the assembly of land into reasonably sized and shaped parcels served by an improved street system and public infrastructure and facilities, and the elimination of unnecessary title encumbrances.
- The elimination of environmental deficiencies including: an inadequate and inappropriate street system characterized by unsafe, unimproved and poorly designed streets; overcrowding or improper location of structures on the land; conversion to incompatible types of uses; obsolete building types; detrimental land uses or conditions such as incompatible uses and structures of mixed use; and inadequate public utilities and facilities.
- The provision of land for needed public facilities.
- The achievement of an environment reflecting a high levels of concern for architectural and design principles deemed appropriate for a rural desert setting.
- Creation of incentive programs for existing property owners to reinvest in their properties.
- Participation in the enhancement of public transportation systems.
- Participation in the enhancement of the public school system.
- Draft, adopt and implement a Commercial/Industrial Economic Enhancement Strategy.
- Establish a Commercial Rehabilitation Loan/Grant Program to upgrade deteriorated or unsafe buildings.
- Assist in the improvement of public infrastructure within the project area.
- Participate in the provision of disaster shelter facilities within the community and the Basin.
- Evaluation of the local and regional economy, labor force, demographics, and other characteristics to facilitate logical redevelopment and economic development planning.

The overall goals and objectives are classified into four overall goals/objectives, which are linked to the elimination of blighting conditions within the project area. The overall goals and objectives are also directly linked to the Agency's work program and with the Town's General Plan.

- Downtown Revitalization/Commercial/Industrial Rehabilitation
- Affordable Housing
- Capital Improvements
- Commercial/Industrial Economic Enhancement Programs.

The Agency has addressed these goals through a number of programs and efforts. These have included the Storefront Improvement Rebate Program, which has resulted in the reuse and rehabilitation of more than two dozen commercial structures within the Redevelopment Project. The Agency also implement the Sign Replacement Program, thereby assisting in blight elimination through the conversion of non-conforming and the highly dilapidated signage that existed along SR 62 within the Redevelopment Project prior to incorporation.

The Agency established the Financial Participation in New Construction program, which has resulted in the attraction of a furniture manufacturing business. This business rehabilitated a former lumber yard property for its manufacturing activities, and the firm employs approximately 40 individuals.

The Agency has also established two housing programs. These include the Housing Rehabilitation Program and the First Time Homebuyers Program. These programs have resulted in the Agency addressing a number of life safety, and health and safety conditions in the older housing stock within the community.

The Agency has also addressed public infrastructure needs. These infrastructure projects have included primarily road construction and/or reconstruction.

Redevelopment Projects

The Agency has been actively involved in the redevelopment of properties located within the Redevelopment Project, including the following recently completed and on-going projects:

Recent Development. The Agency has been actively involved in the redevelopment of properties located within the Redevelopment Project, including the following recently completed projects:

Phelps Chevrolet/Nissan. In the fall of 2007, Phelps Chevrolet Nissan opened its new dealership fronting Highway 62, in the Town. The new facility includes 25,000 square feet of showroom and service area, and is situated on a lot in the middle of Town. Phelps Chevrolet Nissan is the only Chevrolet and Nissan dealer in the Morongo Basin and is a major retail sales tax base within the Town.

Applebee's. In 2005, Applebee's opened its Yucca Valley franchise with a 6,000 square foot restaurant. The restaurant quickly became established as one of the popular eateries in Town, as the market for family-style eating remains historically underserved in the area.

Home Depot. In the fall of 2007, Home Depot completed development of their new 105,000 square foot store, located on the corner of Highway 62 and Avalon. This opening represented the first new big box retailer since Wal-Mart opened in the early 1990's. The Yucca Valley Home Depot is the only home improvement center in the Morongo Basin and will serve Yucca Valley, Twentynine Palms, Joshua Tree, Morongo Valley and a large area of unincorporated the County.

Smaller Development. Other smaller developments recently added in the Redevelopment Project include the 15,000 square foot Morrison Heard Office complex and the 4,700 square foot Hi Desert Animal Hospital. Both locations opened in late 2006 and are fronted along the Highway 62 corridor.

Yucca Valley Best Western Hotel. This new 55,000 square foot hotel was completed in 2008 and includes 94 guest rooms with meeting facilities. Its convenient location to both the Joshua Tree National Park and the Marine Corp Air Ground Combat Center make it an ideal stopping point for visitors to the area.

Future Development. The Agency continues to experience a high level of interest in future commercial development and has a number of new projects in various stages of the development process. Some of these include:

Super Wal-Mart. The newly planned 185,000 square foot Super Wal-Mart will be located adjacent to the new Home Depot retail store, and is anticipated to open in 2010.

Dollar Tree. Dollar Tree is in the process of finishing its new 21,000 square foot retail store, located in the existing Wal-Mart-Stater Brothers shopping center. Along with the facility are an additional number of smaller retail units ranging from 2,000 to 6,000. Each of these facilities is in various stages of completion.

Upcoming Commercial. Other upcoming commercial developments include the Fluet, Valasquez, and Art Miller Commercial Buildings, totaling 14,000, 12,000 and 6,000 square feet, respectively. Each of these buildings will be located along the Highway 62 corridor, within the Redevelopment Project.

Old-Town Development. The Agency continues to move forward with the Town's Old Town area. Recently adopted by the Agency and Town was the Old Town Yucca Valley Specific Plan. The purpose of this plan is to identify key opportunities to enhance the Town's overall economic base and the historic Old Town area. With the completion of the Old Town Specific Plan, the Agency will be looking to move forward on specific development plans including the possibility of a new public library complex.

For more description on various developments in the Redevelopment Project, see "Development Activities" in APPENDIX D—"FISCAL CONSULTANT'S REPORT."

Redevelopment Plan Limitations

Chapter 942, Statutes of 1993, as codified in section 33333.6 of the Law, limits the life of redevelopment plans adopted prior to January 1, 1994, to 40 years from the date of adoption or January 1, 2009, whichever is later. It also limits the period within which a redevelopment project area may receive tax increment to the life of the redevelopment plan plus ten years beyond the termination of redevelopment activities except to accommodate certain specific low and moderate-income housing obligations or to pay debt service on bonds, indebtedness or other financial obligations authorized prior to January 1, 1994. Such redevelopment plans are further required to include a limitation on the number of tax increment dollars that may be allocated to the redevelopment agency; a time limit on the establishing of indebtedness to be repaid with tax increment; and a limit on the amount of bonded indebtedness to be repaid with tax increment that can be outstanding at one time. These limits can be extended only by an amendment of the redevelopment plan.

For redevelopment plans adopted prior to 1994, Chapter 942 stipulates that the time limit for establishing indebtedness shall not exceed 20 years from the adoption of the redevelopment plan or January 1, 2004, whichever is later. Chapter 741, Statutes of 2001, was adopted under SB 211 and amends several sections of the Law that control time limitations for redevelopment project areas. Limitations, that under prior legislation could not be amended or had different amendment procedures, in accordance with this section, may be modified through project area amendments as set forth in this section of the Law. At this time, the Agency is not considering adoption of a Redevelopment Project amendment pursuant to this statute.

The California legislature enacted SB 1045, Chapter 260, Statutes of 2003 ("SB 1045"), as an urgency statute, relating to a requirement that all redevelopment agencies allocate specified amounts of tax increment to the County Controller for deposit into the Education Revenue Augmentation Fund ("ERAF"). See "BONDOWNERS' RISKS—State Budget Deficit-ERAF" herein. In recognition of the loss of revenue to the agencies, SB 1045 authorizes amendments to redevelopment plans to extend by one year the life of the redevelopment plan and the time period in which to collect tax increment revenues. The legislative body of a redevelopment agency can adopt an ordinance (Ordinance No. 152, adopted on May 6, 2004) without having to follow normal lengthy procedures to amend its redevelopment plans. The Agency has adopted

an ordinance to extend by one year the life of the Redevelopment Plan and the time period in which to collect Tax Revenues.

The Redevelopment Plan establishes the limit on the total amount of tax increment revenue that may be received by the Agency at \$275 million. The Redevelopment Plan provides that this limit shall be adjusted annually by the Consumer Price Index for the nearest statistical area for which the United States Department of Labor Bureau of Labor Statistics maintains records. The Redevelopment Plan also establishes a limit of \$27.5 million on the amount of bonded indebtedness that may be outstanding at one time. These limits have been adjusted using the Consumer Price Index for the Los Angeles-Riverside-Orange County statistical area. The plan limitations for the Redevelopment Project are summarized below.

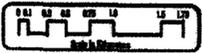
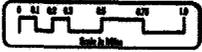
Redevelopment Plan Limitations

Plan Life:	August 5, 2034
Last Date to Establish Debt:	August 13, 2013
Last Date to Repay Debt:	August 5, 2044
Cumulative Tax Increment Limit (1):	\$547,770,352
Bonded Indebtedness Limit (1)	\$54,777,035

(1) Tax increment and outstanding bond debt limits are as adjusted for Consumer Price Index for 2006-07

According to the County Auditor-Controller, the Agency has received a cumulative total of \$6,631,638 of tax increment revenue since its inception. It is not expected that the Agency will reach its tax increment limits prior to the final maturity of the Bonds.

A map of the Town, showing the East End Residential and the Downtown sub-areas of the Redevelopment Project and individual maps of the sub-areas are shown on the following pages:



TOWN OF YUCCA VALLEY
BOUNDARY

TOWN OF YUCCA VALLEY
BOUNDARY

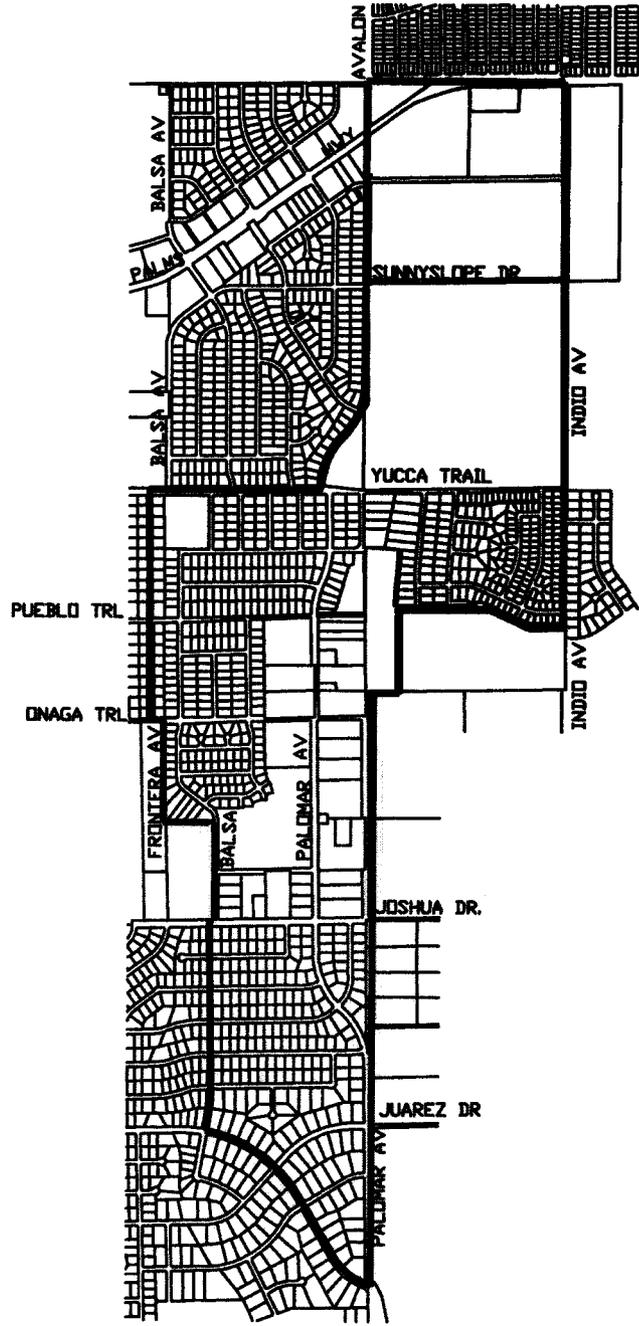
RDA PROJECT AREAS



Town of YUCCA VALLEY

CREATED: MARCH 28, 2004
REVISED: APRIL 10, 2008

NON-RESIDENTIAL SUB-AREA



EAST END RESIDENTIAL RDA AREA

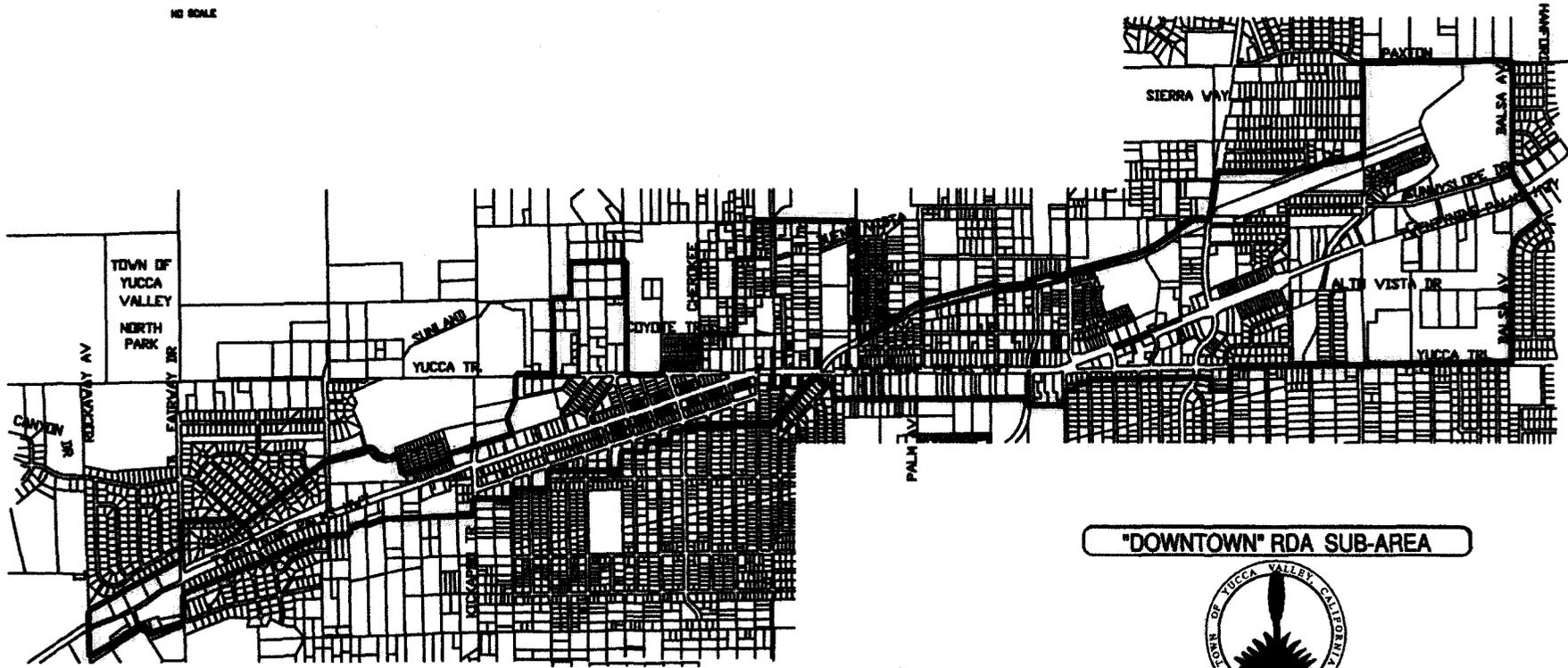


Town of YUCCA VALLEY

CREATED: MARCH 28, 2004
REVISED: APRIL 10, 2008



NO SCALE



"DOWNTOWN" RDA SUB-AREA



Town of YUCCA VALLEY

CREATED: MARCH 28, 2004
REVISED: APRIL 10, 2006

Assessed Valuation

The Base Year assessed valuation was established in fiscal year 1992-93 in the amount of \$214,157,116. A breakdown of the fiscal year 2007-08 assessed valuation in the Redevelopment Project by category of use is shown in the following table. This information is based on land use designations a provided by the County through tax roll data. It should be noted that the County land use designations do not necessarily parallel Town land use and zoning designations. Unsecured values are connected with parcels that are already accounted for in other categories.

Breakdown of Assessed Valuation by Category of Use

<u>Category</u>	<u>No. Parcels</u>	<u>Taxable Value</u>	<u>% of Total</u>
Residential	1,263	\$187,323,973	43.42%
Commercial	321	154,282,693	35.76%
Industrial	30	6,195,850	1.44%
Dry Farm	2	341,923	0.08%
Recreational	4	2,022,396	0.47%
Institutional	11	971,934	0.23%
Miscellaneous	8	561,325	0.13%
Vacant Land	653	47,800,933	11.08%
Exempt	78	0	0.00%
Subtotal	<u>2,370</u>	<u>399,501,027</u>	<u>92.60%</u>
Unsecured	<u>0</u>	<u>31,944,280</u>	<u>7.40%</u>
Total	<u>2,370</u>	<u>\$431,445,307</u>	<u>100.00%</u>

Source: San Bernardino County Assessor 2007-08 Combined Tax Rolls

Note: Unsecured and possessory interest parcels are shown in brackets because they are, in reality, tax bills that are assigned to secured parcels already accounted for in other categories. The figures include the value for exempt parcels such as those owned by the Town, the Agency, the State or other governmental agencies.

According to the figures provided on the assessor's tax rolls, the 653 vacant, privately owned parcels within the Redevelopment Project total 947 acres. This vacant land is 40.16% of all acreage within the Redevelopment Project.

The following table shows the actual assessed values for Fiscal Years 2003 to 2007 based upon the County Auditor/Controller's equalized rolls and incremental values of property within the Redevelopment Project based on an exclusion of assessed values from the unsecured roll, together with debt service and debt service coverage information.

**Historical Taxable Values, Tax Increment Revenues, Debt Service and Debt Service Coverage
Fiscal Years Ended June 30,**

	2003	2004	2005	2006	2007
Assessed Values					
Secured	235,645,156	245,846,555	264,380,093	297,385,331	348,764,225
Unsecured	24,000,035	25,183,754	26,303,187	24,803,722	26,733,996
Total Assessed Values	259,645,191	271,030,309	290,683,280	322,189,053	375,498,221
Base Year Values	(214,157,116)	(214,157,116)	(214,157,116)	(214,157,116)	(214,157,116)
Incremental Assessed Values	45,488,075	56,873,193	76,526,164	108,031,937	161,341,105
Gross Tax Increment Revenues	496,540	720,367	941,709	1,403,161	1,949,772
Less:					
County Admin Charges	(9,528)	(7,599)	(9,175)	(16,478)	(12,696)
Housing Set Aside Requirement	(70,584)	(115,715)	(117,082)	(208,992)	(319,146)
Tax Sharing Payments	(118,183)	(168,638)	(220,454)	(328,480)	(456,442)
Total Deductions	(198,295)	(291,952)	(346,711)	(553,950)	(788,284)
Tax Revenues	298,245	428,415	594,998	849,211	1,161,488
Debt Service	143,623	141,792	356,300	358,203	354,038
Debt Service Coverage	2.08x	3.02x	1.67x	2.37x	3.28x

Source: Agency.

The aggregate total taxable value for the ten largest taxpayers for Fiscal Year 2007-08 totals \$47,083,379. This amount is 21.67% of the \$217,288,191 Redevelopment Project incremental value and 10.91% of the total Redevelopment Project assessed value. The top taxpayer in the Redevelopment Project is Wal Mart Real Estate Business Trust, which controls two secured parcels with a combined value of \$10,334,663 and controls unsecured value of \$1,208,279. The combined value of the Wal Mart parcels is 2.68% of the Redevelopment Project total values and 5.31% of the Redevelopment Project incremental valuation. The second largest taxpayer in Redevelopment Project is California Valley Associates that controls a total of \$7,156,816 in secured assessed value. This amount is 3.29% of the Redevelopment Project's incremental value and 1.66% of the Redevelopment Project's total assessed value.

None of the top ten taxpayers have assessment appeals pending. Despite a 10.8% increase in the assessed value controlled by the top ten taxpayers since the Agency issued the 2004 Bonds the concentration of ownership within the top ten taxpayers has been significantly reduced over this period of time. At the time that the 2004 Bonds were issued, the top ten taxpayers represented 15.68% of all taxable assessed value within the Redevelopment Project and 74.73% of all incremental taxable value within the Redevelopment Project. As discussed above, these percentages for 2007-08 are 10.91% and 21.67% respectively. The following table shows the ten largest property taxpayers, by assessed value, in the Redevelopment Project.

Largest Fiscal Year 2007-08 Property Taxpayers, by Assessed Value

Property Owner	Primary Land Use	2007-08 Assessed Valuation	% of Total (1)
Wal Mart Real Estate Business Trust	Retail Store	\$11,542,942	5.31%
California Valley Associates	Commercial Shopping Center (Vons)	\$7,156,816	3.29%
Katherine Brush	Auto Dealership (Phelps Chevrolet)	\$4,231,220	1.95%
Robert J. Rueham	Commercial Shopping Center (Stater Bros.)	\$4,091,760	1.88%
Apache Mobile Home Park Association	Mobil Homes Residential	\$3,659,971	1.68%
CAC Exchange I LLC	Cable Communications	\$3,568,246	1.64%
Susan Esther Sandelman Trust	Commercial Shopping Center (Ralphs)	\$3,464,500	1.59%
John Brooks & Company Insurance Brokerage	Commercial (Walgreens Drug Store)	\$3,307,924	1.52%
DYC Hotel LLC	Vacant Land/Hotel (Yucca Inn & Suites)	\$3,060,000	1.41%
Palasades Group Limited Partnership	Restaurant (Applebee's)	\$3,000,000	1.38%
		<u>\$47,083,379</u>	<u>21.65%</u>

Source: San Bernardino County Assessor 2007-08 Secured and Unsecured Tax Rolls
 (1) The Redevelopment Project total taxable value for fiscal year 2007-08 is \$431,445,307

Annual Tax Receipts to Tax Levy

The County apportions tax revenues to redevelopment agencies based upon the amount of the tax levy that is received from the taxpayers. The following table illustrates the tax revenue collections for the previous five fiscal years.

Tax Revenue Collections

Fiscal Year	Original Tax Levy	Current Year Apportioned	Prior Year Collections	Total Apportioned	Current Collections Percentage	Percentage Total Collections
2001-02	\$ 372,537	\$ 342,701	\$ 21,114	\$ 363,815	91.99%	97.66%
2002-03	451,293	450,144	46,395	496,540	99.75	110.03
2003-04	599,121	627,383	92,984	720,367	104.72	120.24
2004-05	807,074	830,586	111,123	941,709	102.91	116.68
2005-06	1,168,311	1,227,830	175,331	1,403,161	105.09	120.10
2006-07	1,643,393	1,671,784	277,988	1,949,772	101.72	118.64

Source: San Bernardino County Auditor-Controller's Office.

Appeals of Assessed Values

Pursuant to California law, property owners may apply for a reduction of their property tax assessment by filing a written application, in the form prescribed by the State Board of Equalization, with the appropriate county board of equalization or assessment appeals board. After the applicant and the assessor have presented their arguments, the Appeals Board makes a final decision on the proper assessed value. The Appeals Board may rule in the assessor's favor, in the applicant's favor or the Appeals Board may set its own opinion of the proper assessed value, which may be more or less than either the assessor's opinion or the applicant's opinion.

Any reduction in the assessment ultimately granted applies to the year for which application is made and during which the written application was filed. After a reduction is allowed, the property is reviewed on an annual basis to determine its full cash value and the valuation may be adjusted accordingly. This may result in further reductions or increases in value. Such increases are in accordance with the actual cash value of the property and may exceed the maximum annual inflationary growth rate allowed on other properties under Article XIII A of the State Constitution. Once the property has regained its prior value, adjusted for inflation, it is once again subject to the annual inflationary growth rate allowed under Article XIII A.

Appeals for reduction in the "base year" value of an assessment, if successful, reduce the assessment for the year in which the appeal is taken and prospectively after that. The "base year" is determined by the completion date of new construction or the date of change of ownership. Any base year appeal must be made within four years of the change of ownership or new construction date.

Refunds for taxpayer overpayment of property taxes may include refunds for overpayment of taxes in years after that which was appealed. Any taxpayer payment of property taxes that is based on a value that is subsequently adjusted downward will require a refund for overpayment.

There are no pending appeals on any properties in the Redevelopment Project.

Tax Sharing Agreements

The Agency has entered into several tax sharing agreements with affected taxing entities. In its agreement with the County, as amended on November 19, 2002, the Agency is not obligated to make any tax sharing payments until the 2007-08 fiscal year. From 2007-08 through 2021-22, the County will receive at least 40% of its defined share of general levy tax increment revenue. This defined share is 14.53424%. In any year during this period that annual general levy tax increment revenue is greater than \$1.5 million and less than \$5 million the County will receive 50% of their defined share of general levy tax increment revenue. In any year during this period that annual general levy tax increment revenue is more than \$5 million the County will receive 70% of its defined share of general levy tax increment revenue. From fiscal year 2022-23 through the last year that the Agency may repay indebtedness from tax increment revenue the County will receive 50% of its defined share of general levy tax increment revenue. If the Agency's general levy revenue in any year during this period exceeds \$5 million the County will receive 70% of its share of general levy tax increment revenue.

The agreement with the County, as most recently amended on March 30, 2004, provides that payment under this agreement will be subordinated to the payment of debt service on the Agency's bonded debt so long as the principal amount of the bonds does not exceed \$10 million and the maturity date for the bonds does not extend beyond June 1, 2033. The Agency is

obligated to provide the County with the offering documents for any tax allocation or refunding tax allocation bond issues offered by the Agency. The amount of the Bonds will likely exceed the \$10 million limit that is in effect. The Agency has entered into discussions with the County on a possible amendment of the agreement that would increase the amount of bonded debt that may be issued by the Agency while still allowing tax sharing amounts to the County to be subordinate to the debt service on those bonds. Because the County has been willing to consider such changes in the past, it has been assumed in the projections that such an amendment to the agreement will be agreed upon.

The Agency entered into an agreement with the San Bernardino County Superintendent of Schools. This agreement calls for the Superintendent of Schools to receive its share of general levy tax increment revenue net of housing set-aside. The Superintendent of Schools' share of general levy tax increment is 0.729%. The agreement provides that the Agency may request that the Superintendent of Schools subordinate its tax sharing payments to the Agency's payment of debt service on bonded indebtedness. The Superintendent of Schools is to be provided with a report from an independent financial consultant showing that there is every expectation that the Superintendent's tax sharing payments can be made in addition to the debt service payments. If this assurance is shown, the Superintendent of Schools may not unreasonably withhold its agreement to subordinate. The Agency has requested such subordination from the Superintendent of Schools and supplied the information necessary to demonstrate that there is every expectation that the Agency will be able to make the agreed upon tax sharing payment. Agreement to the subordination request has been granted by the Superintendent of Schools.

The Agency's agreements with the Copper Mountain Community College District (3.99%), the Hi-Desert County Water District (6.92%) and the Mojave Water Agency (0.382%) call for the Agency to annually pay these districts their shares of general levy tax increment revenue. These payments are not subordinate to debt service on the Bonds.

The Agency's agreement with the Morongo Unified School District provides that tax sharing payments be made to the District on a sliding scale. The District's share of general levy tax increment revenue is 19.41%. The District received 15% of its share of general levy tax increment revenue during years one through four of the Redevelopment Project's life (1994-95 through 1997-98) and is receiving 40% of its share of general levy tax increment revenue during years five through fifteen (1998-99 through 2008-09). The agreement calls for the District to receive 65% of its share of general levy tax increment revenue during years sixteen (2009-10) through the termination of the Redevelopment Project's ability to repay indebtedness. There is no provision in the agreement for subordination of the tax sharing payments to debt service on the Bonds.

By agreement with the Agency, the Yucca Valley Fire District annually receives 20% of its share of general levy tax increment revenue. The Fire District's share of the general levy revenue is 21.77%. There is no provision for subordination to debt service on the Bonds within the agreement.

Further description of these Tax Sharing Agreements can be found under the caption "Tax Sharing Obligations" in APPENDIX D—"FISCAL CONSULTANT'S REPORT."

Fiscal Consultant's Report

The Fiscal Consultant's Report contains estimates of tax increment collected through Fiscal Year 2006-07 for the Redevelopment Project (\$6,631,638) and projections of further tax increment in order to assess the status of the tax increment cap under the Redevelopment Plan. Under the Fiscal Consultant's Report, tax increment is projected over the duration of the Redevelopment Project and tax increment is assumed to be available until the time limit on

receipt of tax increment is reached. In addition, the Agency has covenanted to annually review cumulative tax increment collections and to take certain steps if the cumulative cap on the receipt of tax increment is expected to negatively impact the Agency's ability to repay the Bonds. See "Tax Revenue Projections and Debt Service Coverage" herein. See APPENDIX D—"FISCAL CONSULTANT'S REPORT."

Tax Revenue Projections and Debt Service Coverage

The table below shows the projected growth of assessed valuation in the Redevelopment Project and the resulting net tax increment revenues for fiscal years 2007-08 through 2011-12, as estimated by the Fiscal Consultant.

Receipt of projected net tax increment revenues in the amounts and at the time projected by the Agency depends on the realization of certain assumptions relating to the net tax increment revenues. The projections shown on the following tables are based on a number of assumptions made by the Fiscal Consultant and are subject to various limiting conditions. Although the Agency believes that the assumptions upon which the projected net tax increment revenues are based are reasonable, the Agency provides no assurance that the projected net tax increment revenues will be realized. For example, the Fiscal Consultant's projections assume that the total assessed value will grow at the rate of two percent per year. There is no assurance that growth will occur at such rate. In the past, there have been periods during which this growth rate did not occur. In addition, projected growth in real property taxable values includes anticipated value added from the identified new developments identified under the subheading "Redevelopment Projects" above. To the extent that the assumptions made by the Fiscal Consultant are not actually realized, the Agency's ability to timely pay principal and interest on the Bonds may be adversely affected. See APPENDIX D—"FISCAL CONSULTANT'S REPORT" for a further description of the assumptions and limiting conditions relative to these projections; also see "BONDOWNERS' RISKS."

**Projected Taxable Values, Tax Increment Revenues, Debt Service and Debt Service Coverage
Fiscal Years Ended June 30,
(Dollars in Thousands)**

	2007-08	2008-09	2009-10	2010-11	2011-12
Taxable Values (1)					
Real Property (2)	\$416,431	\$433,665	\$442,338	\$451,185	\$460,209
Personal Property (3)	15,015	15,015	15,015	15,015	15,015
Total Projected Value	431,445	448,680	457,353	466,200	475,224
Base Year Values	(214,157)	(214,157)	(214,159)	(214,159)	(214,159)
Incremental Assessed Values	217,288	234,523	243,196	252,043	261,066
Gross Tax Increment Revenue (4)	2,173	2,345	2,432	2,520	2,611
Unitary Tax Revenue	2	2	2	2	2
Gross Revenues	2,175	2,348	2,434	2,523	2,613
Less:					
County Admin and Collection Charges (5)	(20)	(21)	(22)	(23)	(24)
Housing Set Aside Requirement (6)	(370)	(404)	(422)	(439)	(458)
Tax Sharing					
Morongo Unified School District (7)	(169)	(182)	(307)	(318)	(330)
Copper Mountain Comm. College (8)	(87)	(94)	(97)	(101)	(104)
Yucca Valley Fire District (9)	(95)	(102)	(106)	(110)	(114)
Hi-Desert County Water District (8)	(151)	(163)	(169)	(175)	(181)
Mojave Water Agency (8)	(8)	(9)	(9)	(10)	(10)
County of San Bernardino (10)	(158)	(171)	(177)	(183)	(190)
Total Deductions	(1,058)	(1,146)	(1,309)	(1,359)	(1,411)
Tax Revenues	1,118	1,202	1,126	1,164	1,203
Debt Service	165	739	739	738	735
Debt Service Coverage	6.78x	1.63x	1.52x	1.58x	1.64x

- (1) Taxable values as reported by San Bernardino County.
- (2) Real property consists of land and improvements. Increased for transfers of ownership after Jan. 1, and increased for inflation at 2% annually.
- (3) Personal property is held constant at 2007-08 level.
- (4) Project gross tax increment is based upon incremental taxable values factored against an assumed tax rate and adjusted for any indebtedness approved by voters after 1988. There are no present debt service overrides except for those of the Mojave Water District which are not applicable. Future tax rates are assumed to remain at \$1.00 per \$100 of taxable value.
- (5) County Administration fee and Collection Charge are estimated 1.02% of Gross Revenue.
- (6) Housing Set Aside calculated at 20% of gross tax increment revenue, reduced by the amount of debt service on the Bonds that is attributable to bond proceeds used for housing purposes.
- (7) Morongo Unified School District receives 40% of its share (19.41%) of general levy tax increment revenue through 2008-09 and 65% of its share from 2009-10 thereafter.
- (8) Copper Mountain Community College (3.99%), Hi-Desert County Water District (6.92%) and Mojave Water Agency (0.382%) receive their shares of general levy tax increment revenue.
- (9) Yucca Valley Fire District receives 20% of its share (21.77%) of general levy tax increment revenue.
- (10) Based on a revised agreement with the County, the County share stipulated at 14.53424% of general levy tax increment. The County receives 40% of its share of general levy tax revenue until annual gross revenue exceeds \$1,500,000. The County receives 50% of its share of general levy tax revenue when annual gross revenue is greater than \$1,500,000 and 70% of its share of general levy tax increment when annual gross revenue exceeds \$5 million.

Tax Increment Revenue Projections and Debt Service Coverage

The following table depicts the projected net tax increment revenues available to pay debt service on the Bonds, based on two percent growth of assessed valuation in the Redevelopment Project through fiscal year 2037-38, as estimated by the Fiscal Consultant. In

addition, projected growth in real property taxable values includes anticipated value added from the identified new developments identified under the subheading "Redevelopment Projects" above. However, assuming no growth in the real property taxable values within the Redevelopment Project and assuming the available Tax Revenues remain at the projected 2007-08 level, the debt service coverage ratio of Tax Revenues to maximum annual debt service on the Bonds would be approximately 1.51 times.

**Redevelopment Project
Projected Tax Revenues and Debt Service Coverage
(Dollars in Thousands)**

Bond Year/ Fiscal Year	(1) Total Taxable Value	Taxable Value Over Base (\$46,508)	Gross Tax Revenue	Less: SB 2557 Charge	Less: Housing Set-Aside	Less: Tax Sharing Payments	Tax Revenues	Debt Service	Debt Service Coverage
2007-08	\$431,445	\$217,288	\$2,175	\$(20)	\$(370)	\$(667)	\$1,118	\$128	8.73x
2008-09	484,680	234,523	2,348	(21)	(404)	(720)	1,202	776	1.55x
2009-10	457,353	243,196	2,434	(22)	(422)	(865)	1,126	739	1.52x
2010-11	466,200	252,043	2,523	(23)	(439)	(897)	1,164	738	1.58x
2011-12	475,223	261,066	2,613	(24)	(458)	(929)	1,203	736	1.63x
2012-13	484,428	270,270	2,705	(24)	(476)	(961)	1,243	738	1.68x
2013-14	493,816	279,659	2,799	(25)	(495)	(995)	1,284	735	1.75x
2014-15	503,392	289,235	2,895	(26)	(514)	(1,029)	1,326	737	1.80x
2015-16	513,159	299,002	2,992	(27)	(533)	(1,063)	1,369	737	1.86x
2016-17	523,122	308,965	3,092	(28)	(553)	(1,099)	1,412	737	1.92x
2017-18	533,284	319,127	3,194	(29)	(574)	(1,135)	1,456	736	1.98x
2018-19	543,650	329,493	3,297	(30)	(594)	(1,172)	1,501	739	2.03x
2019-20	554,223	340,065	3,403	(31)	(616)	(1,209)	1,548	736	2.10x
2020-21	565,007	350,850	3,511	(32)	(637)	(1,248)	1,594	737	2.16x
2021-22	576,007	361,849	3,621	(33)	(659)	(1,287)	1,642	737	2.23x
2022-23	587,226	373,069	3,733	(34)	(682)	(1,327)	1,691	736	2.30x
2023-24	598,671	384,514	3,848	(35)	(704)	(1,367)	1,741	740	2.35x
2024-25	610,344	396,187	3,964	(36)	(728)	(1,409)	1,792	737	2.43x
2025-26	622,250	408,093	4,083	(37)	(752)	(1,451)	1,844	738	2.50x
2026-27	634,395	420,238	4,205	(38)	(776)	(1,494)	1,897	738	2.57x
2027-28	646,783	432,626	4,329	(39)	(801)	(1,538)	1,951	737	2.65x
2028-29	659,418	445,261	4,455	(40)	(826)	(1,583)	2,006	735	2.73x
2029-30	672,306	458,149	4,584	(41)	(852)	(1,629)	2,062	736	2.80x
2030-31	685,452	471,295	4,715	(42)	(878)	(1,676)	2,119	736	2.88x
2031-32	698,861	484,704	4,849	(44)	(905)	(1,723)	2,178	739	2.95x
2032-33	712,538	498,381	4,986	(45)	(932)	(1,772)	2,237	735	3.04x
2033-34	726,488	512,331	5,126	(46)	(960)	(1,971)	2,149	735	2.92x
2034-35	740,718	526,560	5,268	(47)	(989)	(2,025)	2,207	738	2.99x
2035-36	755,232	541,074	5,413	(49)	(1,018)	(2,081)	2,266	739	3.07x
2036-37	770,036	555,879	5,561	(50)	(1,047)	(2,138)	2,326	738	3.15x
2037-38	785,136	570,979	5,712	(51)	(1,077)	(2,196)	2,387	735	3.25x

Source: Agency

(1) Assumes 2% annually for inflation and increases for completed new development and recent transfer sales.

The foregoing projections reflects the Agency's understanding of the assessment and tax apportionment procedures employed by the County. The County procedures are subject to change as a reflection of policy revisions or legislative mandate. While the Agency believes the estimates to be reasonable, taxable values resulting from actual appraisals may vary from the amounts assumed in the projections.

No assurances are provided by the Agency as to the certainty of the projected tax increment revenues shown on the foregoing table. Actual revenues may be higher or lower than what has been projected and are subject to valuation changes resulting from new developments

or transfers of ownership not specifically identified herein, actual resolution of outstanding appeals, future filing of appeals, or the non-payment of taxes due.

Adjustments to Tax Increment Revenues

Property Tax Administrative Costs. The County currently reduces the amount of total tax increment revenue allocated to the Agency from the Redevelopment Project to cover property tax administrative costs. Legislation enacted in 1990 (SB 2557), and in 1992 (SB 1559) authorizes county auditors to determine property tax administrative costs proportionately attributable to local jurisdictions and, for the 1990-91 and 1991-92 Fiscal Years, to invoice the jurisdictions for such costs. Commencing in the 1992-93 Fiscal Year, the amounts due as local agencies' contribution to covering county administrative costs are to be allocated to the county as part of the overall system for the redistribution of property taxes (as opposed to being paid pursuant to invoices).

SB 2557 expressly includes redevelopment agencies as jurisdictions that are to be charged for property tax administrative costs. The County's administrative and collection fee for fiscal year 2003-04 is \$7,599, or approximately 1.54 percent of the projected 2003-04 gross Redevelopment Project revenue. As a result, the property tax administrative charge for future fiscal years is estimated at 1.54 percent of gross Redevelopment Project revenue.

Low and Moderate Income Housing. The Agency must set aside 20 percent of its allocated tax increment for low and moderate income housing purposes, except under certain specified conditions. It is the current policy of the Agency to make deposits into its Low and Moderate Income Housing Fund either through direct deposits to the Low and Moderate Income Housing Fund or by using Low and Moderate Income Housing Fund revenues for eligible debt service payments.

See "Tax Sharing Agreements" above.

THE AUTHORITY

The Yucca Valley Public Financing Authority (the "Authority") was created by a Joint Exercise of Powers Agreement, dated November 2, 1995, by and between the Town and the Agency. Such agreement was entered into pursuant to the provisions of Articles 1, 2 and 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code. The Authority was created for the purpose of assisting the financing or refinancing of certain public capital facilities within the Town. The Authority has the power to purchase bonds issued by any local agency at public or negotiated sale and may sell such bonds to public or private purchasers at public or negotiated sale. The Authority is governed by a five-member board which consists of the members of the Town Council of the Town. The Mayor acts as the Chair of the Authority, the Town Manager as its Executive Director, the Town Clerk as its Secretary and the Town Treasurer as its Treasurer.

BONDOWNERS' RISKS

The following information should be considered by prospective investors in evaluating whether to invest in the Bonds. However, the following does not purport to be an exhaustive listing of risks and other considerations which may be relevant to investing in the Bonds, and the order in which the following information is presented is not intended to reflect the relative importance of any such risks.

Limited Obligations

NEITHER THE BONDS, NOR THE OBLIGATIONS OF THE AGENCY UNDER THE INDENTURE ARE A DEBT OF THE TOWN OR THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS (OTHER THAN THE AGENCY, TO THE LIMITED EXTENT DESCRIBED HEREIN), AND NONE OF THE TOWN, THE STATE OR ANY OF ITS OTHER POLITICAL SUBDIVISIONS ARE LIABLE THEREFOR. THE PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THE BONDS ARE PAYABLE FROM AND SECURED BY AN ASSIGNMENT OF AMOUNTS PAYABLE BY THE AGENCY ON THE BONDS AND, IF NEEDED, THE OBLIGATIONS OF THE AGENCY UNDER THE INDENTURE AND THE BONDS ARE LIMITED OBLIGATIONS OF THE AGENCY, PAYABLE ONLY OUT OF CERTAIN FUNDS OF THE AGENCY AS SET FORTH IN THE INDENTURE. THE BONDS DO NOT CONSTITUTE INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. NONE OF THE MEMBERS OF THE AGENCY OR THE TOWN COUNCIL OR ANY PERSONS EXECUTING THE BONDS ARE LIABLE PERSONALLY ON THE BONDS BY REASON OF THEIR ISSUANCE.

No Acceleration on Default

The Indenture does not provide for an acceleration of the principal of the Bonds following the occurrence of an Event of Default under and as defined in the Indenture. The Indenture does not contain provisions with respect to the acceleration of the Agency's obligations thereunder upon the occurrence of an event of default under the Indenture.

In the event of default under the Indenture, as a practical matter, the Trustee will be limited to obtaining the moneys in the debt service funds held under the Indenture and enforcing the covenant of the Agency to pay the Tax Revenues on an annual basis to the extent of such Tax Revenues. No real or personal property in the Redevelopment Project is pledged to secure the Bonds and it is not anticipated that the Agency will have available moneys sufficient to pay any of the Bonds in full upon the occurrence of an event of default.

Bankruptcy

The enforceability of the rights and remedies of the owners of the Bonds and the obligations of the Agency may become subject to the following: the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; usual equitable principles which may limit the specific enforcement under state law of certain remedies: the exercise by the United States of America of the powers delegated to it by the federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of servicing a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the owners of the Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights.

On July 30, 1992 the United States Court of Appeals for the Ninth Circuit issued an opinion in a bankruptcy case entitled *In re Glasply Marine Industries* holding that *ad valorem* property taxes levied by a county in the State of Washington after the date that the property owner filed a petition for bankruptcy would not be entitled to priority over the claims of a secured creditor with a prior lien on the property. Similar results were reached by several circuit courts in other circuits. Subsequently, however, Section 362(b)(18) of the Bankruptcy Code was enacted, effectively overturning this line of decisions and providing that local governments may rely on statutory property tax liens to secure payment of property taxes after the filing of a bankruptcy petition.

Federal Tax-Exempt Status of the Bonds

Tax-Exempt Status of Interest on the Bonds. The Internal Revenue Code of 1986, as amended (the "Code") imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of Bond proceeds, limitations on the investment earnings of Bond proceeds prior to expenditure, a requirement that certain investment earnings on Bond proceeds be paid periodically to the United States and a requirement that the issuers file an information report with the Internal Revenue Service (the "IRS"). The Agency has covenanted in certain of the documents referred to herein that they will comply with such requirements. Failure to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of interest on the Bonds as taxable, retroactively to the date of issuance of such Bonds.

Audit. As a part of a larger reorganization of the IRS, the IRS commenced operation of its Tax Exempt and Government Entities Division (the "TE/GE Division"), as the successor to its Employee Plans and Exempt Organizations division. The TE/GE Division has a subdivision that is specifically devoted to tax-exempt bond compliance. Public statements by IRS officials indicate that the number of tax-exempt bond examinations is expected to increase significantly under the TE/GE Division. There is no assurance that an IRS examination of the Bonds, if one is undertaken, will not adversely affect the tax-exempt status or market value of such Bonds.

Investment Risk

Funds held under the Indenture are required to be invested in Permitted Investments as provided under the Indenture. See Appendix A attached hereto for a summary of the definition of Permitted Investments. The funds and accounts of the Agency, into which a portion of the proceeds of the Bonds will be deposited and into which all Tax Revenues are initially deposited, may be invested by the Agency in any investment authorized by law. All investments, including the Permitted Investments and those authorized by law from time to time for investments by municipalities, contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected and loss or delayed receipt of principal. Further, the Agency cannot predict the effects on the receipt of Tax Revenues if the County were to suffer significant losses in its portfolio of investments or if the County or the Town were to become insolvent or declare bankruptcy. See "BONDOWNERS' RISKS—Bankruptcy."

Secondary Market

There can be no guarantee that there will be a secondary market for the Bonds, or, if a secondary market exists, that the Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being

made will depend upon the then prevailing circumstances. Such prices could be substantially different from the face amount of the Bonds.

Reduction in Taxable Values

Tax Revenues allocated to the Agency by the State and the County, which Tax Revenues constitute the primary source of payment of principal of, premium, if any, and interest on the Bonds, as discussed herein, are determined by the amount of the incremental taxable value of property in the Redevelopment Project, the current rate or rates at which property in the Redevelopment Project is taxed and the percentage of taxes collected in each of the Redevelopment Project. The reduction of taxable values of property in the Redevelopment Project caused by economic factors beyond the Agency's control, such as a relocation out of the Redevelopment Project by one or more major property owners, or the complete or partial destruction of such property caused by, among other calamities, an earthquake, fire, flood or other natural disaster, could cause a reduction in the Tax Revenues securing the Bonds and, therefore, the Bonds. Such reduction of the Tax Revenues securing the Bonds could have an adverse effect on the Agency's ability to make timely payments of principal and interest on the Bonds. Real property values and taxable valuations of real property in some parts of California have declined. As a consequence of the decline in property values, property owners may seek a reevaluation of their real property. If such valuation were reduced, Tax Revenues available to pay debt service on the Bonds would also decline. The Agency does not expect this to materially affect its ability to pay the Bonds on a timely basis.

Application of the provisions of Article XIII A(2)(d) of the California Constitution and California Revenue and Taxation Code Section 68 may also result in a reduction of the assessed valuation of a property within a redevelopment project area. These provisions permit a person who is displaced from property by eminent domain proceedings or by governmental action resulting in a judgment of inverse condemnation to transfer the adjusted base year value of the property from which the person is displaced to another comparable property anywhere within the State. Persons acquiring replacement property must request assessment pursuant to these provisions within four (4) years of the date the property was acquired by eminent domain or purchase or the date the judgment of inverse condemnation becomes final. Any such assessment pursuant to these provisions of Article XIII A(2)(d) and California Revenue and Taxation Code Section 68 could result in an unexpected reduction in the assessed valuation of a property within the Redevelopment Project.

Concentration of Land Ownership

Ownership of property within the Redevelopment Project is concentrated with a small number of owners, some of which are responsible for a significant percentage of the property taxes allocated to the Agency from the Redevelopment Project. **The top ten taxpayers account for approximately 21.67% of the Redevelopment Project incremental value and 10.91% of the total Redevelopment Project assessed value. A default by one or more of these owners in the payment of their property taxes would materially and adversely affect the ability of the Agency to pay debt service on the Bonds. Such a result could be affected by events not related to the operation of the businesses of such taxpayers, including earthquakes or other natural disasters or other economic or environmental events occurring outside of their control. See "THE REDEVELOPMENT PROJECT—Description of the Redevelopment Project."**

Risks to Real Estate Market

The Agency's ability to make payments on the Bonds will be dependent upon the economic strength of the Redevelopment Project. The general economy of the Redevelopment Project will be subject to all of the risks generally associated with real estate markets. Real estate

prices and development may be adversely affected by changes in general economic conditions, fluctuations in the real estate market and interest rates, unexpected increases in development costs and by other similar factors. Further, real estate development within the Redevelopment Project could be adversely affected by limitations of infrastructure or future governmental policies, including governmental policies to restrict or control development. In addition, if there is a decline in the general economy of the Redevelopment Project, the owners of property within the Redevelopment Project may be less able or less willing to make timely payments of property taxes or may petition for reduce assessed valuation causing a delay or interruption in the receipt of tax increment revenue by the Agency from the Redevelopment Project.

Development Risks

The general economy of the Redevelopment Project will be subject to all the risks generally associated with real estate development. Projected development within the Redevelopment Project may be subject to unexpected delays, disruptions and changes. Real estate development operations may be adversely affected by changes in general economic conditions, fluctuations in the real estate market and interest rates, unexpected increases in development costs and by other similar factors. Further, real estate development operations within the Redevelopment Project could be adversely affected by future governmental policies, including governmental policies to restrict or control development. If projected development in the Redevelopment Project is delayed or halted, the economy of the Redevelopment Project could be affected. If such events lead to a decline in assessed values they could cause a reduction in Tax Revenues.

Changes in the Law

Various State legislation (generally known as "ERAF") has required redevelopment agencies, including the Agency, to pay into a special fund for the benefit of local schools for the 1992-93, 1993-94, 1994-95, 2002-03, 2003-04, 2004-05 and 2005-06 fiscal years. See "State Budget; ERAF Shift" below. It is possible that, in addition to these payment requirements, and the limitations on Tax Revenues described herein under "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING TAX INCREMENT REVENUES," the California electorate or Legislature could adopt a constitutional or legislative property tax decrease with the effect of reducing Tax Revenues payable to the Agency. There is no assurance that the California electorate or Legislature will not at some future time approve additional limitations that could reduce the Tax Revenues and adversely affect the security of the Bonds.

Reductions in Inflationary Rate

As described in greater detail below, Article XIII A of the California Constitution provides that the full cash value base of real property used in determining taxable value may be adjusted from year to year to reflect the inflationary rate, not to exceed a 2% increase for any given year, or may be reduced to reflect a reduction in the consumer price index or comparable local data. Such measure is computed on a calendar year basis. Because Article XIII A limits inflationary assessed value adjustments to the lesser of the actual inflationary rate or 2%, there have been years in which the assessed values were adjusted by actual inflationary rates, which were less than 2%.

Since Article XIII A was approved, the annual adjustment for inflation has fallen below the 2% limitation five times; in fiscal year 1983-84, 1%; in fiscal year 1995-96, 1.19%; in fiscal year 1996-97, 1.11%; in fiscal year 1999-00, 1.85%; and in fiscal year 2004-05, 1.867%.

The State mandated a 2% inflation adjustment for fiscal year 2005-06, and the projections of Tax Revenues assume a 2% inflation factor will be applied in fiscal years commencing with

2007-08. The Agency is unable to predict if any adjustment to the full cash value base on real property within the Redevelopment Project, whether an increase or reduction, will be realized in the future.

Assessment Appeals

Property taxable values may be reduced as a result of a successful appeal of the taxable value determined by the County Assessor. An appeal may result in a reduction to the County Assessor's original taxable value and a tax refund to the applicant property owner. Appeal and refund activity within the Redevelopment Project may result in resolved appeals which reduce the assessed value of parcels within the Redevelopment Project.

An assessee may contest either (i) the original determination of the "base assessment value" of a parcel (i.e. the value assigned after a change of ownership or completion of new construction), or (ii) the "current assessment value" (i.e., the value as determined by the County Assessor, which may be no more than the base assessment value plus the compounded 2% annual inflation factor) when specified factors have caused the market value of the parcel to drop below current assessment value.

At the time of reassessment, after a change of ownership or completion of new construction, the assessee may appeal the base assessment value of the property. Under an appeal of a base assessment value, the assessee appeals the actual underlying market value of the sales transaction or the recently completed improvement. A successful appeal of the base assessment value of a parcel has significant future revenue impacts, because a reduced base year assessment will reduce the compounded future value of the property prospectively. Except for the two percent inflation factor, the value of the property cannot be increased until a change in ownership occurs or additional improvements are added.

Additional Obligations

As described in "SECURITY FOR THE BONDS—Additional Parity Bonds," the Agency's pledge of Tax Revenues to payment of debt service on the Bonds will be on a parity with the Agency's pledge of Tax Revenues under any Supplemental Indenture for any additional Parity Bonds. The potential for the issuance of Parity Bonds increases the risks associated with the Agency's payment of debt service on the Bonds in the event of a decrease in the Agency's collection of Tax Revenues.

Proposition 8 Adjustments

Proposition 8, approved in 1978 (section 51(b) of the California Revenue and Taxation Code), provides for the assessment of real property at the lesser of its originally determined (base year) full cash value compounded annually by the inflation factor, or its full cash value as of the lien date, taking into account reductions in value due to damage, destruction, obsolescence or other factors causing a decline in market value. Reductions based on Proposition 8 do not establish new base year values, and the property may be reassessed on a following lien date up to the lower of the then current fair market value or the factored base year value. Properties in the Redevelopment Project have not been subject to Proposition 8 adjustments made by the County Assessor in any significant amount.

Levy and Collection of Taxes

The Agency has no independent power to levy and collect property taxes. Any reduction in the tax rate or the implementation of any constitutional or legislative property tax decrease could reduce the Tax Revenues, and accordingly, could have an adverse impact on the

ability of the Agency to repay the Bonds. Likewise, delinquencies in the payment of property taxes and the impact of bankruptcy proceedings on the legal ability of taxing agencies to collect property taxes could have an adverse effect on the Agency's ability to make timely Bond payments. The County has not elected to follow the procedures of sections 4701 et seq. of the California Revenue and Taxation Code, known as the "Teeter Plan," as to general taxes entered and collected on the secured tax roll. Consequently, property tax revenues in the Redevelopment Project reflect actual collections. See "THE REDEVELOPMENT PROJECT—Annual Tax Receipts to Tax Levy."

Real Estate and General Economic Risks

As stated in the above paragraph captioned "Reductions in Inflationary Rate" and as demonstrated hereinbefore in the section of this Official Statement entitled "THE REDEVELOPMENT PROJECT—Tax Revenue Projections and Debt Service Coverage," Tax Revenues as presented herein as available for payment of any indebtedness of the Agency are based upon the latest actual amounts for the 2006-07 fiscal year. Redevelopment of real property within the Redevelopment Project by the Agency, as well as private development in the Redevelopment Project, may be adversely affected by changes in general economic conditions, fluctuations in the real estate markets and interest rates, unexpected increases in development costs, changes in or new governmental policies, including governmental policies to restrict or control certain kinds of development and by other similar factors. If development and redevelopment activities in the Redevelopment Project encounter significant obstacles of the kind described herein or other impediments, the economy of the Redevelopment Project could be adversely affected, causing reduced taxable valuation of property in the Redevelopment Project, a reduction of the Tax Revenues and a consequent reduction in Tax Revenues available to repay the Bonds. If there is a decline in the general economy of the Redevelopment Project, the owners of property within the Redevelopment Project may be less able or less willing to make timely payments of property taxes, causing a delay or stoppage of Tax Revenues received by the Agency from the Redevelopment Project.

Future Land Use Regulations and Growth Control Initiatives

In the past, citizens of a number of local communities in Southern California have placed measures on the ballot designed to limit the issuance of building permits or impose other restrictions to control the rate of future growth in those areas. It is possible that future initiatives could be enacted, could be applicable to the Town and have a negative impact on the ability of developers in the Redevelopment Project to complete any existing or proposed development. Bondowners should assume that any event that significantly affects the ability to develop land in the Town could cause the land values within the Redevelopment Project to decrease substantially and could affect the willingness and ability of the owners of land within the Redevelopment Project to pay property taxes when due.

There can be no assurance that land development within the Town will not be adversely affected by future governmental policies, including but not limited to, government policies to restrict or control development. Under current State law, it is generally accepted that proposed development is not exempt from future land use regulations until building permits have been issued and substantial work has been performed and substantial liabilities have been incurred in good faith reliance on the permits prior to the adoption of such regulations.

Estimates of Tax Revenues

In estimating that the total Tax Revenues to be received by the Agency will be sufficient to pay debt service on the Bonds, the Agency has relied on the actual historical Tax Revenues and made certain assumptions with regard to future assessed valuation in the Redevelopment

Project, future tax rates and the percentage of taxes collected. The Agency believes these assumptions to be reasonable, but there is no assurance these assumptions will be realized and to the extent that the assessed valuation and the tax rates are less than expected, the total Tax Revenues available to pay debt service on the Bonds will be reduced. Such reduced Tax Revenues may be insufficient to provide for the payment of debt service on the Bonds and hence the Bonds. See "SECURITY FOR THE BONDS—Pledge of Tax Revenues" herein.

Hazardous Substances

An environmental condition that may result in the reduction in the assessed value of parcels in the Redevelopment Project would be the discovery of a hazardous substance that would limit the beneficial use of the property. In general, the owners and operators of an assessed parcel may be required by law to remedy conditions of the parcel relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as CERCLA or the Superfund Act, is the most well known and widely applicable of these laws but California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substance condition on the property whether or not the owner (or operator) has anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the assessed parcels be affected by a hazardous substance would be to reduce the marketability and value of the parcel by the costs of remedying the condition, since the purchaser, upon becoming owner, will become obligated, along with the seller, to remedy the condition.

Seismic Risk and Flood Risk

The occurrence of severe seismic activity and/or flooding in the Redevelopment Project could result in substantial damage to property located in the Redevelopment Project, and could lead to successful appeals for reduction of assessed values of such property. Such a reduction could result in a decrease in Tax Revenues collected by the Agency.

On June 28, 1992, the Town and the surrounding area were rocked by the strongest earthquake to occur in California in the last 40 years. The epicenter of the 7.6 magnitude quake, known as the Landers Earthquake, was on the Johnson Valley Fault, north of the Town limits, with associated ground rupture extending about 1.25 miles into the Town limits. This earthquake actually consisted of two subevents that occurred about 19 miles apart, and were distributed along a series of generally north-south trending faults, including two previously unknown faults (Burnt Mountain and Eureka Peak Faults) which are located in the southern portion of the Town's General Plan study area.

Many of the hazards typically associated with major earthquakes were evidenced by the Landers earthquake. Fifty-three miles of surface fault rupture made this the largest fault rupture event since the 1906 San Francisco earthquake, along the San Andreas Fault. Other consequences of this earthquake included a maximum horizontal and vertical ground displacement of 21 feet and 3 feet, respectively, high ground displacement of 21 feet and 3 feet, respectively, high ground acceleration, rockfall, and settling of soils.

Regionally, the Landers quake resulted in one death, 25 serious and 372 less serious injuries. As many as 77 homes were destroyed and another 4,369 were damaged, and numerous commercial buildings were damaged or destroyed. The quake also caused extensive damage to facilities of the Hi-Desert Water District, including about 40% of the subsurface distribution lines.

State Highway 247 was also damaged by the quake and emphasized the need to develop possible alternative routes for evacuations and delivery of emergency services and supplies. Linkage of Town roads with those in the Joshua Tree National Park could provide one alternative in the event main routes to the east are damaged.

The Town is located within a fault controlled basin that extends westward through Morongo Valley, and eastward beyond Twentynine Palms. The vicinity is one of the most active geological regions in the world, where two major tectonic plates, the Pacific and North American, collide and slip past one another. These faults are part of the Eastern California Shear Zone (ECSZ), a broad belt of faults in the Mojave Desert, which transfers motion from the San Andreas Fault Zone to the Basin and Range Province. Approximately 15 to 20 percent of the motion between these two plates is being accommodated by the ECSZ, with almost all the remaining motion occurring along the San Andreas and related faults located to the southwest and west.

State Budget; ERAF Shift

The State of California has faced budget issues in recent years. In connection with its approval of former budgets, the State Legislature enacted legislation, that among other things, reallocated a portion of funds from redevelopment agencies to school districts by shifting each agency's tax increment, net of amounts due to other taxing agencies, to school districts ("ERAF" shifts).

The 2004-05 State Budget included a transfer by redevelopment agencies to the applicable ERAFs of \$250 million in each of Fiscal Years 2004-05 and 2005-06. The Agency's share of the annual \$250 million shift for Fiscal Year 2004-05 was \$39,486 and the share for fiscal year 2005-06 was \$41,373. The Agency paid both ERAF payments on a timely basis and from tax increment revenues.

The State budget for Fiscal Year 2006-07 did not and the state budget for the Fiscal Year 2007-2008 does not require an ERAF transfer of tax increment revenues by redevelopment agencies. Although the State's voters approved a constitutional amendment on the November 2004 ballot (the "Local Government Initiative"), which purports to prohibit any further transfers of non-education local government property taxes for the benefit of the State, the Local Government Initiative does not purport to change existing law with respect to the State's ability to transfer redevelopment agencies' property tax revenues.

The Agency cannot predict whether the State Legislature will enact legislation impacting future Tax Revenues. Given the level of the State's budget deficit problems, it is possible that tax increment available for payment of the Bonds may be reduced in the future by actions of the State Legislature.

Information about the State budget and State spending is available at various State-maintained websites. Text of the budget may be found at the website of the Department of Finance, www.dof.ca.gov, under the heading "California Budget." An impartial analysis of the budget is posted by the Office of the Legislative Analyst at www.lao.ca.gov. In addition, various State of California official statements for its various debt obligations, many of which contain a summary of the current and past State budgets, may be found at the website of the State Treasurer, www.treasurer.ca.gov. All of such websites are provided for general informational purposes only and the material on such sites is in no way incorporated into this Official Statement.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING TAX REVENUES

Property Tax Limitations-Article XIII A

California voters, on June 6, 1978, approved an amendment (commonly known as both Proposition 13 and the Jarvis-Gann Initiative) to the California Constitution. This amendment, which added Article XIII A to the California Constitution, among other things, affects the valuation of real property for the purpose of taxation in that it defines the full cash value of property to mean "the county assessor's valuation of real property as shown on the fiscal year 1975-76 tax bill under full cash value, or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed two percent per year, or any reduction in the consumer price index or comparable local data, or any reduction in the event of declining property value caused by damage, destruction or other factors. The amendment further limits the amount of any *ad valorem* tax on real property to one percent of the full cash value except that additional taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978. In addition, an amendment to Article XIII was adopted in October 1986 by initiative which exempts any bonded indebtedness approved by two-thirds (55% in certain instances) of the votes cast by the voters for the acquisition or improvement of real property from the one percent limitation.

In the general election held November 4, 1986, voters of the State of California approved two measures, Propositions 58 and 60, which further amend Article XIII A. Proposition 58 amends Article XIII A to provide that the terms "purchased" and "change of ownership," for purposes of determining full cash value of property under Article XIII A, do not include the purchase or transfer of (1) real property between spouses and (2) the principal residence and the first \$1,000,000 of other property between parents and children.

Proposition 60 amends Article XIII A to permit the Legislature to allow persons over age 55 who sell their residence to buy or build another of equal or lesser value within two years in the same county, to transfer the old residence's assessed value to the new residence. Pursuant to Proposition 60, the Legislature has enacted legislation permitting counties to implement the provisions of Proposition 60.

Challenges to Article XIII A

There have been many challenges to Article XIII A of the California Constitution. Recently, the United States Supreme Court heard the appeal in *Nordlinger v. Hahn*, a challenge relating to residential property. Based upon the facts presented in *Nordlinger*, the United States Supreme Court held that the method of property tax assessment under Article XIII A did not violate the federal Constitution. The Agency cannot predict whether there will be any future challenges to California's present system of property tax assessment and cannot evaluate the ultimate effect on the Agency's receipt of tax increment revenues should a future decision hold unconstitutional the method of assessing property.

Implementing Legislation

Legislation enacted by the California Legislature to implement Article XIII A (Statutes of 1978, Chapter 292, as amended) provides that, notwithstanding any other law, local agencies may not levy any property tax, except to pay debt service on indebtedness approved by the voters prior to July 1, 1978, and that each county will levy the maximum tax permitted by Article XIII A.

The apportionment of property taxes in fiscal years after 1978-79 has been revised pursuant to Statutes of 1979, Chapter 282 which provides relief funds from State moneys beginning in fiscal year 1978-79 and is designed to provide a permanent system for sharing State taxes and budget surplus funds with local agencies. Under Chapter 282, cities and counties receive about one-third more of the remaining property tax revenues collected under Proposition 13 instead of direct State aid. School districts receive a correspondingly reduced amount of property taxes, but receive compensation directly from the State and are given additional relief.

Future assessed valuation growth allowed under Article XIII A (new construction, change of ownership, 2% annual value growth) will be allocated on the basis of "situs" among the jurisdictions that serve the tax rate area within which the growth occurs except for certain utility property assessed by the State Board of Equalization which is allocated by a different method discussed herein.

Unitary Property

AB 2890 (Statutes of 1986, Chapter 1457) provides that, commencing with the fiscal year 1988-89, assessed value derived from State-assessed unitary property (consisting mostly of operational property owned by utility companies and herein defined as "Unitary Property") is to be allocated county-wide as follows: (i) each tax rate area will receive the same amount from each assessed utility received in the previous fiscal year unless the applicable county-wide values are insufficient to do so, in which case values will be allocated to each tax rate area on a pro-rata basis; and (ii) if values to be allocated are greater than in the previous fiscal year, each tax rate area will receive a pro-rata share of the increase from each assessed utility according to a specified formula. Additionally, the lien date on State-assessed property has been changed to January 1. Railroad property will continue to be assessed and revenues allocated to all tax rate areas where the railroad property is sited.

To administer the allocation of unitary tax revenues to redevelopment agencies, the County no longer includes the taxable value of utilities as part of the reported taxable values of the Redevelopment Project. For fiscal year 2005-06, the Agency did not receive unitary revenue for the Redevelopment Project. The projection of Tax Revenues assumes the County will not remit unitary revenue in future years for the Redevelopment Project. See "THE REDEVELOPMENT PROJECT—Tax Increment Revenue Projections and Debt Service Coverage."

Property Tax Collection Procedures

Classifications. In California, property which is subject to *ad valorem* taxes is classified as "secured" or "unsecured." Secured and unsecured properties are entered on separate parts of the assessment roll maintained by the county assessor. The secured classification includes property on which any property tax levied by the County becomes a lien on that property sufficient, in the opinion of the county assessor, to secure payment of the taxes. Every tax which becomes a lien on secured property has priority over all other liens on the secured property, regardless of the time of the creation of other liens. A tax levied on unsecured property does not become a lien against unsecured property, but may become a lien on certain other property owned by the taxpayer.

Collections. The method of collecting delinquent taxes is substantially different for the two classifications of property. The taxing authority has four ways of collecting unsecured property taxes in the absence of timely payment by the taxpayer: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of

delinquency for record in the county recorder's office, in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of the personal property, improvements or possessory interests belonging or assessed to the assessee. The exclusive means of enforcing the payment of delinquent taxes with respect to property on the secured roll is the sale of property securing the taxes to the State for the amount of taxes which are delinquent.

Penalties. A 10% penalty is added to delinquent taxes which have been levied with respect to property on the secured roll. In addition, property on the secured roll on which taxes are delinquent is declared in default on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of the delinquent taxes and a delinquency penalty, plus a redemption penalty of 1.5% per month to the time of redemption and a \$15 Redemption Fee. If taxes are unpaid for a period of five years or more, the property is recorded in a "Power to Sell" status and is subject to sale by the county tax collector. A 10% penalty also applies to the delinquent taxes on property on the unsecured roll, and further, an additional penalty of 1.5% per month accrues with respect to such taxes beginning the first day of the third month following the delinquency date.

Delinquencies. The valuation of property is determined as of January 1 each year and equal installments of taxes levied upon secured property become delinquent on the following December 10 and April 10. Taxes on unsecured property are due January 1. Unsecured taxes enrolled by July 31, if unpaid, are delinquent August 31 at 5:00 p.m. and are subject to penalty; unsecured taxes added to the roll after July 31, if unpaid, are delinquent on the last day of the month succeeding the month of enrollment.

Supplemental Assessments. Legislation enacted in 1983 (Chapter 498, Statutes of 1983) provides for the supplemental assessment and taxation of property as of the occurrence of a change of ownership or completion of new construction. Chapter 498 provided increased revenue to redevelopment agencies to the extent that supplemental assessments of new construction or changes of ownership occur within the boundaries of redevelopment projects subsequent to the January 1 lien date. To the extent such State supplemental assessments occur within the Redevelopment Project, the Tax Revenues for the Redevelopment Project may increase.

Tax Collection Fees. In 1990, the State Legislature enacted Senate Bill 2557 (Chapter 466, Statutes of 1990) ("SB 2557") which allows counties to charge for the cost of assessing, collecting and allocating property tax revenues to local government jurisdictions on a prorated basis. Two recent decisions have interpreted the provisions of SB 2557 and have upheld the inclusion of redevelopment agencies as a local government agency which must share the cost of property tax administration. The 1992 enactment of Senate Bill 1559 (Chapter 697) and the decision of the California Court of Appeal in *Arcadia Redevelopment Agency v. Ikemoto* have clarified that redevelopment agencies, such as the Agency, are to share in the cost of property tax administration charged by most California counties, including the County. During fiscal years 2005-06 and 2006-07, the County withheld approximately \$11,787 and \$9,729 respectively, from the Agency for such administrative costs with respect to the Redevelopment Project.

Appropriations Limitations-Article XIII B

On November 6, 1979, California voters approved Proposition 4, the so-called Gann Initiative, which added Article XIII B to the California Constitution. The principal effect of Article XIII B is to limit the annual appropriations of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted for changes in the cost of living, population and services rendered by the government entity.

Effective November 30, 1980, the California Legislature added section 33678 to the Redevelopment Law which provided that the allocation of taxes to a redevelopment agency for the purpose of paying principal of, or interest on, loans, advances, or indebtedness will not be deemed the receipt by such agency of proceeds of taxes levied by or on behalf of the agency within the meaning of Article XIII B, nor will such portion of taxes be deemed receipt of taxes by, or an appropriation subject to the limitation of, any other public body within the meaning or for the purpose of the Constitution and laws of the State, including section 33678 of the Redevelopment Law.

State Board of Equalization and Property Assessment Practices

On December 10, 1998, the State Board of Equalization ("SBOE") approved revisions to its guidelines regarding the valuation of intangible business and commercial property for property tax purposes. The SBOE approved these revisions over the objections of the California Assessors Association ("CAA"), an organization representing all 58 County Assessors in California. The Agency is not able to predict whether the revised SBOE guidelines will cause any reductions in tax increment revenues and, hence, in Tax Revenues. However, the Agency does not believe that the SBOE's adoption of the revised guidelines will affect its ability to pay debt service on the Bonds.

Exclusion of Tax Revenues for General Obligation Bonds Debt Service

An initiative to amend the California Constitution entitled "Property Tax Revenues Redevelopment Agencies" was approved by California voters at the November 8, 1988 general election. Under prior law, a redevelopment agency using tax increment revenue received additional property tax revenue whenever a local government increased its property tax rate to pay off its general obligation bonds. This initiative amended the California Constitution to allow the California Legislature to prohibit redevelopment agencies from receiving any of the property tax revenues raised by increased property tax rates imposed by local governments to make payments on their bonded indebtedness.

The initiative only applies to tax rates levied to finance general obligation bonds approved by the voters on or after January 1, 1989. Any revenue reduction to redevelopment agencies would depend on the number and value of the general obligation bonds approved by voters in prior years, which tax rate will reduce due to increased valuation subject to the tax or the retirement of the indebtedness. The Agency does not receive a significant amount of tax increment as a result of general obligation bond tax levies.

Proposition 218

On November 5, 1996, California voters approved Proposition 218-Voter Approval for Local Government Taxes-Limitation on Fees, Assessments, and Charges-Initiative Constitutional Amendment. Proposition 218 added Articles XIIC and XIID to the California Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges. Tax Revenues securing the Bonds are derived from property taxes which are outside the scope of taxes, assessments and property-related fees and charges which were limited by Proposition 218.

AB 1290

In 1993, the California Legislature enacted Assembly Bill 1290 ("AB 1290") which contained several significant changes in the Redevelopment Law. Among the changes made by AB 1290 was a provision that limits the period of time for incurring and repaying loans, advances and indebtedness payable from tax increment revenues. In general, a redevelopment

plan may terminate not more than 40 years following the date of original adoption, and loans, advances and indebtedness may be repaid during a period extending not more than 10 years following the date of termination of the redevelopment plan. See "THE REDEVELOPMENT PROJECT—Redevelopment Plan Limitations" herein.

Future Initiatives

Article XIII A, Article XIII B and certain other propositions affecting property tax levies were each adopted as measures which qualified for the ballot pursuant to California's initiative process. From time to time other initiative measures could be adopted, further affecting Agency revenues or the Agency's ability to expend revenues.

Low and Moderate Income Housing

Sections 33334.2 and 33334.3 of the Law require redevelopment agencies to set aside not less than 20 percent of all tax increment revenues from project areas adopted after December 31, 1976 into a low and moderate income housing fund (the Housing Set-Aside Requirement). An agency can reduce the Housing Set-Aside Requirement if the agency annually makes certain findings, consistent with the General Plan Housing Element. These findings are that: (1) no need exists in the community to improve or increase the supply of low and moderate income housing; or, (2) some stated percentage less than 20 percent of the tax increment is sufficient to meet the housing need. In order to make findings (1) or (2), the Agency's finding must be consistent with the Housing Element of the community's General Plan, including its share of the regional housing needs of very low income households and persons and families of low or moderate income. The Agency has not made such findings in the past. We have assumed in the projection that the Agency will continue to meet the Housing Set-Aside Requirement.

The annual Housing Set-Aside Requirement may be reduced to the extent that proceeds of tax allocation bonds are deposited into the Low and Moderate Income Housing Fund (the "Housing Fund"). In December 1995 the Agency issued the 1995 Bonds. Twenty percent of the proceeds of the 1995 Bonds were used for housing purposes. As a result, 20 percent of the debt service on the 1995 Bonds has been paid from tax increment revenue that would otherwise be part of the Housing Set-Aside Requirement. In May 2004 the Agency issued the 2004 Bonds. Twenty percent of the proceeds of the 2004 Bonds were used for housing purposes. As a result, 20 percent of the debt service on the 2004 Bonds were paid from tax increment revenue that would otherwise be part of the Housing Set-Aside Requirement. The Bonds will refund these two prior financings. To the extent that the proceeds of the Bonds will refund the portions of the 1995 Bonds and 2004 Bonds used for housing purposes, a portion of the debt service on the Bonds will be paid by the Agency from the Housing Fund.

Statement of Indebtedness

Under the Redevelopment Law, the Agency must file with the County Auditor a statement of indebtedness for the Redevelopment Project by October 1 of each year. As described below, the statement of indebtedness controls the amount of tax increment revenue that will be paid to the Agency in each fiscal year.

Each statement of indebtedness is filed on a form prescribed by the State Controller and specifies, among other things: (i) the total amount of principal and interest payable on all loans, advances or indebtedness (including the Bonds and all Additional Bonds) (the "Debt"), both over the life of the Debt and for the current fiscal year, and (ii) the amount of "Available Revenue" as of the end of the previous fiscal year.

"Available Revenue" is calculated by subtracting the total payments on Debt during the previous fiscal year from the total revenues (both tax increment revenues and other revenues) received during the previous fiscal year, plus any carry-forward from the prior fiscal year. Available Revenue include amounts held by the Agency and irrevocably pledged to the payment of Debt other than amounts set aside for low- and moderate-income housing.

The County Auditor may only pay tax increment revenue to the Agency in any fiscal year to the extent that the total remaining principal and interest on all Debt exceeds the amount of available revenues as shown on the statement of indebtedness.

The statement of indebtedness constitutes prima facie evidence of the indebtedness of the Agency; however, the County Auditor may dispute the statement of indebtedness in certain cases. section 33675 of the Redevelopment Law provides for certain time limits controlling any dispute of the statement of indebtedness, and allows for Superior Court determination of such dispute if it cannot be resolved by the Agency and the County. Any such action may only challenge the amount of the Debt as shown on the statement, and not the validity of any Debt or its related contract or expenditures. No challenge can be made to payments to a trustee in connection with a bond issue or payments to a public agency in connection with payments by that public agency with respect to a lease or bond issue.

CERTAIN LEGAL MATTERS

Legal Opinions

The legal opinions of Quint & Thimmig LLP, San Francisco, California, as Bond Counsel, approving the validity of the Bonds, will be made available to purchasers at the time of original delivery of the Bonds and the proposed forms thereof appear in Appendix F hereto. Bond Counsel's employment as bond counsel is limited to a review of the legal proceedings required for the authorization of the Bonds and to rendering the opinions set forth in Appendix E hereto.

Quint & Thimmig LLP, San Francisco, California, is serving as Disclosure Counsel to the Agency. Certain legal matters will be passed upon for the Agency by Naomi Silvergleid, Esq., Truckee, California, as counsel to the Agency.

Payment of the fees and expenses of Bond Counsel and Disclosure Counsel is contingent upon the sale and delivery of the Bonds.

Enforceability of Remedies

The remedies available to the Trustee and to the registered owners of the Bonds upon an event of default under the Indenture and any other document described herein are in many respects dependent upon regulatory and judicial actions which are often subject to discretion and delay. Under existing law and judicial decisions, the remedies provided for under such documents may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified to the extent that the enforceability of the legal documents with respect to the Bonds are subject to limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by equitable remedies and proceedings generally.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Upon delivery of the Bonds, the arithmetical accuracy of certain computations included in the schedules provided on behalf of the Agency relating to the computation of the adequacy of forecasted receipts of principal of and interest on the Escrow Securities and cash to be held pursuant to the Escrow Agreement to pay, when due, the principal of and interest on the 1995 Bonds will be verified by the Verification Agent. Such verification of the accuracy of the mathematical computations will be based solely upon information and assumptions supplied to such accountants. Such accountants will restrict their procedures to examining the arithmetical accuracy of certain computations and will not make a study or evaluation of the information and assumptions on which the computations are based, and accordingly, will not express an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

RATING

Standard & Poor's Ratings Services ("S&P") has assigned its rating of "A-" to the Bonds. Such rating reflects only the views of S&P and an explanation of the significance of such rating may be obtained from it as follows: Standard & Poor's Ratings Services, 55 Water Street, New York, NY 10041, (212) 208-8000. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by S&P, if in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

CONTINUING DISCLOSURE

The Agency has covenanted for the benefit of holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the Agency by not later than seven months following the end of the Agency's Fiscal Year (which reporting date would be January 31), commencing with the report for the 2006-07 Fiscal Year (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the Agency with each Nationally Recognized Municipal Securities Information Repository, and with the appropriate State information depository, if any. The notices of material events will be filed by the Agency with the Municipal Securities Rulemaking Board (and with the appropriate State information depository, if any). The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth in the Form of Continuing Disclosure Agreement in Appendix F hereto. These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5). The Agency is current with respect to previous undertakings with regard to said Rule to provide annual reports or notices of material events.

ABSENCE OF LITIGATION

At the time the Bonds are delivered, the Agency will certify that, to its best knowledge, there is no litigation pending with respect to which the Agency has been served with process or know to be threatened against the Agency in any court or other tribunal of competent jurisdiction, State or federal, which seeks to enjoin or challenges the authority of the Agency to participate in the transactions contemplated by this Official Statement, the Bonds or the Indenture.

TAX MATTERS

Federal tax law contains a number of requirements and restrictions which apply to the Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the proper use of bond proceeds and the facilities financed therewith, and certain other matters. The Agency has covenanted to comply with all requirements that must be satisfied in order for the interest on the Bonds to be excludable from gross income for federal income tax purposes. Failure to comply with certain of such covenants could cause interest on the Bonds to not be excludable from gross income under section 103 of the Internal Revenue Code of 1986, as amended (the "Code") for federal income tax purposes retroactively to the date of issuance of the Bonds.

Subject to the Agency's compliance with the above-referenced covenants, under present law, in the opinion of Quint & Thimmig LLP, San Francisco, California, Bond Counsel, interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under section 103 of the Code and under section 55 of the Code is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations. Interest on the Bonds is taken into account, however, in computing an adjustment used in determining the federal alternative minimum tax for certain corporations and in computing the branch profits tax on certain corporations. Bond Counsel expects to deliver an opinion at the time of delivery of the Bonds in substantially the form set forth in APPENDIX E—"FORM OF BOND COUNSEL'S OPINION"

In rendering its opinion, Bond Counsel will rely upon certifications of the Agency with respect to certain material facts solely within the Agency's knowledge. Bond Counsel's opinion represents its legal judgment based upon its review of the law and the facts that it deems relevant to render such opinion and is not a guarantee of a result.

The Code includes provisions for an alternative minimum tax ("AMT") for corporations in addition to the corporate regular tax in certain cases. The AMT, if any, depends upon the corporation's alternative minimum taxable income ("AMTI"), which is the corporation's taxable income with certain adjustments. One of the adjustment items used in computing the AMTI of a corporation (excluding S Corporations, Regulated Investment Companies, Real Estate Investment Trusts, REMICs and FASITs) is an amount equal to 75% of the excess of such corporation's "adjusted current earnings" over an amount equal to its AMTI (before such adjustment item and the alternative tax net operating loss deduction). "Adjusted current earnings" would include all tax exempt interest, including interest on the Bonds.

Under the provisions of section 884 of the Code, a branch profits tax is levied on the "effectively connected earnings and profits" of certain foreign corporations, which earnings and profits may include tax-exempt interest such as interest on the Bonds.

Ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, corporations subject to the branch profits tax, financial institutions, certain insurance companies, certain S corporations, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Bonds should consult their tax advisors as to applicability of any such collateral consequences.

If a Bond is purchased at any time for a price that is less than the Bond's stated redemption price at maturity the purchaser will be treated as having purchased an Bond with market discount subject to the market discount rules of the Code (unless a statutory de minimis rule applies). Accrued market discount is treated as taxable ordinary income and is recognized

when an Bond is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the purchaser's election, as it accrues. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of such Bond. Purchasers should consult their own tax advisors regarding the potential implications of market discount with respect to the Bonds.

There are or may be pending in the Congress of the United States legislative proposals, including some that carry retroactive effective dates, that, if enacted, could alter or amend the federal tax matters referred to above or adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. Bond Counsel expresses no opinion regarding any pending or proposed federal tax legislation.

The Internal Revenue Service (the "Service") has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the Service, interest on such tax-exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. It cannot be predicted whether or not the Service will commence an audit of the Bonds. If an audit is commenced, under current procedures the Service will treat the Agency as the taxpayer and the Bondholders may have no right to participate in such procedure. The commencement of an audit could adversely affect the market value and liquidity of the Bonds until the audit is concluded, regardless of the ultimate outcome.

In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes.

The United States Supreme Court has heard an appeal of a case decided by the Kentucky Court of Appeals. In that case, the Kentucky Court of Appeals ruled that Kentucky's taxation of interest on bonds issued by other states or their political subdivisions is unconstitutional because the Kentucky statute exempts from taxation interest only on bonds issued by the Commonwealth of Kentucky or its political subdivisions. California law is similar to the law of Kentucky in that California law creates an exemption for bonds issued by political subdivisions within the State of California but not for bonds issued by political subdivisions of other states. It is unclear what effect, if any, the ultimate outcome of this case or any legislative response to such outcome, could have on the state law tax exemption of interest on the Bonds. The outcome of the United States Supreme Court case or any legislative response cannot be predicted and could alter or amend the state tax exemption referred to above or affect the market value of the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the outcome of the United States Supreme Court case and any pending or proposed state law tax legislation. Bond Counsel expresses no opinion regarding any pending, proposed or future state tax legislation.

Ownership of the Bonds may result in other state and local tax consequences to certain taxpayers. Bond Counsel expresses no opinion regarding any such collateral consequences arising with respect to the Bonds. Prospective purchasers of the Bonds should consult their tax advisors regarding the applicability of any such state and local taxes.

UNDERWRITING

The Bonds are being purchased for reoffering by Wulff, Hansen & Co. (the "Underwriter"). The Underwriter has entered into an agreement with the Authority and the Agency to purchase the Bonds at a price of \$10,290,543.20 (being the initial principal amount of

APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain provisions of the Indenture of Trust and does not purport to be complete. Copies of the Indenture are available from the Agency upon request. All capitalized terms used in the Indenture and not otherwise defined shall have the same meaning as used in the Indenture.

Definitions

"Additional Revenues" means, as of the date of calculation, the amount of Tax Revenues which, as shown in the Report of an Redevelopment Consultant, are estimated to be receivable by the Agency within the Fiscal Year following the Fiscal Year in which such calculation is made as a result of increases in the assessed valuation of taxable property in the Redevelopment Project due to the completion of construction which is not then reflected on the tax rolls, or due to transfer of ownership or any other interest in real property which has been recorded but which is not then reflected on the tax rolls. For purposes of this definition, the term "increases in the assessed valuation" means the amount by which the assessed valuation of taxable property in the Redevelopment Project is estimated to increase above the assessed valuation of taxable property in the Redevelopment Project (as evidenced in the written records of the County) as of the date on which such calculation is made.

"Agency" means the Yucca Valley Redevelopment Agency, a public body corporate and politic duly organized and existing under the Law.

"Annual Debt Service" means, for each Bond Year, the sum of (a) the interest payable on the Outstanding Bonds in such Bond Year, assuming that the Outstanding Bonds are retired as scheduled, and (b) the principal or sinking fund amount of the Outstanding Bonds payable by their terms in such Bond Year.

"Bonds" means the Yucca Valley Redevelopment Agency (Yucca Valley Redevelopment Project No. 1) Tax Allocation Bonds, Series 2008.

"Bond Year" means any twelve-month period beginning on June 2 in any year and ending on the next succeeding June 1, both dates inclusive, except that the first Bond Year shall begin on the Closing Date, and end on June 1, 2008.

"Business Day" means a day of the year, other than a Saturday or Sunday, on which banks in New York, New York, Los Angeles and San Francisco, California, are not required or permitted to be closed and on which the New York Stock Exchange is not closed.

"Closing Date" means the date on which the Bonds are delivered by the Agency to the original purchaser thereof.

"Code" means the Internal Revenue Code of 1986 as in effect on the date of issuance of the Bonds or (except as otherwise referenced herein) as it may be amended to apply to obligations issued on the date of issuance of the Bonds, together with applicable temporary and final regulations promulgated, and applicable official public guidance published, under the Code.

"Continuing Disclosure Certificate" means that certain Continuing Disclosure Certificate executed by the Agency dated as of the Closing Date, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

"Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the Agency relating to the authorization, issuance, sale and delivery of the Bonds, including but not limited to printing expenses, operating expenses, rating agency fees, filing and recording fees, initial fees and charges and first annual administrative fee of the Trustee and fees and expenses of its counsel, fees, charges and disbursements of attorneys, financial advisors, fiscal consultants, accounting firms, consultants and other professionals, fees and charges for preparation,

execution and safekeeping of the Bonds and any other cost, charge or fee in connection with the original issuance of the Bonds.

"Costs of Issuance Fund" means the fund by that name established and held by the Trustee pursuant to the Indenture.

"County" means San Bernardino County, a county duly organized and existing under the laws of the State.

"Debt Service Fund" means the fund by that name established and held by the Trustee pursuant to the Indenture.

"Defeasance Obligations" means (a) cash, (b) direct non-callable obligations of the United States of America, (c) securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America, to which direct obligation or guarantee the full faith and credit of the United States of America has been pledged, (d) Refcorp interest strips, (e) CATS, TIGRS, STRPS, and (f) defeased municipal bonds rated AAA by S&P or Aaa by Moody's (or any combination of the foregoing).

"Escrow Bank" means The Bank of New York Trust Company, N.A., in its capacity as escrow bank under the 1995 Escrow Agreement and the 2004 Escrow Agreement, or any successor thereto appointed as escrow bank thereunder in accordance with the provisions thereof.

"Event of Default" means any of the events described in the Indenture.

"Fiscal Year" means any twelve-month period beginning on July 1 in any year and extending to the next succeeding June 30, both dates inclusive, or any other twelve month period selected and designated by the Agency to the Trustee in writing as its official fiscal year period.

"Indenture" means the Indenture of Trust by and between the Agency and the Trustee, as originally entered into or as it may be amended or supplemented by any Supplemental Indenture entered into pursuant to the provisions thereof.

"Independent Accountant" means any accountant or firm of such accountants duly licensed or registered or entitled to practice and practicing as such under the laws of the State, appointed by the Agency, and who, or each of whom: (a) is in fact independent and not under domination of the Agency; (b) does not have any substantial interest, direct or indirect, with the Agency; and (c) is not connected with the Agency as an officer or employee of the Agency, but who may be regularly retained to make reports to the Agency.

"Independent Financial Consultant" means any financial consultant or firm of such consultants appointed by the Agency, and who, or each of whom: (a) is in fact independent and not under domination of the Agency; (b) does not have any substantial interest, direct or indirect, with the Agency, other than as original purchaser of the Bonds or any Parity Debt; and (c) is not connected with the Agency as an officer or employee of the Agency, but who may be regularly retained to make reports to the Agency.

"Independent Redevelopment Consultant" means any consultant or firm of such consultants appointed by the Agency, and who, or each of whom: (a) is judged by the Agency to have experience in matters relating to the collection of Tax Revenues or otherwise with respect to the financing of Redevelopment Project; (b) is in fact independent and not under domination of the Agency; (c) does not have any substantial interest, direct or indirect, with the Agency; and (d) is not connected with the Agency as an officer or employee of the Agency, but who may be regularly retained to make reports to the Agency.

"Information Services" means Financial Information, Inc.'s "Daily Called Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, NJ 07302, Attention: Editor; Mergent/FIS, Inc., 5250-77 Center Drive, Charlotte, NC 28217, Attention: Called Bond Dept.; Kenny S&P, 55 Water Street, New York, NY 10041, Attention: Notification Department; and, in accordance with then current guidelines of the Securities and Exchange Agency, such other addresses and/or such other information services

providing information with respect to called bonds as the Agency may designate in a Written Certificate of the Agency delivered to the Trustee.

"Interest Account" means the account by that name established and held by the Trustee pursuant to the Indenture.

"Interest Payment Date" means June 1 and December 1 in each year, commencing December 1, 2008, so long as any of the Bonds remain Outstanding hereunder.

"Law" means the Community Redevelopment Law of the State, constituting Part 1 of Division 24 of the California Health and Safety Code, and the acts amendatory thereof and supplemental thereto.

"Low and Moderate Income Housing Fund" means the fund of the Agency established by the Agency pursuant to section 33334.3 of the Law.

"Maximum Annual Debt Service" means, as of the date of calculation, the largest Annual Debt Service for the current or any future Bond Year following the anticipated issuance of Bonds. For purposes of such calculation, there shall be excluded a *pro rata* portion of each installment of principal of the Bonds and any Parity Debt, together with the interest to accrue thereon, in the event and to the extent that the proceeds of the Bonds and such Parity Debt are deposited in an escrow fund from which amounts may not be released to the Agency unless the Tax Revenues for the current Fiscal Year (as evidenced in the written records of the County) at least equal one hundred twenty-five percent (125%) of the amount of Maximum Annual Debt Service.

"Moody's" means Moody's Investors Service, its successors and assigns.

"1995 Bonds" means the \$1,730,000 Yucca Valley Redevelopment Agency, (Yucca Valley Redevelopment Project Area, Tax Allocation Bonds, Series 1995, of which \$1,415,000 principal amount remains outstanding.

"1995 Escrow Agreement" means that certain Escrow Deposit and Trust Agreement, dated the Closing Date, by and between the Agency and the Escrow Bank, as originally entered into or as they may be amended or supplemented pursuant to the provisions thereof, providing for the refunding of the 1995 Bonds.

"1995 Escrow Fund" means the fund by that name created and maintained by the Escrow Bank pursuant to the 1995 Escrow Agreement.

"Original Purchaser" means the original purchaser of the Bonds upon their delivery by the Trustee on the Closing Date.

"Outstanding" when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture) all Bonds except: (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (b) Bonds paid or deemed to have been paid within the meaning of the Indenture; and (c) Bonds in lieu of or in substitution for which other Bonds shall have been authorized, executed, issued and delivered by the Agency pursuant hereto.

"Owner" or *"Bondowner"* means, with respect to any Bond, the person in whose name the ownership of such Bond shall be registered on the Registration Books.

"Parity Debt" means any loans, bonds, notes, advances or indebtedness payable from Tax Revenues on a parity with the Bonds to finance or refinance the Redevelopment Project, issued or incurred pursuant to and in accordance with the Indenture.

"Parity Debt Instrument" means any resolution, indenture of trust, trust agreement or other instrument authorizing the issuance of any Parity Debt.

"Participating Underwriter" has the meaning ascribed thereto in the Continuing Disclosure Certificate.

"Pass-Through Agreements" means (a) collectively, the following agreements to which the Agency is a party: (1) Cooperation Agreement between the Mojave Water Agency and the Yucca Valley Redevelopment Agency and the Town of Yucca Valley, dated August 11, 1993; (2) Agreement between Desert Community College District, Yucca Valley Redevelopment Agency and the Town of Yucca Valley, dated August 12, 1993; (3) Cooperation Agreement between the Hi Desert Water District and the Yucca Valley Redevelopment Agency and the Town of Yucca Valley, dated September 9, 1993; (4) Cooperation Agreement between the Fire District and the Yucca Valley Redevelopment Agency and the Town of Yucca Valley, dated December 21, 1993; (5) Cooperation Agreement between the Morongo Unified School District, the Yucca Valley Redevelopment Agency and the Town of Yucca Valley, dated August 23, 1993; (6) Agreement for Cooperation between the San Bernardino County Superintendent of Schools and the Yucca Valley Redevelopment Agency, dated August 11, 1993; and (7) Cooperation Agreement between the County of San Bernardino and the Yucca Valley Redevelopment Agency and the Town of Yucca Valley dated October 21, 1993, and (b) payments to affected taxing agencies pursuant to Chapter 942 of the Law, together with any amendments thereof hereafter duly authorized pursuant to the Law.

"Permitted Investments" means the following, but only to the extent that the same are acquired at Fair Market Value:

(a) Federal Securities;

(b) debentures of the Federal Housing Administration to the extent such obligations are guaranteed by the full faith and credit of the United States of America;

(c) obligations of the following agencies which are not guaranteed by the United States of America: (i) participation certificates or debt obligations of the Federal Home Loan Mortgage Corporation; (ii) consolidated system-wide bonds and notes of the Farm Credit Banks (consisting of Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives); (iii) consolidated debt obligations or letter of credit-backed issues of the Federal Home Loan Banks; (iv) mortgage-backed securities (excluding stripped mortgage securities which are valued greater than par on the portion of unpaid principal) or debt obligations of the Federal National Mortgage Association; or (v) letter of credit-backed issues or debt obligations of the Student Loan Marketing Association; provided, however, that not more than ten percent (10%) of the proceeds of the Bonds may, in the aggregate, be invested in any such obligations at one time;

(d) Federal funds, negotiable certificates of deposit, time deposits and bankers acceptances (having maturities of not more than 180 days) of banks (including the Trustee and its affiliates) the short-term obligations of which are rated in one of the two highest Rating Categories by at least one nationally recognized rating agency;

(e) deposits (including those of the Trustee and its affiliates) which are fully insured by the Federal Deposit Insurance Corporation ("FDIC");

(f) debt obligations (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date) rated in one of the two highest Rating Categories by at least one nationally recognized rating agency;

(g) commercial paper (having original maturities of not more than 270 days) rated in one of the two highest Rating Categories by at least one nationally recognized rating agency;

(h) money market funds rated in one of the two highest Rating Categories by at least one nationally recognized rating agency, including funds for which the Trustee, its parent, affiliates or subsidiaries provide investment advisory or other management services, in which case it is agreed that the Trustee, its parent, affiliates or subsidiaries shall have the right to be paid its customary management fees in addition to its fees as Trustee hereunder;

(i) investment contracts or agreements issued or guaranteed by entities whose long-term debt or claims paying ability of which are rated in one of the two highest long-term rating categories of Moody's or S&P;

(j) repurchase agreements or investment agreements issued by banks, broker/dealers or other financial institutions fully secured by obligations listed in paragraphs (a), (b) or (c) of this definition having a market value at least equal to 105% of face amount of the agreement and possession of which obligations is held or controlled by the Trustee, the Agency or by a third party satisfactory to the Agency under arrangements satisfactory to the Trustee or the Agency, as the case may be; and

(k) the Local Agency Investment Fund of the State, created pursuant to Section 16429.1 of the California Government Code, to the extent the Trustee is authorized to register such investment in its name.

"Plan Limitations" means the limitations contained or incorporated in the Redevelopment Plan on (a) the aggregate principal amount of indebtedness payable from Tax Revenues derived under the Redevelopment Plan which may be outstanding at any time, (b) the aggregate amount of taxes which may be divided and allocated to the Agency pursuant to the Redevelopment Plan, and (c) the period of time for establishing, incurring or repaying indebtedness payable from Tax Revenues derived under the Redevelopment Plan.

"Principal Account" means the account by that name established and held by the Trustee pursuant to the Indenture.

"Principal Corporate Trust Office" means such principal corporate trust office of the Trustee as may be designated from time to time by written notice from the Trustee to the Agency, initially being the address set forth in the Indenture, except that, with respect to presentation of Bonds for payment or for registration of transfer and exchange, such term shall mean the office or agency of the Trustee at which, at any particular time, its corporate trust agency business shall be conducted.

"Rating Category" means any generic rating category of Moody's or S&P, without regard to any refinement of such category by plus or minus sign or by numerical or other qualifying designation.

"Record Date" means, with respect to any Interest Payment Date, the close of business on the fifteenth (15th) calendar day of the month preceding such Interest Payment Date, whether or not such fifteenth (15th) calendar day is a Business Day.

"Redemption Account" means the account by that name established and held by the Trustee pursuant to the Indenture.

"Redevelopment Fund" means the fund by that name established and held by the Agency pursuant to the Indenture.

"Redevelopment Plan" means the Official Redevelopment Plan for the Redevelopment Project by Ordinance No. 37, adopted by the Town Council of the Town on August 5, 1993, as amended by Ordinance No. 152, adopted by the Town Council of the Town on May 6, 2004, together with any amendments thereof at any time duly authorized pursuant to the Law.

"Redevelopment Project" means the Yucca Valley Redevelopment Project No. 1, as described in the Redevelopment Plan.

"Refunding Debt" means any loan, bond, note, advance or indebtedness payable from Tax Revenues on a parity with the Bonds; provided that the proceeds thereof are used to refund all or a portion of the Bonds or any Parity Debt (and to pay costs of issuance of and fund a reserve fund for such Refunding Debt), and the debt service due on such Refunding Debt in any Bond Year in which the Bonds or such Parity Debt is Outstanding is not greater than the debt service due on the portion of the Bonds or any Parity Debt refunded with the proceeds of such Refunding Debt.

"Registration Books" means the records maintained by the Trustee pursuant to the Indenture for the registration and transfer of ownership of the Bonds.

"Report" means a document in writing signed by an Independent Financial Consultant or an Independent Redevelopment Consultant and including: (a) a statement that the person or firm making or giving such Report has read the pertinent provisions of the Indenture to which such Report relates; (b) a brief statement as to the nature and scope of the examination or investigation upon which the Report is based; and (c) a statement that, in the opinion of such person or firm, sufficient examination or investigation was made as is necessary to enable said consultant to express an informed opinion with respect to the subject matter referred to in the Report.

"Reserve Account" means the account by that name established and held by the Trustee pursuant to the Indenture.

"Reserve Requirement" means with respect to the Bonds or any Parity Debt, as of any calculation date, the least of (i) ten percent (10%) of the original principal amount of the Bonds or Parity Debt, as applicable, or, if the original issue discount exceeds 2% of such original principal amount, then ten percent (10%) of the original principal amount of, less original issue discount on, such Bonds or Parity Debt, (ii) Maximum Annual Debt Service with respect to the Bonds or Parity Debt, as applicable, or (iii) 125% of average annual debt service on the Bonds or Parity Debt, as applicable; provided that (a) for purposes of such calculation, proceeds of the Bonds or Parity Debt which are held in an escrow fund shall not be included as part of the Bonds or Parity Debt until such time as moneys are released from such escrow fund, and (b) such calculation shall be made by the Agency.

"Responsible Officer" means any Vice President, Assistant Vice President or Trust Officer of the Trustee with responsibility for matters related to the Indenture.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., New York, New York, or its successors.

"Securities Depositories" means The Depository Trust Company, 55 Water Street, 50th Floor, New York, NY 10041-0099, Attention: Call Notification Department and, in accordance with then current guidelines of the Securities and Exchange Agency, such other addresses and/or such other securities depositories as the Agency may designate in a Written Certificate of the Agency delivered to the Trustee.

"Sinking Account" means the account by that name established and held by the Trustee pursuant to the Indenture.

"Special Fund" means the fund by that name established and held by the Agency pursuant to the Indenture.

"State" means the State of California.

"Subordinate Debt" means any loans, advances or indebtedness issued or incurred by the Agency pursuant to the Indenture, which are either: (a) by its terms payable from, but not secured by a pledge of or lien upon, the Tax Revenues; or (b) secured by a pledge of or lien upon the Tax Revenues which is expressly subordinate to the pledge of and lien upon the Tax Revenues hereunder for the security of the Bonds.

"Supplemental Indenture" means any resolution, agreement or other instrument which has been duly adopted or entered into by the Agency, but only if and to the extent that such Supplemental Indenture is specifically authorized hereunder.

"Tax Revenues" means all taxes pledged and annually allocated within the Plan Limitations, following the Closing Date, and paid to the Agency with respect to the Redevelopment Project pursuant to Article 6 of Chapter 6 (commencing with section 33670) of the Law and section 16 of Article XVI of the Constitution of the State, or pursuant to other applicable State laws, and as provided in the Redevelopment Plan, and all payments, subventions and reimbursements, if any, to the Agency specifically attributable to *ad valorem* taxes lost by reason of tax exemptions and tax rate limitations, *excluding* all other amounts of such taxes (if any) (i) which are required to be deposited into the Low and Moderate Income Housing Fund of the Agency pursuant to section 33334.3 of the

Law for increasing and improving the supply of low and moderate income housing (other than amounts required to pay principal or interest or other financing charges with respect to Bonds issued to increase, improve or preserve the supply of low and moderate income housing within or of benefit to the Redevelopment Project), (ii) which constitute supplemental subventions payable by the State to the Agency under and pursuant to Chapter 1.5 of Part 1 of Division 4 of Title 2 (commencing with section 16110) of the California Government Code, (iii) which constitute amounts payable by the Agency under sections 33607.5 or 33607.7 of the Law for payments to affected taxing entities, except and to the extent such amounts so payable are payable on a basis subordinate to the payment of the Bonds, and (iv) which constitute amounts payable by the Agency under the Pass-Through Agreements except, and to the extent that any amounts so payable are payable on a basis subordinate to the payment of the Bonds.

"Term Bonds" means the Bonds maturing on June 1, 2028, and June 1, 2038.

"Trustee" means The Bank of New York Trust Company, N.A., as trustee hereunder, or any successor thereto appointed as trustee hereunder in accordance with the provisions of Article VI.

"2004 Bonds" means the \$2,665,000 Yucca Valley Redevelopment Agency, (Yucca Valley Redevelopment Project No. 1) Tax Allocation Bonds, Series 2004, of which \$2,465,000 principal amount remains outstanding.

"2004 Escrow Agreement" means that certain Escrow Deposit and Trust Agreement, dated the Closing Date, by and between the Agency and the Escrow Bank, as originally entered into or as they may be amended or supplemented pursuant to the provisions thereof, providing for the refunding of the 2004 Bonds.

"2004 Escrow Fund" means the fund by that name created and maintained by the Escrow Bank pursuant to the 2004 Escrow Agreement.

"Written Request of the Agency" or *"Written Certificate of the Agency"* means a request or certificate, in writing signed by the Chairman, the Executive Director or the Treasurer of the Agency or by any other officer of the Agency duly authorized by the Agency for that purpose.

Application of Proceeds of Sale

Upon the receipt of payment for the Bonds on the Closing Date, the Trustee shall apply the proceeds of sale thereof as follows: (a) deposit in the Costs of Issuance Fund amounts required to pay Costs of Issuance; (b) deposit in the Reserve Account, an amount equal to the initial Reserve Requirement; (c) transfer to the Escrow Bank amounts required for the defeasance of the 1995 Bonds; (d) transfer to the Escrow Bank amounts required for the defeasance of the 2004 Bonds; and (e) transfer any remaining amounts to the Agency for deposit in the Redevelopment Fund.

Redevelopment Fund

Amounts deposited to the Redevelopment Fund shall be applied by the Agency from time to time for the financing of the Redevelopment Project. The Agency shall maintain records as to the disposition of all amounts disbursed from the Redevelopment Fund pursuant to the Indenture, as necessary to comply with any applicable requirements of the Redevelopment Law.

Costs of Issuance Fund

The moneys in the Costs of Issuance Fund shall be used and withdrawn by the Trustee from time to time to pay the Costs of Issuance upon submission of a Written Request of the Agency stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund. Each such Written Request of the Agency shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts. On the date six months following the Closing Date, or upon the earlier Written Request of the Agency stating that all known Costs of Issuance have been paid, all amounts, if any, remaining in the Costs of Issuance Fund shall be

withdrawn therefrom by the Trustee and transferred to the Agency for deposit in the Redevelopment Fund and the Costs of Issuance Fund shall be closed.

Issuance of Parity Debt

(a) In addition to the Bonds, the Agency may, by Supplemental Indenture, issue or incur Parity Debt payable from Tax Revenues on a parity with the Bonds to finance redevelopment projects within or for the benefit of the Redevelopment Project in such principal amount as shall be determined by the Agency. The Agency may issue and deliver any such other Parity Debt subject to the following specific conditions precedent to the issuance and delivery of such Parity Debt so issued:

(i) The Agency shall be in compliance with all covenants set forth in the Indenture and all Supplemental Indentures.

(ii) Tax Revenues for the then current Fiscal Year, based on the most recent assessed valuation of property in the Redevelopment Project as evidenced in written documentation from an appropriate official of the County, plus, at the option of the Agency, the Additional Revenues, shall be at least equal to one hundred forty-five percent (145%) of Maximum Annual Debt Service on all Bonds and Parity Debt which will be Outstanding following the issuance of such Parity Debt (excluding from such calculation debt service on Parity Debt or Bonds on deposit in a special escrow fund).

(iii) The aggregate amount of the principal of and interest on the Bonds, any Parity Debt and any Subordinate Debt coming due and payable following the issuance of such Parity Debt shall not exceed the maximum amount of Tax Revenues permitted under the Plan Limitations to be allocated and paid to the Agency following the issuance of such Parity Debt;

(iv) Interest on such Parity Debt shall be payable on June 1 and December 1 in each year in which interest is payable on such Parity Debt, except the first twelve month period, during which interest may be payable on any June 1 or December 1;

(v) Principal on such Parity Debt shall be payable on June 1 in any year in which principal is payable;

(vi) Money shall be deposited in a reserve account from the proceeds of the sale of such Parity Debt in an amount sufficient to provide a total amount held for the Bonds and such Parity Debt to equal the Reserve Requirement;

(vii) The Agency shall receive an opinion of Bond Counsel stating (i) that the Supplemental Indenture relating to the Parity Debt is valid and enforceable in accordance with its terms (ii) that such Supplemental Indenture creates a valid pledge of that which it purports to pledge, and (iii) that the total principal amount of Parity Debt to be issued or incurred and then Outstanding will not exceed any limit imposed by law; and

(viii) The Agency shall deliver to the Trustee a Certificate of the Agency certifying that the conditions precedent to the issuance of such Parity Debt set forth in subsections (i), (ii), (iii), (iv), (v), (vi) and (vii) above have been satisfied.

(b) For purposes of calculating Tax Revenues in applying the parity debt provisions, such Tax Revenues shall be calculated on the basis of a tax rate of \$1.00 per \$100 of assessed value.

(c) If such Parity Debt is payable at a variable interest rate, interest should be calculated assuming the 30-year Revenue Bond Index as published by *The Bond Buyer* no more than two weeks prior to date of sale.

Issuance of Subordinate Debt

In addition to the Bonds, the Agency may issue or incur Subordinate Debt in such principal amount as shall be determined by the Agency. The Agency may issue or incur such Subordinate Debt subject to the following specific conditions precedent:

(a) The Tax Revenues for the then current Fiscal Year, based on the most recent assessed valuation of property in the Redevelopment Project as evidenced in written documentation from an appropriate official of the County, after deducting all amounts required for the payment of the Bonds and any Parity Debt, shall be at least equal to one hundred percent (100%) of Maximum Annual Debt Service on all Subordinate Debt which will be outstanding following the issuance of such Subordinate Debt (excluding from such calculation debt service on Subordinate Debt on deposit in a special escrow fund);

(b) If, and to the extent, such Subordinate Debt is payable from Tax Revenues within the Plan Limitations, then principal and sinking fund installments of and interest on all Outstanding Bonds, Parity Debt and Subordinate Debt coming due and payable following the issuance or incurrence of such Subordinate Debt shall not exceed the maximum amount of Tax Revenues permitted within the Plan Limitations; and

(c) The aggregate amount of all Bonds, Parity Debt and Subordinate Debt to be outstanding following the issuance of such Subordinate Debt shall not exceed the maximum amount of obligations permitted under the Plan Limitations to be outstanding at any time.

Validity of Bonds. The validity of the authorization and issuance of the Bonds shall not be dependent upon the completion of the Redevelopment Project or upon the performance by any person of his obligation with respect to the Redevelopment Project.

Security of Bonds; Equal Security

Except as provided in the Indenture, the Bonds shall be equally secured by a pledge of, security interest in and a first and exclusive lien on all of the Tax Revenues, and a first and exclusive pledge of, security interest in and lien upon all of the moneys in the Special Fund, the Debt Service Fund, the Interest Account, the Principal Account, the Sinking Account, the Reserve Account, the Escrow Fund and the Redemption Account, without preference or priority for series, issue, number, dated date, sale date, date of execution or date of delivery. Except for the Tax Revenues and such other moneys, no funds or properties of the Agency shall be pledged to, or otherwise liable for, the payment of principal of or interest or redemption premium (if any) on the Bonds.

In consideration of the acceptance of the Bonds by those who shall hold the same from time to time, the Indenture shall be deemed to be and shall constitute a contract between the Agency and the Owners from time to time of the Bonds, and the covenants and agreements set forth in the Indenture to be performed on behalf of the Agency shall be for the equal and proportionate benefit, security and protection of all Owners of the Bonds without preference, priority or distinction as to security or otherwise of any of the Bonds over any of the others by reason of the number or date thereof or the time of sale, execution and delivery thereof, or otherwise for any cause whatsoever, except as expressly provided therein or in the Indenture.

Special Fund; Deposit of Tax Revenues

The Agency shall transfer all of the Tax Revenues received in any Bond Year to the Special Fund promptly upon receipt thereof by the Agency, until such time during such Bond Year as the amounts on deposit in the Special Fund equal the aggregate amounts required to be transferred to the Trustee for deposit into the Interest Account, the Principal Account, the Sinking Account, the Reserve Account and the Redemption Account in such Bond Year pursuant to the Indenture.

All Tax Revenues received by the Agency during any Bond Year in excess of the amount required to be deposited in the Special Fund during such Bond Year pursuant to the preceding paragraph of the Indenture, including delinquent amounts if any, shall be released from the pledge and lien under the Indenture for the security of the Bonds and may be applied by the Agency for any lawful purposes of the Agency, including but not limited to the payment of Subordinate Debt, or the payment of any amounts due and owing to the United States of America pursuant to the Indenture. Prior to the payment in full of the principal of and interest and redemption premium (if any) on the Bonds and the payment in full of all other amounts payable under the Indenture and under any Supplemental Indentures, the Agency shall not have any beneficial right or interest in the moneys on

deposit in the Special Fund, except as may be provided in the Indenture and in any Supplemental Indenture.

Deposit of Amounts by Trustee

There will be established a trust fund to be known as the Debt Service Fund, which shall be held by the Trustee under the Indenture in trust. Moneys in the Special Fund shall be transferred by the Agency to the Trustee in the following amounts, at the following times, and deposited by the Trustee in the following respective special accounts, which are established in the Debt Service Fund, and in the following order of priority:

(a) *Interest Account.* On or before the fifth Business Day preceding each Interest Payment Date, the Agency shall withdraw from the Special Fund and transfer to the Trustee, for deposit in the Interest Account an amount which when added to the amount contained in the Interest Account on that date, will be equal to the aggregate amount of the interest becoming due and payable on the Outstanding Bonds on such Interest Payment Date. No such transfer and deposit need be made to the Interest Account if the amount contained in the Indenture is at least equal to the interest to become due on the next succeeding Interest Payment Date upon all of the Outstanding Bonds. All moneys in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds redeemed prior to maturity pursuant to the Indenture).

(b) *Principal Account.* On or before the fifth Business Day preceding each principal payment date in each year, beginning June 1, 2009, the Agency shall withdraw from the Special Fund and transfer to the Trustee for deposit in the Principal Account an amount which, when added to the amount then contained in the Principal Account, will be equal to the principal becoming due and payable on the Outstanding Bonds on the next June 1. No such transfer and deposit need be made to the Principal Account if the amount contained in the Indenture is at least equal to the principal installment to become due on the next November 1 on all of the Outstanding Bonds. All moneys in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds as it shall become due and payable.

(c) *Sinking Account.* On or before the fifth Business Day preceding each Sinking Account payment date in each year, the Agency shall withdraw from the Special Fund and transfer to the Trustee for deposit in the Sinking Account an amount which, when added to the amount then contained in the Sinking Account, will be equal to the Sinking Account installment becoming due and payable on the Outstanding Bonds on the next June 1. No such transfer and deposit need be made to the Sinking Account if the amount contained therein is at least equal to the Sinking Account installment to become due on the next June 1 on all of the Outstanding Bonds. All moneys in the Sinking Account shall be used and withdrawn by the Trustee solely for the purpose of paying the aggregate principal amount of the Term Bonds required to be redeemed on such June 1 pursuant to the Indenture.

(d) *Reserve Account.* In the event that the Trustee has actual knowledge that the amount on deposit in the Reserve Account at any time is less than the Reserve Requirement, the Trustee shall promptly notify the Agency of such fact. Promptly upon receipt of any such notice, the Agency shall transfer to the Trustee, Tax Revenues sufficient to maintain the Reserve Requirement on deposit in the Reserve Account. If there shall then not be sufficient Tax Revenues to transfer an amount sufficient to maintain the Reserve Requirement on deposit in the Reserve Account, the Agency shall be obligated to continue making transfers as Tax Revenues become available in the Special Fund until there is an amount sufficient to maintain the Reserve Requirement on deposit in the Reserve Account. No such transfer and deposit need be made to the Reserve Account so long as there shall be on deposit therein a sum at least equal to the Reserve Requirement. Amounts in the Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of making transfers to the Interest Account, the Principal Account and the Sinking Account in such order of priority, in the event of any deficiency at any time in any of such accounts or for the retirement of all the Bonds then Outstanding, except that so long as the Agency is not in default under the Indenture, any

amount in the Reserve Account in excess of the Reserve Requirement (as determined by the Trustee based upon a valuation of investments held in such account performed in accordance with the Indenture) shall be withdrawn from the Reserve Account semiannually on or before the Business Day preceding each June 1 and December 1 by the Trustee and deposited in the Interest Account. If a valuation discloses that amounts in the Reserve Account are less than the Reserve Requirement, which valuation must occur not less than semi-annually, the Agency shall immediately cause the cure thereof from any available moneys. All amounts in the Reserve Account on the Business Day preceding the final Interest Payment Date shall be withdrawn from the Reserve Account and shall be transferred either (i) to the Interest Account and the Principal Account, in such order, to the extent required to make the deposits then required to be made pursuant to the Indenture or, (ii) if the Agency shall have caused to be transferred to the Trustee an amount sufficient to make the deposits required by the Indenture, then, at the Written Request of the Agency, to the Agency for deposit by the Agency into the Special Fund. The Trustee may conclusively presume that there has been no change in the Reserve Requirement unless notified in writing by the Agency.

(e) *Redemption Account.* On or before the fifth Business Day preceding any date on which Bonds are to be redeemed pursuant to the Indenture, the Agency shall withdraw from the Special Fund and transfer to the trustee for deposit in the Redemption Account an amount required to pay the principal of and premium, if any, on the Bonds to be redeemed on such date pursuant to the Indenture, taking into account any funds then on deposit in the Redemption Account. The Trustee shall also deposit in the Redemption Account any other amounts received by it from the Agency designated by the Agency in writing to be deposited in the Redemption Account. All moneys in the Redemption Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of and premium, if any, on the Bonds to be redeemed pursuant to the Indenture on the respective dates set for such redemption.

Certain Covenants of the Agency

Punctual Payment. The Agency shall punctually pay or cause to be paid the principal and interest to become due in respect of all the Bonds together with the premium thereon, if any, in strict conformity with the terms of the Bonds and of the Indenture. The Agency shall faithfully observe and perform all of the conditions, covenants and requirements of the Indenture and all Supplemental Indentures and the Bonds. Nothing in the Indenture contained shall prevent the Agency from making advances of its own moneys howsoever derived to any of the uses or purposes referred to in the Indenture.

Limitation on Additional Indebtedness; Against Encumbrances. The Agency has covenanted that, so long as the Bonds are Outstanding, the Agency shall not issue any bonds, notes or other obligations, enter into any agreement or otherwise incur any indebtedness, for which all or any part of the Tax Revenues are pledged as security for payment, excepting only the Bonds, any Parity Debt and any Subordinate Debt. The Agency will not otherwise encumber, pledge or place any charge or lien upon any of the Tax Revenues or other amounts pledged to the Bonds superior to the pledge and lien in the Indenture created for the benefit of the Bonds. Other than amounts payable by the Agency under sections 33607.5 or 33607.7 of the Law for payments to affected taxing entities, the Agency is not obligated under any tax-sharing agreements that would affect the amount of Tax Revenues available to pay the Bonds.

Extension of Payment. The Agency will not, directly or indirectly, extend or consent to the extension of the time for the payment of any Bond or claim for interest on any of the Bonds and will not, directly or indirectly, be a party to or approve any such arrangement by purchasing or funding the Bonds or claims for interest in any other manner. In case the maturity of any such Bond or claim for interest shall be extended or funded, whether or not with the consent of the Agency, such Bond or claim for interest so extended or funded shall not be entitled, in case of default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest which shall not have been so extended or funded.

Payment of Claims. The Agency shall promptly pay and discharge, or cause to be paid and discharged, any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the properties owned by the Agency or upon the Tax Revenues or other amounts pledged to the payment of the Bonds, or any part thereof, or upon any funds in the hands of the Trustee, or which might impair the security of the Bonds. Nothing contained in the Indenture shall require the Agency to make any such payment so long as the Agency in good faith shall contest the validity of said claims.

Books and Accounts; Financial Statements. The Agency shall keep, or cause to be kept, proper books of record and accounts, separate from all other records and accounts of the Agency and the County, in which complete and correct entries shall be made of all transactions relating to the Redevelopment Project, the Tax Revenues the Special Fund and the Redevelopment Fund. Such books of record and accounts shall at all times during business hours be subject to the inspection of the Owners of not less than ten percent (10%) in aggregate principal amount of the Bonds then Outstanding, or their representatives authorized in writing.

The Agency will cause to be prepared, within one hundred and eighty (180) days after the close of each Fiscal Year so long as the Bonds and any Parity Debt are Outstanding, complete audited financial statements with respect to such Fiscal Year showing the Tax Revenues, all disbursements of Tax Revenues and the financial condition of the Redevelopment Project, including the balances in all funds and accounts relating to the Redevelopment Project, as of the end of such Fiscal Year. The Agency shall furnish a copy of such financial statements to any Owner upon reasonable request and at the expense of such Owner.

Protection of Security and Rights of Owners. The Agency will preserve and protect the security of the Bonds and the rights of the Owners. From and after the Closing Date, the Bonds shall be incontestable by the Agency.

Payments of Taxes and Other Charges. Except as otherwise provided in the Indenture, the Agency will pay and discharge, or cause to be paid and discharged, all taxes, service charges, assessments and other governmental charges which may hereafter be lawfully imposed upon the Agency or the properties then owned by the Agency in the Redevelopment Project, or upon the revenues therefrom when the same shall become due. Nothing contained in the Indenture shall require the Agency to make any such payment so long as the Agency in good faith shall contest the validity of said taxes, assessments or charges. The Agency will duly observe and conform with all valid requirements of any governmental authority relative to the Redevelopment Project or any part thereof.

Taxation of Leased Property. All amounts derived by the Agency pursuant to section 33673 of the Law with respect to the lease of property for redevelopment shall be treated in the same manner as amounts derived pursuant to section 33670(b) of the Law for purposes of determining Tax Revenues under the Indenture.

Disposition of Property. The Agency will not participate in the disposition of any land or real property in the Redevelopment Project to anyone which will result in such property becoming exempt from taxation because of public ownership or use or otherwise (except property dedicated for public right-of-way and except property planned for public ownership or use by the Redevelopment Plan in effect on the date of the Indenture) so that such disposition shall, when taken together with other such dispositions, aggregate more than ten percent (10%) of the land area in, or total assessed valuation of, the Redevelopment Project unless such disposition is permitted as provided in the Indenture. If the Agency proposes to participate in such a disposition, it shall thereupon appoint an Independent Redevelopment Consultant to report on the effect of said proposed disposition. If the Report of the Independent Redevelopment Consultant concludes that the Tax Revenues following such disposition will be at least equal to one hundred twenty-five percent (125%) of Maximum Annual Debt Service on the Bonds and on any Parity Debt, the Agency may thereafter make such disposition. If said Report concludes that, following said proposed disposition, the Tax Revenues will not be at least equal to one hundred twenty-five percent (125%) of Maximum Annual Debt Service on the Bonds and on any Parity Debt, the Agency shall not participate in said proposed disposition.

Maintenance of Tax Revenues; Compliance with Plan Limitations. The Agency shall comply with all requirements of the Redevelopment Law to insure the allocation and payment to it of the Tax Revenues, including without limitation the timely filing of any necessary statements of indebtedness with appropriate officials of the County and (in the case of supplemental revenues and other amounts payable by the State) appropriate officials of the State. The Agency shall not amend the Redevelopment Plan or enter into any agreement with the County or any other governmental or private entity, which would have the effect of reducing the amount of Tax Revenues otherwise available to the Agency for payment of the Bonds and on any Parity Debt, unless the Agency shall first obtain the Report of an Independent Redevelopment Consultant stating that the Tax Revenues for the then current Fiscal Year and each Fiscal Year thereafter in which the Bonds are Outstanding (calculated on the assumption that such reduction of Tax Revenues was in effect throughout such period), plus, at the option of the Agency, the Additional Revenues, shall be at least equal to one hundred twenty-five percent (125%) of Maximum Annual Debt Service on the Bonds and all Parity Debt.

Tax Covenants

Rebate Requirement. The Agency shall take any and all actions necessary to assure compliance with section 148(f) of the Code, relating to the rebate of excess investment earnings, if any, to the federal government. In the event that the Agency shall determine that any amounts are due and payable to the United States of America under the Indenture and that the Trustee has on deposit an amount of available moneys (excluding moneys on deposit in the Interest Account, the Principal Account, the Sinking Account or the Reserve Account and excluding any other moneys required to pay the principal of or interest or redemption premium, if any, on Bonds) to make such payment, the Agency shall promptly pay from available Tax Revenues or any other source of legally available funds the sum of (a) one hundred percent (100%) of the amounts determined to be due and payable to the United States of America as a result of the investment of amounts on deposit in any fund or account established under the Indenture, plus (b) all other amounts due and payable to the United States of America.

Private Business Use Limitation. The Agency shall assure that the proceeds of the Bonds are not used in a manner which would cause the Bonds to become "private activity bonds" within the meaning of section 141(a) of the Code.

Private Loan Limitation. The Agency shall assure that no more than five percent (5%) of the net proceeds of the Bonds are used, directly or indirectly, to make or finance a loan (other than loans constituting nonpurpose obligations as defined in the Code or constituting assessments) to persons other than state or local government units.

Federal Guarantee Prohibition. The Agency shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause the Bonds to be "federally guaranteed" within the meaning of section 149(b) of the Code.

No Arbitrage. The Agency shall not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the Bond proceeds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the Closing Date of the Bonds, would have caused the Bonds to be "arbitrage bonds" within the meaning of section 148(a) of the Code.

Compliance with the Plan Limitations and the Law. The Agency shall ensure that all activities undertaken by the Agency with respect to the redevelopment of the Redevelopment Project are undertaken and accomplished in conformity with the Plan Limitations and all applicable requirements of the Redevelopment Plan and the Redevelopment Law, including, without limitation, duly noticing and holding any public hearing required by either section 33445 or section 33679 of the Redevelopment Law prior to application of proceeds of the Bonds to any portion of the Redevelopment Project. Without limiting the generality of the foregoing, the Agency covenants that it shall deposit or cause to be deposited in the Redevelopment Fund, all amounts when, as and if required to be deposited in the Indenture pursuant to the Redevelopment Law.

Management and Operations of Properties. The Agency will manage and operate all properties owned by the Agency and comprising any part of the Redevelopment Project, in a sound and businesslike manner, and will keep such properties insured at all times in conformity with sound business practice.

Continuing Disclosure. The Agency has covenanted and agreed that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of the Indenture, failure of the Agency to comply with the Continuing Disclosure Certificate shall not be an Event of Default under the Indenture. However, any Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Agency to comply with its obligations under the Indenture.

Further Assurances. The Agency will adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture, and for the better assuring and confirming unto the Owners of the Bonds the rights and benefits provided in the Indenture.

Annual Review of Tax Revenues; Compliance with Plan Limitations. The Agency shall annually cause to be prepared a report which sets forth the estimated annual and cumulative total amount of tax increment revenues remaining available to be received by the Agency under the Plan Limitations (the "Remaining Limit Amount"), the estimated Current Year Obligations (as defined below), and the estimated Future Year Obligations (as defined below). Each Fiscal Year, the Agency shall cause to be deposited in a Trustee-held escrow account (the "Defeasance Escrow Account"), for investment in Defeasance Obligations, that portion of tax increment revenues, if any, allocated to the Agency in excess of the Current Year Obligations to the extent necessary, taking into account (i) the Remaining Limit Amount, (ii) all Future Obligations and (iii) the amounts already existing in the Defeasance Escrow Account, to enable repayment when due of all Future Obligations within the Remaining Limit Amount. Amounts in the Defeasance Escrow Account, including interest earned thereon, shall only be used to prepay Bonds or pay debt service on the Bonds.

"Current Year Obligations" means the amounts necessary to pay the debt service and other amounts due in the applicable Fiscal Year for which the annual report is then being prepared with respect to the Bonds, tax sharing payments, deposits in the Low and Moderate Income Housing Fund and other statutory obligations, Subordinate Debt, and the Agency's administrative costs. "Future Obligations" means the estimated amounts necessary to pay the debt service and other amounts due in all succeeding Fiscal Years with respect to the Bonds, tax sharing payments, deposits in the Low and Moderate Income Housing Fund and other statutory obligations, Subordinate Debt, and the Agency's administrative costs; provided that in estimating the portion of the Future Obligations related to the Bonds, the amount of remaining debt service shall take into account the early prepayment or defeasance of the Bonds estimated to occur using amounts deposited or to be deposited in the Defeasance Escrow Account.

Deposit and Investment of Moneys in Funds

Moneys in the Debt Service Fund, the Interest Account, the Principal Account, the Sinking Account, the Reserve Account, the Redemption Account and the Costs of Issuance Fund shall be invested by the Trustee in Permitted Investments as directed by the Agency in the Written Request of the Agency filed with the Trustee at least two (2) Business Days in advance of the making of such investments. In the absence of any such Written Request of the Agency, the Trustee shall invest any such moneys in Permitted Investments described in clause (h) of the definition thereof, which by their terms mature prior to the date on which such moneys are required to be paid out under the Indenture. Investments purchased with moneys deposited in the Reserve Account shall have an average aggregate weighted term to maturity not greater than five years; *provided, however,* that qualifying investment agreements permitting draws at any time need not be restricted to a maturity of five years or less. The Trustee shall be entitled to rely conclusively upon the written instructions of the Agency directing investments in Permitted Investments as to the fact that each such investment is permitted by the laws of the State, and shall not be required to make further investigation with respect thereto. With respect to any restrictions set forth in the above list which embody legal conclusions (e.g., the existence, validity and perfection of security interests in collateral), the Trustee

shall be entitled to rely conclusively on an opinion of counsel or upon a representation of the provider of such Permitted Investment obtained at the Agency's expense. Moneys in the Special Fund may be invested by the Agency in any obligations in which the Agency is legally authorized to invest its funds. Obligations purchased as an investment of moneys in any fund shall be deemed to be part of such fund or account. All interest or gain derived from the investment of amounts in any of the funds or accounts held by the Trustee hereunder shall be deposited in the Interest Account; *provided, however*, that all interest or gain from the investment of amounts in the Reserve Account shall be deposited by the Trustee in the Interest Account, to the extent not required to cause the balance in the Reserve Account to equal the Reserve Requirement. The Trustee or an affiliate may act as principal or agent in the acquisition or disposition of any investment and may impose its customary charges therefor. The Trustee shall incur no liability for losses arising from any investments made at the direction of the Agency or otherwise made pursuant to the Indenture.

Such investments shall be valued by the Trustee not less often than quarterly, at the market value thereof, exclusive of accrued interest. Deficiencies in the amount on deposit in any fund or account resulting from a decline in market value shall be restored by the Agency no later than the succeeding valuation date. Investments purchased with moneys deposited in the Reserve Account shall have an average aggregate weighted term to maturity not greater than five years; *provided, however*, that qualifying investment agreements permitting draws at any time need not be restricted to a maturity of five years or less.

All moneys held by the Trustee shall be held in trust, but need not be segregated from other funds unless specifically required by the Indenture. Except as specifically provided in the Indenture, the Trustee shall not be liable to pay interest on any moneys received by it, but shall be liable only to account to the Agency for earnings derived from funds that have been invested.

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

The Trustee or any of its affiliates may act as principal, agent, sponsor, advisor or manager in connection with any investments made by the Trustee under the Indenture.

Modification or Amendment of the Indenture

Amendment. The Indenture and the rights and obligations of the Agency and of the Owners may be modified or amended at any time by a Supplemental Indenture which shall become binding upon adoption, without the consent of any Owners, to the extent permitted by law and only for any one or more of the following purposes:

(a) to add to the covenants and agreements of the Agency in the Indenture contained, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or powers in the Indenture reserved to or conferred upon the Agency; or

(b) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in the Indenture, or in any other respect whatsoever as the Agency may deem necessary or desirable, provided under any circumstances that such modifications or amendments shall not, in the reasonable determination of the Agency, materially adversely affect the interests of the Owners; or

(c) to provide for the issuance of Parity Debt in accordance with the Indenture; or

(d) to amend any provision of the Indenture relating to the requirements of or compliance with the Code, to any extent whatsoever but only if and to the extent such amendment will not adversely affect the exemption from federal income taxation of interest on any of the Bonds, in the opinion of nationally recognized bond counsel.

Except as set forth in the preceding paragraph, the Indenture and the rights and obligations of the Agency and of the Owners may be modified or amended at any time by a Supplemental Indenture which shall become binding when the written consent of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding are filed with the Trustee. No such modification or amendment shall (a) extend the maturity of or reduce the interest rate on any Bond or otherwise alter or impair the obligation of the Agency to pay the principal, interest or redemption premiums (if any) at the time and place and at the rate and in the currency provided in the Indenture of any Bond without the express written consent of the Owner of such Bond, or (b) reduce the percentage of Bonds required for the written consent to any such amendment or modification. In no event shall any Supplemental Indenture modify any of the rights or obligations of the Trustee without its prior written consent. In addition, the Trustee shall be entitled to an opinion of counsel concerning the Supplemental Indenture's lack of any material adverse effect on the Owners and that all conditions precedent for any supplement or amendment has been satisfied.

Effect of Supplemental Indenture. From and after the time any Supplemental Indenture becomes effective pursuant to the Indenture, the Indenture shall be deemed to be modified and amended in accordance therewith, the respective rights, duties and obligations of the parties to the Indenture or thereto and all Owners, as the case may be, shall thereafter be determined, exercised and enforced under the Indenture subject in all respects to such modification and amendment, and all the terms and conditions of any Supplemental Indenture shall be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Endorsement or Replacement of Bonds After Amendment. After the effective date of any amendment or modification of the Indenture, the Agency may determine that any or all of the Bonds shall bear a notation, by endorsement in form approved by the Agency, as to such amendment or modification and in that case upon demand of the Agency, the Owners of such Bonds shall present such Bonds for that purpose at the Principal Corporate Trust Office, and thereupon a suitable notation as to such action shall be made on such Bonds. In lieu of such notation, the Agency may determine that new Bonds shall be prepared at the expense of the Agency and executed in exchange for any or all of the Bonds, and in that case, upon demand of the Agency, the Owners of the Bonds shall present such Bonds for exchange at the Principal Corporate Trust Office, without cost to such Owners.

Amendment by Mutual Consent. The provisions of the Indenture shall not prevent any Owner from accepting any amendment as to the particular Bond held by such Owner, provided that due notation thereof is made on such Bond.

Events of Default and Remedies of Owners

Events of Default. The following events shall constitute Events of Default under the Indenture:

(a) if default shall be made by the Agency in the due and punctual payment of the principal or sinking fund payment of or interest or redemption premium (if any) on any Bond when and as the same shall become due and payable, whether at maturity as in the Indenture expressed, by declaration or otherwise;

(b) if default shall be made by the Agency in the observance of any of the covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, other than a default described in the preceding clause (a), and such default shall have continued for a period of sixty (60) days following receipt by the Agency of written notice from the Trustee or any Owner of the occurrence of such default provided that if in the reasonable opinion of the Agency the failure stated in the notice can be corrected, but not within such 60 day period, such failure will not constitute an event of default if corrective action is instituted by the Agency within such 60 day period and the Agency thereafter diligently and in good faith cures such failure within 120 days; or

(c) if the Agency files a petition seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America, or if a court of competent jurisdiction will approve a petition seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America, or, if under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction will approve a petition, seeking reorganization under the federal bankruptcy laws or any other applicable law of the United

States of America, or, if under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction will assume custody or control of the Agency or of the whole or any substantial part of its property.

If an Event of Default has occurred and is continuing, the Trustee may, and if requested in writing by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding the Trustee shall exercise any remedies available to the Trustee and the Owners in law or at equity, subject in any event to the provisions of Section 8.08.

Application of Funds Upon Default. So long as an Event of Default exists, all sums received by the Trustee hereunder shall be applied by the Trustee as follows and in the following order:

(a) To the payment of the reasonable fees, costs and expenses of the Trustee (including reasonable fees and expenses of its counsel) incurred in and about the performance of its powers and duties under this Indenture and the payment of all reasonable fees, costs and expenses owing to the Trustee pursuant to Section 6.06 hereof; and

(b) To the payment of the whole amount of interest on and principal of the Bonds then due and unpaid, with interest on overdue installments of principal and interest to the extent permitted by law at the net effective rate of interest then borne by the Outstanding Bonds; provided, however, that in the event such amounts shall be insufficient to pay the full amount of such interest and principal, then such amounts shall be applied in the following order of priority:

(i) *first*, to the payment of all installments of interest on the Bonds then due and unpaid, on a pro rata basis in the event that the available amounts are insufficient to pay all such interest in full,

(ii) *second*, to the payment of principal of all installments of the Bonds then due and unpaid, on a pro rata basis in the event that the available amounts are insufficient to pay all such principal in full, and

(iii) *third*, to the payment of interest on overdue installments of principal and interest, on a pro rata basis in the event that the available amounts are insufficient to pay all such interest in full.

Limitation on Owner's Right to Sue. No Owner of any Bond issued under the Indenture shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of all the Bonds then Outstanding shall have made Written Request upon the Trustee to exercise the powers granted in the Indenture or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such Written Request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

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

The right of any Owner of any Bond to receive payment of the principal of (and premium, if any) and interest on such Bond as in the Indenture provided, shall not be impaired or affected without the written consent of such Owner, notwithstanding the foregoing provisions of the Indenture or any other provision of the Indenture.

Non-Waiver. Nothing in any provision of the Indenture or in the Bonds shall affect or impair the obligation of the Agency, which is absolute and unconditional, to pay from the Tax Revenues and other amounts pledged under the Indenture, the principal of and interest and redemption premium (if any) on the Bonds to the respective Owners on the respective Interest Payment Dates, as in the Indenture provided, or affect or impair the right of action, which is also absolute and unconditional, of the Owners or the Trustee to institute suit to enforce such payment by virtue of the contract embodied in the Bonds.

A waiver of any default by any Owner or the Trustee shall not affect any subsequent default or impair any rights or remedies on the subsequent default. No delay or omission of any Owner to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence in the Indenture, and every power and remedy conferred upon the Owners and the Trustee by the Law or by the Indenture may be enforced and exercised from time to time and as often as shall be deemed expedient by the Owners and the Trustee.

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

Actions by Trustee as Attorney-in-Fact. Any suit, action or proceeding which any Owner shall have the right to bring to enforce any right or remedy under the Indenture may be brought by the Trustee for the equal benefit and protection of all Owners similarly situated and the Trustee is appointed (and the successive respective Owners by taking and holding the Bonds or Parity Debt shall be conclusively deemed so to have appointed it) the true and lawful attorney-in-fact of the respective Owners for the purpose of bringing any such suit, action or proceeding and to do and perform any and all acts and things for and on behalf of the respective Owners as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney-in-fact, *provided, however,* the Trustee shall have no duty or obligation to exercise any such right or remedy unless it has been indemnified to its satisfaction from any loss, liability or expense (including fees and expenses of its outside counsel and the allocated costs and disbursements of its in-house counsel).

Remedies Not Exclusive. No remedy in the Indenture conferred upon or reserved to the Owners is intended to be exclusive of any other remedy. Every such remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or now or hereafter existing, at law or in equity or by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by the Law or any other law.

Discharge of Indenture

If the Agency shall pay and discharge the entire indebtedness on all Bonds or any portion thereof in any one or more of the following ways:

(a) by well and truly paying or causing to be paid the principal of and interest and premium (if any) on all or the applicable portion of Outstanding Bonds, as and when the same become due and payable;

(b) by irrevocably depositing with the Trustee or another fiduciary, in trust, at or before maturity, money which, together with the available amounts then on deposit in the funds and accounts established pursuant to the Indenture, is fully sufficient to pay all or the applicable portion of Outstanding Bonds, including all principal, interest and redemption premiums; or

(c) by irrevocably depositing with the Trustee or another fiduciary, in trust, Defeasance Obligations in such amount as an Independent Accountant shall determine will, together with the interest to accrue thereon and available moneys then on deposit in the funds and accounts established pursuant to the Indenture, be fully sufficient to pay and discharge the indebtedness on all Bonds or the applicable portion of (including all principal, interest and redemption premiums) at or before maturity;

and, if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given pursuant to the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, then, at the election of the Agency, and notwithstanding that any Bonds shall not have been surrendered for payment, the pledge of the Tax Revenues and other funds provided for in the Indenture and all other obligations of the Trustee and the Agency under the Indenture shall cease and terminate with respect to all Outstanding Bonds or, if applicable, with respect to that portion of the Bonds which has been paid and discharged, except only (i) the obligation of the Trustee to transfer and exchange Bonds under the Indenture, (ii) the obligations of the Agency under the Indenture, and (iii) the obligation of the Agency to pay or cause to be paid to the Owners, from the amounts so deposited with the Trustee, all sums due thereon and to pay the Trustee all fees, expenses and costs of the Trustee. In the event the Agency shall, pursuant to the foregoing provision, pay and discharge any portion or all of the Bonds then Outstanding, the Trustee shall be authorized to take such actions and execute and deliver to the Agency all such instruments as may be necessary or desirable to evidence such discharge, including, without limitation, selection by lot of Bonds of any maturity of the Bonds that the Agency has determined to pay and discharge in part.

In the case of a defeasance or payment of all of the Bonds Outstanding, any funds thereafter held by the Trustee which are not required for said purpose or for payment of amounts due the Trustee pursuant to the Indenture shall be paid over to the Agency.

To accomplish defeasance the Agency shall cause to be delivered (i) a Report of an Independent Accountant verifying the sufficiency of the escrow established to pay the Bonds in full on the maturity or earlier redemption date ("Verification"), (ii) an escrow deposit agreement, and (iii) an opinion of nationally recognized bond counsel to the effect that the Bonds are no longer "Outstanding" under the Indenture; each Verification and defeasance opinion shall be acceptable in form and substance, and addressed, to the Agency and the Trustee.

THIS PAGE INTENTIONALLY LEFT BLANK

APPENDIX B

GENERAL INFORMATION REGARDING THE TOWN AND THE COUNTY

The following information relating to the Town of Yucca Valley (the "Town") and San Bernardino County (the "County") is supplied solely for purposes of information. Neither the Town nor the County is obligated in any manner to pay principal of or interest on the Bonds or to cure any delinquency or default on the Bonds. The Bonds are payable solely from the Tax Revenues and other moneys as described in the Official Statement. The Redevelopment Project is located within the boundaries of the Town.

THE TOWN

The Town of Yucca Valley, a general law city, was incorporated on November 27, 1991 and is located about 125 miles east of Los Angeles and 25 miles north of Palm Springs, California. The Town has a Council-Manager form of municipal government. The Town Council appoints the Town Manager who is responsible for the day-to-day administration of Town business and the coordination of all departments of the Town.

The Town Council is composed of five members elected biannually at large to four-year alternating terms. The Mayor is selected by the Town Council from among its members. Yucca Valley employs a staff of approximately 52 full-time equivalent employees.

The Town encompasses an area of approximately 38 square miles situated 3,224 feet above sea level. Yucca Valley enjoys a California high desert climate with winter low temperatures averaging 33 degrees, and summer high temperatures averaging 99 degrees.

Population

The Town's population, as of January 2007, was 21,044, as reported by the California State Department of Finance. A summary of the Town's population since incorporation is shown below.

TOWN OF YUCCA VALLEY Population

<u>Year</u>	<u>Population</u>
1992	16,450
1993	16,400
1994	16,300
1995	17,300
1996	17,150
1997	17,050
1998	16,850
1999	16,800
2000	16,800
2001	17,100
2002	17,571
2003	18,049
2004	18,800
2005	19,729
2006	20,522
2007	21,044

(1) State Department of Finance estimate as of January 1 of each year.

The estimated population of the immediate Yucca Valley community area, which includes the Town and nearby communities of Johnson Valley, Landers, Joshua Tree and Morongo Valley, is 32,000.

Commerce

The number of establishments in Yucca Valley selling merchandise subject to sales tax and the valuation of taxable transactions is presented in the following table.

TOWN OF YUCCA VALLEY Taxable Retail Sales (\$000)

Year	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2002	347	188,666	659	201,548
2003	323	204,622	679	217,748
2004	348	233,365	713	247,014
2005	387	262,515	733	278,928
2006	352	273,057	688	291,230

Source: California State Board of Equalization.

Employment

The Town is included within the Riverside-San Bernardino MSA Labor Market Area. Services, retail trade and government are the principal sources of employment. The following table shows employment statistics for the County for the past five years. These figures are county-wide statistics and may not necessarily accurately reflect employment trends in the Town.

RIVERSIDE-SAN BERNARDINO MSA LABOR MARKET AREA Distribution of Wage and Salary Employment

	2002	2003	2004	2005	2006
Total Farm	20,300	20,300	18,700	18,300	17,200
Natural Resources & Mining	1,200	1,200	1,200	1,400	1,400
Construction	90,900	99,000	111,800	123,300	129,500
Durable Goods	82,000	82,400	85,500	86,100	87,600
Nondurable Goods	33,400	33,700	34,600	35,000	36,400
Wholesale Trade	41,900	43,500	45,600	49,900	53,800
Retail Trade	137,500	142,700	153,800	165,700	171,500
Transportation, Warehousing & Utilities	46,800	50,100	55,500	60,200	63,800
Information	14,100	13,900	14,000	14,500	15,200
Financial Activities	39,500	42,600	45,700	49,000	51,800
Real Estate and Rental & Leasing	15,900	16,900	17,700	18,900	20,000
Professional & Business Services	106,800	115,400	125,500	133,200	142,200
Educational & Health Services	112,400	115,800	118,400	119,900	122,700
Leisure and Hospitality	107,200	109,000	116,700	122,600	128,700
Other Services	38,100	38,400	39,300	40,800	42,600
Government	212,700	211,600	212,500	220,400	224,200

Source: California State Board of Equalization.

**TOWN OF YUCCA VALLEY
Principal Employers**

Name	Number of Employees
Morongo Unified School District	350
Wal-Mart	269
Braswell Family Senior Care	201
San Bernardino County	155
Stater Bros	147

Source: Yucca Valley Chamber of Commerce.

Industrial Development

A wide variety of industrial sites are available in the Town. There are five locations offering undeveloped tracts as well as improved industrial/commercial sites. At the Monterey Business Center and north Highway 247 industrial areas there are lots available ranging from one acre to 160 acres. These sites provide excellent highway access to the entire region.

Construction Activity

The following is a summary of the valuation of building permits issued in the Town for the past five years.

**TOWN OF YUCCA VALLEY
Building Permit Valuation
(\$000s)**

	2002	2003	2004	2005	2006
Residential					
Single Family	\$17,374	\$27,455	\$39,603	\$42,991	\$19,287
Multi-Family	0	0	,481	1,580	145
Alteration/ Additions	951	1,286	1,152	1,714	1,829
Total	\$18,326	\$28,741	\$41,236	\$46,286	\$21,261
Non-Residential (1)					
New Commercial	\$ 415	\$ 540	\$ 525	\$1,925	\$ 6,382
New Industry	0	0	0	0	0
Other	956	983	1,682	1,729	1,543
Alteration/ Additions	1,157	3,019	1,201	1,234	3264
Total	\$2,528	\$4,542	\$3,407	\$4,888	\$11,189
Single Family Units	161	259	378	341	147
Multi Family Units	0	0	8	26	2
Total	161	259	386	367	149

Source: Construction Industry Research Board, "Building Permit Summary."

(1) Includes churches and religious buildings, hospitals and institutional buildings, schools and educational buildings, residential garages, public works and utilities buildings and non-residential alterations and additions. Totals may not add due to rounding.

Utilities

Southern California Edison Company provides Yucca Valley with electric power. Natural gas is provided by Southern California Gas Company. Water is supplied by the Hi-Desert Water District. Solid waste removal is provided by Burrtec Waste.

Transportation

The principal highway serving Yucca Valley is State Route 62, which joins Interstate 10 seventeen miles to the south. Scheduled air service is available at Palm Springs Regional Airport, 30 miles to the south; Ontario International Airport, 80 miles to the west; and Los Angeles International Airport, 140 miles to the west. The Southern Pacific Railroad east-west mainline passes through Palm Springs, 25 miles to the south.

Local bus service is provided by the Morongo Basin Transit Authority. Trucking and overnight package delivery services all provide daily service to the Town.

Community Facilities

The Morongo Unified School District has 3 elementary schools, 1 junior high school and 1 high school in Yucca Valley.

The Town maintains seven parks totaling 175 acres. The 792,000 acre Joshua Tree National Park is located immediately south of the Town.

THE COUNTY

General

The County, located in Southern California, was established by an act of the State Legislature on April 23, 1853, forming the County from the eastern part of Los Angeles County. The County encompasses an area of over 20,000 square miles and includes twenty-four incorporated cities. In terms of population, it is one of the fastest growing metropolitan areas (defined as Riverside-San Bernardino-Ontario) in the United States and is the largest county in the continental United States in terms of area.

Organization

The County is a charter county divided into five supervisorial districts on the basis of registered voters and population. The County is governed by a five-member Board of Supervisors (the "Board") who serve staggered four-year terms. The Chairman is elected by and from among the members of the Board.

County Services

The County provides a wide range of services to its residents, including police protection, medical and health care, senior citizen assistance, consumer affairs, public libraries, judicial institutions including support programs, airport service, parks, and a variety of public assistance programs. Other services such as fire protection, lighting road maintenance, and flood control are provided by special districts which are governed by the Board of Supervisors.

Some municipal services are provided by the County, on a contractual basis, to incorporated cities within its boundaries. This allows cities to contract for municipal services without incurring the cost of creating numerous city departments and facilities.

Geography

The County is bordered on the west by Los Angeles County, on the east by the State of Arizona and the State of Nevada, on the north by Inyo County and Kern County, and on the south by Orange and Riverside Counties. Composed essentially of three geographic regions-valley, mountain and desert-elevation in the County ranges from a high of 11,502 feet above sea level to a low of 181 feet above sea level.

Population

The County is the fifth largest county in the State in terms of population. The County's estimated population as of January 1, 2007 was 2,028,013.

POPULATION As of January 1

Year	San Bernardino County	State of California	United States
1998	1,631,500	33,252,000	270,248,000
1999	1,660,200	33,766,000	272,691,000
2000	1,710,139	33,873,086	282,124,631
2001	1,746,847	34,441,561	284,796,887
2002	1,793,302	35,088,671	288,125,973
2003	1,842,325	35,691,534	290,796,023
2004	1,896,245	36,252,878	293,638,158
2005	1,948,454	36,743,186	296,507,061
2006	1,993,983	37,195,240	299,398,484
2007	2,028,013	37,662,518	301,139,947

Source: State Department of Finance, Demographic Research Unit, and U.S. Census Bureau.

Effective Buying Income

The following table shows the County's median household effective buying income for 2002 through 2006.

SAN BERNARDINO COUNTY Effective Buying Income

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2002	San Bernardino County	\$ 24,477,813	\$ 37,840
	California	647,879,427	42,484
	United States	5,340,682,818	38,035
2003	San Bernardino County	\$ 25,669,875	\$ 38,039
	California	674,721,020	42,924
	United States	5,466,880,008	38,201
2004	San Bernardino County	\$ 22,017,135	\$ 39,465
	California	705,108,410	43,915
	United States	5,692,909,567	39,324
2005	San Bernardino County	\$ 28,999,002	\$ 40,578
	California	720,798,106	44,681
	United States	5,894,663,364	40,529
2006	San Bernardino County	\$ 31,358,170	\$ 42,265
	California	764,120,962	46,275
	United States	6,107,092,244	41,255

Source: S&MM (Sales and Marketing Management) Survey of Buying Power (2002-2004); Claritas, Inc. (2005-2006).

Education

There are 35 public school districts in the County serving approximately 427,583 students in the 2006-07 school year. Public education in the County is provided by 11 elementary school districts, 2 high school districts, and 20 unified (combined elementary and high school) districts.

**PUBLIC SCHOOL ENROLLMENT
As of October 2002 through 2006**

	2002	2003	2004	2005	2006
Grades:					
K-8	287,946	294,613	294,539	294,167	291,919
9-12	116,623	123,178	128,172	132,349	134,910
Special Classes	2,659	1,193	1,069	1,115	754
Total	407,228	419,084	423,780	427,631	427,583

Source: California Dept. of Education <http://www.cde.ca.gov/dataquest>

Colleges and universities located in the County include the following:

COLLEGE AND UNIVERSITIES

	Public and Private Institutions	City Located
Colleges and Universities:	California State University Loma Linda University University of Redlands	San Bernardino Loma Linda Redlands
Community Colleges:	Chaffey College San Bernardino Valley Victor Valley College Crafton Hills Barstow College Copper Mountain College	Rancho Cucamonga San Bernardino Victorville Yucaipa Barstow Joshua Tree

Sources: School Registrars' Offices and Community College Chancellor's Office.

Employment

The following table summarizes the labor force, employment and unemployment figures over the past five years for the County, the State, and the nation as a whole.

LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT Yearly Average for Years 2002 through 2006

Year and Area	Civilian Labor Force	Employment	Unemployment	Unemployment Rate
2002				
San Bernardino County	791,000	743,200	47,800	6.0%
California	17,330,700	16,168,200	1,162,500	6.7
United States	142,878,000	135,237,000	7,640,000	5.3
2003				
San Bernardino County	809,000	758,300	50,700	6.3%
California	17,403,900	16,212,600	1,191,300	6.8
United States	146,510,000	137,736,000	8,774,000	6.0
2004				
San Bernardino County	837,000	788,700	48,300	5.8%
California	17,499,600	16,407,900	1,091,700	6.2
United States	146,401,167	139,251,917	8,149,250	5.5
2005				
San Bernardino County	861,800	816,800	45,000	5.2%
California	17,695,600	16,746,900	948,700	5.4
United States	149,297,833	141,707,250	7,590,583	5.1
2006				
San Bernardino County	884,100	842,300	41,800	4.7%
California	17,901,900	17,029,300	872,600	4.9
United States	151,427,583	144,427,000	7,000,583	4.6

Source: California Employment Development Department; March 2007 Benchmark.

Industry

The County's economy has always had a strong agricultural base, though industry and warehousing/logistics has been developing rapidly in recent years. Nearly 2,000 manufacturing firms are located in the County producing items such as steel products, concrete products and glass, foods and food products, paper and plastic goods, and commercial and scientific equipment. The County is also the location of many mega warehouses where a large portion of cargo that arrives at the ports of Los Angeles and Long Beach is sorted and repackaged for national distribution by air, truck and rail. Among the major chains and manufacturers with "big box" warehouses in the area are Wal-Mart Stores Inc., Kohl's, M&M Mars, Goodyear Tire, Toys R Us, Staples, Target, Nike, Daimler-Chrysler, General Motors, Hershey's, Becton-Dickinson and Mervyn's Dayton Hudson. In addition, the Burlington Northern Santa Fe Corporation's 400,000 lift intermodal facility in the County is a site where large outbound shipments of products such as Toyota automobile parts and APEX Digital equipment are loaded by giant cranes onto freight containers and trailers and transported by rail or truck to or from the Ports of Los Angeles and Long Beach.

The George Air Force Base, located in Victorville, was closed in 1993. The Norton Air Force Base, located in San Bernardino, was closed in January 1994. Two joint powers authorities have been formed consisting of representatives of the County and certain cities surrounding each former base. The joint powers authorities have initiated efforts to plan the orderly transition of these facilities to other uses. Special legislation amended the Community Redevelopment Law to permit its use in this situation. The County has begun to experience the reuse of these former bases and expects that additional alternate uses and development of these base facilities will provide continued economic benefits to the County. Currently, the San Bernardino International Airport and Trade Center (formerly Norton Air Force Base)

has entered into leases with TRW, the Defense Finance Accounting Service, Burlington Northern Santa Fe Railway, and General Electric among others. The Inland Valley Development Agency, which oversees the San Bernardino International Airport, has completed an agreement making Hillwood, a Texas developer, the master developer for the development of a commercial/industrial and transportation hub at the airport

The former George Air Force Base, now Southern California Logistics Airport ("SCLA"), continues to add new tenants such as Southern California Aviation Company, Swiss Global Cargo, Two B Trucking, Stoodly Industrial, and Certified Metals. SCLA has received "foreign trade zone status" and U.S. Customs is now on site to facilitate international arrivals for both cargo and maintenance flights. International Air Cargo operates between SCLA and Hong Kong. Other activities at SCLA include the U.S. Marines personnel movements into and out of Twentynine Palms Marine Corps Logistics Base and the lease of housing areas by Department of Defense groups for urban assault training. Additional current capital projects at SCLA include a federal prison and a 750 megawatt power generation plant by High Desert Power Partners. In June 2002, The Pasha Group, an international cargo and freight transportation company, announced plans to develop a 700 acre cargo distribution operation at SCLA and General Electric announced its intention to build a 161,700 square foot complex at SCLA. Improvements have also begun to extend the runway to 15,000 feet making it the longest runway in the U.S.

In July 2002, Catellus Development Corporation partnered with Stirling Airports, SCLA's master developer, to develop an estimated 43.5 million square feet of industrial space at SCLA. The Catellus Corporation is also involved in a major Community Facilities Development Project located at the former Kaiser Steel Mill. The overall land use concept for the Community Facilities Development is to create an integrated community of general and transportation-related industrial warehouse/distribution facilities, which can take advantage of the site's excellent transportation access. The development site is located in the southwest portion of San Bernardino County, near the interchange of the San Bernardino Freeway (Interstate 10), the Ontario Freeway (Interstate 15), two major rail lines and the Ontario Airport.

Construction Activity

The following table summarizes building permit valuations and the number of new dwelling units authorized in the county for the past five years.

SAN BERNARDINO COUNTY					
Residential Building Permit Valuation					
(Dollars in Thousands)					
	2002	2003	2004	2005	2006
Permit Valuation:					
New Single-family	\$1,634,019	\$1,958,447	\$2,580,533	\$2,972,204	\$2,481,742
New Multi-family	105,966	138,884	357,435	114,787	120,074
Res. Alterations/Additions	92,766	103,904	131,080	157,825	156,138
Total Residential	\$1,832,751	\$2,201,235	\$3,069,048	\$3,244,815	\$2,757,954
New Dwelling Units:					
Single Family	9,179	10,820	13,991	15,305	12,599
Multiple Family	1,437	1,820	4,479	1,379	1,273
Total	10,616	12,640	18,470	16,684	13,872

Source: Construction Industry Research Board, "Building Permit Summary."

Commercial Activity

The following table summarizes the annual volume of taxable transactions within the County during that period.

SALES TRANSACTIONS (in thousands) For Years 2002 through 2006

	2002	2003	2004	2005	2006
Apparel stores group	\$ 554,387	\$ 654,465	\$ 742,192	\$ 884,406	\$ 946,972
General merchandise group	2,521,891	2,691,305	2,975,073	3,227,529	3,325,193
Specialty stores group	1,858,628	2,010,974	2,318,956	2,649,488	2,799,447
Food stores group	924,476	982,352	1,031,668	1,133,194	1,215,887
Eating and drinking group	1,544,600	1,689,834	188,167	2,082,344	2,227,021
Household group	450,618	530,546	658,138	791,607	873,460
Building materials group	1,279,286	1,445,194	1,932,962	2,186,175	2,198,433
Automotive group	4,627,758	5,263,337	6,203,848	7,316,417	7,625,631
All other retail stores	557,864	637,353	716,019	849,246	918,116
Total retail stores	14,319,508	15,905,360	18,468,023	21,120,406	22,130,160
Business and personal services	739,799	765,866	846,800	924,099	918,373
All other outlets	5,790,195	5,928,721	6,891,344	7,700,363	8,261,372
Total All Outlets	<u>\$20,849,502</u>	<u>\$22,599,947</u>	<u>\$26,206,167</u>	<u>\$29,744,868</u>	<u>\$31,309,905</u>

Source: California State Board of Equalization, "Taxable Sales in California."

THIS PAGE INTENTIONALLY LEFT BLANK

APPENDIX C

**AUDITED FINANCIAL STATEMENTS OF THE AGENCY
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

THIS PAGE INTENTIONALLY LEFT BLANK

YUCCA VALLEY REDEVELOPMENT AGENCY

Financial Statements and Supplemental Data

Year ended June 30, 2007

(With Independent Auditors' Report Thereon)

YUCCA VALLEY REDEVELOPMENT AGENCY

Financial Statements and Supplemental Data

Year ended June 30, 2007

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	2
Statement of Activities	3
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	4
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	5
Statement of Revenues, Expenditures and Changes in Fund Balances	6
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	7
Notes to the Basic Financial Statements	9
Report on Compliance and Other Matters and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	21

(This page intentionally left blank)



Mayer Hoffman McCann P.C.
An Independent CPA Firm
Conrad Government Services Division
2301 Dupont Drive, Suite 200
Irvine, California 92612
949-474-2020 ph
949-263-5520 fx
www.mhm-pc.com

Town Council
Yucca Valley Redevelopment Agency
Yucca Valley, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of the Yucca Valley Redevelopment Agency, a component unit of the Town of Yucca Valley, California, as of and for the year ended June 30, 2007, which collectively comprise the Agency's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the management of the Yucca Valley Redevelopment Agency. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Yucca Valley Redevelopment Agency as of June 30, 2007, and the respective changes in financial position, of the Yucca Valley Redevelopment Agency for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Agency has not presented *management's discussion and analysis* nor has it presented a budgetary comparison schedule for each major special revenue fund that has a legally adopted budget. The Government Accounting Standards Board has determined that the aforementioned items are necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2007, on our consideration of the Yucca Valley Redevelopment Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayer Hoffman McCann P.C.

Irvine, California
December 7, 2007

YUCCA VALLEY REDEVELOPMENT AGENCY

Statement of Net Assets

June 30, 2007

	<u>Governmental Activities</u>
Assets:	
Cash and investments (note 2)	\$ 4,118,225
Cash with fiscal agent (note 2)	368,990
Property tax receivable	131,293
Interest receivable	<u>69,800</u>
 Total assets	 <u>4,688,308</u>
 Liabilities:	
Accounts payable and accrued expenses	303,819
Interest payable	20,335
Long-term liabilities (notes 3 and 4):	
Due within one year	80,000
Due in more than one year	<u>3,800,000</u>
 Total liabilities	 <u>4,204,154</u>
 Net assets:	
Restricted for:	
Low and moderate housing	989,663
Unrestricted	<u>(505,509)</u>
 Total net assets (deficit)	 <u>\$ 484,154</u>

See accompanying notes to the basic financial statements.

YUCCA VALLEY REDEVELOPMENT AGENCY

Statement of Activities

Year ended June 30, 2007

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Contributions and Grants</u>	
Governmental activities:				
General government	\$ 2,500	-	-	(2,500)
Community development	261,255	-	-	(261,255)
Low and moderate housing	3,090	-	-	(3,090)
Repayment of advance from City	183,400	-	-	(183,400)
Interest on long-term debt	<u>313,183</u>	<u>-</u>	<u>-</u>	<u>(313,183)</u>
Total governmental activities	<u>\$ 763,428</u>	<u>-</u>	<u>-</u>	<u>(763,428)</u>

General revenues:

Taxes:

Tax increment, net	1,350,166
Intergovernmental, unrestricted	18,158
Investment income	<u>206,122</u>

 Total general revenues and transfers 1,574,446

 Change in net assets 811,018

Net assets (deficit) at beginning of year (326,864)

Net assets (deficit) at end of year \$ 484,154

See accompanying notes to the basic financial statements.

YUCCA VALLEY REDEVELOPMENT AGENCY

Governmental Funds

Balance Sheet

June 30, 2007

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Totals</u>
<u>Assets</u>				
Assets:				
Cash and investments (note 2)	\$ 973,270	1,786,801	1,358,154	4,118,225
Cash with fiscal agent (note 2)	-	368,990	-	368,990
Property tax receivable	-	131,293	-	131,293
Interest receivable	<u>16,393</u>	<u>31,667</u>	<u>21,740</u>	<u>69,800</u>
 Total assets	 <u>\$ 989,663</u>	 <u>2,318,751</u>	 <u>1,379,894</u>	 <u>4,688,308</u>
 <u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ -	280,474	17,306	297,780
Accrued payroll	<u>-</u>	<u>-</u>	<u>6,039</u>	<u>6,039</u>
 Total liabilities	 <u>-</u>	 <u>280,474</u>	 <u>23,345</u>	 <u>303,819</u>
 Fund balances:				
Reserved:				
Low and moderate housing	989,663	-	-	989,663
Debt service	-	2,038,277	-	2,038,277
Unreserved:				
Capital projects	<u>-</u>	<u>-</u>	<u>1,356,549</u>	<u>1,356,549</u>
 Total fund balances	 <u>989,663</u>	 <u>2,038,277</u>	 <u>1,356,549</u>	 <u>4,384,489</u>
 Total liabilities and fund balances	 <u>\$ 989,663</u>	 <u>2,318,751</u>	 <u>1,379,894</u>	 <u>4,688,308</u>

See accompanying notes to the basic financial statements.

YUCCA VALLEY REDEVELOPMENT AGENCY
Governmental Funds

Reconciliation of the Balance Sheet of Governmental Funds to
the Statement of Net Assets

Year ended June 30, 2007

Fund balances of governmental funds	\$ 4,384,489
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Long-term liabilities are not due and payable in the current period and, accordingly, are not reported as liabilities. All liabilities (both current and long-term) are reported in the Statement of Net Assets.	(3,880,000)
Accrued interest payable for the current portion of interest due on long-term liabilities has not been reported in the governmental funds.	<u>(20,335)</u>
Net assets (deficit) of governmental activities	<u>\$ 484,154</u>

See accompanying notes to the basic financial statements.

YUCCA VALLEY REDEVELOPMENT AGENCY
Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

Year Ended June 30, 2007

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Totals</u>
Revenues:				
Tax increment	\$ -	1,810,698	-	1,810,698
Intergovernmental	-	18,158	-	18,158
Use of money and property	<u>45,006</u>	<u>87,035</u>	<u>74,081</u>	<u>206,122</u>
Total revenues	<u>45,006</u>	<u>1,915,891</u>	<u>74,081</u>	<u>2,034,978</u>
Expenditures:				
Current:				
General government	-	2,500	-	2,500
Community development	3,090	-	261,255	264,345
Debt service:				
Principal	-	105,000	-	105,000
Interest and fiscal charges	-	396,010	-	396,010
Pass-through payments	-	<u>460,532</u>	-	<u>460,532</u>
Total expenditures	<u>3,090</u>	<u>964,042</u>	<u>261,255</u>	<u>1,228,387</u>
Excess (deficiency) of revenues over (under) expenditures	<u>41,916</u>	<u>951,849</u>	<u>(187,174)</u>	<u>806,591</u>
Other financing sources (uses):				
Transfers in (note 5)	365,381	70,964	-	436,345
Transfers out (note 5)	(70,964)	(365,381)	-	(436,345)
Repayment of advance from City	-	<u>(183,400)</u>	-	<u>(183,400)</u>
Total other financing sources (uses)	<u>294,417</u>	<u>(477,817)</u>	<u>-</u>	<u>(183,400)</u>
Net change in fund balances	336,333	474,032	(187,174)	623,191
Fund balances at the beginning of year	<u>653,330</u>	<u>1,564,245</u>	<u>1,543,723</u>	<u>3,761,298</u>
Fund balances at the end of the year	<u>\$ 989,663</u>	<u>2,038,277</u>	<u>1,356,549</u>	<u>4,384,489</u>

See accompanying notes to the basic financial statements.

YUCCA VALLEY REDEVELOPMENT AGENCY
Governmental Funds

Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities

Year ended June 30, 2007

Net changes in fund balances - total governmental funds	\$ 623,191
Amounts reported for governmental activities in the Statement of Activities is different because:	
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	105,000
Accrued interest expense related to long-term liabilities. This amount is the difference between the amount of interest paid (\$103,162) and the amount of interest incurred (\$20,335) on long-term liabilities.	<u>82,827</u>
Changes in net assets of governmental activities	<u>\$ 811,018</u>

See accompanying notes to the basic financial statements.

(This page intentionally left blank)

YUCCA VALLEY REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

Year ended June 30, 2007

(1) Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies of the Yucca Valley Redevelopment Agency (Agency):

(a) Reporting Entity

The Agency was created by Ordinance No. 37 of the Yucca Valley Town Council, adopted on September 3, 1992. The Agency was established pursuant to the Community Redevelopment Law of California. Project area No. 1 was adopted as of August 6, 1993. The specific goal of the Project is to eliminate the many instances of visual, economic, physical and social blight within the project area.

(b) Measurement Focus and Basis of Accounting

The basic financial statements of the Agency are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Government-wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the primary government (including its blended component units), as well as its discretely presented component units. The Yucca Valley Redevelopment Agency has no business-type activities or discretely presented component units. Eliminations have been made in the Statement of Activities so that certain allocated expenses are recorded only once (by function to which they were allocated). However, general government expenses have not been allocated as indirect expenses to the various functions of the Agency.

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. The *basis of accounting* refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements.

YUCCA VALLEY REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(b) Measurement Focus and Basis of Accounting, (Continued)

Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transaction are recognized in accordance with the requirements of GASB Statement No. 33.

Program revenues include charges for services and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as another financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as expenditures.

Fund Financial Statements

The underlying accounting system of the Agency is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the primary government's governmental, proprietary, and fiduciary funds are presented after the government-wide financial statements. These statements display information about major funds individually and nonmajor funds in the aggregate for governmental and enterprise funds. Fiduciary statements include financial information for fiduciary funds and similar component units. Fiduciary funds primarily represent assets held by the Agency in a custodial capacity for other individuals or organizations. The Agency has no nonmajor funds, enterprise funds, or fiduciary funds.

Governmental Funds

In the fund financial statements, governmental funds and agency funds are presented using the *modified-accrual basis of accounting*. Their revenues are recognized when they become *measurable* and *available* as net current assets.

YUCCA VALLEY REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(b) Measurement Focus and Basis of Accounting, (Continued)

Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. Amounts expended to acquire capital assets are recorded as *expenditures* in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as an *other financing source* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

Measurable means that the amounts can be estimated, or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The Agency uses a sixty day availability period.

Revenue recognition is subject to the *measurable* and *available* criteria for the governmental funds. *Exchange transactions* are recognized as revenues in the period in which they are earned (i.e., the related goods or services provided). *Locally imposed derived tax revenues* are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. *Imposed non-exchange transactions* are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. *Government-mandated and voluntary non-exchange transactions* are recognized as revenues when all applicable eligibility requirements have been met.

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus*. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Non-current portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus. Special reporting treatments are used to indicate; however, that they should not be considered "available spendable resources," since they do not represent net current assets. Recognition of governmental fund type revenues represented by noncurrent receivables are deferred until they become current receivables. Noncurrent portions of long-term receivables are offset by fund balance reserve accounts.

YUCCA VALLEY REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies. (Continued)

(b) Measurement Focus and Basis of Accounting. (Continued)

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. When both restricted and unrestricted resources are combined in a fund, expenses are considered to be paid first from restricted resources, and then from unrestricted resources.

(c) Major Funds

The following funds are presented as major funds in the accompanying basic financial statements:

Special Revenue - Low and Moderate Housing Fund – To account for the required 20% set aside of property tax increments that is legally restricted for increasing or improving housing for low and moderate income households.

Debt Service - Redevelopment Debt Service Fund – To account for the accumulation of resources for the payment of debt service for bond principal, interest and trustee fees.

Capital Projects - Redevelopment Capital Projects Fund – To account for the bond proceeds, interest and other funding that will be used for development, planning, construction and land acquisition.

(d) Relationship to the Town of Yucca Valley

The Yucca Valley Redevelopment Agency is an integral part of the reporting entity of the Town of Yucca Valley. The funds of the Agency have been included within the scope of the comprehensive annual financial report of the Town because the Town is financially accountable. Only the funds and account groups of the Agency are included herein and these financial statements, therefore, do not purport to represent the financial position or results of operations of the Town of Yucca Valley, California.

(e) Tax Increment Revenue

The Agency has no power to levy and collect taxes, and any legislative property tax de-emphasis might necessarily reduce the amount of tax revenues that would otherwise be available to pay the principal of, and interest on loans from the Town of Yucca Valley ("Town"). Broadened property tax exemptions could have a similar effect. Conversely, any increase in the tax rate or assessed valuation, or any reduction or elimination of present exemptions would necessarily increase the amount of tax revenues that would be available to pay principal and interest on tax allocation bonds or loans from the Town.

YUCCA VALLEY REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies. (Continued)

(f) Investments

Investments are reported in the accompanying balance sheet at fair value.

Changes in fair value that occur during a fiscal year are recognized as *use of money and property* reported for that fiscal year. *Use of money and property* includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

The Agency pools cash and investments of all funds. Each fund's share in this pool is displayed in the accompanying financial statements as *cash and investments*. Investment income earned by the pooled investments is allocated to the various funds based on each fund's average cash and investment balance.

(2) Cash and Investments

The Agency's Treasurer maintains a cash and investment pool used by all funds of the Agency and by certain component units of the Agency, including the Agency. The Agency does not own specifically identifiable securities of the Town's pool. The Agency's portion of this pool is reported on the combined balance sheet as "cash and investments." Investment policies and associated risk factors applicable to Agency's funds are those of the Town and are included in the Town's comprehensive annual financial report.

Cash and investments are reported as follows:

Statement of Net Assets:	
Cash and investments	\$4,118,225
Cash and investments held by bond trustee	<u>368,990</u>
Total	<u>\$4,487,215</u>

Cash and investments held by the Agency consist of the following at June 30, 2007:

State Investment Pool	\$4,118,225
Money Market Funds	<u>368,990</u>
Total cash and investments held by Agency	<u>\$4,487,215</u>

YUCCA VALLEY REDEVELOPMENT AGENCY

Notes to Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

Investments Authorized by the California Government Code and the Agency's Investment Policy

The table below identifies the *investment types* that are authorized for the Agency by the California Government Code and the Agency's investment policy. The table also identifies certain provisions of the California Code (or the Agency's investment policy, if more restrictive) that address *interest rate risk* and *concentration of credit risk*. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the Agency, rather than the general provisions of the California Government Code or the Agency's investment policy.

<u>Investment Types Authorized by State Law</u>	<u>Authorized by Investment Policy</u>	<u>Maximum Maturity*</u>	<u>Maximum Percentage of Portfolio*</u>	<u>Maximum Investment In One Issuer*</u>
Local Agency Bonds	Yes	5 years	None	None
U.S. Treasury Obligations	Yes	2 years	None	None
U.S. Agency Securities	Yes	5 years	None	None
Banker's Acceptances	Yes	180 days	40%	30%
Commercial Paper	Yes	180 days	25%	10%
Negotiable Certificates of Deposits	Yes	2 years	30%	None
Repurchase Agreements	No	1 year	None	None
Reverse Repurchase Agreements	No	92 days	20% of base value	None
Medium-Term Notes	Yes	5 years	15%	None
Mutual Funds	Yes	N/A	20%	10%
Money Market Mutual Funds	Yes	N/A	15%	10%
Mortgage Pass-Through Securities	Yes	5 years	20%	None
County Pooled Investment Funds	Yes	N/A	None	None
Local Agency Investment Fund	Yes	N/A	None	None
JPA Pools (other investment pools)	Yes	N/A	None	None

*Based on state law requirements or investment policy requirements, whichever is more restrictive.

YUCCA VALLEY REDEVELOPMENT AGENCY

Notes to Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Agency's investment policy. The table below identifies the *investment types* that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address *interest rate risk* and *concentration of credit risk*.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment In One Issuer</u>
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Repurchase Agreements	270 days	None	None
Investment Contracts	30 years	None	None

Disclosure Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Agency manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the Agency's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the Agency's investment by maturity:

YUCCA VALLEY REDEVELOPMENT AGENCY

Notes to Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

<u>Investment Type</u>		<u>Remaining Maturity (in Months)</u>			
		<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>More Than 60 Months</u>
State investment pool	\$ 4,118,225	4,118,225	-	-	-
Held by bond trustee:					
Money market funds	<u>368,990</u>	<u>368,990</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 4,487,215</u>	<u>4,487,215</u>	<u>-</u>	<u>-</u>	<u>-</u>

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, The Agency's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

<u>Investment Type</u>		<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>		
				<u>AAA</u>	<u>Aa</u>	<u>Not Rated</u>
State investment pool	\$ 4,118,225	N/A	-	-	-	4,118,225
Held by bond trustee:						
Money market funds	<u>368,990</u>	A	<u>-</u>	<u>-</u>	<u>368,990</u>	<u>-</u>
	<u>\$ 4,487,215</u>		<u>-</u>	<u>-</u>	<u>368,990</u>	<u>4,118,225</u>

Concentration of Credit Risk

The investment policy of the Agency contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There were no investments in any one issuer (other than U.S. Treasury securities, mutual funds and external investment pools) that represent 5% or more of *total Agency investments* for the year ended June 30, 2007.

YUCCA VALLEY REDEVELOPMENT AGENCY

Notes to Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provisions for deposits.

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2007 the Agency's did have deposits with financial institutions in excess of federal depository insurance limits held in collateralized account(s).

For investments identified herein as held by bond trustee, the bond trustee selects the investment under the terms of the applicable trust agreement, acquires the investment, and holds the investment on behalf of the reporting government.

Investment in State Investment Pool

The Agency is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Agency's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on an amortized cost basis.

YUCCA VALLEY REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(3) Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2007 was as follows:

	<u>Balance at July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2007</u>	<u>Amount due within one year</u>	<u>Amount due beyond one year</u>
1995 Tax Allocation Revenue Bonds	\$ 1,455,000	-	(40,000)	1,415,000	40,000	1,375,000
2004 Tax Allocation Revenue Bonds	<u>2,530,000</u>	<u>-</u>	<u>(65,000)</u>	<u>2,465,000</u>	<u>40,000</u>	<u>2,425,000</u>
Totals	<u>\$ 3,985,000</u>	<u>-</u>	<u>(105,000)</u>	<u>3,880,000</u>	<u>80,000</u>	<u>3,800,000</u>

Tax Allocation Revenue Bonds

1995 Tax Allocation Revenue Bonds

In December 1995, the Yucca Valley Redevelopment Agency issued a \$1,730,000 1995 Tax Allocation Revenue Bonds Series A.

The bonds are in denominations of \$5,000 each and bear interest at rates ranging from 5.00% and 7.25%. Principal is payable annually on June 1. Interest is payable semiannually on June 1 and December 1. The bonds mature between the time frames of June 1, 1997 and June 1, 2025 in amounts ranging from \$20,000 to \$135,000. Per terms of the bond indenture, a reserve of \$141,500 is required to be maintained. At June 30, 2007, the reserve account held \$157,596 and the amount of bonds outstanding is \$1,415,000.

2004 Tax Allocation Revenue Bonds

On June 2, 2004, the Yucca Valley Redevelopment Agency issued a \$2,665,000 2004 Tax Allocation Revenue Bonds.

The bonds are in denominations of \$5,000 each and bear interest at rates ranging from 5.0% and 5.875%. Principal is payable annually on June 1 beginning on June 1, 2005. Interest is payable semiannually on June 1 and December 1. The bonds mature between the time frames of June 1, 2004 and June 1, 2034 in amounts ranging from \$15,000 to \$275,000. Per terms of the bond indenture, a reserve of \$246,500 is required to be maintained. At June 30, 2007, the reserve account reported \$228,045 and the amount of bonds outstanding is \$2,465,000.

YUCCA VALLEY REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(4) Debt Service Requirements to Maturity

The annual requirements to amortize outstanding long-term liabilities of the Agency as of June 30, 2007 are as follows:

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2008	80,000	244,026
2009	85,000	239,676
2010	65,000	234,812
2011	70,000	230,551
2012	75,000	225,925
2013	75,000	220,938
2014	85,000	215,837
2015	90,000	210,238
2016	95,000	204,182
2017	100,000	197,763
2018	110,000	190,981
2019	115,000	183,569
2020	125,000	175,700
2021	130,000	167,088
2022	140,000	158,113
2023	140,000	148,413
2024	150,000	138,638
2025	160,000	128,138
2026	175,000	116,912
2027	185,000	106,631
2028	195,000	95,762
2029	205,000	84,306
2030	220,000	72,263
2031	230,000	59,338
2032	245,000	45,825
2033	260,000	31,431
2034	<u>275,000</u>	<u>16,156</u>
Total	<u>\$ 3,880,000</u>	<u>4,143,212</u>

YUCCA VALLEY REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(5) Transfers In and Out

Transfers in and out for the year ended June 30, 2007 were as follows:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>
Low and Moderate Housing Fund	Debt Service – Redevelopment Debt Service Fund	\$ 70,964
Debt Service – Redevelopment Debt Service Fund	Low and Moderate Housing Fund	<u>365,381 (a)</u>
		<u>\$ 436,345</u>

- (a) A transfer of \$365,381 was made from the Debt Service – Redevelopment Debt Service Fund to the Low and Moderate Housing Fund, which represents an amount equal to the 20% set-aside required to be recorded in the Low and Moderate Income Housing Fund.

(6) Unrestricted Net Assets

GASB Statement No. 34 requires that local governments record in the Statement of Net Assets the local government's liability for debt issued to finance the construction of infrastructure and other assets owned by other parties. This is an integral part of the normal operation of a redevelopment agency and is necessary to produce the redevelopment benefits for which the Agency was established. GASB Statement No. 33 and 34 do not permit the recognition of assets for future tax increment revenues that are pledged for the annual retirement of bonded debt issuances. The negative equity resulting from the Agency's liability for this debt is required by GASB No. 34 to be reported as unrestricted net assets.



Mayer Hoffman McCann P.C.
An Independent CPA Firm
Conrad Government Services Division
2301 Dupont Drive, Suite 200
Irvine, California 92612
949-474-2020 ph
949-263-5520 fx
www.mhm-pc.com

Board of Directors
Yucca Valley Redevelopment Agency
Yucca Valley, California

**REPORT ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the Yucca Valley Redevelopment Agency ("Agency"), a component unit of the Town of Yucca Valley, California, as of and for the year ended June 30, 2007 and have issued our report thereon dated December 7, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Agency are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions included those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A control deficiency exists when the design or operation of one or more of a control does allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control.

Board of Directors
Yucca Valley Redevelopment Agency

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Agency's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This report is intended for the information and use of the Board of Directors, Agency's management and the State Controller and is not intended to be and should not be used by anyone other than these specified parties.

Mayor Hoffman McCann P.C.

Irvine, California
December 7, 2007

APPENDIX D
FISCAL CONSULTANT'S REPORT

THIS PAGE INTENTIONALLY LEFT BLANK

YUCCA VALLEY REDEVELOPMENT AGENCY

YUCCA VALLEY REDEVELOPMENT PROJECT AREA NO. 1

PROJECTED TAXABLE VALUES AND ANTICIPATED TAX INCREMENT REVENUES

March 19, 2008

I. Introduction

The Yucca Valley Redevelopment Agency (the "Agency") is proposing to issue its Tax Allocation Bonds, Series 2008 (the "Bonds") to refund the Agency's 1995 and 2004 Bonds; to fund redevelopment activities of the Agency; establish a reserve fund and pay the cost of issuing the Bonds. The Yucca Valley Redevelopment Project Area No. 1 (the "Project Area") is 2,357.82 acres in size and was adopted on August 5, 1993. Revenue from the Project Area will be pledged to the repayment of the Bonds.

The California Community Redevelopment Law (the "Law") provides for the creation of redevelopment agencies by cities and counties for the purpose of the elimination of blight. The Law, together with Article 16, Section 16 of the California Constitution, authorizes redevelopment agencies to receive that portion of property tax revenue generated by project area taxable values that are in excess of the Base Year value. The Base Year value is defined as the amount of the taxable values within the project area boundaries on the last equalized tax roll prior to adoption of the project area. The amount of current year taxable value that is in excess of the Base Year value is referred to as incremental taxable value. Tax revenues generated from the incremental taxable value are generally referred to as Tax Increment Revenues.

The Law provides that the Tax Increment Revenues may be pledged by a redevelopment agency to the repayment of agency indebtedness. In this report, Tax Increment Revenues, including Unitary Tax Revenue (see Section IV H) are referred to as Gross Revenues. Gross Revenues less the Housing Set-Aside Requirement (see Section V); the County Property Tax Collection Reimbursement (see Section IV G); required tax sharing payments; any applicable owner participation agreement payments (see Section VII); and, other obligations with a lien on revenue superior to debt service on the Bonds, are referred to as Tax Revenues. Within this report Net Tax Revenues are Tax Revenues less tax sharing amounts that are subordinate to the payment of debt service on the Bonds.

The purpose of this fiscal consultant report (the "Report") is to examine the assessed values in the current fiscal year and project for nine fiscal years the amount of tax increment revenues anticipated to be received by the Agency from the Project Area. As a result of our research, we project that the Tax Revenues that will be pledged to the payment of debt service on the Bonds will be as shown in Table A below (000's omitted):

Table A
 Project Area Tax Revenues

Fiscal Year	Gross Tax Revenues	Housing Set-Aside	SB 2557 Charge	Pass Through Agreements	Tax Revenue
2007-08	\$2,175	(\$370)	(\$20)	(\$ 667)	\$1,118
2008-09	2,348	(404)	(21)	(720)	1,202
2009-10	2,434	(422)	(22)	(865)	1,126
2010-11	2,523	(439)	(23)	(897)	1,164
2011-12	2,613	(458)	(24)	(929)	1,203
2012-13	2,705	(476)	(24)	(961)	1,243
2013-14	2,799	(495)	(25)	(995)	1,284
2014-15	2,895	(514)	(26)	(1,029)	1,326
2015-16	2,992	(533)	(27)	(1,063)	1,369
2016-17	3,092	(553)	(28)	(1,099)	1,412

The taxable values of property and the resulting Tax Revenues for the Project Area summarized above are reflected on Tables 1 and 2 of the projections (attached). These projections are based on assumptions determined by our review of the taxable value history of the Project Area and the property tax assessment and property tax apportionment procedures of San Bernardino County (the "County"). The projection reflects the entire amount of Tax Revenues projected as being available from each portion of the Project Area. It is assumed that the Agency will continue to have sufficient indebtedness to capture all of the available Tax Revenue. Future year assessed values and Tax Revenues are projections based upon the assumptions described in this Report, and are not guaranteed as to accuracy. This Report is not to be construed as a representation of such by HdL Coren & Cone.

II. The Project Area

On August 5, 1993 the City Council of the Town of Yucca Valley adopted Ordinance No. 37 which established Redevelopment Project Area No. 1. The Project Area consists of two sub-areas. These are the East End Residential Project Area and the Downtown Project Area. The East End Residential Area is 925.82 acres in size and the Downtown Project Area is 1,432 acres. These sub-areas are for reference only and the two taken together constitute the Project Area. There is no differentiation between the sub-areas in regards to the Project Area limits or redevelopment activities.

A. Land Use

Table B represents the breakdown of land use in the Project Area by the number of parcels and by their taxable value for fiscal year 2007-08. This information is based on County land use designations as provided by San Bernardino County through tax roll data. It should be noted that the County land use designations do not necessarily parallel Town land use and zoning designations. Unsecured values are connected with parcels that are already accounted for in other categories.

Table B
Land Use Summary

Category	No. Parcels	Taxable Value	% of Total
Residential	1,263	\$187,323,973	43.42%
Commercial	321	154,282,693	35.76%
Industrial	30	6,195,850	1.44%
Dry Farm	2	341,923	0.08%
Recreational	4	2,022,396	0.47%
Institutional	11	971,934	0.23%
Miscellaneous	8	561,325	0.13%
Vacant Land	653	47,800,933	11.08%
Exempt	<u>78</u>	<u>0</u>	<u>0.00%</u>
Subtotal	2,370	399,501,027	92.60%
Unsecured		<u>31,944,280</u>	<u>7.40%</u>
Totals:	2,370	\$431,445,307	100.00%

According to the figures provided on the Assessor's tax rolls, the 653 vacant, privately owned parcels within the Project Area total 947 acres. This vacant land is 40.16% of all acreage within the Project Area.

B. Redevelopment Plan Limits

Chapter 942, Statutes of 1993 (See Section VI, Legislation), as codified in Section 33333.6 of the Law, limits the life of redevelopment plans adopted prior to January 1, 1994 to 40 years from the date of adoption or January 1, 2009, whichever is later. It also limits the period within which a redevelopment project area may receive tax increment to the life of the redevelopment plan plus ten years beyond the termination of redevelopment activities except to accommodate certain specific low and moderate-income housing obligations or to pay debt service on bonds, indebtedness or other financial obligations authorized prior to January 1, 1994. Such redevelopment plans are further required to include a limitation on the number of tax increment dollars that may be allocated to the redevelopment agency; a time limit on the establishing of indebtedness to be repaid with tax increment; and a limit on the amount of bonded indebtedness to be repaid with tax increment that can be outstanding at one time. These limits can be extended only by an amendment of the redevelopment plan.

For redevelopment plans adopted prior to 1994, Chapter 942 stipulates that the time limit for establishing indebtedness shall not exceed 20 years from the adoption of the redevelopment plan or January 1, 2004, whichever is later. Chapter 741, Statutes of 2001, was adopted under SB 211 and amends several sections of the Law that control time limitations for redevelopment project areas. Limitations, that under prior legislation could not be amended or had different amendment procedures, in accordance with this section, may be modified through project area amendments as set forth in this section of the Law (see Section VI, Legislation). At this time, the Agency is not considering adoption of a Project Area amendment pursuant to this statute.

Pursuant to Senate Bill 1045 (see Section VI) the Agency has extended the term of redevelopment plan effectiveness of the project area by one year with the adoption of Ordinance No. 152 on May 6, 2004. This extension in turn extends the terms of the redevelopment plan's effectiveness and the period within which the project areas may repay indebtedness by one year.

The Project Area redevelopment plan establishes the limit on the total amount of tax increment revenue that may be received by the Agency at \$275 million. The redevelopment plan provides that this limit shall be adjusted annually by the Consumer Price Index for the nearest statistical area for which the United States Department of Labor Bureau of Labor Statistics maintains records. The redevelopment plan also establishes a limit of \$27.5 million on the amount of bonded indebtedness that may be outstanding at one time. These limits have been adjusted using the Consumer Price Index for the Los Angeles-Riverside-Orange County statistical area.

The redevelopment plan limits currently governing the Project Area redevelopment plan are summarized in Table C below:

Table C Project Area Plan Limits				
<u>Termination of Project Activities</u>	<u>Last Date to Repay Debt with Tax Revenue</u>	<u>Last Date to Incur Indebtedness</u>	<u>Tax Increment Limit¹</u>	<u>Limit on Outstanding Bond Debt</u>
August 5, 2034	August 5, 2044	August 13, 2013	\$547,770,352	\$54,777,035

According to the Auditor-Controller the Agency has received a cumulative total of \$6,631,638 tax increment revenue since its inception. Based upon the assumptions used in the projection the Project Area is not expected to reach its tax increment limits.

III. Project Area Assessed Values

A. Assessed Values

Taxable values are prepared and reported by the County Auditor-Controller each fiscal year and represent the aggregation of all locally assessed properties that are part of the Project Area. The assessments are assigned to Tax Rate Areas (TRA) that are coterminous with the boundaries of the Project Area. The historic reported taxable values were reviewed in order to ascertain the rate of taxable property valuation growth over the ten most recent fiscal years beginning with 1998-99. Between 1998-99 and 2007-08, the secured taxable value within the Project Area increased by \$187,774,501 (88.69%). Secured values have increased in all fiscal years since 1998-99. Unsecured values have been essentially flat, having increased by \$4,435,194 (16.12%) between 1998-99 and 2007-08. The predominant force in the increases of assessed value within the Project Area is the ongoing construction and resale of residential property.

The changes in incremental value for the Project Area from 1998-99 to 2007-08 is illustrated on Table 3. Incremental values have risen in all but one year (2001-02) since 1998-99. These increases have exceeded inflationary growth by a wide margin in all years except 2001-02 where incremental value declined by 3.34%. Incremental value has increased by more than 25% in all years since 2002-03 and has exceeded 30% annual growth in five of the past six years.

¹ Tax increment and Outstanding Bond Debt limits are as adjusted for Consumer Price Index for 2007-08.

B. Top Ten Taxable Property Owners

A review of the top ten taxpayers in the Project Area for fiscal year 2007-08 was conducted. The aggregate total taxable value for the ten largest taxpayers totaled \$47,083,379. This amount is 21.67% of the \$217,288,191 Project Area incremental value and 10.91% of the total Project Area assessed value. The top taxpayer in the Project Area is Wal Mart Real Estate Business Trust, which controls two secured parcels with a combined value of \$10,334,663 and controls unsecured value of \$1,208,279. The combined value of the Wal Mart parcels is 2.68% of the Project Area total values and 5.31% of the Project Area incremental valuation. The second largest taxpayer in Project Area is California Valley Associates that controls a total of \$7,156,816 in secured assessed value. This amount is 3.29% of the Project Area's incremental value and 1.66% of the Project Area's total assessed value.

None of the top ten taxpayers have assessment appeals pending. Despite a 10.8% increase in the assessed value controlled by the top ten taxpayers since the Agency issued its Tax Allocation Bonds, Series 2004 the concentration of ownership within the top ten taxpayers has been significantly reduced over this period of time. At the time that the 2004 Tax Allocation Bonds were issued, the top ten taxpayers represented 15.68% of all taxable assessed value within the Project Area and 74.73% of all incremental taxable value within the Project Area. As discussed above, these percentages for 2007-08 are 10.91% and 21.67% respectively.

IV. Tax Allocation and Disbursement

A. Property Taxes

The taxable values of property are established each year on the property tax lien date. The lien date for locally assessed and State assessed property is January 1.

Real Property reflects the reported assessed values for secured and unsecured land and improvements. Pursuant to Article XIII A of the State Constitution the value of locally assessed Real Property may only be increased up to two percent annually to reflect inflation. In most cases Real Property values are permitted to increase to full market value as a result of a change of ownership or new construction. Utility property assessed by the State Board of Equalization may be revalued annually and such assessments are not subject to the inflation limitations of Article XIII A. The taxable value of Personal Property is also established on the lien dates and is not adjusted by the annual inflationary factor applied to locally assessed Real Property.

Secured property includes property on which any property tax levied by a county becomes a lien on that property. Unsecured property typically includes value for tenant improvements, fixtures, inventory and personal property. A tax levied on unsecured property does not become a lien against the taxed unsecured property, but may become a lien on certain other secured property owned by the taxpayer. The taxes levied on unsecured property are levied at the previous year's secured property tax rate.

B. Supplemental Assessments

Chapter 498 of the Statutes of 1983 provides for the reassessment of property upon a change of ownership or completion of new construction. Such reassessment is referred to as the Supplemental Assessment and is determined by applying the current year's tax rate to the amount

of increase in a property's value and prorating the resulting property taxes to reflect the portion of the tax year remaining as determined by the date of the change in ownership or completion of new construction. Supplemental Assessments become a lien against Real Property. Since 1984-85 revenues derived from Supplemental Assessments have been allocated to redevelopment agencies and taxing entities in the same manner as regularly collected property taxes. The receipt of Supplemental Tax Revenues by taxing entities typically follows the change of ownership by a year or more. Table D below reflects the amount of supplemental assessment revenue received by the Agency from 2002-03 through 2006-07. These amounts include any penalty revenues allocated and are net of the County Administrative fee charged for collection and allocation of supplemental revenues. We have not included revenues resulting from Supplemental Assessments in the projections.

Table D
Project Area Supplemental Revenue

<u>Fiscal Year</u>	<u>Supplemental Revenue</u>
2002-03	\$ 6,014
2003-04	\$ 39,079
2004-05	\$ 35,677
2005-06	\$ 75,366
2006-07	<u>\$ 64,852</u>
Total	\$220,988

C. Tax Rates

Tax rates will vary from area to area within the State, as well as within a community and a project area. The tax rate for any particular parcel is based upon the jurisdictions levying the tax rate for the area where the parcel is located. The tax rate consists of the general levy rate of \$1.00 per \$100 of taxable values and the over-ride tax rate. The over-ride rate is that portion of the tax rate that exceeds the general levy tax rate and is levied to pay voter approved indebtedness or contractual obligations that existed prior to the enactment of Proposition XIII. A Constitutional amendment approved in June 1983 allows the levy of over-ride tax rates to repay indebtedness for the acquisition and improvement of real property, upon approval by a two-thirds vote. A subsequent amendment of the Constitution prohibits the allocation to redevelopment agencies of tax revenues derived from over-ride tax rates levied for repayment of indebtedness approved by the voters after December 31, 1988. The over-ride tax rates typically decline each year as a result of (1) increasing property values (which would reduce the over-ride rate that must be levied to meet debt service) and (2) the eventual retirement of debt over time.

The Project Area contains a total of two Tax Rate Areas. A Tax Rate Area (TRA) is a geographic area within which the taxes on all property are levied by a certain set of taxing entities. These taxing entities each receive a prorated share of the general levy and those taxing entities with voter approved over-ride tax rates receive the revenue resulting from that tax rate. The tax increment projections are based on the published tax rates for 2007-08. Section 33670(e) of the Law specifies that revenues resulting from tax rates authorized by voter approval

after January 1, 1989 will not be allocated to a redevelopment agency. As a result, any existing over-ride tax rates that were authorized by voters after this date or any override tax rates that may be voter approved in the future, these tax rate overrides will not generate tax increment revenue to the Agency.

Within the Project Area's two TRAs, there are several over-ride tax rate levied. These over-ride tax rates are levied by the Mojave Water Agency, the Morongo Unified School District and the Copper Mountain Community College District. Mojave Water Agency levies one override tax rate on land value only and two override tax rates on land and improvement values. Due to special legislation approved by the State Legislature, these over-ride tax rates are treated as if they had received voter approval after January 1, 1989 and do not generate tax increment that is allocated to the Agency. The Morongo Unified School District and the Copper Mountain Community College District levy override tax rates within the Project Area pursuant to voter approvals that occurred after January 1, 1989. As a result the revenues derived from these override tax rates are not allocated to the Agency. The tax rate that is applicable to the Project Area, therefore, is limited to the one percent general levy. This one percent tax rate is assumed to be applicable through the duration of the projection.

D. Allocation of Taxes

Secured taxes are due in two equal installments. Installments of taxes levied upon secured property become delinquent on December 10 and April 10. Taxes on unsecured property are due March 1 and become delinquent August 31. The County disburses tax increment revenue to redevelopment agencies in monthly payments made November through July, with approximately 40 percent of annual revenue paid by the end of December and 85 percent by the end of May. Tax increment is allocated based upon the amount of tax revenue that is collected. The Auditor-Controller has made no indications that it intends to alter the current method of allocation of taxes.

E. Annual Tax Receipts to Tax Levy

A review was made of the receivable and allocated tax revenues for the Project Area for fiscal years 1998-99 through 2006-07. The collection rates for the Project Area were comparable to the collection rates for other taxing entities within the County for each year. Table E below shows the collection rates for the Project Area during these fiscal years. Collection rates are a comparison of current year revenues to the lien date tax roll assessed values. A collection rate of over 100 percent reflects the fact that roll changes occurred after the lien date that increased assessed values and resulted in a greater amount of revenue. This greater amount of revenue, when compared to the lien date tax roll, produces a collection rate of greater than 100 percent. Collection rates have not been factored into the projection.

**Table E
 Project Area Collection Rates**

	Original Tax Levy	Current Year AppORTIONED	Prior Year Collections	Total AppORTIONED	Current Year Collection %	Total Collection %
1998-99	\$230,290	\$225,731	\$ 3,963	\$229,695	98.02%	99.74%
1999-00	318,616	316,149	9,768	325,918	99.23%	102.29%

2000-01	325,328	321,671	17,794	339,466	98.88%	104.35%
2001-02	372,537	342,701	21,114	363,815	91.99%	97.66%
2002-03	451,293	450,144	46,395	496,540	99.75%	110.03%
2003-04	599,121	627,383	92,984	720,367	104.72%	120.24%
2004-05	807,074	830,586	111,123	941,709	102.91%	116.68%
2005-06	1,168,311	1,227,830	175,331	1,403,161	105.09%	120.10%
2006-07	1,643,393	1,671,784	277,988	1,949,772	101.73%	118.64%

F. Assessment Appeals

Assessment appeals data from San Bernardino County has not been electronically available during the past year. As a result we have been unable to make estimates of the potential impact of pending assessment appeals within the Project Area. In order to make some estimate the potential reduction in assessed value that may occur as a result of these pending appeals, we have received information from the Clerk of the County Board of Supervisors who administers assessment appeals on assessment appeals for the properties owned by the top ten taxpayers within the Project Area. We were informed by the Clerk of the Board that there were no pending assessment appeals on any properties owned by the top ten taxpayers.

In August, 2007 the San Bernardino County Assessor announced that assessed values were being reduced on a large number of parcels within the County in recognition of the reduction in market value on these parcels. A list of the parcels addressed by this announcement was reviewed and it was determined that many of the parcels included were parcels that had their assessed values reduced in prior years under the authority of Proposition 8 and that had not, for one reason or another, regained their inflation adjusted base value. Proposition 8 provides the authority to reduce the value of a property to reflect reductions of that property's market value. Properties so reduced in value are annually assessed and the value is reset to the market value as of the tax roll lien date or to the property's base value as adjusted for inflation in accordance with Article XIII of the Constitution. Among the parcels included in the Assessor's list were 38 parcels within the Project Area. Of these, 37 parcels had their values increased for 2007-08 in recognition of an increase in their market value or their values remained the same as assessed in 2006-07. One parcel was reduced in value by \$263,050 (14.2%). This property is owned by California Valley Associates, the Project Area's second largest taxpayer. This reduction in value was reflected in the assessed values used in the projection of Tax Revenue.

G. County Property Tax Collection Reimbursement

Chapter 466 allows counties to recover charges for property tax administration in an amount equal to their 1989-90 property tax administration costs, as adjusted annually. For fiscal year 2006-07, the County collection charges were \$12,696 which is 0.65% of the Project Area's Gross Revenue. For purposes of these projections, we have assumed that the County will continue to charge the Agency for property tax administration and that such charge will increase proportionally with any increases in revenue. In addition to this charge for property tax administration, the Auditor Controller charges a fee of 0.25% of Gross Revenue for collection costs. We have assumed in the projection that this charge will also continue to be levied by the County. The combined charge for collection and allocation of property taxes is estimated at 0.90% of Gross Revenues. This percentage of Gross Revenue is assumed for all years of the projection.

H. Allocation of State Assessed Unitary Taxes

Legislation enacted in 1986 (Chapter 1457) and 1987 (Chapter 921) provided for a modification of the distribution of tax revenues derived from utility property assessed by the State Board of Equalization, other than railroads. Prior to the 1988-89 fiscal year, property assessed by the SBE was assessed statewide and was allocated according to the location of individual components of a utility in a tax rate area. Commencing in 1988-89, tax revenues derived from unitary property and assessed by the SBE are accumulated in a single Tax Rate Area for the County. It is then distributed to each taxing entity in the County in the following manner: (1) each taxing entity will receive the same amount as in the previous year plus an increase for inflation of up to two percent; (2) if utility tax revenues are insufficient to provide the same amount as in the previous year, each taxing entity's share would be reduced pro-rata county wide; and (3) any increase in revenue above two percent would be allocated in the same proportion as the taxing entity's local secured taxable values are to the local secured taxable values of the County.

To administer the allocation of unitary tax revenues to redevelopment agencies, the County no longer includes the taxable value of utilities as part of the reported taxable values of the project area, therefore, the base year of project areas have been reduced by the amount of utility value that existed originally in the base year. The Auditor Controller allocated a total of \$2,424 of unitary tax revenue to the Project Area for 2006-07. For purposes of this projection, we have assumed that the amount of unitary revenue allocated for 2006-07 will continue to be allocated to the Project Area in the same amount for the life of the projection.

V. Low and Moderate Income Housing Set-Aside

Sections 33334.2 and 33334.3 of the Law require redevelopment agencies to set aside not less than 20 percent of all tax increment revenues from project areas adopted after December 31, 1976 into a low and moderate income housing fund (the Housing Set-Aside Requirement). An agency can reduce the Housing Set-Aside Requirement if the agency annually makes certain findings, consistent with the General Plan Housing Element. These findings are that: (1) no need exists in the community to improve or increase the supply of low and moderate income housing; or, (2) some stated percentage less than 20 percent of the tax increment is sufficient to meet the housing need. In order to make findings (1) or (2), the Agency's finding must be consistent with the Housing Element of the community's General Plan, including its share of the regional housing needs of very low income households and persons and families of low or moderate income. The Agency has not made such findings in the past. We have assumed in the projection that the Agency will continue to meet the Housing Set-Aside Requirement.

The annual Housing Set-Aside Requirement may be reduced to the extent that proceeds of tax allocation bonds are deposited into the Low and Moderate Income Housing Fund (the "Housing Fund"). In December 1995 the Agency issued Tax Allocation Revenue Bonds Series A (the "1995 Bonds") in the amount of \$1.730 million. According to the Agency, 20 percent of the proceeds of this bond issue were used for housing purposes. As a result, 20 percent of the debt service on the 1995 Bonds was paid from tax increment revenue that would otherwise be part of the Housing Set-Aside Requirement. In May 2004 the Agency issued Tax Allocation Bonds Series 2004 (the "2004 Bonds") in the amount of \$2.665 million. According to the Agency, 20 percent of the proceeds of this bond issue were used for housing purposes. As a result, 20

percent of the debt service on the 2004 Bonds was paid from tax increment revenue that would otherwise be part of the Housing Set-Aside Requirement.

The Bonds will refund these two earlier financings. Based on current estimates 44.38% of the proceeds of the Bonds will be used to refund the 1995 and 2004 Bonds. Of the debt service on this portion of the Bonds, 20% may be paid from the Housing Set-Aside Requirement. The amount of debt service allocable to the Housing Set-Aside Requirement is currently estimated at \$65,077 per year. The Housing Set-Aside Requirement is reduced by this amount in each year of the projection through fiscal year 2037-38. The amount of debt service that may be paid from the Housing Set-Aside Requirement will be adjusted once the final debt service amount is determined.

VI. Legislation

SB 211 was signed into law as Chapter 741, Statutes of 2001. This legislation has two main impacts on the limits contained in an agency's redevelopment plan. First, the Town may eliminate the time limit to establish indebtedness in project areas adopted prior to January 1, 1994 by ordinance. If the plan is so amended, existing tax sharing agreements will continue and certain statutory tax sharing for entities without tax sharing agreements will commence in the year the eliminated limit would have taken effect. Second, an agency may extend the time limit for plan effectiveness and repayment of debt for up to ten years if it can make certain specified findings. These changes could potentially impact time limits in the Project Area by eliminating or extending these limits. The Agency has not indicated that it was considering such amendments at this time.

In order to address State Budget deficits, the Legislature enacted SB 614, SB 844 and SB 1135 that required payments from redevelopment agencies for the 1992-93, 1993-94 and 1994-95 fiscal years into a countywide Education Revenue Augmentation Fund (the ERAF). An agency could have used any funds legally available and not legally obligated for other uses, including agency reserve funds, bond proceeds, earned income, and proceeds of land sales, but not moneys in the Low and Moderate Income Housing Fund (the Housing Fund) to satisfy this obligation. An agency could have reduced its payment due to existing indebtedness, contractual obligations and 90 percent of 1991-93 administrative costs (collectively, Existing Obligations). If an agency could not make the required payment due to Existing Obligations, it could have borrowed up to 50 percent of its 1992-93 contribution to the Housing Fund (which must be repaid within ten years), or the agency was required to obtain a loan from the city/county in order to pay the difference between what the agency pays and the total amount due. For agencies that did not borrow to meet any shortfall of the required payment, the county auditor-controller was required to deduct any amount due from the city/county's allocation of property taxes. This obligation applied to the agency and not to specific project areas. According to the Agency, it has no outstanding ERAF obligations. In addition to the payments from redevelopment agencies periodic State budget solutions have involved the shifting of property tax revenues from cities, counties and special districts to the ERAF.

From 1995-96 to 2001-02 state budgets were adopted with no additional shifting of tax increment from redevelopment agencies, however, the 2002-03 State Budget required a shift of \$75 million of tax increment statewide from redevelopment agencies to ERAF to meet the state budget shortfall. AB 1768 (Chapter 1127, Statutes of 2002) was enacted by the Legislature and signed by the Governor and based upon the methodology provided in the 2002-03 budget the shift requirement for the Agency was \$10,152 for fiscal year 2002-03 only. The Agency made the required payment without impacting its payment of debt service and other obligations.

As part of the State's 2003-04 budget legislation, SB 1045 (Chapter 260, Statutes of 2003) required redevelopment agencies statewide to contribute \$135 million to local County ERAF which reduced the amount of State funding for schools. This transfer of funds was limited to Fiscal Year 2003-04 only. The amount of revenue that was transferred by the Agency to San Bernardino County for 2003-04 was \$17,245. The Agency made this payment to the County by the May 10, 2004 deadline.

Under the Law as amended by SB 1045, the Agency was authorized to use a simplified methodology to amend the individual redevelopment plans to extend by one year the effectiveness of the plan and the time during which the Agency may repay debt with tax increment revenues. In addition, the amount of this payment and the ERAF payments made in prior years may be deducted from the amount of the Project Area's cumulative tax increment revenues. The Town Council adopted such an extension amendment for Project Areas on May 6, 2004 by the adoption of Ordinance No. 152. By approving such an amendment of the redevelopment plan, the Town Council extended by one year the effective life of the Project Area and the period within which the Agency may repay indebtedness from tax increment revenues. This extension of time has been reflected in the projections and in the Project Area limits shown in Section II B, Table D.

After the State's budget for 2004-05 was approved by the legislature and signed by the Governor, Senate Bill 1096 was adopted. Based on SB 1096, redevelopment agencies within the State were required to pay a total of \$250 million into ERAF in each of fiscal years 2004-05 and 2005-06. Annual payments were due on May 10 of each fiscal year. As in previous years, payments were permitted to be made from any available funds other than the Housing Fund. If an agency was unable to make a payment, it was allowed to borrow up to 50 percent of the current year Housing Set-Aside Revenues, however, the borrowed amount was required to be repaid to the Housing Fund within 10 years of the last ERAF payment (May 10, 2006). The Agency's portion of the statewide ERAF requirement for 2004-05 was \$39,486. The 2005-06 payment was \$41,373. According to the Agency all ERAF payments were made without borrowing from the Housing Fund.

Under SB 1096, redevelopment plans with less than ten years of effectiveness remaining from June 30, 2005, may be extended by one year for each year that an ERAF payment is made. For redevelopment plans with 10 to 20 years of effectiveness remaining after June 30, 2005, the plans may be extended by one year for each year that an ERAF payment is made if the Town

Council finds that the Agency is in compliance with specified state housing requirements. These requirements are: 1) that the Agency is setting aside 20 percent of gross tax increment revenue; 2) housing implementation plans are in place; 3) replacement housing and inclusionary housing requirements are being met; and, 4) no excess surplus exists. If a redevelopment plan has more than 20 years of effectiveness remaining after June 30, 2005, it may not be extended. The Project Area is not eligible for any extension of its time limits pursuant to SB 1096.

In addition to the ERAF provisions described above, the Agency cannot predict whether the State Legislature will enact any other legislation requiring additional or increased future shifts of tax increment revenues to the State and/or to schools, whether through an arrangement similar to ERAF or by other arrangements, and, if so, the effect on future Tax Revenues. The State budget was, however, adopted for 2006-07 with no ERAF obligations from state redevelopment agencies. Recent news reports have indicated that the State will likely fall well short of its 2007-08 revenue expectations. Additionally it is estimated that the State will face serious budget deficits during the 2008-09 fiscal year. In the past the State has required redevelopment agencies to contribute revenue to offset budget shortfalls. It is possible that the State could enact similar requirements to meet future budgetary difficulties.

VII. Tax Sharing Agreements and Other Obligations

A. Tax Sharing Agreements

The Agency has entered into several tax sharing agreements with affected taxing entities. In its agreement with the County of San Bernardino, as amended on November 19, 2002, the Agency is not obligated to make any tax sharing payments until the 2007-08 fiscal year. From 2007-08 through 2021-22, the County will receive at least 40% of its defined share of general levy tax increment revenue. This defined share is 14.53424%. In any year during this period that annual general levy tax increment revenue is greater than \$1.5 million and less than \$5 million the County will receive 50% of their defined share of general levy tax increment revenue. In any year during this period that annual general levy tax increment revenue is more than \$5 million the County will receive 70% of its defined share of general levy tax increment revenue. From fiscal year 2022-23 through the last year that the Agency may repay indebtedness from tax increment revenue the County will receive 50% of its defined share of general levy tax increment revenue. If the Agency's general levy revenue in any year during this period exceeds \$5 million the County will receive 70% of its share of general levy tax increment revenue.

The agreement with the County, as most recently amended on March 30, 2004, provides that payment under this agreement will be subordinated to the payment of debt service on the Agency's bonded debt so long as the principal amount of the bonds does not exceed \$10 million and the maturity date for the bonds does not extend beyond June 1, 2033. The Agency is obligated to provide the County with the offering documents for any tax allocation or refunding tax allocation bond issues offered by the Agency. The amount of the Bonds will likely exceed the \$10 million limit that is in effect. The Agency has entered into discussions with the County on a possible amendment of the agreement that would increase the amount of bonded debt that may be issued by the Agency while still allowing tax sharing amounts to the County to be

subordinate to the debt service on those bonds. It is unlikely that these negotiations will be completed prior to issuance of the Bonds and so the projections assume that these tax sharing payments will have a lien on Tax Revenues that will be superior to debt service on the Bonds.

The Agency entered into an agreement with the San Bernardino County Superintendent of Schools. This agreement calls for the Superintendent of Schools to receive its share of general levy tax increment revenue net of housing set-aside. The Superintendent of School's share of general levy tax increment is 0.729%. The agreement provides that the Agency may request that the Superintendent of Schools subordinate its tax sharing payments to the Agency's payment of debt service on bonded indebtedness. The Superintendent of Schools is to be provided with a report from an independent financial consultant showing that there is every expectation that the Superintendent's tax sharing payments can be made in addition to the debt service payments. If this assurance is shown, the Superintendent of Schools may not unreasonably with hold its agreement to subordinate. The Agency has requested such subordination from the Superintendent of Schools and supplied the information necessary to demonstrate that there is every expectation that the Agency will be able to make the agreed upon tax sharing payment. Agreement to the subordination request has been granted by the Superintendent of Schools.

The Agency's agreements with the Copper Mountain Community College District (3.99%), the Hi-Desert County Water District (6.92%) and the Mojave Water Agency (0.382%) call for the Agency to annually pay these districts their shares of general levy tax increment revenue. These payments are not subordinate to debt service on the Bonds.

The Agency's agreement with the Morongo Unified School District provides that tax sharing payments be made to the District on a sliding scale. The District's share of general levy tax increment revenue is 19.41%. The District received 15% of its share of general levy tax increment revenue during years one through four of the Project Area's life (1994-95 through 1997-98) and is receiving 40% of its share of general levy tax increment revenue during years five through fifteen (1998-99 through 2008-09). The agreement calls for the District to receive 65% of its share of general levy tax increment revenue during years sixteen (2009-10) through the termination of the Project Area's ability to repay indebtedness. There is no provision in the agreement for subordination of the tax sharing payments to debt service on the Bonds.

By agreement with the Agency, the Yucca Valley Fire District annually receives 20% of its share of general levy tax increment revenue. The Fire District's share of the general levy revenue is 21.77%. There is no provision for subordination to debt service on the Bonds within the agreement.

B. Owner Participation Agreements

The Agency has entered into no owner participation agreements that require payment of Tax Revenues.

VIII. Development Activities

There have been 112 transfers of ownership that have occurred within the Project Area since the lien date for the 2007-08 tax roll. Changes in value that result from these transfers of ownership will be reflected on the tax rolls for fiscal year 2008-09. These transfers have resulted in the

addition of \$8.9 million in assessed value to these parcels and this amount of value has been added to the projected values for 2008-09.

IX. Trended Taxable Value Growth

Growth in real property land and improvement values have been limited to an assumed rate of growth of real property taxable values of two percent annually as allowed under Article XIII A of the State Constitution. A two percent growth rate has been assumed because it is the maximum inflationary growth rate permitted by law and this rate of growth has been achieved in all but five years since 1981. The years in which less than two percent growth was realized were 1983-84 (1.0%), 1995-96 (1.19%), 1996-97 (1.11%) and 1999-00 (1.85%) and 2004-05 (1.867%). If in future years the growth of taxable value in the project area is less than two percent, the resultant Tax Increment Revenues would be reduced.

As a result of the recent nationwide increase in defaults on residential mortgages there has been concern expressed in the financial market over the possible impact that these defaults may have on redevelopment agency revenues in general. Reliable information on foreclosure activity is difficult to find and what information that is available is not readily applicable to discrete areas within cities and redevelopment project areas. Much of the information available is segregated by county or ZIP code. The information within the following table is based on information available from the RealtyTrac website.

**Table F
 Foreclosure Data for Town of Yucca Valley by ZIP Code**

As of:	Parcels in Pre-Foreclosure	Parcels Subject to Auction	Real Estate Owned by Lender	Total Town Parcels	Total Town Residential Parcels
March, 2008	172	52	179	12,439	8,243

According to RealtyTrac, properties in Pre-Foreclosure are based on the number of properties where a document has been filed announcing the public sale of a property to recover a debt owed by the owner of the property. These notices are mailed to the parties affected by the sale of the property, are advertised in local publications and are recorded as public records. Real Estate Owned by Lender reflects the number of properties that are now owned by the lender as the result of a foreclosure. Each of these steps is the precursor to the next step in the foreclosure process. Generally the foreclosure process may be halted by the property owner by the borrower paying the amount that is in default on the loan and bringing the loan current.

While there are a number of parcels in Pre-Foreclosure, Subject to Auction or Lender owned, these numbers taken together are 3.2% of the total number of parcels in the Town and 4.9% of the total residential parcels within the Town. We are unable to determine how many of the parcels represented in Table F may be located within the Project Area but for fiscal year 2007-08 the Project Area contains 18.5% of the total parcels within the Town and 15.3% of the total residential parcels within the Town. Based on this information it seems unlikely that

foreclosures within the Project Area will have a significant impact on Project Area assessed values and revenues.

HdL Coren & Cone make no representation that taxable values will actually grow at two percent. Future values will also be affected by changes of ownership and new construction not reflected in our projections. In addition, the values of property previously reduced in value due to assessment appeals based on reduced market values could increase more than two percent when real estate values increase more than two percent (see Section IV A above). Seismic activity and environmental conditions such as hazardous substances that are not anticipated in this report might also impact property taxes and Tax Increment Revenue. HdL Coren & Cone makes no representation that taxable values will actually grow at the rate projected. Anticipated revenues could be adjusted as a result of unidentified assessment appeal refunds, other Assessor corrections discussed previously, or unanticipated increases or decreases in property tax values. Estimated valuations from developments included in this analysis are based upon our understanding of the general practices of the San Bernardino County Assessor and Auditor-Controller's Office. General assessment practices are subject to policy changes, legislative changes, and the individual appraiser's judgment. While we believe our estimates to be reasonable, taxable values resulting from actual appraisals may vary from the amounts assumed in the projections.

THIS PAGE INTENTIONALLY LEFT BLANK

**Yucca Valley Redevelopment Agency
Yucca Valley Redevelopment Project**

Projection of Incremental Taxable Value & Tax Increment Revenue
(000's Omitted)

19-Mar-08

Table 1

	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>
Taxable Values (1)										
Real Property (2)	416,431	433,665	442,338	451,185	460,209	469,413	478,801	488,377	498,145	508,108
Personal Property (3)	<u>15,015</u>									
Total Projected Value	431,445	448,680	457,353	466,200	475,223	484,428	493,816	503,392	513,159	523,122
Taxable Value over Base	214,157	217,288	234,523	243,196	252,043	261,066	270,270	279,659	289,235	308,965
Gross Tax Increment Revenue (4)	2,173	2,345	2,432	2,520	2,611	2,703	2,797	2,892	2,990	3,090
Unitary Tax Revenue	<u>2</u>									
Gross Revenues	2,175	2,348	2,434	2,523	2,613	2,705	2,799	2,895	2,992	3,092
LESS:										
County Admin. And Collection Charges (5)	(20)	(21)	(22)	(23)	(24)	(24)	(25)	(26)	(27)	(28)
Housing Set Aside Requirement (6)	(370)	(404)	(422)	(439)	(458)	(476)	(495)	(514)	(533)	(553)
Tax Revenues	1,118	1,202	1,126	1,164	1,203	1,243	1,284	1,326	1,369	1,412
Subordinate Tax Sharing										
County Superintendent of Schools (8)	(13)	(14)	(14)	(15)	(15)	(16)	(16)	(17)	(17)	(18)
Net Tax Revenues	1,106	1,188	1,111	1,149	1,188	1,228	1,268	1,309	1,351	1,394

- (1) Taxable values as reported by San Bernardino County.
- (2) Real property consists of land and improvements. Increased for transfers of ownership after Jan. 1, 2007 (see Table 4) and increased for inflation at 2% annually.
- (3) Personal property is held constant at 2007-08 level.
- (4) Projected Gross Tax Increment is based upon incremental taxable values factored against an assumed Project tax rate and adjusted for any indebtedness approved by voters after 1988. There are no present debt service overrides except for those of the Mojave Water District which are not RDA applicable. Future tax rates are assumed to remain at \$1.00 per \$100 of taxable value.
- (5) County Administration fee and Collection Charge are estimated 0.90% of Gross Revenue.
- (6) Housing Set Aside calculated at 20% of Gross Revenue. This obligation is reduced by the amount of debt service on the Bonds attributable to 20% of debt service on the refunding portion of the proceeds. This amount is currently estimated at \$65,077 per year.
- (7) Morongo Unified School District receives 40% of its share (19.41%) of general levy tax increment revenue through 2008-09 and 65% of its share from 2009-10 thereafter.
- (8) Copper Mountain Community College (3.99%), Hi-Desert County Water District (6.92%) and Mojave Water Agency (0.382%) receive their shares of general levy tax increment revenue.
- (9) Yucca Valley Fire District receives 20% of its share (21.77%) of general levy tax increment revenue.
- (10) Based on a revised agreement with the San Bernardino Co., County share stipulated at 14.53424% of general levy tax increment. County receives 40% of its share of general levy tax revenue until annual Gross Revenue exceeds \$1,500,000. County receives 50% of its share of general levy tax revenue when annual Gross Revenue is greater than \$1,500,000 and 70% of its share of general levy tax increment when annual Gross Revenue exceeds \$5 million.
- (11) County Supt. of Schools receives its share (0.729%) of general levy tax increment revenue net of housing set-aside. The Agency has requested that the Superintendent agree to subordinate its tax sharing payments to the payment of debt service on the 1995 and 2004 Bonds and the Bonds in accordance with the terms of the agreement.

Yucca Valley Redevelopment Agency
Yucca Valley Redevelopment Project
PROJECTION OF INCREMENTAL VALUE AND TAX INCREMENT REVENUE
(000s Omitted)

19-Mar-08

Table 2

		Taxable Value		Gross Tax	SB 2557	Housing	Pass-Throughs	Tax	San Bernardino	Net Tax
		Total	Over Base	Revenue	Charge	Set-Aside	Agreements	Revenues	County Supt.	Revenues
		Taxable Value	214,157						of Schools	
1	2007-08	431,445	217,288	2,175	(20)	(370)	(667)	1,118	(13)	1,106
2	2008-09	448,680	234,523	2,348	(21)	(404)	(720)	1,202	(14)	1,188
3	2009-10	457,353	243,196	2,434	(22)	(422)	(865)	1,126	(14)	1,111
4	2010-11	466,200	252,043	2,523	(23)	(439)	(897)	1,164	(15)	1,149
5	2011-12	475,223	261,066	2,613	(24)	(458)	(929)	1,203	(15)	1,188
6	2012-13	484,428	270,270	2,705	(24)	(476)	(961)	1,243	(16)	1,228
7	2013-14	493,816	279,659	2,799	(25)	(495)	(995)	1,284	(16)	1,268
8	2014-15	503,392	289,235	2,895	(26)	(514)	(1,029)	1,326	(17)	1,309
9	2015-16	513,159	299,002	2,992	(27)	(533)	(1,063)	1,369	(17)	1,351
10	2016-17	523,122	308,965	3,092	(28)	(553)	(1,099)	1,412	(18)	1,394
11	2017-18	533,284	319,127	3,194	(29)	(574)	(1,135)	1,456	(19)	1,438
12	2018-19	543,650	329,493	3,297	(30)	(594)	(1,172)	1,501	(19)	1,482
13	2019-20	554,223	340,065	3,403	(31)	(616)	(1,209)	1,548	(20)	1,528
14	2020-21	565,007	350,850	3,511	(32)	(637)	(1,248)	1,594	(20)	1,574
15	2021-22	576,007	361,849	3,621	(33)	(659)	(1,287)	1,642	(21)	1,621
16	2022-23	587,226	373,069	3,733	(34)	(682)	(1,327)	1,691	(22)	1,670
17	2023-24	598,671	384,514	3,848	(35)	(704)	(1,367)	1,741	(22)	1,719
18	2024-25	610,344	396,187	3,964	(36)	(728)	(1,409)	1,792	(23)	1,769
19	2025-26	622,250	408,093	4,083	(37)	(752)	(1,451)	1,844	(24)	1,820
20	2026-27	634,395	420,238	4,205	(38)	(776)	(1,494)	1,897	(25)	1,872
21	2027-28	646,783	432,626	4,329	(39)	(801)	(1,538)	1,951	(25)	1,925
22	2028-29	659,418	445,261	4,455	(40)	(826)	(1,583)	2,006	(26)	1,980
23	2029-30	672,306	458,149	4,584	(41)	(852)	(1,629)	2,062	(27)	2,035
24	2030-31	685,452	471,295	4,715	(42)	(878)	(1,676)	2,119	(28)	2,092
25	2031-32	698,861	484,704	4,849	(44)	(905)	(1,723)	2,178	(28)	2,149
26	2032-33	712,538	498,381	4,986	(45)	(932)	(1,772)	2,237	(29)	2,208
27	2033-34	726,488	512,331	5,126	(46)	(960)	(1,971)	2,149	(30)	2,119
28	2034-35	740,718	526,560	5,268	(47)	(989)	(2,025)	2,207	(31)	2,176
29	2035-36	755,232	541,074	5,413	(49)	(1,018)	(2,081)	2,266	(32)	2,234
30	2036-37	770,036	555,879	5,561	(50)	(1,047)	(2,138)	2,326	(32)	2,294
31	2037-38	785,136	570,979	5,712	(51)	(1,077)	(2,196)	2,387	(33)	2,354
32	2038-39	800,539	586,382	5,866	(53)	(1,173)	(2,255)	2,385	(34)	2,351
33	2039-40	816,249	602,092	6,023	(54)	(1,205)	(2,316)	2,449	(35)	2,414
34	2040-41	832,274	618,117	6,184	(56)	(1,237)	(2,377)	2,514	(36)	2,478
35	2041-42	848,619	634,462	6,347	(57)	(1,269)	(2,440)	2,580	(37)	2,543
36	2042-43	865,291	651,134	6,514	(59)	(1,303)	(2,504)	2,648	(38)	2,610
37	2043-44	882,297	668,140	6,684	(60)	(1,337)	(2,570)	2,717	(39)	2,678
				149,369	(1,346)	(27,858)	(54,549)	65,618	(871)	67,425

See Footnotes for Table 1

**Yucca Valley Redevelopment Agency
Yucca Valley Redevelopment Project**

HISTORICAL VALUES (1)

19-Mar-08

Table 3

	Base Year 1992-93	1998-99	1999-00(3)	2000-01	2001-02	2002-03	2003-04 (4)	2004-05	2005-06	2006-07	2007-08
Secured (2)											
Land	190,768,668	66,955,291	67,281,156	67,743,496	68,379,320	69,006,166	71,409,685	73,415,763	83,676,205	100,872,422	121,337,559
Impts	0	146,483,195	150,522,515	155,709,417	160,765,007	169,166,745	177,815,430	194,371,858	217,462,009	252,277,251	282,540,204
Pers Prop	0	420,599	395,405	378,732	397,372	393,483	408,204	482,914	391,480	356,027	329,452
Exemptions	0	(2,132,559)	(2,214,811)	(2,092,205)	(3,396,668)	(2,921,238)	(3,786,764)	(3,890,442)	(4,144,363)	(4,741,475)	(4,706,188)
Total Secured	190,768,668	211,726,526	215,984,265	221,739,440	226,145,031	235,645,156	245,846,555	264,380,093	297,385,331	348,764,225	399,501,027
Unsecured											
Land	0	0	0	0	0	0	0	0	0	0	0
Impts	0	16,293,687	17,837,974	16,768,552	10,578,618	12,651,698	13,513,822	11,749,149	11,090,719	11,905,238	17,259,147
Pers Prop	23,388,448	11,250,199	11,700,688	10,533,404	11,164,422	11,384,505	12,004,828	14,850,537	13,746,212	15,197,133	15,155,761
Exemptions	0	(34,800)	(35,219)	(26,166)	(37,769)	(36,168)	(334,896)	(296,499)	(33,209)	(368,375)	(470,628)
Total Unsecured	23,388,448	27,509,086	29,503,443	27,275,790	21,705,271	24,000,035	25,183,754	26,303,187	24,803,722	26,733,996	31,944,280
GRAND TOTAL	214,157,116	239,235,612	245,487,708	249,015,230	247,850,302	259,645,191	271,030,309	290,683,280	322,189,053	375,498,221	431,445,307
Incremental Value:		25,078,496	31,330,592	34,858,114	33,693,186	45,488,075	56,873,193	76,526,164	108,031,937	161,341,105	217,288,191
% Change:		13.90%	24.93%	11.26%	-3.34%	35.01%	25.03%	34.56%	41.17%	49.35%	34.68%

(1) Source: County of San Bernardino.

(2) Secured values include state assessed non-unitary utility property.

(3) Values are adjusted for values mislocated on tax rolls.

(4) Adjusted for one exemption not reflected on the 2003-04 Lien Date Roll.

Yucca Valley Redevelopment Agency
Yucca Valley Redevelopment Project
 New Development
 Table 4

3/19/08

<u>REAL</u>	<u>SqFt/ Units</u>	<u>Value</u>	<u>Total Value</u>	<u>Less Existing</u>	000's omitted	<u>Start</u>	<u>Complete</u>	2008-09	2009-10	2010-11
					<u>Total Value Added</u>					
	0	0	0	0	0			0	0	0
	0	0	0	0	0			0	0	0
	0	0	0	0	0			0	0	0
	0	0	0	0	0			0	0	0
	0	0	0	0	0			0	0	0
	0	0	0	0	0			0	0	0
Transfer Sales (1/1/07 thru 12/31/07)	112	0	26,536,500	17,630,774	8,906			8,906	0	0
Transfer Sales (1/01/08 thru 3/31/08)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>			<u>0</u>	<u>0</u>	<u>0</u>
Total Real Property			26,536,500	17,630,774	8,906			8,906	0	0
Total Real Property inc. Inflation Adj. @ 2% per year									0	0

Yucca Valley Redevelopment Agency
Yucca Valley Redevelopment Project
TOP TEN TAXABLE PROPERTY OWNERS

For Fiscal Year 2007-08

19-Mar-08

Table 5

	Secured			Unsecured			Total		% of Inc. Value	Use Code
	Value	Parcels	% of Sec. AV	Value	Parcels	% of Unsec. AV	Value	% of Total Value		
1. Wal Mart Real Estate Business Trust	\$10,334,663	2	2.59%	\$1,208,279	1	3.78%	\$11,542,942	2.68%	5.31%	Retail Store
2. California Valley Associates	\$7,156,816	6	1.79%	\$0	0	0.00%	\$7,156,816	1.66%	3.29%	Commercial Shopping Center (Vons)
3. Katherine Brush	\$4,231,220	1	1.06%	\$0	0	0.00%	\$4,231,220	0.98%	1.95%	Auto Dealership (Phelps Chevrolet)
4. Robert J. Ruehman	\$4,091,760	2	1.02%	\$0	0	0.00%	\$4,091,760	0.95%	1.88%	Commercial Shopping Center (Stater Bros.)
5. Apache Mobile Home Park Association	\$3,659,971	3	0.92%	\$0	0	0.00%	\$3,659,971	0.85%	1.68%	Mobil Homes Residential
6. CAC Exchange I LLC (Time Warner Cable)	\$0	0	0.00%	\$3,568,246	1	11.17%	\$3,568,246	0.83%	1.64%	Cable Communications
7. Susan Esther Sandelman Trust	\$3,464,500	1	0.87%	\$0	0	0.00%	\$3,464,500	0.80%	1.59%	Commercial Shopping Center (Ralphs)
8. John Brooks & Company Insurance Brokerage	\$3,307,924	1	0.83%	\$0	0	0.00%	\$3,307,924	0.77%	1.52%	Commercial (Walgreens Drug Store)
9. DYC Hotel LLC	\$3,060,000	9	0.77%	\$0	0	0.00%	\$3,060,000	0.71%	1.41%	Vacant Land/Hotel (Yucca Inn & Suites)
10. Palasades Group Limited Partnership	\$3,000,000	1	0.75%	\$0	0	0.00%	\$3,000,000	0.70%	1.38%	Restaurant (Applebee's)
	\$42,306,854	26		\$4,776,525	2		\$47,083,379			
2007-08 Project Area Assessed Values:	\$399,501,027		10.59%	\$31,944,280		14.95%	\$431,445,307	10.91%		
Project Area Incremental Value Totals:	\$208,732,359		20.27%	\$8,555,832		55.83%	\$217,288,191	21.67%		

THIS PAGE INTENTIONALLY LEFT BLANK

APPENDIX E
FORMS OF BOND COUNSEL'S OPINION

[Letterhead of Quint & Thimmig LLP]

[Closing Date]

Yucca Valley Redevelopment Agency
57090 29 Palms Highway
Yucca Valley, California 92284

OPINION: \$10,625,000 Yucca Valley Redevelopment Agency (Yucca Valley Redevelopment Project No. 1) Tax Allocation Bonds, Series 2008

Members of the Agency:

We have acted as bond counsel in connection with the issuance by the Yucca Valley Redevelopment Agency (the "Agency") of \$10,625,000 Yucca Valley Redevelopment Agency (Yucca Valley Redevelopment Project No. 1) Tax Allocation Bonds, Series 2008 (the "Bonds"), the provisions of Part 1 of Division 24 of the California Health and Safety Code, commencing with section 33640 of said Code, Resolution No. RDA-08-03, adopted by the Agency on April 10, 2008, and an indenture of trust, dated as of May 1, 2008, between the Agency and The Bank of New York Trust Company, N.A., as trustee (the "Indenture"). We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Agency contained in the Indenture and in the certified proceedings and certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing we are of the opinion, under existing law, as follows:

1. The Agency is duly created and validly existing as a public body, corporate and politic, with the power to enter into the Indenture, perform the agreements on its part contained therein and issue the Bonds.
2. The Indenture has been duly approved by the Agency and constitutes a valid and binding obligation of the Agency enforceable in accordance with its terms.
3. Pursuant to the Law, the Indenture creates a valid lien on the funds pledged by the Indenture for the security of the Bonds on a parity with other bonds (if any) issued or to be issued under the Indenture, subject to no prior lien granted under the Law.
4. The Bonds have been duly authorized, executed and delivered by the Agency and are valid and binding special obligations of the Agency, payable solely from the sources provided therefor in the Indenture.
5. Subject to the Agency's compliance with certain covenants, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and, under section 55 of the Code, is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations

under the Code but is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. Failure by the Agency to comply with one or more of such covenants could cause interest on the Bonds to not be excludable from gross income under section 103 of the Code for federal income tax purposes retroactively to the date of issuance of the Bonds.

6. Interest on the Bonds is exempt from personal income taxation imposed by the State of California.

Ownership of the Bonds may result in other tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Bonds.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and also may be subject to the exercise of judicial discretion in accordance with general principles of equity.

In rendering this opinion, we have relied upon certifications of the Agency and others with respect to certain material facts. Our opinion represents our legal judgment based upon such review of the law and the facts that we deem relevant to render our opinion and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Respectfully submitted,

APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This CONTINUING DISCLOSURE CERTIFICATE (the "Disclosure Certificate") is executed and delivered by the YUCCA VALLEY REDEVELOPMENT AGENCY (the "Agency") in connection with the issuance of \$10,625,000 aggregate principal amount of Yucca Valley Redevelopment Agency (Yucca Valley Redevelopment Project No. 1) Tax Allocation Bonds, Series 2008 (the "Bonds"). The Bonds are being issued pursuant to an indenture of trust, dated as of May 1, 2008 (the "Indenture"), by and between the Agency and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"). The Agency covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Agency for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Agency pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Dissemination Agent" shall mean The Bank of New York Trust Company, N.A., or any successor Dissemination Agent designated in writing by the Agency and which has filed with the Agency and the Trustee a written acceptance of such designation.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each National Repository and each State Repository.

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

"State Repository" shall mean any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

Section 3. Provision of Annual Reports.

(a) The Agency shall, or upon written direction shall cause the Dissemination Agent to, not later than nine months after the end of the Agency's fiscal year (March 31), commencing with the report for the 2006-2007 fiscal year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate with a copy to the Trustee. Not later than fifteen (15) Business Days prior to said date, the Agency shall provide the Annual Report to the Dissemination Agent (if other than the Agency). The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Agency may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date. If the Agency's fiscal year changes, it shall give notice of such change to the Municipal Securities Rulemaking Board and each State Repository with a copy to the Trustee. The Agency shall provide a written certification with each Annual

Report furnished to the Dissemination Agent and the Trustee to the effect that such Annual Report constitutes the Annual Report required to be furnished by the Agency hereunder. If the Agency's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) If the Agency is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the Agency shall send a notice to the Municipal Securities Rulemaking Board and each State Repository in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any; and

(ii) if the Dissemination Agent is other than the Agency, file a report with the Agency certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

Section 4. Content of Annual Reports. The Agency's Annual Report shall contain or incorporate by reference the following:

(a) Audited Financial Statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Agency's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) The following financial information and operating data set forth in the final Official Statement, as follows:

- (i) Breakdown of Assessed Valuation By Category of Use;
- (ii) Historical Taxable Values and Tax Increment Revenues;
- (iii) Largest Property Taxpayers, by Assessed Value;
- (iv) Tax Collections and Delinquencies;
- (v) Appeals of top ten taxpayers; and
- (vi) Debt Service Coverage.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Agency or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Agency shall clearly identify each such other document so included by reference.

(c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the Agency shall provide such further material information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Agency shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (i) Principal and interest payment delinquencies.
- (ii) Non-payment related defaults.
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties.

- (v) Substitution of credit or liquidity providers, or their failure to perform.
- (vi) Adverse tax opinions or events affecting the tax-exempt status of the security.
- (vii) Modifications to rights of security holders.
- (viii) Contingent or unscheduled bond calls.
- (ix) Defeasances.
- (x) Release, substitution, or sale of property securing repayment of the securities.
- (xi) Rating changes.

(b) Whenever the Agency obtains knowledge of the occurrence of a Listed Event, the Agency shall as soon as possible determine if such event would be material under applicable Federal securities law.

(c) If the Agency determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the Agency shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository with a copy to the Trustee. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds pursuant to the Indenture.

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

Section 7. Dissemination Agent. The Agency may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be The Bank of New York Trust Company, N.A.. Any Dissemination Agent may resign by providing thirty days' written notice to the Agency and the Trustee.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Agency may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied; provided, however, no amendments to the duties or obligations of the Dissemination Agent may be made without the written consent of the Dissemination Agent:

(a) if the amendment or waiver relates to the provisions of Sections 3(a) or 4, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the Agency to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the Repositories in the same manner as for a Listed Event under Section 5(c).

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Agency from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Agency chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Agency shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the Agency to comply with any provision of this Disclosure Certificate the Trustee, at the written direction of any Participating Underwriter or the holders of at least 25% aggregate principal amount of Outstanding Bonds, shall, but only to the extent moneys or other indemnity, satisfactory to the Trustee, has been furnished to the Trustee to hold it harmless from any loss, costs, liability or expense, including fees and expenses of its attorneys and any additional fees of the Trustee, or any holder or beneficial owner of the Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Agency to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the Agency to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent and the Trustee shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Agency agrees to indemnify and save the Dissemination Agent and the Trustee, their officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's or the Trustee's respective negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the Agency for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent and the Trustee shall have no duty or obligation to review any information provided to it by the Agency and shall not be deemed to be acting in any fiduciary capacity for the Agency, the Bond holders or any other party. The obligations of the Agency under this Section 11 shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Agency, the Trustee, the Dissemination Agent, the Participating Underwriters and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 13. Alternative Filing Location. Any filing under this Disclosure Certificate may be made solely by transmitting such filing to the Texas Municipal Advisory Council (the "MAC") as provided at <http://www.disclosureusa.org>, unless the United States Securities and Exchange Commission has withdrawn the interpretive advice in its letter to the MAC, dated September 7, 2004.

Date: [Closing Date]

YUCCA VALLEY REDEVELOPMENT
AGENCY

By _____
Executive Director

ACKNOWLEDGED:

THE BANK OF NEW YORK TRUST
COMPANY, N.A., as Dissemination Agent

By _____
Authorized Officer

EXHIBIT A

NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD AND EACH STATE
REPOSITORY OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Yucca Valley Redevelopment Agency
Name of Issue: Yucca Valley Redevelopment Agency (Yucca Valley Redevelopment Project No. 1)
Tax Allocation Bonds, Series 2008
Date of Issuance: [Closing date]

NOTICE IS HEREBY GIVEN that the Yucca Valley Redevelopment Agency (the "Agency") has not provided an Annual Report with respect to the above-named Bonds as required by Section 5.14 of that certain indenture of trust, dated as of May 1, 2008, by and between the Agency and The Bank of New York Trust Company, N.A., as trustee. The Agency anticipates that the Annual Report will be filed by _____.

Dated: _____

THE BANK OF NEW YORK TRUST
COMPANY, N.A., as Dissemination Agent

By _____
Title _____

cc: Trustee

APPENDIX G

BOOK-ENTRY ONLY SYSTEM

The information in this Appendix G has been provided by The Depository Trust Company ("DTC"), New York, NY, for use in securities offering documents, and none of the Authority or the Agency takes responsibility for the accuracy or completeness thereof. None of the Authority or the Agency can or give any assurances that DTC, DTC Participants or Indirect Participants will distribute the Beneficial Owners either (a) payments of interest, principal or premium, if any, with respect to the Bonds or (b) certificates representing ownership interest in or other confirmation of ownership interest in the Bonds, or that they will so do on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described in this Official Statement.

1. DTC will act as securities depository for the Bonds (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each maturity of the Securities, in the aggregate principal amount of such issue, and will be deposited with DTC.

2. DTC, the world's largest depository, is a limited purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial

ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the issuer or the paying agent or bond trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the paying agent or bond trustee, or the issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the issuer or the paying agent or bond trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the issuer or the paying agent or bond trustee. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

10. The issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered.