

In the opinion of Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel, under existing law, the interest on the 2004 Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the tax covenants described herein, interest on the 2004 Bonds is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 from the gross income of the owners thereof for federal income tax purposes and is not an item of preference for purposes of the federal alternative minimum tax. See "TAX MATTERS" herein.



**\$2,665,000**  
**YUCCA VALLEY REDEVELOPMENT AGENCY**  
**(YUCCA VALLEY REDEVELOPMENT PROJECT NO. 1)**  
**TAX ALLOCATION BONDS, SERIES 2004**  
**(Bank Qualified)**

**Dated: Date of Delivery****Due: June 1, as set forth below**

Proceeds from the sale of the Yucca Valley Redevelopment Agency (the "Agency") (Yucca Valley Redevelopment Project No. 1) Tax Allocation Bonds, Series 2004 (the "2004 Bonds"), will be used to (i) finance the Agency's redevelopment activities in its Yucca Valley Redevelopment Project No. 1, (ii) make a deposit to a reserve account, and (iii) provide for the costs of issuing the 2004 Bonds.

Interest on the 2004 Bonds will be payable semi-annually on each June 1 and December 1, commencing December 1, 2004 (each, an "Interest Payment Date"). The 2004 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 2004 Bonds. Purchases of beneficial interests in the 2004 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 2004 Bonds. Payment of principal of, interest and premium, if any, on the 2004 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 2004 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 2004 BONDS—Book-Entry System" herein.

The 2004 Bonds will be issued under an Indenture of Trust, dated as of December 1, 1995 (the "Original Indenture"), by and between the Agency and U.S. Trust Company of California, N.A., as succeeded by BNY Western Trust Company, as trustee (the "Trustee"), as amended and supplemented by a First Supplemental Indenture, dated as of June 1, 2004, by and between the Agency and the Trustee (the "First Supplemental Indenture" and, with the Original Indenture, the "Indenture"). The 2004 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 2004 Bonds will be on a parity as to payment and security with the Agency's outstanding Yucca Valley Redevelopment Agency (Yucca Valley Redevelopment Project), Tax Allocation Bonds, Series 1995. The 2004 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 2004 Bonds are subject to optional and mandatory redemption prior to maturity. See "THE 2004 BONDS—Redemption" herein.

THE 2004 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 OF YUCCA VALLEY (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 NEITHER THE AUTHORITY, THE TOWN NOR THE STATE OR ANY POLITICAL SUBDIVISIONS THEREOF (OTHER THAN THE AGENCY), IS LIABLE THEREFOR. THE 2004 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 2004 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 2004 BONDS IS LIABLE PERSONALLY FOR PAYMENT OF THE 2004 BONDS BY REASON OF THEIR ISSUANCE.

**MATURITY SCHEDULE****\$280,000 Serial Bonds**

Maturity (June 1)	Principal Amount	Interest Rate	Yield
2005	\$65,000	2.00 %	2.20%
2006	70,000	2.75	2.90
2007	65,000	3.25	3.40
2008	40,000	3.625	3.80
2009	40,000	4.00	4.10

**\$100,000 5.00% Term Bonds due June 1, 2014— Price 99.611%, to Yield 5.05%**

**\$130,000 5.375% Term Bonds due June 1, 2019— Price 99.238%, to Yield 5.45%**

**\$165,000 5.75% Term Bonds due June 1, 2025— Price 98.799%, to Yield 5.85%**

**\$1,990,000 5.875% Term Bonds due June 1, 2034— Price 97.591%, to Yield 6.05%**

This cover page contains information for quick reference only. It is not intended to be a summary of all factors relating to an investment in the 2004 Bonds. Investors should review the entire Official Statement before making any investment decision with respect to the 2004 Bonds.

The 2004 Bonds are offered when, as and if issued, subject to the approval as to their legality by Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed upon for the Agency by Naomi Silvergleid, Esq., Town Attorney, acting as Agency Counsel, and by Quint & Thimmig LLP, San Francisco, California, as Disclosure Counsel. It is anticipated that the 2004 Bonds will be available for delivery through DTC in New York, New York, on or about June 2, 2004.

**RBC Dain Rauscher**

YUCCA VALLEY REDEVELOPMENT AGENCY  
and  
TOWN OF YUCCA VALLEY

Agency Board and Town Council

Robert J. Leone, *Agency Chair and Mayor*  
Chad J. Mayes, *Agency Vice Chair and Mayor Pro-Tem*  
Susan B. Earnest, *Agency Board Member and Council Member*  
Paul J. Cook, *Agency Board Member and Council Member*  
William L. Neeb, *Agency Board Member and Council Member*

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Staff and Officials

Andrew J. Takata, *Town Manager*  
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Ronald L. Carr, *Director of Management Services*  
James A. Schooler, *Community Services Director*  
Janet M. Anderson, *Town Clerk*  
Naomi Silvergleid, Esq., *Town Attorney*

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Special Services

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San Francisco, California  
*Financial Advisor*

Quint & Thimmig LLP  
San Francisco, California  
*Disclosure Counsel*

HdL Coren & Cone  
Diamond Bar, California  
*Fiscal Consultant*

BNY Western Trust Company  
Los Angeles, California  
*Trustee*

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 2004 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 2004 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 2004 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 2004 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 OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2004 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 2004 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 .

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## OFFICIAL STATEMENT

**\$2,665,000**  
**YUCCA VALLEY REDEVELOPMENT AGENCY**  
**(Yucca Valley Redevelopment Project No. 1)**  
**Tax Allocation Bonds, Series 2004**

### INTRODUCTION

#### General

This Official Statement of the Yucca Valley Redevelopment Agency (the "Agency") provides information regarding the sale by the Agency of \$2,665,000 aggregate principal amount of the Agency's Yucca Valley Redevelopment Agency (Yucca Valley Redevelopment Project No. 1) Tax Allocation Bonds, Series 2004 (the "2004 Bonds").

Definitions of certain capitalized terms used in this Official Statement are set forth in APPENDIX D—"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE." This Official Statement contains brief descriptions of the 2004 Bonds, the Indenture, the Project Area and the Agency. 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 2004 Bonds are qualified in their entirety by reference to the form of the 2004 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 Agency

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

#### Purpose of Issuance

The 2004 Bonds will be purchased by the Yucca Valley Public Financing Authority, a joint exercise of powers authority created in 1995 by the Town and the Agency (the "Authority"), from the Agency for immediate re-sale to RBC Dain Rauscher, Inc. (the "Underwriter").

Proceeds from the sale of the 2004 Bonds will be used to (i) finance a portion of the Agency's redevelopment activities in its Yucca Valley Redevelopment Project No. 1 (the "Project Area") including, but not limited to, various public infrastructure improvements, utility extension, improvements and upgrades and swimming pool rehabilitation, and finance certain low and moderate income housing projects, (ii) to make a deposit to the Reserve Account; and (iii) provide for the costs of issuing the 2004 Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" herein.

## **The Project Area**

The Town Council of the Town adopted a redevelopment plan (the "Redevelopment Plan") for the Project Area pursuant to Ordinance No. 37 enacted on August 5, 1993. The Project Area consists of approximately 2,358 acres or approximately 10% of the total area of the Town. The Project Area includes the central business district of the Town and a residential area in the eastern portion of the Town. The Project Area is zoned for mixed land uses with commercial, industrial, residential and public facility uses. The total assessed valuation of taxable property in the Project Area in Fiscal Year 2003-2004 was approximately \$56,873,193 greater than the adjusted assessed valuation in the base year. See "THE PROJECT AREA" herein. Assessed valuations in the Project Area are subject to numerous risks which could result in decreases from those reported for Fiscal Year 2003-2004. See "BONDOWNERS' RISKS" herein.

## **The 2004 Bonds**

The 2004 Bonds are being issued pursuant to the laws of the State of California (the "State"), including the provisions of the Community Redevelopment Law of the State of California, constituting Part 1 of Division 24 of the California Health and Safety Code (the "Law"), a resolution adopted by the Agency on April 15, 2004 (the "Resolution"), and an Indenture of Trust, dated as of December 1, 1995 (the "Original Indenture"), by and between the Agency and U.S. Trust Company of California, N.A., as succeeded by BNY Western Trust Company, as trustee (the "Trustee"), as amended and supplemented by a First Supplemental Indenture, dated as of June 1, 2004, by and between the Agency and the Trustee (the "First Supplemental Indenture" and, with the Original Indenture, the "Indenture"). See "THE 2004 BONDS" herein and APPENDIX D—"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE." The 2004 Bonds will be on a parity as to payment and security with the Yucca Valley Redevelopment Agency (Yucca Valley Redevelopment Project) Tax Allocation Bonds, Series 1995, currently outstanding in the principal amount of \$1,555,000 (the "1995 Bonds").

The 1995 Bonds, the 2004 Bonds and any additional Parity Debt issued by the Agency in accordance with the Indenture are referred to herein collectively as the "Bonds."

The 2004 Bonds will be issued in denominations of \$5,000 each or integral multiples thereof. Interest on the 2004 Bonds will be payable on each June 1 and December 1, commencing on December 1, 2004. Interest and principal on the 2004 Bonds are payable by the Trustee to DTC which will be responsible for remitting such principal and interest to the Participants which will in turn be responsible for remitting such principal and interest to the beneficial owners of the 2004 Bonds. No physical distribution of the 2004 Bonds will be made to the public initially. See "THE 2004 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, for each Bond Year, the taxes (including all payments, reimbursements and subventions, if any, specifically attributable to *ad valorem* taxes lost by reason of tax exemptions and tax rate limitations) eligible for allocation to the Agency pursuant to the Law in connection with the Project Area (excluding (a) amounts, if any, received by the Agency pursuant to section 16111 of the Government Code; (b) amounts payable to affected taxing agencies pursuant to the Pass-through Agreements (except and to the extent such amounts so payable are payable on a basis subordinate to the payment of the Bonds); and (c) amounts (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 Project Area) deposited by the Agency in the Housing Fund pursuant to section 33334.2 of the Law, as provided in the Redevelopment Plan.

The Tax Revenues are not subject to the pledge and lien of any indebtedness of the Agency other than the 1995 Bonds, the 2004 Bonds and any Parity Debt issued in accordance with the Indenture, and certain other obligations which have been made or are by their terms subordinate to the payment of the 1995 Bonds and the 2004 Bonds. See "LIMITATION ON 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 2004 BONDS" herein.

### **Parity Debt**

The Indenture provides that in addition to the 1995 Bonds and the 2004 Bonds, the Agency may, by the execution of a Supplemental Indenture, provide for the issuance of one or more series of Parity Debt secured by a lien on Tax Revenues on a parity with the 2004 Bonds to finance redevelopment activities in the Project Area 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."

### **Bond Owners' Risks**

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 Agreement to be executed on the date of delivery of the 2004 Bonds, for the benefit of owners and beneficial owners of the 2004 Bonds, to provide certain financial information and operating data related to the Agency by not later than six 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 Agreement), 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. A copy of the Continuing Disclosure Agreement is set forth in APPENDIX F—"FORM OF CONTINUING DISCLOSURE AGREEMENT." The covenants of the Agency in the Continuing Disclosure Agreement 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 Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel, under existing law, the interest on the 2004 Bonds is exempt from personal income

taxes of the State of California and, assuming compliance with the tax covenants described herein, interest on the 2004 Bonds is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 from the gross income of the owners thereof for federal income tax purposes and is not an item of preference for purposes of the federal alternative minimum tax. See "TAX MATTERS" herein.

### **Professionals Involved in the Offering**

The proceedings of the Agency in connection with the issuance of the 2004 Bonds are subject to the approval as to their legality of Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel for the 2004 Bonds. Quint & Thimmig LLP is serving as Disclosure Counsel to the Agency for the 2004 Bonds. Certain legal matters will be passed upon for the Agency by the Town Counsel, as counsel to the Agency. BNY Western Trust Company, Los Angeles, California, will act as the Trustee under the Indenture. CSG Advisors Incorporated, San Francisco, California, will act as financial advisor to the Agency in connection with the issuance of the 2004 Bonds. HdL Coren & Cone, Diamond Bar, California, will act as fiscal consultant to the Agency (the "Fiscal Consultant") in connection with the issuance of the 2004 Bonds. The fees of Fulbright & Jaworski L.L.P., Quint & Thimmig LLP, CSG Advisors Incorporated and BNY Western Trust Company are contingent upon the sale and delivery of the 2004 Bonds.

### **Other Information**

This Official Statement speaks only as of its date and the information contained herein is subject to change without notice. Copies of documents referred to herein are available from the Agency upon written request to the Yucca Valley Redevelopment Agency, 57090 Twentynine Palms Highway, Yucca Valley, CA 92284, Attention: Director of Management Services. 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 2004 Bonds.

### Sources of Funds

Par Amount of 2004 Bonds	\$2,665,000.00
Less: Original Issue Discount	(52,344.45)
Less: Underwriter's Discount	<u>(26,650.00)</u>
Total Sources	<u>\$2,586,005.55</u>

### Uses of Funds

Deposit to Redevelopment Fund	\$1,796,014.22
Deposit to Housing Fund	449,003.55
Deposit to Reserve Account (1)	210,987.78
Deposit to Expense Fund (2)	<u>130,000.00</u>
Total Uses	<u>\$2,586,005.55</u>

- (1) See "SECURITY FOR THE BONDS—Reserve Account" herein. The amount derived from 2004 Bond proceeds will be the amount required to increase the total amount on deposit in the Reserve Account to the Reserve Account Requirement.
- (2) Includes fees and expenses of Bond Counsel, Disclosure Counsel, Financial Advisor, the Fiscal Consultant, printing, Trustee fees and other costs of issuance.

## DEBT SERVICE SCHEDULE

The following table sets forth the scheduled annual debt service for the 2004 Bonds.

Bond Year Ending (June 1)	Principal*	Interest	Total Debt Service
2005	\$ 65,000	\$146,367.29	\$211,367.29
2006	70,000	145,475.00	215,475.00
2007	65,000	143,550.00	208,550.00
2008	40,000	141,437.50	181,437.50
2009	40,000	139,987.50	179,987.50
2010	20,000	138,387.50	158,387.50
2011	20,000	137,387.50	157,387.50
2012	20,000	136,387.50	156,387.50
2013	15,000	135,387.50	150,387.50
2014	25,000	134,637.50	159,637.50
2015	25,000	133,387.50	158,387.50
2016	25,000	132,043.76	157,043.76
2017	25,000	130,700.00	155,700.00
2018	30,000	129,356.24	159,356.24
2019	25,000	127,743.76	152,743.76
2020	30,000	126,400.00	156,400.00
2021	30,000	124,675.00	154,675.00
2022	30,000	122,950.00	152,950.00
2023	25,000	121,225.00	146,225.00
2024	25,000	119,787.50	144,787.50
2025	25,000	118,350.00	143,350.00
2026	175,000	116,912.50	291,912.50
2027	185,000	106,631.24	291,631.24
2028	195,000	95,762.50	290,762.50
2029	205,000	84,306.26	289,306.26
2030	220,000	72,262.50	292,262.50
2031	230,000	59,337.50	289,337.50
2032	245,000	45,825.00	290,825.00
2033	260,000	31,431.26	291,431.26
2034	275,000	16,156.24	291,156.24

\* Including mandatory sinking account payments.

## THE 2004 BONDS

### General Provisions

The 2004 Bonds will be issued and sold in the initial aggregate principal amount of \$2,665,000. The 2004 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 2004 Bonds will be payable semiannually on June 1 and December 1 of each year, commencing December 1, 2004 (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 2004 Bonds will be payable on June 1 in each of the years and in the amounts shown on the cover page hereof.

The 2004 Bonds will be dated as of their date of delivery. Each 2004 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 2004 Bond interest with respect to such 2004 Bond is in default, such 2004 Bond will bear interest from the Interest Payment Date to which interest has been paid or made available for payment with respect to such 2004 Bond.

Interest with respect to any 2004 Bond 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, such interest to be paid by check of the Trustee, mailed by first class mail no later than the Interest Payment Date to the Owner at his address as it appears, 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 2004 Bonds filed with the Trustee prior to any Record Date, interest on such 2004 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 2004 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 2004 Bonds not less than ten days prior thereto. The principal of and premium, if any, on the 2004 Bonds are payable when due upon surrender thereof at the principal corporate trust office of the Trustee in Los Angeles, California, in lawful money of the United States of America.

## Redemption

*Optional Redemption of 2004 Bonds.* The 2004 Bonds maturing on or before June 1, 2014, are not subject to optional redemption prior to maturity. The 2004 Bonds maturing on or after June 1, 2015, are subject to redemption as a whole or in part by lot prior to their maturity at the option of the Agency on any date on or after June 1, 2014, from funds derived by the Agency from any source (notice of such redemption having been given by the Agency to the Trustee no later than sixty (60) days prior to the date of redemption), at a redemption price equal to the principal amount of 2004 Bonds called for redemption, together with interest accrued thereon to the date fixed for redemption, without premium.

*Sinking Account Redemption of 2004 Bonds.* The 2004 Bonds maturing on June 1, 2014, are also subject to redemption prior to their stated maturity, in part by lot, from Sinking Account Installments deposited in the Sinking Account, on each June 1 on or after June 1, 2010, at the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium, according to the following schedule:

Sinking Account Redemption Date (June 1)	Principal Amount To Be Redeemed or Purchased	Sinking Account Redemption Date (June 1)	Principal Amount To Be Redeemed or Purchased
2010	\$20,000	2013	\$15,000
2011	20,000	2014†	25,000
2012	20,000		

† Maturity.

The 2004 Bonds maturing on June 1, 2019, are also subject to redemption prior to their stated maturity, in part by lot, from Sinking Account Installments deposited in the

Sinking Account, on each June 1 on or after June 1, 2015, at the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium, according to the following schedule:

Sinking Account Redemption Date <u>(June 1)</u>	Principal Amount To Be Redeemed or Purchased	Sinking Account Redemption Date <u>(June 1)</u>	Principal Amount To Be Redeemed or Purchased
2015	\$25,000	2018	\$30,000
2016	25,000	2019†	25,000
2017	25,000		

† Maturity.

The 2004 Bonds maturing on June 1, 2025, are also subject to redemption prior to their stated maturity, in part by lot, from Sinking Account Installments deposited in the Sinking Account, on each June 1 on or after June 1, 2020, at the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium, according to the following schedule:

Sinking Account Redemption Date <u>(June 1)</u>	Principal Amount To Be Redeemed or Purchased	Sinking Account Redemption Date <u>(June 1)</u>	Principal Amount To Be Redeemed or Purchased
2020	\$30,000	2023	\$25,000
2021	30,000	2024	25,000
2022	30,000	2025†	25,000

† Maturity.

The 2004 Bonds maturing on June 1, 2034, are also subject to redemption prior to their stated maturity, in part by lot, from Sinking Account Installments deposited in the Sinking Account, on each June 1 on or after June 1, 2026, at the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium, according to the following schedule:

Sinking Account Redemption Date <u>(June 1)</u>	Principal Amount To Be Redeemed or Purchased	Sinking Account Redemption Date <u>(June 1)</u>	Principal Amount To Be Redeemed or Purchased
2026	\$175,000	2031	\$230,000
2027	185,000	2032	245,000
2028	195,000	2033	260,000
2029	205,000	2034†	275,000
2030	220,000		

† Maturity.

*Selection of Bonds for Redemption.* Whenever less than all the Outstanding Bonds maturing on any one date are called for redemption at any one time, the Trustee shall select the Bonds to be redeemed, from the Outstanding Bonds maturing on such date not previously selected for redemption, by lot in any manner which the Trustee deems fair, provided, however, that if less than all the Outstanding Term Bonds of any maturity are called for redemption at any one time, upon the written direction from the Agency, the Trustee shall specify a reduction in any Sinking Account Installment payments required to be made with respect to such Bonds (in an amount equal to the amount of Outstanding Term Bonds to be redeemed) which, to the extent practicable, results in approximately equal Annual Debt Service on all Bonds Outstanding following such redemption.

*Purchase in Lieu of Redemption.* In lieu of redemption of any Term Bond, amounts on deposit in the Special Fund or in the Sinking Account therein may also be used and withdrawn by the Trustee at any time, upon the Written Request of the Agency, for the purchase of such Term Bonds at public or private sale as and where and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as the Agency may in its discretion determine, but not in excess of the principal amount thereof plus accrued interest to the purchase date; provided, however, that no Bonds shall be purchased by the Trustee with a settlement date more than 90 days prior to the redemption date. The principal amount of any Term Bonds so purchased by the Trustee in any twelve-month period ending 60 days prior to any Principal Payment Date in any year shall be credited towards and shall reduce the principal amount of such Term Bonds required to be redeemed on such Principal Payment Date in such year.

*Notice of Redemption.* Notice of redemption shall be mailed by first class mail by the Trustee, on behalf and at the expense of the Agency, not less than 30 nor more than 60 days prior to the redemption date to (i) the respective Owners of Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee, (ii) one or more Information Services designated in writing to the Trustee by the Agency and (iii) the Securities Depositories. Each notice of redemption shall state the date of such notice, the Bonds to be redeemed, the date of issue of such Bonds, the redemption date, the redemption price, the place or places of redemption (including the name and appropriate address or addresses), the CUSIP number (if any) of the maturity or maturities, and, if less than all of any such maturity are to be redeemed, the distinctive certificate numbers of the Bonds of such maturity to be redeemed and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of such Bonds the redemption price thereof or of said specified portion of the principal amount thereof in the case of a Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered at the address or addresses of the Trustee specified in the redemption notice.

Failure by the Trustee to give notice to any one or more of the Information services or Securities Depositories, or the insufficiency of any such notice, shall not affect the sufficiency of the proceedings for redemption. The failure of any Owner to receive any redemption notice mailed to such Owner and any defect in the notice so mailed shall not affect the sufficiency of the proceedings for redemption.

*Rescission of Notice.* Other than with respect to the 1995 Bonds, the Agency has the right to rescind any optional redemption or mandatory redemption by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of redemption shall be cancelled or annulled if for any reasons funds are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation shall not constitute an Event of Default under the Indenture. The Trustee shall mail notice of rescission of redemption in the same manner notice of redemption was originally provided.

*Partial Redemption.* Upon surrender of any Bond redeemed in part only, the Agency shall execute (manually or by facsimile) and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the Agency, a new Bond or Bonds of authorized denominations equal in aggregate principal amount to the unredeemed portion of the Bond surrendered and of the same series, interest rate and the same maturity.

*Effect of Redemption.* From and after the date fixed for redemption, if notice of such redemption shall have been duly given and funds available for the payment of such redemption price of the Bonds so called for redemption shall have been duly provided, no interest shall accrue on such Bonds from and after the redemption date specified in such notice. All Bonds redeemed shall be canceled by the Trustee and the Trustee shall upon Written Request of the Agency deliver a certificate of destruction to the Agency.

### **Book-Entry System**

The 2004 Bonds will be subject to a book-entry system of registration, transfer and payment and each 2004 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 2004 Bonds, and registered ownership may not thereafter be transferred except as provided in the Indenture. The 2004 Bonds are being delivered in book-entry form only. Purchasers will not receive securities certificates representing their interests in the 2004 Bonds. Rather, in accordance with the book-entry system, purchasers of the 2004 Bonds will have beneficial ownership interest in the purchased 2004 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 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 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) 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 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 (the "Tax Increment Revenues") 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.* The Law requires generally that, unless a specified finding is made, redevelopment agencies set aside 20% of all Tax Increment Revenues derived from redevelopment project areas into a low and moderate income housing fund (the "Low and Moderate Income Housing Fund"), to be used for the purpose of increasing, improving and or preserving the supply of low and moderate income housing. Section 33334.2 of the Law dictates the low and moderate income housing set-aside requirement for each project area. 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.

### **Pledge of Tax Revenues**

Pursuant to the Indenture, all the Tax Revenues and all money in the Special Fund and in the funds or accounts so specified and provided for in the Indenture, whether held by the Agency or the Trustee (except the Rebate Fund), are irrevocably pledged to the punctual payment of the interest on and principal of and redemption premiums, if any, on the Bonds, and the Tax Revenues and such other money shall not be used for any other purpose while any of the Bonds remain Outstanding, subject to the provisions of the Indenture permitting application thereof for the purposes and on the terms and conditions set forth herein. This pledge shall constitute a first lien on the Tax Revenues and such other money for the payment of the Bonds in accordance with the terms thereof.

The Indenture defines the term "Tax Revenues" to mean, for each Bond Year, the taxes (including all payments, reimbursements and subventions, if any, specifically attributable to *ad valorem* taxes lost by reason of tax exemptions and tax rate limitations) eligible for allocation to the Agency pursuant to the Law in connection with the Project Area (excluding (a) amounts, if any, received by the Agency pursuant to section 16111 of the Government Code; (b) amounts payable to affected taxing agencies pursuant to the Pass-through Agreements (except and to the extent such amounts so payable are payable on a basis subordinate to the payment of the Bonds); and (c) amounts (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 Project Area) deposited by the Agency in the Housing Fund pursuant to section 33334.2 of the Law), as provided in the Redevelopment Plan.

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 therein set forth 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.

### **Limited Obligations**

THE PRINCIPAL OF AND INTEREST AND PREMIUM, IF ANY, ON THE BONDS ARE PAYABLE SOLELY FROM TAX REVENUES AND FROM AMOUNTS IN CERTAIN FUNDS AND ACCOUNTS PLEDGED THEREFORE UNDER AND PURSUANT TO THE INDENTURE. THE BONDS ARE NOT A DEBT OF THE AUTHORITY, THE TOWN, OR THE STATE OR ANY POLITICAL SUBDIVISION THEREOF (OTHER THAN THE AGENCY TO THE LIMITED EXTENT SET FORTH IN THE INDENTURE), AND NEITHER THE AUTHORITY, THE TOWN NOR THE STATE OR ANY POLITICAL SUBDIVISIONS THEREOF (OTHER THAN THE AGENCY), IS LIABLE THEREFOR. THE BONDS DO NOT CONSTITUTE AN INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION. NEITHER THE MEMBERS OF THE AGENCY NOR ANY PERSON RESPONSIBLE FOR THE EXECUTION OF THE BONDS IS LIABLE PERSONALLY FOR THE BONDS BY REASON OF THE ISSUANCE THEREOF.

### **Application of Tax Revenues**

On or before fifteen (15) days preceding each Interest Payment Date, the Agency shall transfer all Tax Revenues held or received by the Agency to the Trustee for deposit in the Special Fund; provided, that the Agency shall not be obligated to deposit in the Special Fund in any Bond Year an amount of Tax Revenues which, together with other available amounts then in the Special Fund, exceeds the amounts required to be transferred to the Trustee for deposit in the Interest Account, the Principal Account, the Sinking Account and the Reserve Account in such Bond Year. Any Tax Revenues received during such Bond Year following deposit in the Special Fund of an amount equal to the aggregate amount required to be transferred to the Interest Account, the Principal Account, the Sinking Account and the Reserve Account in such Bond Year shall be released from the pledge and lien hereunder and may be used for any lawful purposes of the Agency. There shall not be deposited with the Trustee any taxes eligible for allocation to the Agency for deposit in the Special Fund pursuant to the Law in an amount in excess of that amount which, together with all money then on deposit with the Trustee in the Special Fund and the accounts therein, shall be sufficient to discharge all Outstanding Bonds.

All Tax Revenues deposited by the Agency with the Trustee in the Special Fund will be accounted for through and held in trust in the Special Fund, and the Agency shall have no beneficial right or interest in any of such money, except only as in the Indenture provided. All such Tax Revenues shall nevertheless be disbursed, allocated and applied solely to the uses and purposes herein set forth, and shall be accounted for separately and apart from all other money, funds, accounts or other resources of the Agency.

### **Establishment and Maintenance of Accounts for Use of Moneys in the Special Fund**

All Tax Revenues shall be deposited into the Accounts of the Special Fund as provided in the Indenture. Without limiting the generality of the foregoing and for the purpose of assuring that the payments referred to above will be made as scheduled, the Tax Revenues accumulated in the Special Fund shall be used in the following priority; provided, however, that to the extent that deposits have been made in any of the Accounts referred to below from the proceeds of the sale of the Bonds or otherwise, the deposits below need not be made:

*Bond Interest Payment Account* ("Interest Account"). Deposits shall be made into the Interest Account so that the balance in such Account 30 days prior to the date of the payment of any installment of interest on the Bonds shall be equal to six months interest on the then Outstanding Bonds. Moneys in the Interest Account shall be used for the payment of interest on the Bonds as the same become due, and after such payment the Account shall be restored by further deposits to the required balance.

*Serial Bond Payment Account* ("Principal Account"). After the deposits have been as described above, deposits shall next be made into the Principal Account so that the balance in such Account 30 days prior to the date of payment of principal is due shall equal the next principal payment, or payments, as the case may be, on the then Outstanding Serial Bonds. Moneys in the Principal Account shall be used for the payment of the principal of such Serial Bonds, as the same become due, and, after such payment, the Account shall be restored by further deposits to the required balance.

*Term Bond Sinking Fund Account* ("Sinking Account"). Commencing, on a date 13 months prior to the first Sinking Account Payment Date, after the deposits have been made as described above, if the Tax Revenues are sufficient therefor, deposits shall next be made into the Sinking Account so that the balance in such Account 30 days prior to the date the money in such Account is scheduled to be used shall equal the then current Sinking Account Installment on the Outstanding Term Bonds. Moneys in the Sinking Account shall be used and applied by the Trustee to pay the principal amount of Outstanding Term Bonds.

*Reserve Account.* After the deposits have been made pursuant to the subparagraphs above, if the Tax Revenues are sufficient therefor, deposits shall next be made into the Reserve Account so that the balance in such Account shall equal the Reserve Account Requirement, and the balance in such Account shall be so maintained to equal the Reserve Account Requirement. Moneys in the Reserve Account shall be used solely for the purpose of paying the interest on and principal of the Bonds in the event that the moneys in the Interest Account or Principal Account or Sinking Account are insufficient therefor and for that purpose the Trustee shall withdraw and transfer moneys from the Reserve Account to the appropriate Account. Moneys in the Reserve Account may be used to pay the interest on and principal of the last outstanding maturity of the Bonds.

### **Reserve Account**

Pursuant to the Indenture, the Reserve Account has been established and is held by the Trustee in trust for the benefit of the registered owners of the Bonds. The amount on deposit in the Reserve Account is required to be maintained at an amount equal to the Reserve Requirement. The term "Reserve Requirement" means, as of any calculation date, an amount equal to the least of (i) ten percent (10%) of the proceeds (within the meaning of section 148 of the Code) of that portion of such Series of Bonds Outstanding with respect to which Annual Debt Service is calculated, (ii) 125 % of Average Annual Debt Service of such Series or (iii) Maximum Annual Debt Service of such Series. The Reserve Requirement as of the Closing Date is \$358,202.50.

### **Issuance of Parity Debt**

Pursuant to the Indenture, in addition to the 2004 Bonds, the Agency may, by Supplemental Indenture, issue Additional Bonds payable from Tax Revenues on a parity with the Bonds to finance the Redevelopment Project in such principal amount as will be determined by the Agency. The Agency may issue and deliver any such Additional Bonds

subject to the following specific conditions, all of which are conditions precedent to the issuance and delivery of such Additional Bonds:

(a) The Agency shall be in compliance with all covenants set forth in the Indenture and any Supplemental Indentures, and a Certificate of the Agency to that effect shall have been filed with the Trustee.

(b) The issuance of such Additional Bonds shall have been duly authorized pursuant to the Law and all applicable laws, and the issuance of such Additional Bonds shall have been provided for by a Supplemental Indenture duly adopted by the Agency which shall specify the following:

(1) The purpose for which such Additional Bonds are to be issued and the fund or funds into which the proceeds thereof are to be deposited, including a provision requiring the proceeds of such Additional Bonds to be applied solely for (i) the purpose of aiding in financing the Project, including payment of all costs incidental to or connected with such financing, and/or (ii) the purpose of refunding any Bonds or other indebtedness related to the Project, including payment of all costs incidental to or connected with such refunding;

(2) The authorized principal amount of such Additional Bonds;

(3) The date and the maturity date or dates of such Additional Bonds; provided that (i) Principal and Sinking Account Payment Dates may occur only on Interest Payment Dates, (ii) all such Additional Bonds of like maturity shall be identical in all respects, except as to number, and (iii) fixed serial maturities or mandatory Sinking Account Installments, or any combination thereof, shall be established to provide for the retirement of all such Additional Bonds on or before their respective maturity dates:

(4) The Interest Payment Dates, which shall be on the same semiannual dates as the Interest Payment Dates for the 1995 Bonds and the 2004 Bonds, provided, that such Additional Bonds may provide for compounding of interest in lieu of payment of interest on such dates;

(5) The denomination and method of numbering of such Additional Bonds;

(6) The redemption premiums, if any, and the redemption terms, if any, of such Additional Bonds;

(7) The amount and due date of each mandatory Sinking Account Installment, if any, for such Additional Bonds;

(8) The amount, if any, to be deposited from the proceeds of such Additional Bonds in the Interest Account;

(9) The amount, if any, to be deposited from the proceeds of such Additional Bonds into the Reserve Account; provided that the amount on deposit in the Reserve Account shall be increased at or prior to the time such Additional Bonds become Outstanding to an amount at least equal to the Reserve Account Requirement on all then Outstanding Bonds and such Additional Bonds, which amount shall be maintained in the Reserve Account;

(10) The form of such Additional Bonds; and

(11) Such other provisions as are necessary or appropriate and not inconsistent with the Indenture.

(c) The Tax Revenues based upon the assessed valuation of taxable property in the Project Area as shown on the most recently equalized assessment roll preceding the date of the Agency's adoption of the Supplemental Indenture providing for the issuance of such Additional Bonds plus the Additional Allowance shall be in an amount equal to at least one hundred twenty-five percent (125%) of the Maximum Annual Debt Service on all then Outstanding Bonds and such Additional Bonds and any unsubordinated loans, advances or indebtedness payable from Tax Revenues pursuant to the Law, as evidenced by a Consultant's Report. So long as the Series 1995 Bonds are Outstanding, the portion of any series of Additional Bonds used to finance the supply of low and moderate income housing within or of benefit to the Project Area shall not exceed 20%.

For purposes of calculating Tax Revenues, a tax rate of \$1.00 per \$100 of assessed valuation shall be assumed.

For the purposes of the issuance of Additional Bonds, Outstanding Bonds shall not include any Bonds the proceeds of which are deposited in an escrow fund held by the Trustee or an escrow agent, provided that the Supplemental Indenture authorizing issuance of such Additional Bonds shall provide that: (i) such proceeds shall be invested in Authorized Investments at a rate of interest which, together with amounts made available by the Agency from bond proceeds or otherwise, is at least sufficient to pay Annual Debt Service on the foregoing Bonds; (ii) moneys may be transferred from said escrow fund only if Tax Revenues for the then current Fiscal Year plus the Additional Allowance shall be at least equal to 1.25 times Maximum Annual Debt Service on all Outstanding Bonds (exclusive of disqualified Bonds described in the Indenture) less a principal amount of Bonds which is equal to moneys on deposit in said escrow fund after each such transfer; and (iii) Additional Bonds shall be redeemed from moneys remaining on deposit in said escrow fund at the expiration of a specified escrow period in such manner as may be determined by the Agency.

In the event such Additional Bonds are to be issued solely for the purpose of refunding and retiring any Outstanding Bonds, interest and principal payments on the Outstanding Bonds to be so refunded and retired from the proceeds of such Additional Bonds being issued shall be excluded from the foregoing computation of Maximum Annual Debt Service. Nothing contained in the Indenture shall limit the issuance of any tax allocation bonds of the Agency payable from the Tax Revenues and secured by a lien and charge on the Tax Revenues if, after the issuance and delivery of such tax allocation bonds, none of the Bonds theretofore issued hereunder will be Outstanding nor shall anything contained in the Indenture prohibit the issuance of any tax allocation bonds or other indebtedness by the Agency secured by a pledge of tax increment revenues (including Tax Revenues) subordinate to the pledge of Tax Revenues securing the Bonds.

#### **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.

## 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 C—"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 C—"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. The five members of the Town Council serve as 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:

<u>MEMBER</u>	<u>TERM EXPIRES</u>
Robert J. Leone, <i>Chair</i>	December, 2004
Chad J. Mayes, <i>Vice Chair</i>	December, 2006
Susan B. Earnest, <i>Board Member</i>	December, 2004
Paul J. Cook, <i>Board Member</i>	December, 2006
William L. Neeb, <i>Board Member</i>	December, 2006

### Agency Administration

The Agency is administered by certain staff of the Town:

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

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

The Agency has an arrangement with the Town for financial assistance and services, facilities and personnel support. As moneys become available, the Agency reimburses the Town for all such services performed in amounts equal to a portion of the gross salary and employee fringe benefits for certain Town employees utilized by the Agency plus other miscellaneous operating and equipment costs and capital expenditures. All such payments are subordinate to the payment of debt service on the Bonds.

### **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.

The following table sets forth the combined scheduled annual debt service for the 1995 Bonds and the 2004 Bonds.

Bond Year Ending (June 1)	1995 Bonds Debt Service	2004 Bonds Debt Service	Total Debt Service
2005	\$144,932.50	\$211,367.29	\$356,299.79
2006	142,727.50	215,475.00	358,202.50
2007	145,487.50	208,550.00	354,037.50
2008	142,587.50	181,437.50	324,025.00
2009	144,687.50	179,987.50	324,675.00
2010	141,425.00	158,387.50	299,812.50
2011	143,162.50	157,387.50	300,550.00
2012	144,537.50	156,387.50	300,925.00
2013	145,550.00	150,387.50	295,937.50
2014	141,200.00	159,637.50	300,837.50
2015	141,850.00	158,387.50	300,237.50
2016	142,137.50	157,043.76	299,181.26
2017	142,062.50	155,700.00	297,762.50
2018	141,625.00	159,356.24	300,981.24
2019	145,825.00	152,743.76	298,568.76
2020	144,300.00	156,400.00	300,700.00
2021	142,412.50	154,675.00	297,087.50
2022	145,162.50	152,950.00	298,112.50
2023	142,187.50	146,225.00	288,412.50
2024	143,850.00	144,787.50	288,637.50
2025	144,787.50	143,350.00	288,137.50
2026	—	291,912.50	291,912.50
2027	—	291,631.24	291,631.24
2028	—	290,762.50	290,762.50
2029	—	289,306.26	289,306.26
2030	—	292,262.50	292,262.50
2031	—	289,337.50	289,337.50
2032	—	290,825.00	290,825.00
2033	—	291,431.26	291,431.26
2034	—	291,156.24	291,156.24

Source: 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, 2003, included in Appendix A attached hereto, have been prepared by Conrad and Associates LLP, Irvine, California. The firm's audit was made in accordance with generally accepted auditing standards. See APPENDIX A—"AUDITED FINANCIAL STATEMENTS OF THE AGENCY FOR THE FISCAL YEAR ENDED JUNE 30, 2003."

## THE PROJECT AREA

*The following is a summary description of the Project Area. Included within this description are sections discussing the present and current conditions of the Project Area and the future development within the Project Area. 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 Project area (the "Project Area") pursuant to Ordinance No. 37 enacted on August 5, 1993.

### 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 Project Area amendment pursuant to this statute.

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 Project Area are summarized below.

**Table 1  
Redevelopment Plan Limitations**

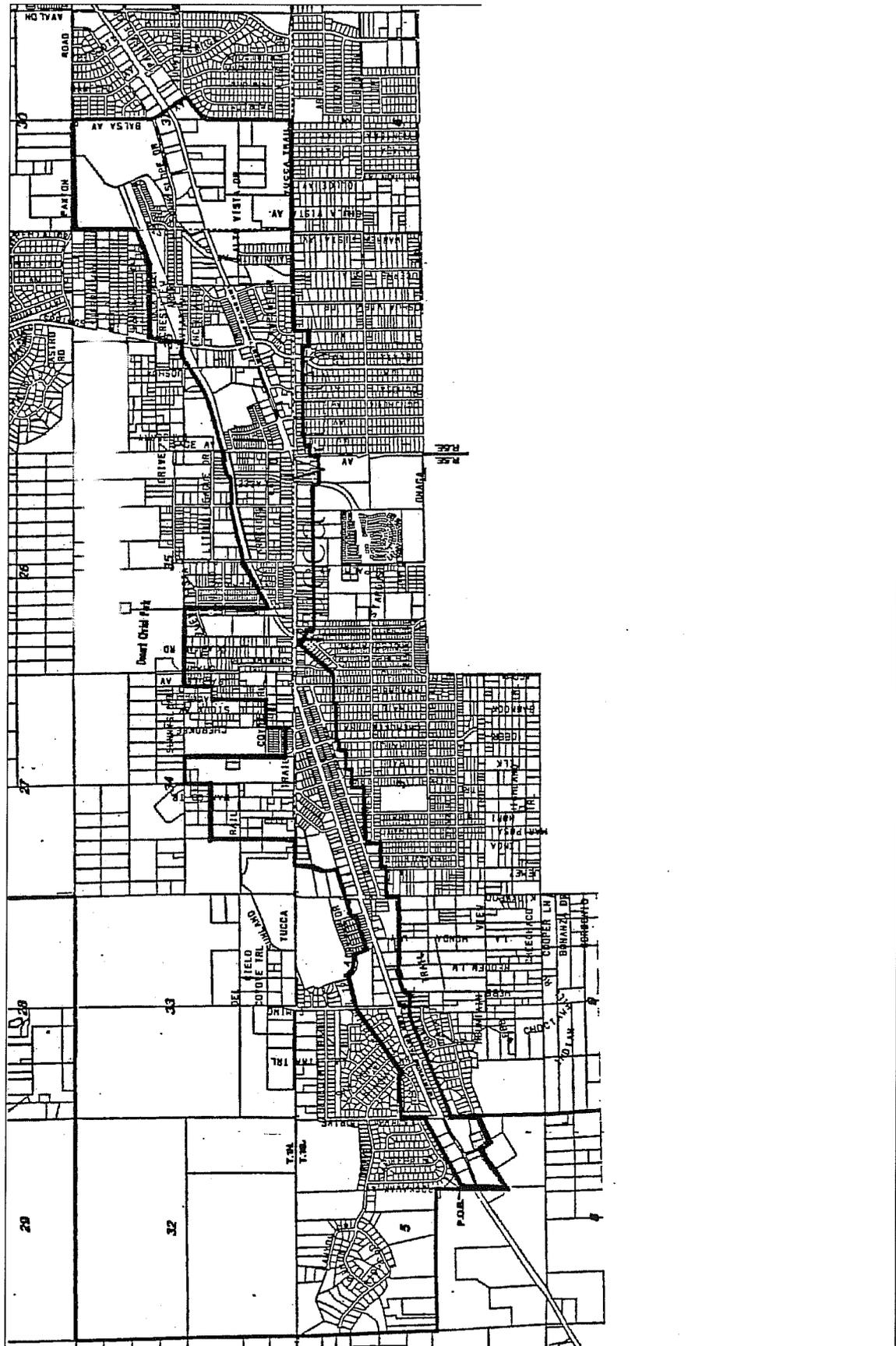
Plan Life:	August 5, 2033
Last Date to Establish Debt:	August 5, 2013
Last Date to Repay Debt:	August 5, 2043
Cumulative Tax Increment Limit (1):	\$408,961,380
Bonded Indebtedness Limit (1)	\$40,896,138

(1) Tax increment and outstanding bond debt limits are as adjusted for Consumer Price Index for 2003-04.

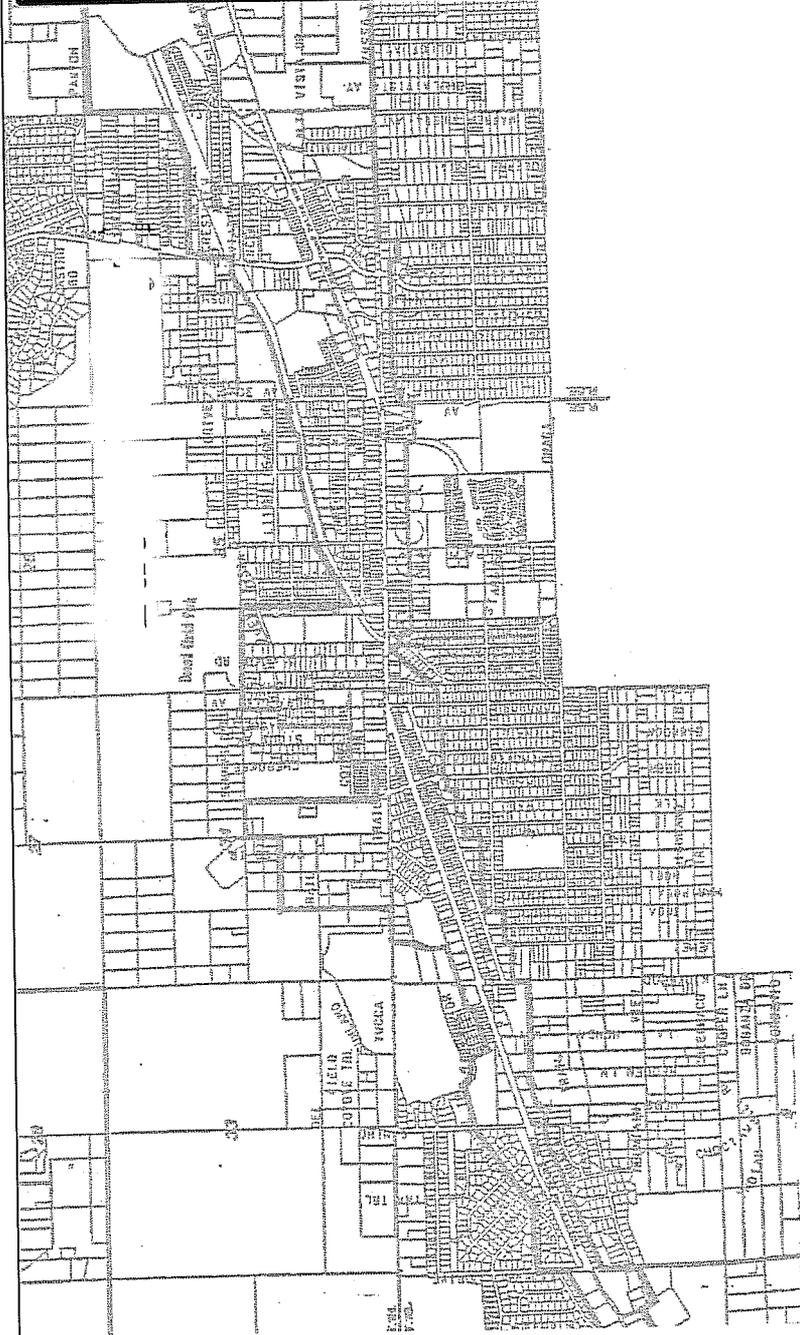
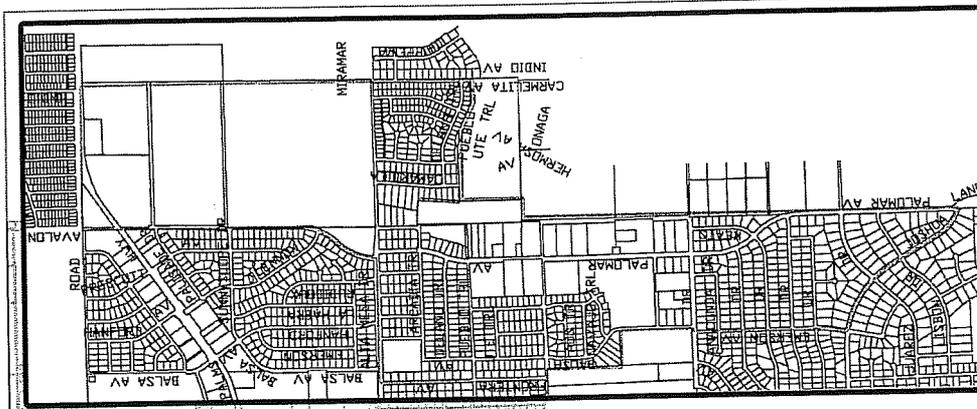
The California legislature recently enacted SB 1045, Chapter 260, Statutes of 2003 ("SB 1045"), as an urgency statute, relating to a requirement that all redevelopment agencies allocate specified amounts of tax increment to the County Controller for deposit into the Education Revenue Augmentation Fund ("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 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.

A map of the Town, a map of the East End Residential sub-area of the Project Area and a map of the Downtown sub-area of the Project Area are shown on the following pages:

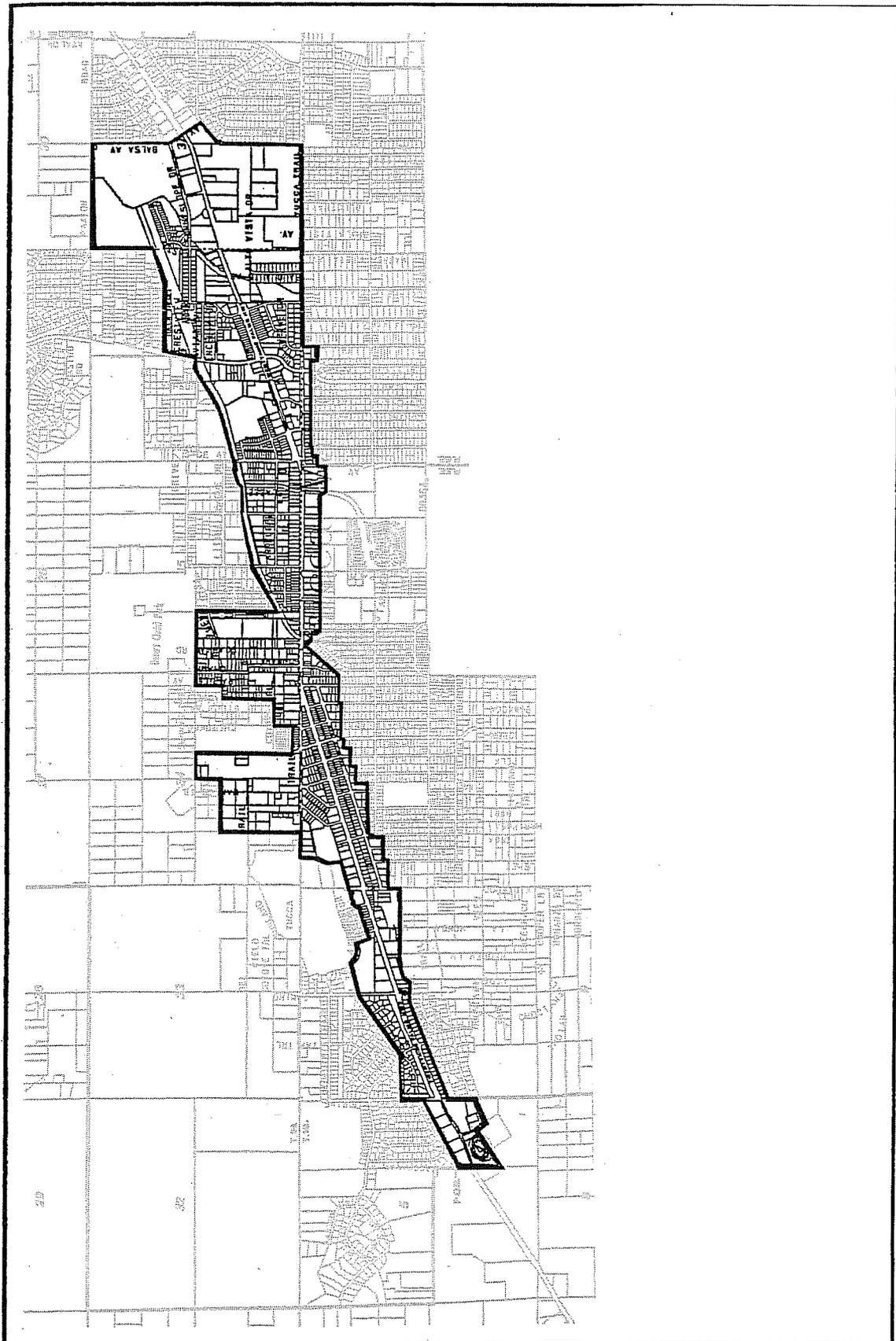
# MAP OF TOWN OF YUCCA VALLEY



# MAP OF EAST SIDE RESIDENTIAL SUB-AREA



# MAP OF DOWNTOWN COMMERCIAL SUB-AREA



## Description of the Project Area

The Project Area consists of approximately 2,358 acres or approximately 10% of the total area of the Town. The Project Area includes the central business district of the Town and a residential area in the eastern portion of the Town. The Project Area is zoned for mixed land uses with commercial, industrial, residential and public facility uses. The Project Area consists of two sub-areas, 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 in size. 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.

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 Area that will provide the Basin with retail shopping opportunities as well as encourage project investment and merchants to locate within the Project Area.
- 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 Project Area. 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 Project Area 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.

New development that is currently under construction or recently completed within the Project Area has been projected to result in \$11.672 million in new valuation for 2004-05. It is further projected to add \$522,000 in new assessed value in 2005-06. These new developments are commercial and residential projects or property transfers described below and are more precisely shown on Table 4 of the projection of incremental value and tax increment revenue prepared by the Fiscal Consultant. See APPENDIX B—"FISCAL CONSULTANT'S REPORT."

The new developments projected to add value to the Project Area include a new Big 5 Sporting Goods store that is 10,027 square feet in size. This store is projected as adding \$385,567 in new value to the Project Area for 2004-05. On Murray Lane, five duplexes are being constructed. These duplexes are expected to add about \$320,000 to the tax rolls for 2004-05 and \$213,000 to the 2005-06 tax rolls. An office building totaling 5,606 square feet is being constructed on Joshua Lane and it is projected as adding \$298,721 in new value to the 2005-06 tax roll. From January 1, 2003 through December 31, 2003 there were 213 transfers of ownership with confirmed purchase prices. These transfers of ownership will add \$10.967 million in new value to the 2005-06 tax roll. The projected additional values discussed above have been incorporated into the projection of incremental value and tax increment revenue prepared by the Fiscal Consultant. See APPENDIX B—"FISCAL CONSULTANT'S REPORT."

A Starbucks Coffee shop was recently completed within the Project Area. This shop is expected to add \$171,290 in new personal property value to the tax rolls for 2004-05.

In addition to the developments above, the Town is presently processing the building permits for a new automobile dealership. Phelps Chevrolet-Nissan has been issued permits for grading and is, according to the Town, very near to receiving permits to begin construction of a 24,000 square foot facility. The Agency estimates that this dealership will add \$1.147 million of assessed value to the tax rolls.

## Assessed Valuation

The Base Year assessed valuation was established in fiscal year 1995-96 in the amount of \$214,157,116. A breakdown of the fiscal year 2003-04 assessed valuation in the Project Area by category of use is as follows:

**Table 2**  
**Breakdown of Assessed Valuation by Category of Use**

<u>Category</u>	<u>No. Parcels</u>	<u>Taxable Value</u>	<u>% of Total</u>
Residential	1,082	\$103,515,801	38.19%
Commercial	315	110,543,862	40.79
Industrial	27	2,971,441	1.10
Dry Farm	2	223,664	0.08
Recreational	4	1,825,673	0.67
Institutional	11	824,771	0.30
Miscellaneous	6	496,421	0.18
Vacant Land	805	24,520,161	9.05
Exempt	68	0	0.00
Unknown	<u>8</u>	<u>924,761</u>	<u>0.34</u>
Subtotal	2,328	245,846,555	90.71
Unsecured	—	<u>25,183,754</u>	<u>9.29</u>
Total	<u>2,328</u>	<u>\$271,030,309</u>	<u>100.00</u>

Source: San Bernardino County Assessor 2003-04 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 805 vacant, privately owned parcels within the Project Area total 1,027 acres. This vacant land is 43.56% of all acreage within the Project Area. See APPENDIX B—"FISCAL CONSULTANT'S REPORT."

The following table shows the actual assessed values for fiscal years 2000 to 2004 based upon the County Auditor/Controller's equalized rolls and incremental values of property within the Project Area based on an exclusion of assessed values from the unsecured roll.

**Table 3**  
**Historical Taxable Values and Tax Increment Revenues**  
**Fiscal Years Ended June 30,**

	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04 (1)</u>
Assessed Values					
Secured	\$215,984,265	\$221,739,440	\$226,145,031	\$235,645,156	\$245,846,555
Unsecured	29,503,443	27,275,790	21,705,271	24,000,035	25,183,754
Total Assessed Values	<u>245,487,708</u>	<u>249,015,230</u>	<u>247,850,302</u>	<u>259,645,191</u>	<u>271,030,309</u>
Base Year Values	214,157,116	214,157,116	214,157,116	214,157,116	214,157,116
Incremental Assessed Values	<u>31,330,592</u>	<u>34,858,114</u>	<u>33,693,186</u>	<u>45,488,075</u>	<u>56,873,193</u>
Gross Tax Revenues	325,918	339,466	363,815	496,540	565,506
Less:					
SB 2557 Admin Fee	4,953	6,204	7,002	9,528	9,161
Housing Set-Aside	65,184	67,893	72,763	99,308	113,101
Pass-Through Agreements	76,979	82,774	79,029	118,183	135,891
Total Deductions	<u>147,115</u>	<u>156,871</u>	<u>158,794</u>	<u>227,019</u>	<u>258,153</u>
Net Revenues	<u>178,802</u>	<u>182,595</u>	<u>205,021</u>	<u>269,521</u>	<u>307,353</u>

Source: Agency.

(1) Tax Revenues and deductions are estimates.

The following table shows the ten largest property taxpayers, by revenue, in the Project Area.

**Table 4**  
**Largest Fiscal Year 2003-04 Property Taxpayers, by Revenue**

<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2003-04 Projected Revenue</u>	<u>% of Total (1)</u>
Wal-Mart Real Estate Business Trust	Commercial	\$74,148	13.11%
California Valley Associates	Commercial	58,636	10.37
Delaware Inland Business Trust	Commercial	54,964	9.72
Century TCI California Communications	Communications	53,782	9.51
Robert J. Ruehman	Commercial	37,851	6.69
Raymond D. White	Vacant Land	33,929	6.00
Apache Mobile Home Park Association	Residential	33,857	5.99
Susan Esther Sandelman Trust	Commercial	32,048	5.67
SSM LLC	Commercial	26,713	4.72
Stater Brothers Markets	Commercial/Unsecured	<u>19,099</u>	<u>3.38</u>
Total		<u>\$425,027</u>	<u>75.16%</u>

Source: San Bernardino County Assessor 2003-04 Secured and Unsecured Tax Rolls

(1) The total Project Area tax increment revenue for fiscal year 2003-04 is projected to be \$565,506.

The following table shows the ten largest property taxpayers, by assessed value, in the Project Area.

**Table 5**  
**Largest Fiscal Year 2003-04 Property Taxpayers, by Assessed Value**

<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2003-04 Assessed Valuation</u>	<u>% of Total (1)</u>
Wal-Mart Real Estate Business Trust	Commercial	\$ 7,414,771	2.74%
California Valley Associates	Commercial	5,863,585	2.16
Delaware Inland Business Trust	Commercial	5,496,397	2.03
Century TCI California Communications	Communications	5,378,214	1.98
Robert J. Ruehman	Commercial	3,785,089	1.40
Raymond D. White	Vacant Land	3,392,936	1.25
Apache Mobile Home Park Association	Residential	3,385,663	1.25
Susan Esther Sandelman Trust	Commercial	3,204,843	1.18
SSM LLC	Commercial	2,671,331	0.99
Stater Brothers Markets	Commercial/Unsecured	<u>1,909,859</u>	<u>0.70</u>
Total		<u>\$42,502,688</u>	<u>15.68%</u>

Source: San Bernardino County Assessor 2003-04 Secured and Unsecured Tax Rolls

(1) The Project Area total taxable value for fiscal year 2003-04 is \$271,030,309.

## 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.

**Table 6**  
**Tax Revenue Collections**

Fiscal Year	Original Tax Levy	Current Year Apportioned	Prior Year Collections	Total Apportioned	Current Collections Percentage	Percentage Total Collections
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

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 nineteen pending appeals within the Project Area. None of the Project Area's top ten taxpayers have pending appeals of their assessed value. Based on the date

upon which the Assessment Appeals Board approved a reduction in value on four assessment appeals, approximately \$359,007 was removed from the 2003-04 tax rolls after the lien date and prior to the issuance of tax bills. These four parcels are all owned by Thrifty Payless and are adjacent to one another. The parcels have only land value assigned to them. The value reduction was taken against 2003-04 values of \$893,009. This is a reduction of 40.2% on these four parcels.

See APPENDIX B—"FISCAL CONSULTANT'S REPORT."

The following table shows the appeal history since 1998-99.

**Table 7  
Appeal History**

<u>Lien Year</u>	<u>Total Appeals</u>	<u>Resolved Appeals</u>	<u>Successful Appeals</u>	<u>Successful Original Value</u>	<u>Successful Appeal Value Loss</u>
1998-99	22	14	14	\$10,315,621	\$ 977,399
1999-00	24	19	19	10,890,157	1,064,899
2000-01	23	22	22	12,191,358	1,443,950
2001-02	19	17	17	1,820,584	645,522
2002-03	9	7	7	875,497	341,497

Source: San Bernardino County Clerk of the Board of Supervisors

### **Tax Sharing Agreements**

The Agency has entered into several tax sharing agreements with affected taxing entities. In its agreement with the County, 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 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, 2043. 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. Because the amount and maturity of the Bonds is within the parameters set by the agreement, all such payments have been assumed to be subordinate to debt service for the purposes of projections herein.

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 0.725%. 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 Agency has requested a 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. The Superintendent of Schools has agreed to such subordination and all such payments have been assumed to be subordinate to debt service for the purposes of projections herein.

The Agency's agreements with the Copper Mountain Community College District (3.99%), the Hi-Desert County Water District (6.96%) and the Mojave Water Agency (0.379%) 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 19.37%. 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 through forty of the Project Area's life (2009-10 through 2033-34).

At the time the agreement was adopted, the redevelopment plan for the Project Area called for the ability to repay indebtedness to expire after 45 years. The redevelopment plan was amended after passage of AB 1290 and the period within which the Agency could repay debt from tax revenue was extended to August 5, 2043. Because the tax sharing payments to the District are tied by the agreement only to those certain years of the Project Area's life, the payments to the District are assumed to terminate after 2033-34. 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 21.88%. There is no provision for subordination to debt service on the Bonds within the agreement.

### **Tax Increment Revenue Projections and Debt Service Coverage**

The following table sets forth the projected growth in tax increment revenues in the Project Area over the next five years. The projected growth in real property taxable values includes anticipated value added from the identified new developments identified under the subheading "The Redevelopment Plan" above. Future personal property values are assumed to stabilize at the previous year level. Such table also shows the debt service coverage in each such year. See APPENDIX B—"FISCAL CONSULTANT'S REPORT" for projected tax increment revenues for the full term of the 2004 Bonds.

**Table 8**  
**Projected Tax Revenues and Debt Service Coverage**  
**(Dollars in Thousands)**

	2004-05	2005-06	2006-07	2007-08	2008-09
Taxable Values (1)					
Real Property (2)	\$274,153	\$280,158	\$285,761	\$291,477	\$297,306
Personal Property (3)	12,249	12,249	12,249	12,249	12,249
Total Projected Value	286,402	292,408	298,011	303,726	309,555
Taxable Value over Base	72,245	78,250	83,854	89,569	95,398
Gross Tax Increment Revenue (4)	722	783	839	896	954
Unitary Tax Revenue	0	0	0	0	0
Gross Revenues	723	783	839	896	954
LESS:					
Housing Set Aside Requirement (6)	145	157	168	179	191
County Admin. and Collection Charges (5)	12	12	13	14	15
Morongo Unified School District (7)	56	61	65	69	74
Copper Mountain Comm. College (8)	29	31	33	36	38
Yucca Valley Fire District (9)	32	34	37	39	42
Hi-Desert County Water District (8)	50	54	58	62	66
Mojave Water Agency (8)	3	3	3	3	4
County (10)	0	0	0	52	55
County Superintendent of Schools (11)	4	5	5	5	6
Total Reductions	330	357	383	461	491
Net Tax Revenues	393	426	456	435	463
PLUS:					
Housing Amount for Debt Service (12)	62	64	60	62	62
Subordinated Pass-Through Agreements (13)	4	5	5	57	61
Total Additions	66	69	65	121	124
Tax Revenues Available for Coverage	459	495	521	556	587
Debt Service					
1995 Bonds Housing	29	29	29	29	29
1995 Bonds Non-Housing	116	114	116	114	116
2004 Bonds Housing	35	35	31	33	33
2004 Bonds Non-Housing	176	180	178	149	147
Total Debt Service	\$356	\$358	\$354	\$325	\$325
Debt Service Coverage (14)	1.30x	1.38x	1.47x	1.71x	1.81x

(1) Taxable values as reported by San Bernardino County.

(2) Real property consists of land and improvements. Increased new development and transfer sales and increased for inflation at 1.867% for 2004-05 and at 2% annually thereafter. The 2003-04 assessed values are reduced by \$359,007 for four successful appeals not reflected on the 2003-04 roll. In 2004-05, values are reduced by \$923,540 for estimated value loss from 10 pending appeals.

(3) Personal property is held constant at 2003-04 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 applicable. Future tax rates are assumed to remain at \$1.00 per \$100 of taxable value.

(5) The County Administration fee is estimated at 1.62% of Gross Revenues and County Collection charge is 0.25% of Gross Revenues.

(6) Housing Set Aside calculated at 20% of Gross Revenue.

(7) Morongo Unified School District receives 15% of its share (19.37%) of general levy tax increment revenue in 1994-95 through 1997-98; 40% of its share from 1998-99 through 2008-09; 65% of its share from 2009-10 through 2033-34 and 0% thereafter.

(8) Copper Mountain Community College (3.99%), Hi-Desert County Water District (6.96%) and Mojave Water Agency (0.379%) receive their shares of general levy tax increment revenue.

(9) Yucca Valley Fire District receives 20% of its share (21.88%) of general levy tax increment revenue.

(10) Based on a new agreement with the County, the County share is 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.

(11) County Superintendent of Schools receives its share (0.725%) of general levy tax increment revenue net of housing set-aside.

(12) Represents Debt Service on the portion of the 1995 Bonds and the 2004 Bonds used for low and moderate income purposes.

(13) Based on the terms of the agreement, the payments to the County are subordinate to debt service payments on the 1995 Bonds and the Bonds. The Superintendent has agreed to subordinate its tax sharing payments to the payment of debt service on the 1995 Bonds and the Bonds in accordance with the terms of the agreement.

(14) Represents Tax Revenues divided by Debt Service.

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.

See APPENDIX B—"FISCAL CONSULTANT'S REPORT."

### **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 Project Area 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 Project Area revenue. As a result, the property tax administrative charge for future fiscal years is estimated at 1.54 percent of gross Project Area 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.

### **Fiscal Consultant's Report**

The Agency requested that the Fiscal Consultant review current and historical taxable values and property tax revenues, review currently pending and recently resolved assessment appeals and estimate future tax increment revenues for the Project Area. Pursuant to that request, the Fiscal Consultant has prepared a Fiscal Consultant's Report. See APPENDIX B—"FISCAL CONSULTANT'S REPORT."

### **BONDOWNERS' RISKS**

*The following information should be considered by prospective investors in evaluating whether to invest in the 2004 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 2004 Bonds and the order in which the following information is presented is not intended to reflect the relative importance of any such risks.*

## **Tax Revenues**

The Tax Revenues allocated to the Agency, which constitute the primary security for the 2004 Bonds, are determined by the incremental assessed value of taxable property in the Project Area, the current rate or rates at which property in the Project Area is taxed and the percentage of taxes collected in the Project Area. Several types of events which are beyond the control of the Agency could occur and cause a reduction in available Tax Revenues. A reduction of taxable assessed values of property in the Project Area caused by economic or other factors beyond the Agency's control could occur (such as successful appeals by a property owner for a reduction in a property's assessed value, a reduction of the general inflationary rate, a reduction in transfers of property, construction activity or other events that permit reassessment of property at higher values, or the destruction of property caused by natural or other disasters), and have occurred in recent years thereby causing a reduction in Tax Revenues. Such a reduction in Tax Revenues could have an adverse impact on the Agency's ability to make timely payment of principal of and interest on the 2004 Bonds.

As described in greater detail under "LIMITATIONS ON TAX REVENUES—Property Tax Rate Limitations—Article XIII A," 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 inflation rate, not to exceed a two percent increase for any given year; or may be reduced to reflect a reduction in the consumer price index, comparable local data or any reduction in the event of declining property value caused by damage, destruction or other factors (as described above). Such measure is computed on a calendar year basis. Any resulting reduction in the full cash value over the term of the 2004 Bonds could reduce Tax Revenues securing the 2004 Bonds. See "LIMITATIONS ON TAX REVENUES—Property Tax Rate Limitations—Article XIII A."

Historically, some property owners within the Project Area have appealed for reductions in the assessed value of their properties. Reductions in the assessed value of secured property in the Project Area in recent years can be attributed in part to such appeals and reductions in property values generally. Tax Revenues may be reduced from current levels as a result of such appeals and reductions in property values generally. See "THE PROJECT AREA—Appeals of Assessed Values" herein.

In addition to the other existing limitations on Tax Revenues described below under "LIMITATIONS ON TAX 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 2004 Bonds.

The Agency has no power to levy and collect property taxes. Any substantial delinquencies in the payment of property taxes by property owners in the Project Area could have an adverse effect on the Agency's ability to make timely debt service payments on the 2004 Bonds. Tax Revenues allocated to the Agency are distributed in November, April and July of each Fiscal Year. The payments are adjusted to reflect actual collections. See "LIMITATIONS ON TAX REVENUES—Property Tax Collection Procedures" herein.

## **Estimated Tax Revenues**

The Agency has retained the Fiscal Consultant to, among other things, estimate future Tax Revenues. The Agency believes these estimates to be reasonable, but to the extent the assessed valuation, the tax rates or the percentage of taxes collected are less than projected, the Tax Revenues available to pay debt service on the 2004 Bonds would be reduced. See "THE PROJECT AREA—Tax Increment Revenue Projections and Debt Service Coverage" herein.

No representations are being made as to the future Tax Revenues, or as to whether the estimated Tax Revenues as shown under the heading "THE PROJECT AREA—Tax Increment Revenue Projections and Debt Service Coverage" will be realized.

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 Project Area, 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. See "SECURITY FOR THE BONDS" herein.

## **Parity Debt**

The Agency may issue or incur obligations payable from Tax Revenues on a parity with its pledge of Tax Revenues to payment of the Bonds, but only to the extent permitted in the Indenture. See "SECURITY FOR THE BONDS—Issuance of Parity Debt." The existence of and the potential for such obligations increases the risks associated with the Agency's payment on the 2004 Bonds in the event of a decrease in the Agency's collection of Tax Revenues.

## **Bankruptcy**

The various legal opinions to be delivered concurrently with delivery of the 2004 Bonds will be qualified as to the enforceability of the various legal documents by limitations imposed by bankruptcy, reorganization, insolvency, fraudulent conveyance or other laws affecting rights of creditors generally. If any of such limitations are imposed, they may adversely affect the ability of the Trustee and the 2004 Bond owners to enforce their claims and assert their rights under the Indenture or the Agency Indentures.

## **Loss of Tax Exemption**

In order to maintain the exclusion from gross income for federal income tax purposes of the interest on the 2004 Bonds, the Agency has covenanted in the Indenture to comply with each applicable requirement of section 103 and sections 141 through 150 of the Internal Revenue Code of 1986, as amended. The interest on the 2004 Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of issuance of the 2004 Bonds as a result of acts or omissions of the Agency in violation of this or other covenants in the Indenture. The 2004 Bonds are not subject to redemption or any increase in interest rates should an event of taxability occur and will remain outstanding until maturity or prior redemption under one of the redemption provisions contained in the Indenture. See "TAX MATTERS" herein.

## **Reduction in Taxable Value**

Tax increment revenues allocated to the Agency are determined by the amount of incremental taxable assessed value in the Project Area and the current rate or rates at which property in the Project Area is taxed. The reduction of taxable values of property caused by economic factors beyond the Agency's control, such as a relocation out of the Project Area by one or more major property owners, or the complete or partial destruction of such property caused by, among other eventualities, an earthquake, flood (see "Seismic Factors and Flooding" below), or other natural disaster, could cause a reduction in the Tax Revenues securing the Bonds. Property owners may also appeal to the County Assessor for a reduction of their assessed valuations. Such a reduction of assessed valuations, either on a case-by-case basis or as a blanket reduction due to a general decline in property values, and the resulting decline in Tax Revenues or the resulting refund of property taxes could have an adverse effect on the Agency's ability to make timely payments of debt service on the Bonds. See "THE PROJECT AREA—Appeals of Assessed Values" herein.

Application of the provisions of Article XIII A(2)(d) of the California Constitution and section 68 of the California Revenue and Taxation Code may also result in a significant reduction of the assessed valuation of a property within the 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 section 68 of the California Revenue and Taxation Code could result in an unexpected reduction in the assessed valuation of a property within the Project Area.

The ratio of the incremental assessed value above the Base Year determines the degree to which a change in assessed values for the Project Area will lead to a decline in Tax Revenues in the event of declining real estate values. The higher the ratio of the Project Area's Base Year assessed value to the Project Area's assessed value, the greater the potential for a decline in Tax Revenues which could result in lower debt service coverage on the Bonds. The Project Area was formed in 1992 and has a relatively high ratio of Base Year value, which was established as the 1992-93 Fiscal Year, to assessed value. Thus, based upon current projections, and by way of example, an approximately 7% decline in assessed values for the Project Area would bring debt service coverage to a ratio of 1.00x for 2004-05.

## **Overlapping Debt Burdens**

Certain properties within the Project Area are located within special assessment or community facilities districts previously created by the County to finance street, drainage, utility and other public facilities. Such properties are subject to relatively higher tax or special assessment levies than many other parcels in the County. These higher tax or special assessment burdens may increase the possibility of higher delinquency rates and may be a factor which slows development of such parcels.

## **Reduction in Inflationary Rate**

As described in greater detail below, Article XIII A of the California Constitution provides that the full cash value 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 percent. Since Article IIIA was approved, the annual adjustment for inflation has fallen below the 2% limitation four times: for 1993-94, 1%; for 1995-96, 1.19%; for 1996-97, 1.11%; and for 1999-00, 1.853%. In addition, the State Board of Equalization has directed county assessors to use an inflation adjustment of 1.867% in preparing the 2004-05 assessment rolls. The Agency is unable to predict if any adjustments to the full cash value of real property within the Project Area, whether an increase or a reduction, will be realized in the future.

### **Litigation Regarding 2% Limitation**

On December 27, 2001, the Orange County Superior Court issued an order declaring the practice of "recapturing" to be unconstitutional. That order only applies to one property in Seal Beach. A second issue of "class action" was requested to be reviewed by the court and on December 12, 2002, the Superior Court certified class action status for this case, which could have the effect of extending this ruling to other similar cases. A third issue addressed by the court is related to notification to the taxpayers by the tax collector. On January 20, 2003, the Superior Court granted the motion for the tax collector to give some type of notice to taxpayers. The court put on hold this order pending final appellate review and a ruling on the "recapture" issue. The court entered a Final Judgment on April 18, 2003. In 2002 two local courts (Los Angeles and San Diego) ruled differently on the "recapture" issue.

On March 26, 2004, a state appeals court upheld Orange County's method of assessing property taxes. In its *County of Orange v. Bezaire* decision (commonly referred to as the "Pool decision"), the 4th District Court of Appeal held that the technique used by Orange County in assessing taxes, called "recapturing," is constitutional pursuant to Proposition 13, the property tax limit approved by voters in 1978. "Recapturing" means that the 2% annual inflation factor is calculated against the property's original purchase price regardless of any intervening decreases in property value. This process allows a tax assessor to increase the value of property above Proposition 13's annual 2% limit after property has lost value or failed to increase in value in previous years, in order to recover revenues lost because of the temporary market decline. The plaintiff has appealed to the California Supreme Court. The Supreme Court will decide whether to hear such appeal in August 2004.

Unless overturned by the California Supreme Court, the Pool decision validates the "recapturing method" in which the base on which Proposition 13's inflation factor is considered remains that of the original purchase price (or assessment at time of new construction) and not a reduced base resulting from a reassessment as the result of a decline in property values.

The Agency is unable to predict the outcome of this litigation if it is appealed to the California Supreme Court and what effect, if any, it might have on assessed values in the Project Area and the receipt of Tax Revenues. The Agency has not made any adjustment in the projections of Incremental Tax Revenues shown herein by reason of the foregoing litigation. Tax Revenues could be reduced if the Court of Appeals decision is reversed or any similar litigation is brought with respect to property in the Project Area.

## **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 2004 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 2004 Bond payments.

## **Real Estate and General Economic Risks**

As hereinbefore stated in the above paragraph captioned "Reductions in Inflationary Rate," Tax Revenues as presented herein as available for payment of any indebtedness of the Agency are based upon the latest actual amounts for the 2003-04 fiscal year. Redevelopment of real property within the Project Area by the Agency, as well as private development in the Project Area, 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 Project Area encounter significant obstacles of the kind described herein or other impediments, the economy of the Project Area could be adversely affected, causing reduced taxable valuation of property in the Project Area, a reduction of the Tax Revenues and a consequent reduction in Tax Revenues available to repay the 2004 Bonds. If there is a decline in the general economy of the Project Area, the owners of property within the Project Area 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 Project Area.

## **Concentration of Land Ownership**

Ownership of property within the Project Area 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 Project Area. **The top ten taxpayers account for approximately 74.73% of the Project Area incremental value and 15.68% of the total Project Area 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 2004 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 PROJECT AREA—Description of the Project Area."**

## **Hazardous Substances**

An additional environmental condition that may result in the reduction in the assessed value of parcels in the Project Area 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 to remedy the condition just as is the seller.

### **Seismic Factors and Flooding**

The occurrence of severe seismic activity and/or flooding in the Project Area could result in substantial damage to property located in the Project Area, 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 Deficit—ERAF**

In connection with its approval of the budget for the State of California for the 1992-93, 1993-94 and 1994-95 fiscal years, the State Legislature enacted legislation which, among

other things, reallocated funds from redevelopment agencies to school districts by shifting a portion of each agency's tax increment (net of amounts due to other taxing agencies), to school districts for such fiscal years for deposit in ERAF. The amount required to be paid by a redevelopment agency to ERAF under such legislation was apportioned to all of its redevelopment project areas on a collective basis, and was not allocated separately to individual project areas.

Faced with a projected \$23.6 billion State budget gap for Fiscal Year 2002-03, the State Legislature adopted and sent to the Governor of the State as urgency legislation AB 1768, requiring redevelopment agencies to pay into ERAF in Fiscal Year 2002-03 an aggregate amount of \$75 million. The Agency paid into ERAF in Fiscal Year 2002-03 the amount of \$10,152 as its share of such \$75 million. See "LIMITATIONS ON TAX REVENUES."

As part of the overall legislation to enact the 2003-04 State Budget, the State enacted, as urgency legislation, SB 1045, being Chapter 260 of the Statutes of 2003 ("Chapter 260"), as part of the 2003-04 State Budget requiring redevelopment agencies to pay into ERAF in fiscal year 2003-04 an aggregate amount of \$135 million. Chapter 260 requires payments into ERAF in fiscal year 2003-04 only. Chapter 260 provides that one-half of an agency's ERAF obligation is calculated based on the gross tax increment received by the agency and the other one-half of the agency's ERAF obligation is calculated based on the net tax increment revenues (after any pass-through payments to other taxing entities). The Agency paid into ERAF in Fiscal Year 2003-04 the amount of \$17,245 as its share of such \$135 million (which amount is approximately 1.8 times the amount that the Agency was required to transfer to ERAF in Fiscal Year 2002-03).

On January 9, 2004, the Governor submitted the 2004-05 Governor's budget proposal to the California Legislature. The 2004-05 Governor's budget proposal identified \$22.1 billion worth of debt inherited from the prior gubernatorial administration and indicated that, absent any changes in policies, State budget deficits would continue, estimated at \$14 billion for fiscal year 2004-05. The 2004-05 Governor's budget proposal contemplated a shift of \$1.3 billion of revenues from local government to the State; but the manner in which this would be allocated among local governmental agencies (including redevelopment agencies) was not specified. The shift, as to redevelopment agencies, was proposed to be in the form of an increased ERAF shift beginning in 2004-05.

On March 2, 2004, voters in California approved Propositions 57 and 58 which were designed by the Governor to assist with the State budget shortfall. Proposition 57 authorized bond issues of up to \$15,000,000,000 to fund budget deficits and Proposition 58 requires the enactment of a balanced State budget.

On May 13, 2004, the Governor released his May Revision to the Proposed 2004-05 Budget (the "May Revision"). The May Revision relies on about \$3.6 billion in new resources relative to the January budget proposal. The May Revision reflects recent proposed multiyear agreements between the Governor and various parties relating to future funding for higher education and local governments. The May Revision includes the following related to redevelopment agencies: (a) redevelopment agencies would contribute \$250 million in each of the next two fiscal years to ERAF using the same formula as in current law, (b) county, city, special district and redevelopment agency property tax, sales tax, and vehicle license fee revenue could be permanently protected from State ERAF reallocations in future years through a constitutional amendment to be placed on the November general election ballot by the Legislature with the full support and leadership of the Governor, and (c) the second year of local government budget cuts will be repealed if the constitutional amendment does not pass at the November 2004 election.

If the ERAF provisions of the May Revision are incorporated into the 2004-05 budget, the Agency will be required to pay an amount equal to \$39,482 as its share of such \$250 million (which amount is approximately 2.3 times the amount that the Agency was required to transfer to ERAF in Fiscal Year 2003-04). However, as of the date of this Official Statement, the State Legislature has not approved a State budget for Fiscal Year 2004/05, and the Agency cannot predict if the budget for Fiscal Year 2004/05 will include all of the proposals of the May Revision's proposals. The budget for Fiscal Year 2004/05 could contain ERAF provisions that are more or less severe than those proposed in the May Revision.

In addition to potential ERAF provisions, 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. Given the level of the State of California's budget deficit problems, tax increment available for payment of the 2004 Bonds may be substantially 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](http://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](http://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](http://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.

### **Book-Entry System**

Beneficial Owners of the 2004 Bonds may experience some delay in their receipt of distributions of principal of, and interest on, the 2004 Bonds since distributions will be forwarded by the Trustee to DTC and DTC will credit such distributions to the accounts of the DTC Participants which will thereafter credit them to the accounts of the Beneficial Owners either directly or indirectly through indirect participants. See "THE 2004 Bonds—Book-Entry System" herein. Issuance of the 2004 Bonds in book-entry form may reduce the liquidity of the 2004 Bonds in the secondary trading market since investors may be unwilling to purchase 2004 Bonds for which they cannot obtain physical certificates. In addition, since transactions in the 2004 Bonds can be effected only through DTC, DTC Participants, indirect participants and certain banks, the ability of a Beneficial Owner to pledge 2004 Bonds to persons or entities that do not participate in the DTC system, or otherwise to take actions in respect of such 2004 Bonds, may be limited due to lack of a physical certificate. Beneficial Owners will not be recognized by the Trustee as registered owners for purposes of the Indenture, and Beneficial Owners will be permitted to exercise the rights of registered owners only indirectly through DTC and the DTC Participants. See "THE 2004 BONDS—Book-Entry System" herein and APPENDIX G—"BOOK-ENTRY SYSTEM."

## LIMITATIONS ON 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.

On September 22, 1978, the California Supreme Court upheld the amendment over challenges on several state and federal constitutional grounds (*Amador Valley Joint Union School District v. State Board of Equalization*). The Court reserved certain constitutional issues and the validity of legislation implementing the amendment for future determination in proper cases.

In the general elections of 1986, 1988 and 1990, the voters of the State approved various measures which further amended Article XIII A. One such amendment generally provides that the purchase or transfer of (i) real property between spouses or (ii) the principal residence and the first \$1,000,000 of the full cash value of other real property between parents and children, do not constitute a "purchase" or "change of ownership" triggering reassessment under Article XIII A. This amendment has reduced local property tax revenues. Other amendments permitted the Legislature to allow persons over 55 who sell their residence on or after November 5, 1986, 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, and permitted the Legislature to authorize each county under certain circumstances to adopt an ordinance making such transfers of assessed value applicable to situations in which the replacement dwelling purchased or constructed after November 8, 1988, is located within the county and the original property is located in another county within California.

In the October 1990 election, the voters approved additional amendments to Article XIII A permitting the State Legislature to extend the replacement dwelling provisions applicable to persons over 55 to severely disabled homeowners for replacement dwellings purchased or newly constructed on or after June 5, 1990, and to exclude from the definition of "new construction," triggering reassessment, improvements to certain dwellings for the purpose of making the dwelling more accessible to severely disabled persons. In the November 1990 election, the voters approved the amendment of Article XIII A to permit the State Legislature to exclude from the definition of "new construction" seismic retrofitting improvements or improvements utilizing earthquake hazard mitigation technologies constructed or installed in existing buildings after November 6, 1990.

## Challenges to Article XIII A

The U.S. Supreme Court struck down as a violation of equal protection certain property tax assessment practices in West Virginia, which had resulted in vastly different assessments of similar properties. Since Proposition 13 provides that property may only be reassessed up to two percent per year, except upon change of ownership or new construction, recent purchasers may pay substantially higher property taxes than long-time owners of comparable property in a community. The Supreme Court in the West Virginia case expressly declined to comment in any way on the constitutionality of Proposition 13.

Based on the decision in the West Virginia case, property owners in California brought three suits challenging the acquisition value assessment provisions of Article XIII A. Two cases involved residential property, and one case involved commercial property. In all three cases, State trial and appellate courts have upheld the constitutionality of Article XIII A's assessment rules and concluded that the West Virginia case did not apply to California's laws. On June 3, 1991, the U.S. Supreme Court agreed to hear the appeal in the challenge relating to commercial property, but the plaintiff subsequently withdrew its case. On June 18, 1992, the U.S. Supreme Court upheld the decision in *Nordlinger v. Hahn*, one of the challenges relating to residential 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

Assembly Bill 454 Statutes of 1987, Chapter 921 ("AB 454"), provided that revenues derived from Unitary Property (consisting mostly of operations property owned by utility companies), commencing with fiscal year 1988-89, will be allocated as follows: (1) for revenues generated from the one percent tax rate, (a) each jurisdiction, including redevelopment project areas, will receive a percentage up to 102 percent of its prior year State-assessed unitary revenue; and (b) if county-wide revenues generated from Unitary Property are greater than 102 percent of the previous year's revenues, each jurisdiction will receive a percentage share of the excess unitary revenues by a specified formula, and (2) for revenue generated from the application of the debt service tax rate to county-wide unitary

taxable value, each jurisdiction's annual debt service requirements and the percentage of property taxes received by each jurisdiction from unitary property taxes. This provision applies to all Unitary Property except railroads whose valuation will continue to be allocated to individual tax rate areas.

The provisions of AB 454 do not constitute an elimination of assessment of any State-assessed properties nor a revision of the method of assessing utilities by the State Board of Equalization. Generally, AB 454 allows valuation growth or decline of Unitary Property to be shared by all jurisdictions within a county.

On February 1, 1991, the Superior Court for the County of Sacramento issued a Statement of Decision in *AT&T Communications of California, et al. v. State Board of Equalization* which reduced the valuation of certain unitary property owned by AT&T for property tax purposes. Under the decision, the valuation method used by the State Board of Equalization to assess unitary public utility property was declared illegal and a new method of valuation, resulting in significantly lower values and therefore significantly lower potential property tax revenues, was imposed. The effect on AT&T's statewide assessed value was to reduce it from approximately \$1,750,000,000 to approximately \$1,100,000,000. As a result of this case, on May 1, 1992, 57 of California's 58 counties, the State Board of Equalization and a number of other utility companies whose unitary property valuations could be affected by the principles announced in the Superior Court decision entered into a settlement agreement. On July 14, 1993, the Superior Court for the County of Sacramento entered a judgment validating the settlement agreement.

Although the settlement agreement is complex and extensive, its substance is represented by the signatory public utilities' agreement (except AT&T) to abandon their right to refunds since 1983 in return for lowered assessed valuations for the next eight fiscal years pursuant to an agreed formula.

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 project areas, therefore, the base year values of project areas have been reduced by the amount of utility value that existed originally in the base year. Within the Project Area, the Auditor Controller has allocated \$363.89 in unitary tax revenue to the Agency for fiscal year 2002-03. This amount is reasonably consistent with the unitary revenue allocations made to the Agency in prior years. The Fiscal Consultant has assumed no increase in the amounts of unitary tax revenues to the Agency for purposes of projecting Tax Revenues.

### **Property Tax Collection Procedures**

*Classifications.* In California, property which is subject to ad valorem taxes is classified as "secured" or "unsecured." Secured and unsecured property 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 Project Area, the Tax Revenues for the Project Area 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 2001-02 and 2002-03, the County withheld approximately \$6,134 and \$7,365 respectively, from the Agency for such administrative costs.

### **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 strong 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 receives no 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 XIII C and XIII D 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 2004 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 PROJECT AREA—Redevelopment Plan Limitations."

The Agency's Redevelopment Plan is fully in compliance with AB 1290.

### **SB 211**

Senate Bill 211 ("SB 211"), which was adopted in 2001 and took effect as of January 1, 2002, allows redevelopment agencies, by ordinance, to eliminate the time limit on establishing indebtedness (meaning the redevelopment Agency could incur debt up to the end of the effectiveness of its redevelopment plan), but would in turn trigger statutory pass-throughs to all taxing entities with whom the redevelopment Agency does not have a pass-through agreement at the time the ordinance is adopted. If the Agency chooses to eliminate the Agency's existing tax increment indebtedness limit as permitted by SB211, the statutory pass-throughs would apply starting in the year after what is now the final year to incur indebtedness. To date, the Agency has not determined to eliminate such time limit.

### **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**

Chapter 1337, Statutes of 1976, added sections 33334.2 and 33334.3 to the law requiring redevelopment agencies to set aside 20% of all tax increment revenues allocated to redevelopment agencies from redevelopment project areas adopted after December 31, 1976, in a low- and moderate-income housing fund to be expended for authorized low- and moderate-income housing purposes. Amounts on deposit in the low- and moderate-income housing fund may also be applied to pay debt service on bonds, loans or advances of redevelopment agencies to provide financing for such low- and moderate-income housing purposes.

### **Statement of Indebtedness**

Under the Redevelopment Law, the Agency must file with the County Auditor a statement of indebtedness for the Project Area 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 2004 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 opinion of Fulbright & Jaworski L.L.P., Los Angeles, 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 form thereof appears in Appendix E 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 opinion 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., Town Attorney, 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.

## **RATING**

Standard & Poor's Credit Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P"), has assigned the 2004 Bonds the rating of "BBB." This rating reflects only the views of such organization. Explanations of the significance of such rating must be obtained from such organization. There is no assurance that such rating will continue for any given period of time or will not be revised downward or withdrawn entirely by such rating agency, if, in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the 2004 Bonds.

## **CONTINUING DISCLOSURE**

The Agency has covenanted for the benefit of holders and beneficial owners of the 2004 Bonds to provide certain financial information and operating data relating to the Agency by not later than five months following the end of the Agency's Fiscal Year (which reporting date would be March 31), commencing with the report for the 2003-2004 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 2004 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 2004 Bonds or the Indenture.

## TAX MATTERS

The Internal Revenue Code of 1986, as amended (the "Code"), imposes certain requirements that must be met subsequent to the issuance and delivery of the 2004 Bonds for interest thereon to be and remain excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Noncompliance with such requirements could cause the interest on the 2004 Bonds to be included in the gross income of the owners thereof for federal income tax purposes retroactive to the date of issuance of the 2004 Bonds. The Agency has covenanted to maintain the exclusion of the interest on the 2004 Bonds from the gross income of the owners thereof for federal income tax purposes.

In the opinion of Fulbright & Jaworski L.L.P., Bond Counsel, under existing law, interest on the 2004 Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the aforementioned covenant, interest on the 2004 Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Bond Counsel is also of the opinion that, assuming compliance with the aforementioned covenant, the 2004 Bonds are not "specified private activity bonds" within the meaning of section 57(a)(5) of the Code and, therefore, the interest on the 2004 Bonds will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code. The receipt or accrual of interest on the 2004 Bonds owned by a corporation may affect the computation of its alternative minimum taxable income, upon which the alternative minimum tax is imposed, to the extent that such interest is taken into account in determining the adjusted current earnings of that corporation (75 percent of the excess, if any, of such adjusted current earnings over the alternative minimum taxable income being an adjustment to alternative minimum taxable income (determined without regard to such adjustment or to the alternative tax net operating loss deduction)). 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 OPINION," subject to the matters discussed in "RECENT DEVELOPMENTS" below.

The excess, if any, of the stated redemption price at maturity of 2004 Bonds of a maturity over the initial offering price to the public of the 2004 Bonds of that maturity set forth on the cover of this Official Statement is "original issue discount." Such original issue discount accruing on a 2004 Bond is treated as interest excluded from the gross income of the owner thereof for federal income tax purposes and exempt from California personal income tax. Original issue discount on any 2004 Bond purchased at such initial offering price and pursuant to such initial offering will accrue on a semiannual basis over the term of the 2004 Bond on the basis of a constant yield method and, within each semiannual period, will accrue on a ratable daily basis. The amount of original issue discount on such a Bond accruing during each period is added to the adjusted basis of such 2004 Bond to determine taxable gain upon disposition (including sale, redemption or payment on maturity) of such 2004 Bond. The Code includes certain provisions relating to the accrual of original issue discount in the case of purchasers of 2004 Bonds who purchase such 2004 Bonds other than at the initial offering price and pursuant to the initial offering.

Any person considering purchasing a 2004 Bond of a maturity having original issue discount should consult his or her own tax advisors with respect to the tax consequences of ownership of 2004 Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering and at the original offering price, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of

accrued original issue discount on such 2004 Bonds under federal individual and corporate alternative minimum taxes.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the 2004 Bonds may affect the tax status of interest on the 2004 Bonds or the tax consequences of the ownership of the 2004 Bonds. No assurance can be given that future legislation, or amendments to the Code, if enacted into law, will not contain provisions that could directly or indirectly reduce the benefit of the exemption of interest on the 2004 Bonds from personal income taxation by the State of California or of the exclusion of the interest on the 2004 Bonds from the gross income of the owners thereof for federal income tax purposes. Furthermore, Bond Counsel expresses no opinion as to any federal, state or local tax law consequences with respect to the 2004 Bonds, or the interest thereon, if any action is taken with respect to the 2004 Bonds or the proceeds thereof predicated or permitted upon the advice or approval of bond counsel if such advice or approval is given by counsel other than Bond Counsel.

Although Bond Counsel is of the opinion that interest on the 2004 Bonds is exempt from state personal income tax and excluded from the gross income of the owners thereof for federal income tax purposes, an owner's federal, state or local tax liability may be otherwise affected by the ownership or disposition of the 2004 Bonds. The nature and extent of these other tax consequences will depend upon the owner's other items of income or deduction. Without limiting the generality of the foregoing, prospective purchasers of the 2004 Bonds should be aware that (i) section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the 2004 Bonds or, in the case of a financial institution, that portion of an owner's interest expense allocated to interest on the 2004 Bonds, (ii) with respect to insurance companies subject to the tax imposed by section 831 of the Code, section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the 2004 Bonds, (iii) interest on the 2004 Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by section 884 of the Code, (iv) passive investment income, including interest on the 2004 Bonds, may be subject to federal income taxation under section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income, (v) section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining the taxability of such benefits, receipts or accruals of interest on the 2004 Bonds and (vi) under section 32(i) of the Code, receipt of investment income, including interest on the 2004 Bonds, may disqualify the recipient thereof from obtaining the earned income credit. Bond Counsel has expressed no opinion regarding any such other tax consequences.

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the Agency described above. No ruling has been sought from the Internal Revenue Service (the "Service") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the 2004 Bonds is commenced, under current procedures the Service is likely to treat the Agency as the "taxpayer," and the Owners would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the 2004 Bonds, the Agency may have different or conflicting interest from the Owners. Further, the disclosure of the initiation of an audit may adversely affect the market price of the 2004 Bonds, regardless of the final disposition of the audit

## UNDERWRITING

The 2004 Bonds will be purchased by the Authority from the Agency for re-sale to the Underwriter. The Underwriter has agreed to purchase the 2004 Bonds at the purchase price of \$2,586,005.55 (being the principal amount of the Bonds of \$2,665,000, less an Underwriter's discount of \$26,650.00, and less original issue discount of \$52,344.45).

The initial public offering prices stated on the cover of this Official Statement may be changed from time to time by the Underwriter. The Underwriter may offer and sell the 2004 Bonds to certain dealers, banks acting as agents and others at prices lower than said public offering prices.

## MISCELLANEOUS

The purpose of this Official Statement is to supply information to prospective buyers of the 2004 Bonds. Quotations from, and summaries and explanations of, the Indenture and other documents and statutes contained herein do not purport to be complete, and reference is made to such documents, Indenture and statutes for full and complete statements of their provisions.

Unless otherwise noted, all information contained in this Official Statement pertaining to the Agency, the County and the Project Area has been furnished by the Agency. Any statement in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Agency and the purchasers or registered owners of any of the 2004 Bonds.

The execution and delivery of this Official Statement has been duly authorized by the Agency.

YUCCA VALLEY REDEVELOPMENT  
AGENCY

By           /s/ Andrew J. Takata            
Executive Director

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**APPENDIX A**

**AUDITED FINANCIAL STATEMENTS  
YUCCA VALLEY REDEVELOPMENT AGENCY  
FOR THE FISCAL YEAR ENDING JUNE 30, 2003**

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YUCCA VALLEY REDEVELOPMENT AGENCY

Financial Statements

Year ended June 30, 2003

(With Independent Auditors' Report Thereon)

YUCCA VALLEY REDEVELOPMENT AGENCY

Financial Statements

Year ended June 30, 2003

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Board of Directors  
Yucca Valley Redevelopment Agency  
Yucca Valley, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements 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, 2003, 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 the standards applicable to financial audits contained in *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 financial position of the Yucca Valley Redevelopment Agency, as of June 30, 2003, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 3, 2003, 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 grants.

*Conrad and Associates LLP*

September 3, 2003

YUCCA VALLEY REDEVELOPMENT AGENCY

Combined Balance Sheet - All Governmental Fund Types and Account Groups

June 30, 2003

	<u>Governmental Fund Types</u>			<u>Account Group</u>	<u>Totals</u>	
	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>General Long-Term Debt</u>	<u>(Memorandum Only)</u>	
					<u>2003</u>	<u>2002</u>
<u>Assets and Other Debits</u>						
Assets:						
Cash and investments (note 3 )	\$ 189,194	630,206	43,994	-	863,394	1,162,687
Cash with fiscal agent (note 3 )	-	146,961	-	-	146,961	146,961
Property tax receivable	-	16,326	-	-	16,326	21,774
Interest receivable	485	3,075	288	-	3,848	-
Prepaid items	-	-	-	-	-	854
Other debits:						
Amount available for debt service	-	-	-	733,093	733,093	506,372
Amount to be provided for retirement of long-term debt	-	-	-	1,005,307	1,005,307	1,262,028
Total assets and other debits	<u>\$ 189,679</u>	<u>796,568</u>	<u>44,282</u>	<u>1,738,400</u>	<u>2,768,929</u>	<u>3,100,676</u>
<u>Liabilities and Fund Balances</u>						
Liabilities:						
Accounts payable	\$ 3,082	63,475	-	-	66,557	5,196
Due to other governments	-	-	-	-	-	164,255
Long-term debt (note 4 and 5)	-	-	-	1,738,400	1,738,400	1,768,400
Total liabilities	<u>3,082</u>	<u>63,475</u>	<u>-</u>	<u>1,738,400</u>	<u>1,804,957</u>	<u>1,937,851</u>
Fund balances (note 6):						
Reserved	186,597	733,093	-	-	919,690	712,939
Unreserved:						
Designated	-	-	44,282	-	44,282	449,886
Total fund balances	<u>186,597</u>	<u>733,093</u>	<u>44,282</u>	<u>-</u>	<u>963,972</u>	<u>1,162,825</u>
Total liabilities and fund balances	<u>\$ 189,679</u>	<u>796,568</u>	<u>44,282</u>	<u>1,738,400</u>	<u>2,768,929</u>	<u>3,100,676</u>

See accompanying notes to financial statements.

YUCCA VALLEY REDEVELOPMENT AGENCY

Combined Statement of Revenues, Expenditures and Changes in Fund Balances -  
All Governmental Fund Types

Year Ended June 30, 2003

	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)	
				2003	2002
Revenues:					
Tax increment	\$ -	461,853	-	461,853	330,287
Use of money and property	3,122	10,931	6,140	20,193	43,461
Miscellaneous	-	-	750	750	1,799
Total revenues	<u>3,122</u>	<u>472,784</u>	<u>6,890</u>	<u>482,796</u>	<u>375,547</u>
Expenditures:					
Current:					
General government	-	10,739	-	10,739	-
Community development	86,537	-	22,380	108,917	60,562
Capital outlay	-	-	97,964	97,964	231,638
Debt service:					
Principal	-	30,000	-	30,000	30,000
Interest and fiscal charges	-	114,623	-	114,623	113,777
Pass-through payments	-	124,131	-	124,131	73,081
Total expenditures	<u>86,537</u>	<u>279,493</u>	<u>120,344</u>	<u>486,374</u>	<u>509,058</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(83,415)</u>	<u>193,291</u>	<u>(113,454)</u>	<u>(3,578)</u>	<u>(133,511)</u>
Other financing sources (uses):					
Operating transfers in	92,370	28,925	-	121,295	94,813
Operating transfers out	(28,925)	(92,370)	-	(121,295)	(94,813)
Transfers to the Town of Yucca Valley	-	-	(292,150)	(292,150)	(156,084)
Total other financing sources (uses)	<u>63,445</u>	<u>(63,445)</u>	<u>(292,150)</u>	<u>(292,150)</u>	<u>(156,084)</u>
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	<u>(19,970)</u>	<u>129,846</u>	<u>(405,604)</u>	<u>(295,728)</u>	<u>(289,595)</u>
Fund balances at the beginning of the year, as restated (note 8)	<u>206,567</u>	<u>603,247</u>	<u>449,886</u>	<u>1,259,700</u>	<u>1,452,420</u>
Fund balances at the end of the year	<u>\$ 186,597</u>	<u>733,093</u>	<u>44,282</u>	<u>963,972</u>	<u>1,162,825</u>

See accompanying notes to financial statements.

YUCCA VALLEY REDEVELOPMENT AGENCY

Combined Statement of Revenues, Expenditures and Changes in Fund Balances -  
Budget and Actual - All Governmental Fund Types

Year Ended June 30, 2003

	<u>Special Revenue</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Tax increment	\$ -	-	-
Use of money and property	3,600	3,122	(478)
Miscellaneous	-	-	-
Total revenues	<u>3,600</u>	<u>3,122</u>	<u>(478)</u>
Expenditures:			
Current:			
General government	-	-	-
Community development	275,500	86,537	188,963
Capital outlay	-	-	-
Debt service:			
Principal	-	-	-
Interest and fiscal charges	-	-	-
Pass - through payments	-	-	-
Total expenditures	<u>275,500</u>	<u>86,537</u>	<u>188,963</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(271,900)</u>	<u>(83,415)</u>	<u>188,485</u>
Other financing sources (uses):			
Operating transfers in	47,600	92,370	44,770
Operating transfers out	-	(28,925)	(28,925)
Transfers to the Town of Yucca Valley	-	-	-
Total other financing sources (uses)	<u>47,600</u>	<u>63,445</u>	<u>15,845</u>
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	<u>(224,300)</u>	<u>(19,970)</u>	<u>204,330</u>
Fund balances at the beginning of the year, as restated (note 9)	<u>206,567</u>	<u>206,567</u>	<u>-</u>
Fund balances (deficits) at the end of the year	<u>\$ (17,733)</u>	<u>186,597</u>	<u>204,330</u>

See accompanying notes to financial statements.

Debt Service			Capital Projects		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
331,000	461,853	130,853	-	-	-
20,000	10,931	(9,069)	7,636	6,140	(1,496)
-	-	-	-	750	750
<u>351,000</u>	<u>472,784</u>	<u>121,784</u>	<u>7,636</u>	<u>6,890</u>	<u>(746)</u>
-	10,739	(10,739)	-	-	-
-	-	-	58,301	22,380	35,921
-	-	-	191,800	97,964	93,836
30,000	30,000	-	-	-	-
116,000	114,623	1,377	-	-	-
<u>135,000</u>	<u>124,131</u>	<u>10,869</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>281,000</u>	<u>279,493</u>	<u>1,507</u>	<u>250,101</u>	<u>120,344</u>	<u>129,757</u>
<u>70,000</u>	<u>193,291</u>	<u>123,291</u>	<u>(242,465)</u>	<u>(113,454)</u>	<u>129,011</u>
-	28,925	28,925	-	-	-
(47,600)	(92,370)	(44,770)	-	-	-
-	-	-	-	(292,150)	(292,150)
<u>(47,600)</u>	<u>(63,445)</u>	<u>(15,845)</u>	<u>-</u>	<u>(292,150)</u>	<u>(292,150)</u>
22,400	129,846	107,446	(242,465)	(405,604)	(163,139)
<u>603,247</u>	<u>603,247</u>	<u>-</u>	<u>449,886</u>	<u>449,886</u>	<u>-</u>
<u>625,647</u>	<u>733,093</u>	<u>107,446</u>	<u>207,421</u>	<u>44,282</u>	<u>(163,139)</u>

# YUCCA VALLEY REDEVELOPMENT AGENCY

## Notes to Financial Statements

Year ended June 30, 2003

### (1) Summary of Significant Accounting Policies

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

#### (a) Description of Funds and Account Groups

The basic accounting and reporting entity is a "fund". A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts, recording resources, related liabilities, obligations, reserves and equities segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The accounting records of the Agency are organized on the basis of funds and account groups classified for reporting purposes as follows:

#### Governmental Fund Types:

The Special Revenue Fund of the Agency is used to account for that portion of the Agency's tax increment revenue or note proceeds that is legally restricted or earmarked for increasing or improving housing for low or moderate income households.

The Debt Service Fund is used to account for that portion of the Agency's tax increment revenue and net proceeds that is set aside for interest and principal payments associated with all debts of the Agency.

The Capital Projects Fund is used to account for the financial activities for the development of redevelopment project areas, including acquisition of properties, cost of site improvements, other costs of benefit to the project areas and administrative expenses incurred in sustaining the Agency.

#### Account Groups:

General Long-Term Debt Account Group – The General Long-Term Debt Account Group is used to account for all unmatured principal of the Agency's general long-term debt.

#### (b) Basis of Accounting

The Agency's financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are considered susceptible to accrual when they become both measurable and available. "Available" means collectible within the current period or shortly thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related liabilities are incurred.

# YUCCA VALLEY REDEVELOPMENT AGENCY

## Notes to Financial Statements

(Continued)

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

#### (c) Measurement Focus

All funds of the Agency are accounted for on a spending or “financial flow” measurement focus. This means that generally only current assets and current liabilities are included in their balance sheets, with the exception that certain noncurrent assets are reported on the balance sheet and offset by deferred revenue or fund balance reserve accounts. Statements of revenues, expenditures, and changes in fund balances generally present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

#### (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 and account groups of the Agency have been blended within the financial statements of the Town because the Town Council of the Town of Yucca Valley is the governing board of the Agency and exercises control over the operations of the Agency. Only the funds and account groups of the Agency are included herein, therefore, these financial statements do not purport to represent the financial position or results of operations of the Town of Yucca Valley, California.

#### (e) Budgetary Information

The Agency adopts an annual budget prepared on the modified accrual basis of accounting for all governmental funds. The adoption of the budget is accomplished by the approval of a Budget Resolution. The legal level of budgetary control is at the fund level. Supplemental appropriations during the year were immaterial.

#### (f) Tax Increment Revenue

The Agency has no power to levy and collect taxes, and any legislative property tax deemphasis might 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 not 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.

#### (g) Cash and Investments

Investments are reported by local governments at fair value, except for non-participating certificates of deposit and investment contracts that are not transferable and that have terms that are not affected by changes in market interest rates.

# YUCCA VALLEY REDEVELOPMENT AGENCY

## Notes to Financial Statements

(Continued)

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

#### (g) Cash and Investments, (Continued)

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 or sale of investments.

The Town of Yucca Valley pools cash and investments of all funds and component units, except for assets held by fiscal agents. The Agency'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 monthly to the various funds and component units based on daily average cash and investment balances.

#### (h) Use of Estimates

The financial statements have been prepared in accordance with generally accepted accounting principles and necessarily include amounts based on estimates and assumptions by management. Actual results could differ from those amounts.

#### (i) Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Agency's financial position and operations. However, comparative fund-type data (i.e., presentation of prior year totals by fund type) have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to understand. Certain minor reclassifications of prior year data have been made in order to enhance their comparability with current year figures.

#### (j) Memorandum Only Totals

Columns in the accompanying financial statements captioned "Totals (Memorandum Only)" are not necessary for a fair presentation of the financial statements in accordance with generally accepted accounting principles, but are presented as additional analytical data. Interfund balances and transactions have not been eliminated. Therefore, the data in this column does not represent consolidated financial information.

# YUCCA VALLEY REDEVELOPMENT AGENCY

## Notes to Financial Statements

(Continued)

### (2) Creation of the Yucca Valley Redevelopment Agency

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.

### (3) Cash and Investments

The Town's Treasurer maintains a cash and investment pool used by all funds of the Town and by certain component units of the Town, 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 classified in the accompanying combined balance sheet as follows:

Cash and investments	\$ 863,394
Cash and investments with fiscal agent	<u>146,961</u>
	<u>\$1,010,355</u>

Cash and investments held by the Agency at June 30, 2003 consisted of the following:

Equity in the Town of Yucca Valley's investment portfolio	\$ <u>863,394</u>
Total	\$ <u>863,394</u>

Cash and investments held by fiscal agent at June 30, 2003 consisted of the following:

Mutual funds	\$ <u>146,961</u>
Total investments held by fiscal agents	\$ <u>146,961</u>

# YUCCA VALLEY REDEVELOPMENT AGENCY

## Notes to Financial Statements

(Continued)

### (3) Cash and Investments, (Continued)

Investments of cities (including component units) and other state or local governments are classified in three categories to give an indication of the level of custodial risk assumed by the entity. Category 1 includes investments that are insured or registered or for which the securities are held by the Agency or its custodial agent (which must be an institution other than the party through which the Agency purchased the securities) in the Agency's name. Investments held "in the Agency's name" include securities held in a separate custodial or fiduciary account and identified as owned by the Agency in the custodian's internal accounting records. Category 2 includes uninsured and unregistered investments for which the securities are held by the dealer's agent (or by the trust department of the dealer if the dealer was a financial institution and another department if the institution purchased the securities for the Agency). Category 3 includes uninsured and unregistered investments for which the securities are held by the dealer's trust department or agent, but not in the Agency's name. Category 3 also includes all securities held by the broker-dealer agent of the Agency (the party that purchased the securities for the Agency) regardless of whether or not the securities are being held in the Agency's name. None of the investments of the Agency are subject to categorization:

<u>Form of Investment</u>	<u>Carrying Amount</u>
Noncategorized investments held by fiscal agent:	
Mutual funds	<u>\$146,961</u>

### (4) General Long-Term Debt

The following is a summary of changes in the general long-term debt for the year ended June 30, 2003:

	<u>Balance at July 1, 2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2003</u>
1995 Tax Allocation Revenue Bonds	\$1,585,000	-	(30,000)	1,555,000
Advances from Town	<u>183,400</u>	<u>-</u>	<u>-</u>	<u>183,400</u>
Totals	<u>\$1,768,400</u>	<u>-</u>	<u>(30,000)</u>	<u>1,738,400</u>

#### Tax Allocation Revenue Bonds

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

YUCCA VALLEY REDEVELOPMENT AGENCY

Notes to Financial Statements

(Continued)

(4) General Long-Term Debt, (Continued)

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 December 1, 1995 through December 1, 2025 in amounts ranging from \$20,000 to \$135,000. Per terms of the bond indenture, a reserve of \$139,894 is required to be maintained. At June 30, 2003, the reserve was fully funded and the amount of bonds outstanding is \$1,555,000.

Advances from Town of Yucca Valley

The Town Council authorized loans from the Town to the Agency with an outstanding balance of \$183,400 as of June 30, 2003. The loans are repayable as tax increment funds become available to the Agency. Both loans mature on demand and carry a rate of interest equal to that percentage that would have been earned on the money if it had been deposited with LAIF.

(5) Debt Service Requirements to Maturity

The following is a summary of debt service requirements to maturity, including \$1,599,289 in interest through the year 2026:

Fiscal Year Ending June 30	Tax Allocation Revenue Bonds		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 30,000	111,792	141,792
2005	35,000	109,932	144,932
2006	35,000	107,727	142,727
2007	40,000	105,488	145,488
2008	40,000	102,588	142,588
Thereafter	<u>1,375,000</u>	<u>1,061,762</u>	<u>2,436,762</u>
	<u>\$1,555,000</u>	<u>1,599,289</u>	<u>3,154,289</u>

YUCCA VALLEY REDEVELOPMENT AGENCY

Notes to Financial Statements

(Continued)

(6) Fund Balances

Fund balances at June 30, 2003 consisted of the following reserves and designations:

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
Fund balances:			
Reserved for low and moderate housing	\$186,597	-	-
Reserved for debt service	-	733,093	-
Unreserved:			
Designated for capital projects	<u>-</u>	<u>-</u>	<u>44,282</u>
Total fund balances	<u>\$186,597</u>	<u>733,093</u>	<u>44,282</u>

(7) Contingencies

The Agency is a party as defendant to various legal actions arising in the normal course of business. In the opinion of management of the Agency, ultimate resolution of such matters will not have a material adverse effect on the financial statements of the Agency.

(8) Prior Period Adjustment

Debt Service Fund:	
Fund balance at July 1, 2002, as previously reported	\$ 506,372
Adjustment of prior year liability for pass-through obligations	<u>96,875</u>
Fund balance at July 1, 2002, as restated	<u>\$ 603,247</u>

Board of Directors  
Yucca Valley Redevelopment Agency  
Yucca Valley, California

**REPORT ON COMPLIANCE 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") as of and for the year ended June 30, 2003 and have issued our report thereon dated September 3, 2003. 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

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, contract and grants, 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 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 and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

*Conrad and Associates, LLP*

September 3, 2003

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**APPENDIX B**  
**FISCAL CONSULTANT'S REPORT**

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## Appendix B

### YUCCA VALLEY REDEVELOPMENT AGENCY YUCCA VALLEY REDEVELOPMENT PROJECT AREA NO. 1

#### PROJECTED TAXABLE VALUES AND ANTICIPATED TAX INCREMENT REVENUES

May 5, 2004

#### **I. Introduction**

The Yucca Valley Redevelopment Agency (the "Agency") is proposing to issue its Tax Allocation Bonds, Series 2004 (the "Bonds") to fund redevelopment activities of the Agency, establish a reserve fund and pay the cost of issuing the Bonds. The Bonds will be on parity as to payment and security with the Agency's outstanding Tax Allocation Bonds, Series 1995 (the "1995 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.

The purpose of this fiscal consultant report (the "Report") is to examine 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	Tax Revenues	Debt Service on 1995 Bonds	Available Tax Revenues	Subordinate Tax Sharing Payments	Net Tax Revenue
2003-04	\$ 339	(\$142)	\$197	(\$ 3)	\$194
2004-05	426	( 145)	281	( 4)	277
2005-06	459	( 143)	316	( 5)	312
2006-07	490	( 145)	345	( 5)	340
2007-08	521	( 143)	378	(57)	321
2008-09	553	( 145)	409	(61)	348
2009-10	536	( 141)	395	(65)	330
2010-11	567	( 143)	424	(68)	355
2011-12	598	( 145)	454	(73)	381
2012-13	630	( 146)	485	(77)	408

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 2003-04. 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 City 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	1,082	\$103,515,801	38.19%
Commercial	315	110,543,862	40.79%
Industrial	27	2,971,441	1.10%
Dry Farm	2	223,664	0.08%
Recreational	4	1,825,673	0.67%
Institutional	11	824,771	0.30%
Miscellaneous	6	496,421	0.18%
Vacant Land	805	24,520,161	9.05%
Exempt	68	0	0.00%
Unknown	8	924,761	0.34%
Subtotal	2,328	245,846,555	90.71%
Unsecured		<u>25,183,754</u>	<u>9.29%</u>
<b>Totals:</b>	<b>2,328</b>	<b>\$271,030,309</b>	<b>100.00%</b>

According to the figures provided on the Assessor's tax rolls, the 805 vacant, privately owned parcels within the Project Area total 1,027 acres. This vacant land is 43.56% 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.

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:

<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 Limit<sup>1</sup></u>	<u>Limit on Outstanding Bond Debt</u>
August 5, 2033	August 5, 2043	August 13, 2013	\$408,961,380	\$40,896,138

According to the Auditor-Controller the Agency has received a cumulative total of \$1,616,629 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 1994-95. Between 1994-95 and 2003-04, the secured taxable value within the Project Area increased by \$32,640,032 (15.31%). Secured values have increased in all fiscal years since 1996-97. In accordance with the practices of the Auditor-Controller, the Project Area contained no unsecured value in 1994-95, the first year of its existence. Unsecured values have been essentially flat, having decreased by \$911,782 between 1995-96 and 2003-04. 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 1994-95 to 2003-04 is illustrated on Table 3. Increases in incremental value have risen in all but one year (2001-02) since 1994-95. These increases have exceeded inflationary growth by a wide margin in all years except 1997-98 and in 2001-02 where incremental value declined by 3.34%. Incremental value has increased by 35.01% and 25.03% for 2002-03 and 2003-04 respectively.

#### B. Top Ten Taxable Property Owners

A review of the top ten taxpayers in the Project Area for fiscal year 2003-04 was conducted. The aggregate total taxable value for the ten largest taxpayers totaled \$42,502,688. This amount is 74.73% of the \$56,873,193 Project Area incremental value and 15.68% of the total Project Area assessed value. The top taxpayer in the Project Area is Wal Mart Real Estate Business

<sup>1</sup> Tax increment and Outstanding Bond Debt limits are as adjusted for Consumer Price Index for 2003-04.

Trust, which controls two secured parcels with a combined value of \$7,414,771. The value of the Wal Mart parcels is 2.74% of the Project Area total values and 13.04% of the Project Area incremental valuation. The second largest taxpayer in Project Area is California Valley Associates that controls a total of \$5,863,585 in secured assessed value. This amount is 10.31% of the Project Area's incremental value and 2.16% of the Project Area's total assessed value.

None of the top ten taxpayers have assessment appeals pending.

#### **IV. Tax Allocation and Disbursement**

##### **A. Property Taxes**

The taxable values of property are established each year on the property tax lien date. Prior to 1997 the lien date was March 1 for locally assessed property and January 1 for State assessed utility property. Beginning with 1997, the lien date became January 1 for locally assessed property also.

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. The Agency has received supplemental revenues of \$17,195 and \$38,766 for fiscal years 2001-02 and 2002-03 respectively. We have **not** included revenues resulting from Supplemental Assessments in the projections.

### **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 2003-04.

Within the Project Area's two TRAs, there is a single over-ride tax rate. This over-ride tax rate is levied by the Mojave Water Agency on land value only. The Auditor-Controller has determined that this over-ride tax rate is not tax increment, however, and revenue from this over-ride rate is not allocated to the Agency. Section 33670(e) of the Law specifies that revenues resulting from tax rates authorized by voter approval after January 1, 1994 will not be allocated to a redevelopment agency. As a result, if any over-ride tax rates are authorized by voters in the future, these tax rate overrides will not generate tax increment revenue to the Agency. The tax rate 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 2002-03. The collection rates for the Project Area were comparable to the collection rates for other taxing entities within the County for each year. Table D 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.

	<b>Original Tax Levy</b>	<b>Current Year AppORTioned</b>	<b>Prior Year Collections</b>	<b>Total AppORTioned</b>	<b>Current Year Collection %</b>	<b>Total Collection %</b>
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%

### F. Assessment Appeals

Assessment appeals data from San Bernardino County for fiscal years 1997-98 through 2003-04 were reviewed to determine the potential impact that pending appeals may have on the projected Tax Revenues. We have determined that there are nineteen pending appeals within the Project Area. In order to estimate the potential reduction in assessed value that may occur as a result of these pending appeals, we have reviewed the historical averages for the number of appeals allowed and the amount of assessed value removed. We have then applied those averages to the currently pending appeals and estimated the number of pending appeals that may be allowed and the amount of assessed value that may be removed as a result of these pending appeals.

None of the Project Area's top taxpayers have pending appeals of their assessed value. Based on the date upon which the Assessment Appeals Board approved a reduction in value on four assessment appeals, we have estimated that \$359,007 was removed from the 2003-04 tax rolls after the lien date and prior to the issuance of tax bills. These four parcels are all owned by Thrifty Payless and are adjacent to one another. The parcels have only land value assigned to them. The value reduction was taken against 2003-04 values of \$893,009. This is a reduction of 40.2% on these four parcels. For purposes of the projection this amount of value was removed from the 2003-04 values. The following Table E shows the amount of assessed value that is presently under appeal and the estimated reduction factored into the projections based on historical data for fiscal years 1997-98 through 2003-04. All estimated reductions in value are removed from the 2004-05 assessed values.

**Table E  
Assessment Appeals Summary**

<b>Total No. of Appeals</b>	<b>No. of Resolved Appeals</b>	<b>No. of Successful Appeals</b>	<b>Average Reduction</b>	<b>No. &amp; Value of Appeals Pending</b>	<b>Est. No. of Appeals Allowed</b>	<b>Est. Reduction on Pending Appeals Allowed (2004-05 Value Adjustment)</b>
121	102	55	12.16%	19 (\$10,887,963)	10	\$923,540

### 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 2003-04, the County collection charges are \$7,599 which is 1.34 percent of the anticipated 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 percent of Gross Revenue for collection costs. We have assumed in the projection that this charge will also continue to be levied by the County.

#### **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 \$345 of unitary tax revenue to the Project Area for 2002-03 and will allocate \$364 for 2003-04. For purposes of this projection, we have assumed that the amount of unitary revenue allocated for 2003-04 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 may be paid from tax increment revenue that would otherwise be part of the Housing Set-Aside Requirement. The Housing Set-Aside Requirement has been adjusted accordingly within the projection.

## **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"). The Agency could have used any funds legally available and not legally obligated for other uses, including 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 1991-92 administrative costs (the "Existing Obligations").

If an agency could not make the required payment due to Existing Obligations, it could, after making certain findings, borrow up to 50 percent of its 1992-93 ERAF obligation from the Housing Fund and repay the borrowed amount by June 2003, or the agency was required to obtain a loan from the city/county in order to pay the difference between what the agency paid 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. The obligation applied to the agency and not to specific project areas.

From 1994-95 through 2001-02, state budgets were adopted with no additional shifting of tax increment from redevelopment agencies. The State Budget for 2002-03 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. 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. This shift of revenue was a general obligation of the Agency and not of a particular project area. The Agency was permitted to satisfy this obligation with any legally available funds. The Agency made the required payment to the County by the deadline of May 10, 2003.

As part of the State's 2003-04 budget legislation, SB 1045 (Chapter 260, Statutes of 2003) requires redevelopment agencies statewide to contribute \$135 million to local County ERAF which reduces the amount of State funding for schools. This transfer of funds is limited to fiscal year 2003-04. Based on the estimates of the California Department of Finance, the amount of revenue that must be transferred by the Agency to San Bernardino County for 2003-04 is \$17,245.

The Agency is required to make this payment to the County by May 10, 2004. As with previous legislation, the Agency can make this payment using any funds available including funds provided by the City. If the Agency does not have sufficient funding to make the payment, they are authorized to borrow up to 50% of the payment amount from its housing fund but must repay the loan within 10 years. If the Agency fails to make the full payment by the date specified, the County is authorized to withhold the unpaid amount from the City's tax revenues. The Agency has indicated that it will make the required payment in a timely manner. Because this transfer of funds is a general obligation of the Agency and not a pledge of Tax Revenues, we have not reflected the payment of this amount in the projections.

The State continues to operate under adverse financial conditions. The Governor has proposed a continuation of the shifting of revenue from redevelopment agencies in the form of ERAF shifts. The size, timing and nature of any future ERAF shifts of revenue are unknown at this time.

Under the Law as amended by SB 1045, the Agency is authorized to use a simplified methodology to amend the Project Area 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 Areas cumulative tax increment revenues. The Agency is proceeding with the adoption of an amendment as authorized by SB 1045. By the adoption of this amendment, redevelopment plan's effectiveness and its last date to repay indebtedness from tax revenues will be extended by one year. This amendment is scheduled for second reading and adoption before the City Council on May 6, 2004. The proposed revisions to the redevelopment plan limits are **not** reflected in the projection pending final adoption of the amendment.

## **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. Because the amount and maturity of the Bonds is within the parameters set by the amended agreement with the County, we have assumed the tax sharing payments to the County to be subordinate to debt service on the 1995 Bonds and 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 0.725%. 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 (6.96%) and the Mojave Water Agency (0.379%) 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 19.37%. 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 through forty of the Project Area's life (2009-10 through 2033-34).

At the time the agreement was adopted, the redevelopment plan for the Project Area called for the ability to repay indebtedness to expire after 45 years. The redevelopment plan was amended after the adoption AB 1290 (see Section II B) and the period within which the Agency could repay debt from tax revenue was extended to August 5, 2043. Because the tax sharing payments to the District are tied by the agreement only to those certain years of the Project Area's life, the payments to the District are assumed to terminate after 2033-34. 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 21.88%. 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.

### **C. Court Decisions**

#### **Santa Ana Decision**

The State Court of Appeals recently upheld a Superior Court decision which held the Santa Ana School District had the right to receive payments from the Orange County Redevelopment Agency pursuant to a resolution adopted by the School District in 1999 under former Section 33676(a) of the Law (Santa Ana Unified School District v. Orange County Redevelopment Agency; App. 4 Dist. 2001 108 Cal. Rptr.2d 770, 90 Cal. App 4th 404, review denied). Former Section 33676(a) (2) provided that, unless a negotiated tax sharing agreement had been entered into, upon passage of a resolution prior to adoption of a redevelopment plan, affected taxing agencies and every school and community college district could elect to be allocated increases in the assessed value of taxable property in the project area based on inflation growth (the 2% Property Tax Increase). Former Section 33676(a)(2) was repealed as part of major revisions made to the Law pursuant to the Reform Act of 1993 (AB 1290). The changes to the Law contained in AB1290 were effective as of January 1, 1994. The Court of Appeals affirmed the lower court ruling that due to an amendment to former Section 33676(a) that was adopted in 1984 and became effective on January 1, 1985, school and community college districts were to automatically receive the 2% Property Tax Increase even without adopting the appropriate resolution prior to the adoption of a redevelopment plan.

The Project Area is subject to this court decision by virtue of its adoption date, however, all of the school districts that exist within the Project Area have negotiated tax sharing agreements with the Agency and are not, therefore, qualified to receive inflationary tax sharing payments as a result of this decision.

#### **Seal Beach Decision**

In a Minute Order issued on November 2, 2001 in County of Orange v. Orange County Assessment Appeals Board No. 3, case no. 00CC03385, the Orange County Superior Court held that where a home's taxable value did not increase for two years, due to a flat real estate market, the Orange County assessor violated the two percent inflation adjustment provision of Article

XIIIA, when the assessor tried to "recapture" the tax value of the property by increasing its assessed value by 4% in a single year. The assessors in all California counties, including San Bernardino County, use a similar methodology in raising the taxable values of property beyond 2% in a single year. The State Board of Equalization has approved this methodology for increasing assessed values. On December 12, 2002, the Orange County Superior Court ruled to restate the complaint as a class action, which could have the effect of extending this ruling to other similar cases. During 2002 two similar cases relating to properties in San Diego and Los Angeles County were heard and ruled differently on the issue of the Assessor being able to recapture value at greater than 2% per year.

The Superior Court ruling was appealed by the Orange County Assessor and oral arguments before Division 3 of the 4<sup>th</sup> District Court of Appeals in Santa Ana were heard on January 7, 2004. On March 26, 2004 the Court of Appeals overturned the Superior Court ruling and determined that the methodology used by the Orange County Assessor was constitutional. The plaintiff has indicated a desire to appeal the ruling to the Supreme Court but no appeal has been filed at this time

### **VIII. Development Activities**

New development that is currently under construction or recently completed within the Project Area has been projected to result in \$11.672 million in new valuation for 2004-05. It is further projected to add \$522,000 in new assessed value in 2005-06. These new developments are commercial projects described below and are more precisely shown on Table 4 of the projection.

The new developments projected to add value to the Project Area include a new Big 5 Sporting Goods store that is 10,027 square feet in size. This store is projected as adding \$385,567 in new value to the Project Area for 2004-05. On Murray Lane, five duplexes are being constructed. These duplexes are expected to add about \$320,000 to the tax rolls for 2004-05 and \$213,000 to the 2005-06 tax rolls. An office building totaling 5,606 square feet is being constructed on Joshua Lane and it is projected as adding \$298,721 in new value to the 2005-06 tax roll. From January 1, 2003 through December 31, 2003 there were 213 transfers of ownership with confirmed purchase prices. These transfers of ownership will add \$10.967 million in new value to the 2005-06 tax roll. The projected additional values discussed above have been incorporated into the projection. A Starbucks Coffee shop was recently completed within the Project Area. This shop is expected to add \$171,290 in new personal property value to the tax rolls for 2004-05.

In addition to the developments above, the City is presently processing the building permits for a new automobile dealership. Phelps Chevrolet-Nissan has been issued permits for grading and has been issued its permits to begin construction of a 24,000 square foot facility. Construction has not, however, begun as of this date. We estimate that this dealership will add \$1.147 million of assessed value to the tax rolls; however, since construction has not begun, we have not incorporated this additional value into the projection.

## 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 1.867% in Fiscal Year 2004-05 in accordance with the determination of the State Department of Finance and at two percent annually thereafter, 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 realized in all but four 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. 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.

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). 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, 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.

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

Projection of Incremental Taxable Value & Tax Increment Revenue  
(000's Omitted)  
Table 1

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<b>Taxable Values (1)</b>										
Real Property (2)	258,593	274,153	280,158	285,761	291,477	297,306	303,252	309,317	315,504	321,814
Personal Property (3)	12,078	12,249	12,249	12,249	12,249	12,249	12,249	12,249	12,249	12,249
<b>Total Projected Value</b>	<b>270,671</b>	<b>286,402</b>	<b>292,408</b>	<b>298,011</b>	<b>303,726</b>	<b>309,555</b>	<b>315,502</b>	<b>321,567</b>	<b>327,753</b>	<b>334,063</b>
<b>Taxable Value over Base</b>	<b>214,157</b>	<b>72,245</b>	<b>78,250</b>	<b>83,854</b>	<b>89,569</b>	<b>95,398</b>	<b>101,344</b>	<b>107,410</b>	<b>113,596</b>	<b>119,906</b>
Gross Tax Increment Revenue (4)	565	722	783	839	896	954	1,013	1,074	1,136	1,199
Unitary Tax Revenue	0	0	0	0	0	0	0	0	0	0
<b>Gross Revenues</b>	<b>566</b>	<b>723</b>	<b>783</b>	<b>839</b>	<b>896</b>	<b>954</b>	<b>1,014</b>	<b>1,074</b>	<b>1,136</b>	<b>1,199</b>
<b>LESS:</b>										
County Admin. And Collection Charges (5)	(9)	(12)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)
Housing Set Aside Requirement (6)	(85)	(116)	(128)	(139)	(151)	(162)	(174)	(186)	(198)	(211)
<b>Tax Sharing</b>										
Morongo Unified School District (7)	(44)	(56)	(61)	(65)	(69)	(74)	(78)	(83)	(87)	(91)
Copper Mountain Comm. College (8)	(23)	(29)	(31)	(33)	(36)	(38)	(40)	(43)	(45)	(48)
Yucca Valley Fire District (9)	(25)	(32)	(34)	(37)	(39)	(42)	(44)	(47)	(50)	(52)
Hi-Desert County Water District (8)	(39)	(50)	(54)	(58)	(62)	(66)	(71)	(75)	(79)	(83)
Mojave Water Agency (8)	(2)	(3)	(3)	(3)	(3)	(4)	(4)	(4)	(4)	(5)
<b>Tax Revenues</b>	<b>339</b>	<b>426</b>	<b>459</b>	<b>490</b>	<b>521</b>	<b>553</b>	<b>536</b>	<b>567</b>	<b>598</b>	<b>630</b>
Less Existing Debt Service	(142)	(145)	(143)	(145)	(143)	(145)	(141)	(143)	(145)	(146)
<b>Available Tax Revenues</b>	<b>197</b>	<b>281</b>	<b>316</b>	<b>345</b>	<b>378</b>	<b>409</b>	<b>395</b>	<b>424</b>	<b>454</b>	<b>485</b>
<b>Subordinate Tax Sharing</b>										
County of San Bernardino (7)	0	0	0	0	(52)	(55)	(59)	(62)	(66)	(70)
County Superintendent of Schools (8)	(3)	(4)	(5)	(5)	(5)	(6)	(6)	(6)	(7)	(7)
<b>Net Tax Revenues</b>	<b>194</b>	<b>277</b>	<b>312</b>	<b>340</b>	<b>321</b>	<b>348</b>	<b>330</b>	<b>355</b>	<b>381</b>	<b>408</b>

- (1) Taxable values as reported by San Bernardino County.
- (2) Real property consists of land and improvements. Increased new development and transfer sales (see Table 4) and increased for inflation at 1.867% for 2003-04 and at 2% annually thereafter. The 2003-04 assessed values are reduced by \$359,007 for four successful appeals not reflected on the 2003-04 roll. In 2004-05, values are reduced by \$923,540 for estimated value loss from 10 pending appeals.
- (3) Personal property is held constant at 2003-04 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 actual for 2003-04 and estimated for future years at 1.59% of Gross Revenue.
- (6) Housing Set Aside calculated at 20% of Gross Revenue. This obligation is reduced by 20% of the amount of existing debt service.
- (7) Morongo Unified School District receives 15% of its share (19.37% of general levy tax increment revenue in 1994-95 through 1997-98; 40% of its share from 1998-99 through 2008-09; 65% of its share from 2009-10 through 2033-34 and 0% thereafter.
- (8) Copper Mountain Community College (3.99%), Hi-Desert County Water District (6.96%) and Mojave Water Agency (0.379%) receive their shares of general levy tax increment revenue.
- (9) Yucca Valley Fire District receives 20% of its share (21.88% of general levy tax increment revenue).
- (10) Based on a new agreement with the San Bernardino Co., County share stipulated at 14.53424% of general levy tax increment. County 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. Based on the terms of the agreement, the payments to the County are subordinate to debt service payments on the 1995 Bonds and the Bonds.
- (11) County Supt. of Schools receives its share (0.725%) 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 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)  
 Table 2

	Taxable Value		Gross Tax Revenue	SB 2557 Change	Housing Set-Aside	Pass-Throughs Arrangements	Tax Revenues	1995 Bonds Debt Service	Available Tax Revenue	San Bernardino County	San Bernardino County Suppl. of Schools	Net Tax Revenues
	Total Taxable Value	Over Base										
1 2003-04	270,671	56,514	566	(9)	(85)	(133)	339	(142)	197	0	(3)	194
2 2004-05	286,402	72,245	723	(12)	(116)	(170)	426	(145)	281	0	(4)	277
3 2005-06	292,408	78,250	783	(12)	(123)	(184)	459	(143)	316	0	(5)	312
4 2006-07	298,011	83,854	839	(13)	(139)	(197)	490	(145)	345	0	(5)	340
5 2007-08	303,726	89,569	896	(14)	(151)	(210)	521	(143)	378	(52)	(5)	321
6 2008-09	309,555	95,398	954	(15)	(162)	(224)	553	(145)	409	(65)	(6)	348
7 2009-10	315,502	101,344	1,014	(16)	(174)	(237)	586	(141)	395	(69)	(6)	350
8 2010-11	321,567	107,410	1,074	(17)	(186)	(250)	619	(143)	424	(62)	(6)	355
9 2011-12	327,753	113,596	1,136	(18)	(193)	(261)	652	(145)	454	(66)	(7)	381
10 2012-13	334,063	119,906	1,199	(19)	(211)	(339)	630	(146)	485	(70)	(7)	408
11 2013-14	340,499	126,342	1,264	(20)	(225)	(358)	662	(141)	520	(73)	(7)	440
12 2014-15	347,064	132,907	1,329	(21)	(238)	(376)	695	(142)	553	(77)	(8)	468
13 2015-16	353,761	139,604	1,396	(22)	(251)	(395)	728	(142)	586	(81)	(8)	497
14 2016-17	360,591	146,434	1,465	(23)	(265)	(414)	762	(142)	620	(85)	(8)	527
15 2017-18	367,558	153,401	1,534	(24)	(279)	(434)	797	(142)	656	(112)	(9)	535
16 2018-19	374,664	160,507	1,605	(26)	(292)	(454)	833	(146)	688	(117)	(9)	562
17 2019-20	381,912	167,755	1,678	(27)	(307)	(475)	870	(144)	725	(122)	(10)	594
18 2020-21	389,305	175,148	1,752	(28)	(322)	(496)	906	(142)	764	(127)	(10)	627
19 2021-22	396,847	182,689	1,827	(29)	(336)	(517)	945	(145)	800	(133)	(11)	656
20 2022-23	404,538	190,381	1,904	(30)	(352)	(539)	983	(142)	840	(138)	(11)	691
21 2023-24	412,384	198,227	1,983	(32)	(368)	(561)	1,022	(144)	878	(144)	(11)	723
22 2024-25	420,387	206,230	2,063	(33)	(384)	(584)	1,063	(145)	918	(150)	(12)	756
23 2025-26	428,550	214,393	2,144	(34)	(429)	(607)	1,075	(142)	1,075	(156)	(12)	906
24 2026-27	436,876	222,719	2,228	(36)	(446)	(630)	1,116	(142)	1,116	(162)	(12)	942
25 2027-28	445,368	231,211	2,312	(37)	(462)	(654)	1,159	(145)	1,159	(168)	(13)	977
26 2028-29	454,031	239,873	2,399	(38)	(480)	(679)	1,202	(142)	1,202	(174)	(14)	1,014
27 2029-30	462,866	248,709	2,487	(40)	(497)	(704)	1,247	(144)	1,247	(181)	(14)	1,051
28 2030-31	471,879	257,721	2,578	(41)	(516)	(729)	1,292	(142)	1,292	(187)	(15)	1,089
29 2031-32	481,071	266,914	2,670	(43)	(534)	(755)	1,338	(144)	1,338	(194)	(15)	1,128
30 2032-33	490,448	276,290	2,763	(44)	(553)	(782)	1,385	(201)	1,385	(206)	(16)	1,168
31 2033-34	500,012	285,854	2,859	(46)	(572)	(809)	1,433	(215)	1,433	(208)	(17)	1,208
32 2034-35	509,767	295,610	2,956	(47)	(591)	(837)	1,484	(222)	1,484	(215)	(17)	1,252
33 2035-36	519,717	305,560	3,056	(49)	(611)	(867)	1,536	(229)	1,536	(222)	(18)	1,299
34 2036-37	529,866	315,709	3,157	(50)	(631)	(896)	1,590	(237)	1,590	(229)	(18)	1,347
35 2037-38	540,219	326,062	3,261	(52)	(652)	(926)	1,645	(245)	1,645	(237)	(19)	1,396
36 2038-39	550,778	336,821	3,367	(54)	(673)	(957)	1,701	(252)	1,701	(245)	(20)	1,446
37 2039-40	561,549	347,392	3,474	(55)	(695)	(989)	1,759	(260)	1,759	(252)	(20)	1,496
38 2040-41	572,535	358,378	3,584	(57)	(717)	(1,022)	1,818	(269)	1,818	(260)	(21)	1,547
39 2041-42	583,740	369,583	3,696	(59)	(739)	(1,056)	1,878	(277)	1,878	(269)	(21)	1,600
40 2042-43	595,170	381,013	3,810	(61)	(762)	(1,091)	1,939	(286)	1,939	(277)	(22)	1,654
			<b>81,788</b>	<b>(1,303)</b>	<b>(15,727)</b>	<b>(19,087)</b>	<b>42,517</b>	<b>(5,562)</b>	<b>42,517</b>	<b>(5,562)</b>	<b>(474)</b>	<b>36,481</b>

See Footnotes for Table 1

Bond Services\Tax Allocation Bonds\Yucca Valley 2004\2004 TABS 4

**Yucca Valley Redevelopment Agency  
Yucca Valley Redevelopment Project  
HISTORICAL VALUES (1)**

Table 3

	<u>Base Year 1992-93</u>	<u>1994-95</u>	<u>1995-96</u>	<u>1996-97</u>	<u>1997-98</u>	<u>1998-99</u>	<u>1999-00(3)</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04 (4)</u>
<b>Secured (2)</b>											
Land	190,768,668	70,582,248	68,745,635	67,866,454	68,070,452	66,955,291	67,281,156	67,743,496	68,379,320	69,006,166	71,409,685
Imps	0	143,154,807	140,272,932	140,518,280	143,136,522	146,483,195	150,522,515	155,709,417	160,765,007	169,166,745	177,815,430
Pers Prop	0	1,434,511	1,414,223	625,112	532,639	420,599	395,405	378,732	397,372	393,483	408,204
Exemptions	0	(1,965,043)	(1,794,650)	(2,101,551)	(1,628,909)	(2,132,559)	(2,214,811)	(2,092,205)	(3,396,668)	(2,921,238)	(3,786,764)
<b>Total Secured</b>	<b>190,768,668</b>	<b>213,206,523</b>	<b>208,638,140</b>	<b>206,908,295</b>	<b>210,110,704</b>	<b>211,726,526</b>	<b>215,984,265</b>	<b>221,739,440</b>	<b>226,145,031</b>	<b>235,645,156</b>	<b>245,846,555</b>
<b>Unsecured</b>											
Land	0	0	0	0	0	0	0	0	0	0	0
Imps	0	0	10,797,781	14,802,350	13,324,262	16,293,687	17,837,974	16,768,552	10,578,618	12,651,698	13,513,822
Pers Prop	23,388,448	0	15,327,057	14,135,483	12,739,408	11,250,199	11,700,688	10,533,404	11,164,422	11,384,505	12,004,828
Exemptions	0	0	(29,747)	(15,420)	0	(34,800)	(35,219)	(26,166)	(37,769)	(36,168)	(334,899)
<b>Total Unsecured</b>	<b>23,388,448</b>	<b>0</b>	<b>26,095,091</b>	<b>28,922,413</b>	<b>26,063,670</b>	<b>27,509,086</b>	<b>29,503,443</b>	<b>27,275,790</b>	<b>21,705,271</b>	<b>24,000,035</b>	<b>25,183,754</b>
<b>GRAND TOTAL</b>	<b>214,157,116</b>	<b>213,206,523</b>	<b>234,733,231</b>	<b>235,830,708</b>	<b>236,174,374</b>	<b>239,235,612</b>	<b>245,487,708</b>	<b>249,015,230</b>	<b>247,850,302</b>	<b>259,645,191</b>	<b>271,030,309</b>
Incremental Value:		(950,593)	20,576,115	21,673,592	22,017,258	25,078,496	31,330,592	34,858,114	33,693,186	45,488,075	56,873,193
% Change:			1.59%	5.33%	1.59%	13.90%	24.93%	11.26%	-3.34%	35.01%	25.03%

(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

5/5/04

<u>REAL</u>	SqFt/ Units	Value	Total Value	Less Existing	Total Value Added	2004-05		2005-06		2006-07	
						Start	Complete	Start	Complete	Start	Complete
Big 5 Sporting Goods	10,027	38	385,567	0	386		386	0	0	0	0
Murray Lane Duplexes	5	106,660	533,300	0	533		320	213	0	0	0
Office Building - 7255 Joshua Lane	5,606	53	298,721	0	299		0	299	0	0	0
Phelps Chevrolet-Nissan Dealership	24,000	48	1,147,200	0	1,147	Permitted	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 (1/03 thru 12/03)	213	0	28,157,000	17,190,060	10,967		10,967	0	0	0	0
Total Real Property			30,521,788	17,190,060	13,332		11,672	512	0	0	0
Total Real Property inc. Inflation Adj. @ 2% per year							522				

## PERSONAL

	Start	Complete	Total Value Added	Less Existing	Total Value	2004-05		2005-06		2006-07	
						Start	Complete	Start	Complete	Start	Complete
Starbucks	3/6/03	Feb. 2004	171	0	171,290		171	0	0	0	0
	0	0	0	0	0		0	0	0	0	0
	0	0	0	0	0		0	0	0	0	0
Total Personal Property			171	0	171,290		171	0	0	0	0
Total Real and Personal Property:			11,844	522	0		11,844	522	0	0	0

**Yucca Valley Redevelopment Agency**  
**Yucca Valley Redevelopment Project**  
**TOP TEN TAXABLE PROPERTY OWNERS**  
 Fiscal Year 2003-04  
**Table 5**

	Secured			Unsecured			Total			Use Code
	Value	Parcels	% of Sec. AV	Value	Parcels	% of Unsec. AV	Value	Total Value	% of Total Value	
1. Wai Mart Real Estate Business Trust	\$7,414,771	2	3.02%	\$0	0	0.00%	\$7,414,771	2.74%	Commercial	
2. California Valley Associates	\$5,863,585	6	2.39%	\$0	0	0.00%	\$5,863,585	2.16%	Commercial	
3. Delaware Inland Business Trust	\$5,496,397	1	2.24%	\$0	0	0.00%	\$5,496,397	2.03%	Commercial	
4. Century TCI California Communications	\$0	0	0.00%	\$5,378,214	1	21.36%	\$5,378,214	1.98%	Cable Communications	
5. Robert J. Ruehman	\$3,785,089	2	1.54%	\$0	0	0.00%	\$3,785,089	1.40%	Commercial	
6. Raymond D. White	\$3,392,936	15	1.38%	\$0	0	0.00%	\$3,392,936	1.25%	Vacant Land	
7. Apache Mobile Home Park Association	\$3,385,663	3	1.38%	\$0	0	0.00%	\$3,385,663	1.25%	Mobil Homes Residential	
8. Susan Esther Sandelman Trust	\$3,204,843	1	1.30%	\$0	0	0.00%	\$3,204,843	1.18%	Commercial	
9. SSM LLC	\$2,671,331	5	1.09%	\$0	0	0.00%	\$2,671,331	0.99%	Commercial	
10. State Brothers Markets	<u>\$732,566</u>	<u>3</u>	<u>0.30%</u>	<u>\$1,177,293</u>	<u>0</u>	<u>4.67%</u>	<u>\$1,909,859</u>	<u>0.70%</u>	Commercial/Unsecured	
	\$35,947,181	38	14.62%	\$6,555,507	1	26.03%	\$42,502,688	15.68%		

Project Area 2003-04 Assessed Value: \$245,846,555

Project Area Incremental Value Totals: \$55,077,887

(1) 2003-04 top property owners current as of January 5, 2004.

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## APPENDIX C

### GENERAL INFORMATION REGARDING THE TOWN AND THE COUNTY

*The following information is provided for general background purposes only. Neither the Town nor the County has any liability whatsoever under the Indenture or the 2004 Bonds.*

#### 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 46 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 2003, was 17,950, 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	17,550
2003	17,950

(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 and Landers, is 36,500.

#### **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. The statistics for 2001 are the latest available full-year totals.

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

Year	<u>Retail Stores</u>		<u>Total All Outlets</u>	
	<u>Number Of Permits</u>	<u>Taxable Transactions</u>	<u>Number Of Permits</u>	<u>Taxable Transactions</u>
1997	284	148,715	655	160,081
1998	282	148,784	674	160,415
1999	321	161,482	679	174,341
2000	336	172,454	654	186,957
2001	349	181,601	644	196,331

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, comprising 25%, 21% and 20%, respectively, of the total employed work force, as shown in the table below. 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**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Total Farm	21,300	21,700	20,900	20,300	20,400
Natural Resources & Mining	1,300	1,300	1,200	1,200	1,300
Construction	71,700	80,100	88,400	90,900	97,500
Durable Goods	83,000	85,600	84,100	82,100	80,600
Nondurable Goods	32,300	34,500	34,400	33,400	32,900
Wholesale Trade	34,900	38,300	41,600	41,900	43,800
Retail Trade	121,800	127,400	132,200	137,500	141,700
Transportation, Warehousing & Utilities	44,800	46,400	45,600	46,000	47,500
Information	12,800	12,900	14,600	14,100	13,800
Finance and Insurance	21,000	20,600	22,900	23,500	25,300
Real Estate and Rental & Leasing	13,800	14,200	15,300	15,900	16,800
Professional & Business Services	89,400	97,000	101,700	106,800	113,100
Educational & Health Services	99,700	102,200	106,000	112,400	115,300
Leisure and Hospitality	95,800	100,800	104,400	107,200	108,300
Other Services	33,600	35,000	37,100	38,100	38,400
Government	183,100	192,100	200,200	212,700	211,400

Source: California State Board of Equalization.

**TOWN OF YUCCA VALLEY  
Principal Employers**

<u>Name</u>	<u>Number of Employees</u>
Morongo Unified School District	340
Wal-Mart	275
Braswell Family Senior Care	210
San Bernardino County	154
Stater Brothers Market	142
Hi-Desert Star	78
Von's Market	70
Sizzler	60
Town of Yucca Valley	50
Barr Lumber	46

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, since 1999, when the Town began compiling statistics.

**TOWN OF YUCCA VALLEY  
Building Permit Valuation**

<u>Year</u>	<u>Total Permit Valuation</u>	<u>Number of New Single Family Dwellings</u>	<u>Number of New Commercial Buildings</u>
1999	\$ 7,642,966.69	51	2
2000	12,970,359.70	72	11
2001	12,523,264.16	88	2
2002	21,706,067.13	161	5
2003	33,645,402.07	240	3

Source: Town of Yucca Valley Planning Department.

**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. Waste removal is provided by Hi-Desert Disposal.

**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, 1 junior high 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.

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. These factors, ranging from geography to economics, all contribute to the continuing development which has pushed the County beyond \$91.0 billion in total assessed valuation for the 2002-2003 Fiscal Year and over \$19.5 billion in annual retail sales for the calendar year 2001.

### **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. John Michaelson, the County Administrative Officer since May 2001 retired in April 2003. Wally Hill, the County Administrator for Yuma County, Arizona since 1996, became the new County Administrative Officer effective April 14, 2003. Mr. Hill resigned in February 2004. Mark A. Uffer was appointed interim County Administrative Officer.

County administration includes 10 officials appointed by the Board of Supervisors, 4 officials appointed by the County Administrative Officer, 2 officials appointed jointly by the Board of Supervisors and the county Administrative Officer and 1 official appointed jointly by the Board of Supervisors and the Assistant County Administrator for the Human Services systems. A total of 20 officials are appointed by various officials including the Assistant County Administrative Officer (5), the Assistant County Administrator for the Human Services System (4), and the Assistant County Administrator for Economic Development and Public Services (11). There are 7 officials elected by county-wide vote to four-year terms including the Assessor, Auditor/Controller-Recorder, District Attorney, Superintendent of Schools, Sheriff, Public Administrator-Coroner and the Treasurer-Tax Collector. Many boards, commissions and committees assist the Board of Supervisors and County officials.

In October 1999, seven former county officials and several contractors and consultants were indicted by the United States Attorney on criminal corruption charges. These cases have been resolved and, with the exception of only one defendant, all defendants have been sentenced and have been ordered to pay restitution to the County. The restitution obligation has been satisfied. Pursuant to its own investigation, the County has initiated two lawsuits against the former County officials and contractors seeking recovery of amounts owed to the County and its taxpayers. The County has recovered \$13.5 million in settlement and judgments as a result of these suits. One of these defendants was County Supervisor Jerry Eaves. Supervisor Eaves settled this lawsuit by payment of \$7,200 to the

County. In August 2001, Supervisor Eaves, among others, was charged in relation to bribery and other corruption schemes in the second phase of an investigation by the United States Attorney into public corruption in the County. In response to these developments, the County has adopted new policies and procedures to encourage competitive procurement and contracting. Mr. Eaves is no longer a member of the Board of Supervisors.

### 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, 2003 was 1,833,000.

#### POPULATION As of January 1, 1994 through 1998

<u>Year</u>	<u>San Bernardino County</u>	<u>Annual Growth</u>	<u>State of California</u>	<u>Annual Growth</u>	<u>United States</u>	<u>Annual Growth</u>
1994	1,559,100	1.3%	31,661,000	1.1%	260,327,000	1.0%
1995	1,572,700	0.9%	31,910,000	0.8%	265,229,000	1.0%
1996	1,587,200	0.9%	32,223,000	1.0%	265,179,000	0.9%
1997	1,605,000	1.1%	32,670,000	1.4%	267,784,000	0.9%
1998	1,631,500	1.6%	33,252,000	1.8%	270,248,000	0.9%
1999	1,660,200	1.4%	33,766,000	1.6%	272,691,000	1.0%
2000	1,709,434	4.0%	34,336,000	1.3%	282,124,631	1.0%
2001	1,741,100	2.2%	34,385,000	0.5%	284,796,887	1.0%
2002	1,783,700	2.7%	35,037,000	1.8%	288,369,000	1.0%
2003	1,833,000	2.5%	35,591,000	1.7%	290,809,777(1)	1.0%

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

### Personal Income

The following table shows the County's median household effective buying income for 1998 through 2002.

## PERSONAL INCOME

<u>Year and Area</u>	<u>Total Effective Buying Income (000's Omitted)</u>	<u>Median Household Effective Buying Income</u>
1998		
San Bernardino County	\$ 20,296,317	\$ 32,097
California	551,999,317	37,091
United States	4,621,491,738	35,377
1999		
San Bernardino County	\$ 21,627,489	\$ 33,654
California	590,376,663	39,492
United States	4,877,786,658	37,233
2000		
San Bernardino County	\$ 24,140,596	\$ 36,658
California	652,190,282	44,464
United States	5,230,824,904	39,129
2001		
San Bernardino County	\$ 23,974,842	\$ 38,392
California	650,521,407	43,532
United States	5,303,481,498	38,365
2002		
San Bernardino County	\$ 24,477,813	\$ 37,840
California	647,879,427	42,484
United States	5,340,682,818	38,035

Source: S&MM (Sales and Marketing Management) Survey of Buying Power.

### Education

There are 35 public school districts in the County serving approximately 407,228 students in the 2002-2003 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 1998 through 2002

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Grades:					
K-8	259,031	263,932	272,435	281,220	287,946
9-12	100,021	104,965	105,041	109,444	116,623
Special Classes	<u>5,890</u>	<u>4,999</u>	<u>3,354</u>	<u>3,432</u>	<u>2,659</u>
Total	<u>364,942</u>	<u>373,896</u>	<u>380,830</u>	<u>394,096</u>	<u>407,228</u>

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

Colleges and universities located in the County include the following:

**COLLEGE AND UNIVERSITY ENROLLMENT  
FALL 2002**

<u>Public and Private Institutions</u>	<u>Total Number Enrolled (1)</u>	<u>City Located</u>
Colleges and Universities:		
California State University	11,019	San Bernardino
Loma Linda University	3,427	Loma Linda
University of Redlands	1,734	Redlands
Community Colleges:		
Chaffey College	18,025	Rancho Cucamonga
San Bernardino Valley	11,694	San Bernardino
Victor Valley College	8,111	Victorville
Crafton Hills	5,200	Yucaipa
Barstow College	3,330	Barstow
Copper Mountain College	2,300	Joshua Tree

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

(1) Includes full-time, part-time and non-credit students.

**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 1999 through 2003**

<u>Year and Area</u>	<u>Civilian Labor Force</u>	<u>Employment</u>	<u>Unemployment</u>	<u>Unemployment Rate</u>
1999				
San Bernardino County	746,900	710,900	36,000	4.8%
California	16,596,400	15,731,700	864,700	5.2%
United States	139,380,000	133,501,000	5,879,000	4.2%
2000				
San Bernardino County	787,300	749,900	37,400	4.7%
California	17,090,800	16,245,600	845,200	4.9%
United States	140,866,300	135,214,700	5,651,600	4.0%
2001				
San Bernardino County	812,300	773,400	38,900	4.8%
California	17,362,300	16,435,200	927,100	5.3%
United States	142,122,200	135,042,900	6,779,300	4.8%
2002				
San Bernardino County	844,700	796,700	48,000	5.7%
California	17,661,000	16,574,000	1,087,000	6.2%
United States	142,878,000	135,237,000	7,640,000	5.3%
2003				
San Bernardino County	870,300	820,100	50,200	5.8%
California	17,460,000	16,282,700	1,177,300	6.7%
United States	146,510,000	137,736,000	8,774,000	6.0%

Source: California Employment Development Department.

## 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.

**SAN BERNARDINO COUNTY**  
**MAJOR PUBLIC AND PRIVATE SECTOR EMPLOYERS**  
As of July 2003

<u>Company</u>	<u>Product/Service</u>	<u>Approximate Employees</u>
County of San Bernardino	County Government	19,299
Loma Linda University Adventist Health Sciences Center	Health Care	12,000
U.S. Marine Corps Air Ground Combat Center	U.S. Military	10,120
Stater Brothers Markets	Grocery Retailer	7,000
Loma Linda University Medical Center	Health Care	6,569
San Bernardino City USD	Public Education	6,000
Kaiser Permanente Medical Center	Health Care	5,375
Wal-Mart Stores Inc.	Retailer	5,000
Chino Valley Unified School District	Public Education	4,816
Fontana Unified School district	Public Education	4,000
Sears, Roebuck and Co.	Retailer	2,600
Colton Joint Unified School District	Public Education	2,500
Patton State Hospital	Forensic State Hospital	2,000
San Antonio Community Hospital	Health Care	2,000
Redlands Unified School District	Public Education	1,900
Verizon	Telecommunications	1,899
California State University, San Bernardino	University	1,833
Veterans Affairs Loma Linda Healthcare System	Federal government	1,794
San Bernardino County Office of Education	Public education	1,683
Albertsons	Retail Grocer	1,606

Sources: The Business Press: 2003 Book of Lists.

**Construction Activity**

The total valuation of residential building permits issued in the County exceeded \$1.8 billion in 2002, a 29.5 percent increase over the prior year. The total valuation of non residential building permits exceeded \$700 million, down 5.4 percent from the prior year. Single family home construction recorded continued strong growth, with multi-family units down slightly from the prior year but still over double the number constructed in 2000. The following table summarizes building permit valuations and the number of new dwelling units authorized in the county for the past five years.

**RESIDENTIAL CONSTRUCTION ACTIVITY**  
**For Years 1998 through 2002**

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Valuation (in thousands):					
Residential	\$993,156	\$ 1,250	\$1,127,597	\$1,416,540	\$1,833,751
Non Residential	642,910	758,616	766,421	764,931	723,922
New Dwelling Units:					
Single Family	5,602	6,593	5,865	6,825	9,171
Multiple Family	511	479	715	1,702	1,437
Total	<u>6,113</u>	<u>7,072</u>	<u>6,580</u>	<u>8,527</u>	<u>10,608</u>

Sources: Economic Sciences Corporation, *California Building Permit Activity*.

## Commercial Activity

Reflecting the effect of the County's strong population growth, retail sales grew by 40.6 percent over the most recent five years for which data is available. The following table summarizes the annual volume of taxable transactions within the County during that period.

### SALES TRANSACTIONS (in thousands) For Years 1997 through 2001

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Apparel stores	\$ 450,560	\$ 438,128	\$ 441,757	\$ 492,319	\$ 528,805
General merchandise	1,755,895	1,896,645	2,037,046	2,173,520	2,293,648
Specialty stores	1,234,247	1,385,058	1,587,311	1,932,603	1,995,882
Foods stores	779,146	781,086	837,468	914,011	922,146
Package liquor stores	54,767	53,326	57,034	57,481	58,976
Eating and drinking places	1,076,550	1,158,327	1,251,489	1,348,272	1,447,003
Home furnishings and appliances	302,847	327,367	357,294	387,651	400,243
Building materials and farm implements	792,651	832,387	1,006,899	1,106,194	1,225,075
Service stations	1,023,886	947,668	1,137,575	1,463,036	1,438,646
Vehicle, boat, motorcycle and plane dealers	<u>1,889,005</u>	<u>2,154,919</u>	<u>2,621,951</u>	<u>2,926,277</u>	<u>3,214,951</u>
miscellaneous					
Total Retail Outlets	\$ 9,359,554	\$ 9,974,911	\$11,335,824	\$12,801,364	\$13,525,375
Business and personal services	504,140	556,223	613,698	660,977	744,737
All other outlets	<u>4,141,322</u>	<u>4,471,163</u>	<u>4,837,856</u>	<u>5,423,097</u>	<u>5,414,031</u>
Total All Outlets	<u>\$14,005,016</u>	<u>\$15,002,297</u>	<u>\$16,787,378</u>	<u>\$18,885,438</u>	<u>\$19,684,143</u>

Source: State Board of Equalization

## Agriculture

Despite increasing industrialization, urbanization and decreasing land availability, agriculture remains an important sector of the County's economy. A five-year summary of farm production in the County is provided in the following table.

The total value of farm production decreased from \$703 million in 2001 to \$631.6 million in 2002. Most of the \$72 million decrease in value is attributable to the dairy industry due to lower milk prices in 2002.

**GROSS VALUE OF FARM PRODUCTION  
For Years 1998 through 2002**

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Fruit and Nut Crops (1)	\$ 32,140,000	\$ 62,385,100	\$ 34,796,900	\$ 36,295,600	\$ 31,639,600
Field Crops	27,943,000	21,135,100	22,677,300	24,858,400	16,951,400
Vegetable Crops	19,295,000	18,521,800	18,552,800	23,020,500	22,439,100
Nursery Products	21,717,500	26,457,500	29,049,300	34,616,800	42,437,900
Apiary Products	1,494,000	1,166,000	N/A (1)	N/A (1)	N/A (1)
Industrial Products	100,000	293,500	N/A (1)	N/A (1)	N/A (1)
Livestock and Poultry (1)	<u>591,423,000</u>	<u>593,758,200</u>	<u>513,391,800</u>	<u>584,673,600</u>	<u>518,082,100</u>
<b>Total</b>	<u>\$694,112,500</u>	<u>\$722,257,700</u>	<u>\$618,468,100</u>	<u>\$703,464,900</u>	<u>\$631,550,100</u>

Source: San Bernardino County, Department of Agriculture/Weights and Measures.

(1) Values for categories that have a small number of producers are designated "N/A" due to confidentiality requirements. Strawberries are included in "Fruit and Nut Crops." These values are incorporated into other categories. "Dairy Products," "Agriculture" and "Apiary Products" are included in "Livestock and Poultry." "Industrial Products" for the years 2000, 2001 and 2002 are included in Nursery Products."

**Recreation and Tourism**

The County includes many of Southern California's most popular recreation areas including Joshua Tree National Park, Arrowhead National Landmark, Lake Arrowhead Resort and Big Bear Lake. Not only do the mountains, lakes and resorts offer summer swimming, boating, fishing and hiking, they also provide for snow skiing and other winter sports. The Colorado River provides an all-year recreational area at the County's eastern boundary.

**Transportation**

The County has easy access to excellent roads, rail, and air transportation. With an outstanding transportation system including freeways, railways and intermodal facilities, airports and air transportation is one of the County's greatest assets. The San Bernardino Freeway (Interstate 10) and the Pomona Freeway (Interstate 60) provide direct access to downtown Los Angeles and Long Beach and connects with major north/south freeways, Interstate 15 and 215 providing Southern California access to the entire United States. .

*Air.* In 1999, Ontario International airport added 24 gates in a \$270 million expansion with capacity for 9 million passengers opening in September 1998 and today is the only remaining major Los Angeles basin airport with significant expansion capacity. The Ontario International Airport is one of the fastest growing airports on the west coast and is served by a host of major airlines, including Alaska Airlines, America West Airlines, American Airlines, Continental Airlines, Delta Airlines, Frontier Airlines, Hawaiian Airlines, JetBlue Airlines, Lineas Aeras Azteca, Northwest Airlines, Alaska Airlines, Southwest Airlines, United Airlines and United Express. The County is also served by the San Bernardino International Airport, six regional airports and southern California Logistics airport which has a fully staffed customs and trade zone designation. Businesses located at either are also eligible for California tax credits under their Local Agency Military Base Recovery Area (LAMBRA) enterprise zone designation. County residents also utilize major airports in nearby Los Angeles, Burbank and Orange County.

*Rail.* In 1996, BNSF dedicated a new 400,000 lift intermodal facility in San Bernardino with rail freight service provided by the Santa Fe Railway and the Southern Pacific Company. These freight facilities connect the rail and freeway shipping corridors that pass through San Bernardino County.

Merchandise can be imported or exported through the Ports of Los Angeles and Long Beach then transported via the Alameda Corridor to the intermodal facilities or by truck to the same facilities and then is shipped across the country by either rail or truck. Amtrak provides passenger service to Los Angeles to the west, San Diego to the south, San Francisco, Oregon and Washington to the north, as well as eastern routes to the rest of the United States.

*Road.* The County's pivotal Southern California location makes it a hub for truck transportation. Four firms handle the vast majority of containerized truck cargo, and all four have their corporate distribution facilities in the Inland Empire. Two of Southern California's largest freight consolidation and truck transfer terminals are located in the County, as well as more than eighty individual trucking firms. Easy access to major western U.S. transportation corridors, including the 1-10, 1-215, 1-15, 1-40 and state highways 58 and 60 provide the infrastructure to ship or receive goods.

*Port Access.* The County is within easy access to the International Ports of Los Angeles and Long Beach are both readily accessible via freeways and rail. These two ports control 30% of the total west coast import/export traffic.

*International Commerce.* California Commerce Center in Ontario has been federally designated as part of the Port of Long Beach Foreign Trade Zone #50-I. The Southern California Logistics Airport, located in the High Desert also has a foreign trade zone designation. Under U.S. Customs supervision, this designation allows goods in-transit through the United States to remain duty free and unrestricted by quotas. These factors combine to make San Bernardino County a premier location for firms whose markets or suppliers are part of the Pacific Rim economy.

*Public Transportation.* The County, in cooperation with Riverside, Orange and Los Angeles Counties, has developed a regional commuter rail system, MetroLink, through the purchase of existing tracks and rights-of-way. This regional commuter rail system became operational in 1993 and provides service throughout the four counties. Bus service is provided by Continental Trailways Bus System and Greyhound Bus Lines, The Omnitrans Transit District provides bus service throughout the County between most cities and communities.

*Transportation Funds.* In 1989, the voters of the County approved the imposition of a 1/2 cent sales tax countywide to be used for transportation purposes. The San Bernardino County Transportation Authority, a separate legal entity from the County, administers these funds. The 1/2 cent sales tax imposed will expire in 2010 and planning has already begun to continue the tax by the passage of a ballot measure on the 2004 election ballot. A program has been developed to allocate these sales tax funds and bond proceeds relating thereto to both regional and local street and road improvement projects. In addition, some funds will also be dedicated to the improvement of rail transportation commuting systems.

## APPENDIX D

### SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain provisions of the Indenture. This summary does not purport to be complete and is qualified in its entirety by reference to the Indenture for further information in this regard. All capitalized terms used but not otherwise defined in this Appendix shall have the meanings assigned to such terms in the Indenture.

#### Definitions

##### *Additional Allowance*

The term "Additional Allowance" means, as of the date of calculation the amount of Tax Revenues which, as shown in the report of an Independent Redevelopment Consultant, are estimated to be receivable by the Agency in the next Fiscal Year as a result of increases in the assessed valuation of taxable property in the Project due to either (i) construction which has been completed but has not yet been reflected on the tax roll, or (ii) transfer of ownership or any other interest in real property, 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 Project in the next Fiscal Year is estimated to exceed the assessed valuation of taxable property in the Project in the then current Fiscal Year (as evidenced in a written document from an appropriate official of the County) as of the date on which such calculation is made.

##### *Agency*

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

##### *Annual Debt Service; Average Annual Debt Service; Maximum Annual Debt Service*

The term "Annual Debt Service" means, for each Bond Year, the sum of (1) the interest falling due on all Outstanding Bonds in such Bond Year, assuming that all Outstanding Serial Bonds are retired as scheduled and that all Outstanding Term Bonds, if any, are redeemed from the Sinking Account, as may be scheduled (except to the extent that such interest is to be paid from the proceeds of sale of any Bonds), (2) the principal amount of the Outstanding Serial Bonds, if any, maturing by their terms in such Bond Year, and (3) the minimum amount of such Outstanding Term Bonds required to be paid or called and redeemed in such Bond Year.

"Annual Debt Service" shall not include (a) interest on Bonds which is to be paid from amounts constituting capitalized interest or (b) principal and interest allocable to that portion of the proceeds of any Bonds required to remain unexpended and to be held in escrow pursuant to the terms of a Supplemental Indenture, provided that (i) projected interest earnings on such amounts, if any, deposited by the Agency in the Interest Account, are sufficient to pay the interest due on such portion of the Bonds so long as it is required to be held in escrow and (ii) the conditions for the release of such proceeds from escrow, insofar as they relate to Tax Revenue coverage and satisfaction of the Reserve Account Requirement, are substantially similar to those for the issuance of Additional Bonds.

The term "Average Annual Debt Service" means the average Annual Debt Service over all Bond Years.

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

### *Authorized Investments*

The term "Authorized Investments" means any of the following which at the time of investment are legal investments under the laws of the State of California for the moneys proposed to be invested therein: (a) Federal Securities; (b) Federal Home Loan Mortgage Corporation participation certificates (excluding stripped mortgage securities which are purchased at prices exceeding their principal amount) or senior debt obligations, (c) Federal National Mortgage Association mortgage-backed securities (excluding stripped mortgage securities which are purchased at prices exceeding their principal amount) or senior debt obligations; (d) certificates of deposit, time deposits or bankers' acceptances with a maturity of one (1) year or less of any bank (including the Trustee) the debt obligations of which or the debt obligations of the holding company of which have been rated A-1+ by Standard & Poor's Corporation and P-1 by Moody's Investors Service; (e) obligations rated at least AA by Standard & Poor's Corporation and Aa by Moody's Investors Service; (f) taxable money market portfolios restricted to obligations issued or guaranteed as to payment of principal and interest by the full faith and credit of the United States or repurchase agreements collateralized by such obligations, (g) deposits which are fully insured by the Federal Deposit Insurance Corporation; (h) repurchase agreements with financial institutions fully insured by the Federal Deposit Insurance Corporation or any broker-dealer with "retail customers" which falls under Securities Investors Protection Corporation jurisdiction, and at the time of execution of such repurchase agreement, having unsecured debt obligations rated in one of the two highest rating categories (without respect to any modifier) by Standard & Poor's Corporation and Moody's Investors Service, which repurchase agreements are secured by any of the obligations referred to in (a) above, provided that the Trustee or a third party acting solely as agent for the Trustee has possession of the collateral securing such repurchase agreement and the Trustee has a perfected first security interest in the collateral securing such repurchase agreement; (i) an Investment Agreement (subject to prior notification to Standard & Poor's Corporation); or (j) shares in a California common law trust established pursuant to Title I, Division 7, Chapter 5 of the Government Code of the State of California which invests exclusively in investments permitted by Section 53635 of Title 5, Division 2, Chapter 4 of the Government Code of the State of California, as it may be amended, to the extent such shares are held in the name and to the credit of the Trustee and subject to prior notification to Standard & Poor's Corporation.

### *Book-Entry Bonds*

"Book-Entry Bonds" means Bonds of any Series registered in the name of a Nominee of a Depository as the Owner thereof pursuant to the terms and provisions of the Indenture.

### *Series 1995 Bonds, Additional Bonds, Serial Bonds, Term Bonds*

The term "Bonds" means the Yucca Valley Redevelopment Agency, Yucca Valley Redevelopment Area Tax Allocation Bonds, Series 1995 and all Additional Bonds.

The term "Series 1995 Bonds" means the Bonds issued pursuant to the Indenture.

The term "Additional Bonds" means all tax allocation bonds of the Agency authorized and executed pursuant to the Indenture and issued and delivered in accordance therewith.

The term "Serial Bonds" means Bonds for which no mandatory sinking account payments are provided.

The term "Term Bonds" means Bonds which are payable on or before their specified maturity dates from mandatory sinking account payments established for that purpose and calculated to retire such Bonds on or before their specified maturity dates.

### *Bond Insurance Policy*

The term "Bond Insurance Policy" means the municipal bond insurance policy, if any, issued by the applicable Bond Insurer and guaranteeing, in whole or in part, the payment of principal of and interest on a Series of Bonds.

*Bond Insurer*

The term "Bond Insurer" means the issuer or issuers of a policy or policies of municipal bond insurance (other than a Qualified Reserve Account Credit Instrument) obtained by the Agency to insure the payment of principal of and interest on a Series of Bonds issued under the Indenture, when due otherwise than by acceleration, and which, in fact, are at any time insuring such Series of Bonds. For the purposes of this definition, all consents, approvals or actions required by the Bond Insurer shall be unanimous action of all Bond Insurers if there is more than a single Bond Insurer.

*Bond Year*

The term "Bond Year" means (i) with respect to the initial Bond Year, the period extending from the date the Series 1995 Bonds are originally delivered to June 1, 1996 or the period extending from the date the 2004 Bonds are originally delivered to June 1, 2004, as applicable, and (ii) thereafter, each successive twelve month period ending on June 1.

*Business Day*

The term "Business Day" has the meaning set forth in the Indenture.

*Certificate of the Agency*

The term "Certificate of the Agency" means an instrument in writing signed by the Chairperson or Vice-Chairperson of the Agency, or by the Treasurer of the Agency, or by any other officer of the Agency duly authorized by the Agency for that purpose.

*Closing Date*

The term "Closing Date," means the date of delivery of a Series of Bonds to the original purchaser thereof.

*Code*

The term "Code" means the Internal Revenue Code of 1986, and any regulations promulgated thereunder.

*Consultant's Report*

The term "Consultant's Report" means a report signed by an Independent Financial Consultant or an Independent Redevelopment Consultant, as may be appropriate to the subject of the report, and including:

(1) 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.

(2) a brief statement as to the nature and scope of the examination or investigation upon which the report is based,

(3) a statement that, in the opinion of such person or firm, sufficient examination or investigation was made as is necessary to enable said Independent Financial Consultant or Independent Redevelopment Consultant to express an informed opinion with respect to the subject matter referred to in the report.

*County*

The term "County" means the County of San Bernardino, California.

*DTC*

The term "DTC" means The Depository Trust Company, New York, New York, and its successors and assigns.

*Expense Fund*

The term "Expense Fund" means the fund by that name held by the Trustee pursuant to the Indenture.

*Federal Securities*

The term "Federal Securities" means United States Treasury notes, bonds, bills or certificates of indebtedness, or other evidences of indebtedness secured by the full faith and credit of the United States of America, and also any securities authorized by the Indenture both the interest on and principal of which are guaranteed directly by the full faith and credit of the United States of America, as and to the extent that such securities are eligible for the legal investment of Agency funds.

*First Supplemental Indenture*

The term "First Supplemental Indenture" means the First Supplemental Indenture, dated as of June 1, 2004, by and between the Agency and the Trustee, providing for the issuance of the 2004 Bonds.

*Fiscal Year*

The term "Fiscal Year" means the period commencing on July 1 of each year and terminating on the next succeeding June 30, or any other annual accounting period selected and designated after the execution of the Indenture, by the Agency as its Fiscal Year in accordance with the Law and identified in writing to the Trustee.

*Housing Fund*

The term "Housing Fund" means the Yucca Valley Redevelopment Area Low and Moderate Income Housing Fund established pursuant to the Indenture and held by the Agency for purposes of Section 33334.3 of the Law.

*Indenture*

The term "Indenture" means the Indenture dated as of December 1, 1995, by and between the Agency and BNY Western Trust Company, as successor trustee, and all Supplemental Indentures.

*Independent Certified Public Accountant*

The term "Independent Certified Public Accountant" means any certified public accountant or firm of such accountants duly licensed and entitled to practice and practicing as such under the laws of the State of California, appointed and paid by the Agency, and who, or each of whom:

- (1) is in fact independent and not under the domination of the Agency;
- (2) does not have any substantial interest, direct or indirect, with the Agency; and
- (3) is not connected with the Agency as a member, officer or employee of the Agency, but who may be regularly retained to make annual or other audits of the books of or reports to the Agency.

### *Independent Financial Consultant*

The term "Independent Financial Consultant" means a financial consultant or firm of such consultants generally recognized to be well qualified in the financial consulting field, appointed and paid by the Agency and who, or each of whom:

- (1) is in fact independent and not under the domination of the Agency;
- (2) does not have any substantial interest, direct or indirect, with the Agency; and
- (3) is not connected with the Agency as a member, officer or employee of the Agency, but who may be regularly retained to make annual or other reports to the Agency.

### *Independent Redevelopment Consultant*

The term "Independent Redevelopment Consultant" means a consultant or firm of such consultants generally recognized to be well qualified in the field of consulting relating to tax allocation bond financing by California redevelopment agencies, appointed and paid by the Agency, and who, or each of whom:

- (1) is in fact independent and not under the domination of the Agency;
- (2) does not have any substantial interest, direct or indirect, with the Agency; and
- (3) is not connected with the Agency as a member, officer or employee of the Agency, but who may be regularly retained to make annual or other reports to the Agency.

### *Information Services*

The term "Information Services" means Financial Information, Inc.'s "Daily Called Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenny Information Services' "Called Bond Service," 65 Broadway, 16th Floor, New York, New York 10006; Moody's "Municipal and Government," 99 Church Street, 8th Floor, New York, New York 10007, Attention: Municipal News Reports; and Standard and Poor's "Called Bond Record," 25 Broadway, 3rd Floor, New York, New York 10004; or to such other addresses and/or such other services providing information with respect to called bonds as the Agency may designate to the Trustee in writing.

### *Interest Account*

The term "Interest Account" means the Bond Interest Payment Account within the Special Fund.

### *Interest Payment Date*

The term "Interest Payment Date" means each June 1 or December 1 on which interest on any Series of Bonds is scheduled to be paid, commencing June 1, 1996 with respect to the Series 1995 Bonds and commencing December 1, 2004 with respect to the 2004 Bonds.

### *Investment Agreement*

The term "Investment Agreement" means an investment agreement or guaranteed investment contract by and between the Trustee and a national or state chartered bank or savings and loan institution (including the Trustee) or other financial institution or insurance company respecting the investment of moneys in certain funds or accounts established pursuant to the Indenture; provided that, at the time of execution thereof, any such bank, institution, or company has unsecured debt obligations or claims paying ability rated in one of the two highest rating categories by Standard & Poor's Corporation and/or Moody's Investors Service.

### *Law*

The term "Law" means the Community Redevelopment Law of the State of California (being Part 1 of Division 24 of the Health and Safety Code of the State of California, as amended), and all laws amendatory thereof or supplemental thereto.

### *Letter of Representations*

The term "representations" means the letter of the Agency and the Trustee delivered to and accepted by the Depository on or prior to the issuance of a Series of Book-Entry Bonds setting forth the basis on which the Depository serves as depository for such Book-Entry Bonds, as originally executed or as it may be supplemented or revised or replaced by a letter to a substitute depository.

### *Nominee*

The term "Nominee" means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Indenture.

### *Outstanding*

The term "Outstanding" when used as of any particular time with reference to Bonds means (subject to the provisions of the Indenture) all Bonds except -

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

### *Owner*

The term "Owner" means the registered owner of any Outstanding Bond.

### *Participants*

The term "Participants" means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds Book-Entry Bonds as securities depository.

### *Pass-through Agreements*

The term "Pass-through Agreements" means, 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.

*Plan Limitations*

The term "Plan Limitations" means the limitations contained or incorporated in the Redevelopment Plan on the aggregate amount of taxes which may be divided and allocated to the Agency pursuant to the Redevelopment Plan.

*Principal Account*

The term "Principal Account" means the Serial Bond Payment Account within the Special Fund.

*Principal Payment Date*

The term "Principal Payment Date" means any date on which principal of any Series of Bonds is scheduled to be paid, which dates shall be as set forth in the Indenture for the Series 1995 Bonds.

*Project*

The term "Project" means the undertaking of the Agency pursuant to the Redevelopment Plan and the Law for the redevelopment of the Project Area.

*Project Area*

The term "Project Area" means the project area described in the Redevelopment Plan, known as Yucca Valley Redevelopment Area.

*Record Date*

The term "Record Date" means with respect to any Interest Payment Date, the fifteenth calendar day of the month immediately preceding such Interest Payment Date, whether or not such day is a Business Day.

*Redevelopment Fund*

The term "Redevelopment Fund" means the Yucca Valley Redevelopment Area Redevelopment Fund held by the Agency pursuant to the Indenture.

*Redevelopment Plan*

The term "Redevelopment Plan" means the Redevelopment Plan for the Project Area, adopted and approved as the Official Redevelopment Plan for the Project Area by Ordinance No. 37 adopted by the Town Council of the Town on August 5, 1993, together with all amendments thereof or supplements thereto made in accordance with the Law.

*Reserve Account*

The term "Reserve Account" means the account by that name within the Special Fund.

*Reserve Account Requirement*

The term "Reserve Account Requirement" (to be confirmed by the Agency to the Trustee upon the Trustee's request) means, as of any calculation date, with respect to each Series of Bonds, an amount equal to the least of (i) ten percent (10%) of the proceeds (within the meaning of Section 148 of the Code) of that portion of such Series of Bonds Outstanding with respect to which Annual Debt Service is calculated, (ii) 125% of Average Annual Debt Service of such Series or (iii) Maximum Annual Debt Service of such Series.

### *Securities Depositories*

The term "Securities Depositories" means: The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax-(516) 277-4039 or 4190; Midwest Securities Trust Company, Capital Structures-Call Notification, 440 South LaSalle Street, Chicago, Illinois 60605, Fax-(312) 663-2343, Philadelphia Depository Trust Company, Reorganization Division, 1900 Market Street, Philadelphia, Pennsylvania 19103, Attention: Bond Department, Dex-(215) 496-5058; or such other addresses and/or such other securities depositories as the Agency may designate to the Trustee in writing.

### *Series*

The term "Series," when used with reference to the Bonds, means all of the Bonds authenticated and delivered on original issuance and identified pursuant to the Indenture or a Supplemental Indenture authorizing such Bonds as a separate Series of Bonds, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Indenture.

### *Sinking Accounting*

The term "Sinking Account" means the Term Bond Sinking Fund Account within the Special Fund.

### *Sinking Account Installment*

The term "Sinking Account Installment" means the amount of money required by or pursuant to the Indenture to be paid by the Agency on any single date toward the retirement of any particular Term Bonds of any particular Series on or prior to their respective stated maturities.

### *Sinking Account Payment Date*

The term "Sinking Account Payment Date" means any date on which Sinking Account Installments on any Series of Bonds are scheduled to be paid.

### *Special Fund*

The term "Special Fund" means the Yucca Valley Redevelopment Area Tax Allocation Bonds Special Fund held by the Trustee pursuant to the Indenture.

### *Supplemental Indenture*

The term "Supplemental Indenture" means any indenture then in full force and effect which has been entered into by the Agency and the Trustee, amendatory of or supplemental to the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized thereunder.

### *Tax Certificate*

The term "Tax Certificate" means the Tax Certificate dated the date of the original delivery of each Series of Bonds (except the Series 1995B Bonds and any other Series of Bonds which the Agency shall certify to the Trustee is not intended to meet the requirements for tax exemption under the Code) relating to the requirements of certain provisions of the Code, as each such certificate may from time to time be modified or supplemented in accordance with the terms thereof.

### *Tax Revenues*

The term "Tax Revenues" means, for each Bond Year, the taxes (including all payments, reimbursements and subventions, if any, specifically attributable to ad valorem taxes lost by reason of tax exemptions and tax rate limitations) eligible for allocation to the Agency pursuant to the Law in connection with the Project Area (excluding (a) amounts, if any, received by the Agency pursuant to Section 16111 of the Government Code; (b) amounts payable to affected taxing agencies pursuant to the Pass-through Agreements (except and to the extent such amounts so payable are payable on a basis

subordinate to the payment of the Bonds); and (c) amounts (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 Project Area) deposited by the Agency in the Housing Fund pursuant to Section 33334.2 of the Law), as provided in the Redevelopment Plan.

*Total Maturity Amount*

The term "Total Maturity Amount" means with respect to any Outstanding Bond, the aggregate principal amount thereof.

*Town*

The term "Town" means the Town of Yucca Valley, California.

*Trustee*

The term "Trustee" means such trustee as may be appointed by the Agency and its successors and Assigns, or any other corporation or association which may at any time be substituted in its place, as provided in the Indenture.

*2004 Bonds*

The term "2004 Bonds" means the Yucca Valley Redevelopment Agency (Yucca Valley Redevelopment Project No. 1) Tax Allocation Bonds, Series 2004.

*Written Request of the Agency*

The term "Written Request of the Agency" means an instrument in writing signed by the Chairperson, the Executive Director or Treasurer of the Agency or by any other officer of the Agency duly authorized by the Agency for that purpose.

**Tax Revenues; Creation of Funds**

*Pledge of Tax Revenues.* All the Tax Revenues and all money in the Special Fund and in the funds or accounts so specified and provided for in the Indenture, whether held by the Agency or the Trustee (except the Rebate Fund), are irrevocably pledged to the punctual payment of the interest on and principal of and redemption premiums, if any, on the Bonds, and the Tax Revenues and such other money shall not be used for any other purpose while any of the Bonds remain Outstanding, subject to the provisions of the Indenture permitting application thereof for the purposes and on the terms and conditions set forth therein. This pledge shall constitute a first lien on the Tax Revenues and such other money for the payment of the Bonds in accordance with the terms thereof.

*Special Fund, Receipt and Deposit of Tax Revenues.* There is established a special fund known as the "Yucca Valley Redevelopment Area Tax Allocation Bonds Special Fund" (the "Special Fund") which shall be held by the Trustee. On or before fifteen (15) days preceding each Interest Payment Date, the Agency shall transfer all Tax Revenues held or received by the Agency to the Trustee for deposit in the Special Fund; provided, that the Agency shall not be obligated to deposit in the Special Fund in any Bond Year an amount of Tax Revenues which, together with other available amounts then in the Special Fund, exceeds the amounts required to be transferred to the Trustee for deposit in the Interest Account, the Principal Account, the Sinking Account and the Reserve Account in such Bond Year, pursuant to the Indenture. Any Tax Revenues received during such Bond Year following deposit in the Special Fund of an amount equal to the aggregate amount required to be transferred to the Interest Account, the Principal Account, the Sinking Account and the Reserve Account in such Bond Year pursuant to the Indenture shall be released from the pledge and lien thereunder and may be used for any lawful purposes of the Agency. There shall not be deposited with the Trustee any taxes eligible for allocation to the Agency for deposit in the Special Fund pursuant to the Law in an amount in excess of that amount which, together with all money then on deposit with the Trustee in the Special Fund and the accounts therein, shall be sufficient to discharge all Outstanding Bonds as provided in the Indenture.

The Agency covenants and agrees that all Tax Revenues deposited by the Agency with the Trustee in the Special Fund will be accounted for through and held in trust in the Special Fund, and the Agency shall have no beneficial right or interest in any of such money, except only as in the Indenture provided. All such Tax Revenues shall nevertheless be disbursed, allocated and applied solely to the uses and purposes set forth in the Indenture, and shall be accounted for separately and apart from all other money, funds, accounts or other resources of the Agency.

*Establishment of Other Funds.* In addition to the Special Fund, there is established a special trust fund held by the Agency called the "Yucca Valley Redevelopment Area Redevelopment Fund" (the "Redevelopment Fund") and a special trust fund held by the Agency called the "Yucca Valley Redevelopment Area Housing Fund" (the "Housing Fund"). A special trust fund is created, to be held by the Trustee, called the "Yucca Valley Redevelopment Area Expense Fund" (the "Expense Fund").

So long as any of the Bonds authorized in the Indenture, or any interest thereon, remains unpaid, the moneys in the foregoing funds shall be used for no purpose other than those required or permitted by the Indenture and the Law.

Pursuant to the Tax Certificate, the funds and accounts established in the Indenture may be divided upon Written Request of the Agency into sub-accounts for each Series of Bonds issued thereunder, in order to perform the necessary rebate calculations.

*Redevelopment Fund and Housing Fund.*

Moneys in the Redevelopment Fund shall be used and disbursed in the manner provided by law for the purpose of aiding in financing the Project (or for making reimbursements to the Agency for such costs theretofore paid by it), including payment of all costs incidental to or connected with such financing. Any balance of money remaining in the Redevelopment Fund after the date of completion of the financing of the Project shall be transferred by the Agency to the Trustee for deposit in the Special Fund.

The Agency shall pay moneys from the Redevelopment Fund upon receipt of requisition drawn thereon and signed by at least one duly authorized officer or member of the Agency. The Agency warrants that each withdrawal from the Redevelopment Fund shall be made in the manner provided by law for the purpose of aiding in financing the Project or for making reimbursements to the Agency for such costs theretofore paid by the Agency. The Treasurer of the Agency shall establish and maintain an account within the Redevelopment Fund for each Series of Bonds issued under the Indenture known as the "Series Project Account" and all proceeds of each such Series of Bonds deposited in the Redevelopment Fund shall be held in the account established for such Series and shall be accounted for separately from all other amounts in the Redevelopment Fund. Amounts in each such account shall be used for the purposes authorized for use of amounts in the Redevelopment Fund.

Moneys in the Housing Fund shall be used and disbursed in the manner provided by law for the purpose of aiding in financing low and moderate income housing in the Project (or for making reimbursements to the Agency for such costs theretofore paid by it), including payment of all costs incidental to or connected with such financing. Any balance of money remaining in the Housing Fund after the date of completion of the financing of low and moderate income housing in the Project shall be transferred by the Agency to the Trustee for deposit in the Special Fund.

The Agency shall pay moneys from the Housing Fund upon receipt of requisition drawn thereon and signed by at least one duly authorized officer or member of the Agency. The Agency warrants that each withdrawal from the Housing Fund shall be made in the manner provided by law for the purpose of aiding in financing the low and moderate income housing in Project or for making reimbursements to the Agency for such costs theretofore paid by the Agency. The Treasurer of the Agency shall establish and maintain an account within the Housing Fund for each Series of Bonds issued under the Indenture known as the "Series Project Account" and all proceeds of each such Series of Bonds deposited in the Housing Fund shall be held in the account established for such Series and shall be accounted for separately from all other amounts in the Housing Fund. Amounts in each such account shall be used for the purposes authorized for use of amounts in the Housing Fund.

*Expense Fund.* All moneys in the Expense Fund shall be applied to the payment of costs and expenses incurred by the Agency in connection with the authorization, issuance and sale of the Bonds and shall be disbursed by the Trustee upon delivery to the Trustee of a requisition, substantially in the form attached to the Indenture as Appendix B, executed by an officer of the Agency. Each such requisition shall be sequentially numbered and state the name and address of the person, firm or corporation to whom payment is due, the amount to be disbursed, the purposes for such disbursement and that such obligation has been properly incurred and is a proper charge against the Expense Fund. Upon receipt of a properly signed Requisition, the Trustee is authorized to act thereon without further inquiry and, except for the negligence or willful misconduct of the Trustee, the Agency shall hold the Trustee harmless against any and all losses, claims or liabilities incurred directly in connection with the Trustee making such disbursements. Upon the earlier of the payment in full of such costs and expenses (or the making of adequate provision for the payment thereof evidenced by a Certificate of the Agency to the Trustee) or 180 days after delivery of the Bonds to the original purchaser thereof, any balance remaining in such Fund shall be transferred to the Agency and deposited by the Agency in the Redevelopment Fund established pursuant to the Indenture, and pending such transfer and application, the moneys in such Fund may be invested as permitted by the Indenture; provided, however, that investment income resulting from any such investment shall be retained in the Expense Fund. The Trustee shall establish and maintain an account within the Expense Fund for each series of Bonds issued under the Indenture known as the "Series Expense Account" and all proceeds of each such Series of Bonds deposited in the Expense Fund shall be held in the account established for such Series and shall be accounted for separately from all other amounts in the Expense Fund. Amounts in each such account shall be used for the purposes authorized for use of amounts in the Expense Fund.

*Establishment and Maintenance of Accounts for Use of Moneys in the Special Fund.* All Tax Revenues shall be deposited into the Accounts of the Special Fund as provided in the Indenture. Without limiting the generality of the foregoing and for the purpose of assuring that the payments referred to above will be made as scheduled, the Tax Revenues accumulated in the Special Fund shall be used in the following priority; provided, however, that to the extent that deposits have been made in any of the Accounts referred to below from the proceeds of the sale of the Bonds or otherwise, the deposits below need not be made:

(a) *Bond Interest Payment Account* ("Interest Account"). Deposits shall be made into the Interest Account so that the balance in such Account 30 days prior to the date of the payment of any installment of interest on the Bonds shall be equal to six months interest on the then Outstanding Bonds. Moneys in the Interest Account shall be used for the payment of interest on the Bonds as the same become due, and after such payment the Account shall be restored by further deposits to the required balance.

(b) *Serial Bond Payment Account* ("Principal Account"). After the deposits have been made pursuant to subparagraph (a) above, deposits shall next be made into the Principal Account so that the balance in such Account 30 days prior to the date of payment of principal is due shall equal the next principal payment, or payments, as the case may be, on the then Outstanding Serial Bonds. Moneys in the Principal Account shall be used for the payment of the principal of such Serial Bonds, as the same become due, and after such payment, the Account shall be restored by further deposits to the required balance.

(c) *Term Bond Sinking Fund Account* ("Sinking Account"). Commencing on a date 13 months prior to the first Sinking Account Payment Date, after the deposits have been made pursuant to subparagraphs (a) and (b) above, if the Tax Revenues are sufficient therefor, deposits shall next be made into the Sinking Account so that the balance in such Account 30 days prior to the date the money in such Account is scheduled to be used shall equal the then current Sinking Account Installment on the Outstanding Term Bonds. Moneys in the Sinking Account shall be used and applied by the Trustee to pay the principal amount of Outstanding Term Bonds.

(d) *Reserve Account.* After the deposits have been made pursuant to subparagraphs (a), (b) and (c) above, if the Tax Revenues are sufficient therefor, deposits shall next be made into the Reserve Account so that the balance in such Account shall equal the Reserve Account Requirement, and the balance in such Account shall be so maintained to equal the Reserve Account Requirement. Moneys in the Reserve Account shall be used solely for the purpose of paying the interest on and principal of the Bonds in the event that the moneys in the Interest Account or Principal Account or Sinking Account are

insufficient therefor and for that purpose the Trustee shall withdraw and transfer moneys from the Reserve Account to the appropriate Account. Moneys in the Reserve Account may be used to pay the interest on and principal of the last outstanding maturity of the Bonds.

(e) *No Default: Surplus.* It is the intent of the Indenture that the deposits in subparagraphs (a) and (b) above to the Interest Account and the Principal Account, respectively, shall be made as scheduled, and the deposits in subparagraphs (c) and (d) above, to the Sinking Account and the Reserve Account, respectively, shall be made as scheduled, if and only if the Tax Revenues are sufficient therefor. Failure to make the required deposits into the Sinking Account, as specified in subparagraph (c) above, and into the Reserve Account, as specified in subparagraph (d) above, shall not be an event of default if the sole reason is that the Tax Revenues are insufficient therefor. Should it be necessary to defer all or part of any deposit referred to in subparagraphs (c) and (d) above, such deferred deposits shall be cumulative and shall be made when the Tax Revenues are sufficient to make the deposits required by subparagraphs (a) and (b) and thereafter make the deposits required by subparagraphs (c) and (d). If (i) the above transfers have been made so that the required amounts as of that time are in all of the above-mentioned Accounts, and (ii) the Tax Revenues to be received for the next Fiscal Year by the Agency, based upon the most recent assessed valuation of taxable property in the Project Area, furnished by the appropriate officer of the County, are at least equal to 110 percent of Maximum Annual Debt Service, then the balances in the Special Fund may be withdrawn and used and applied by the Agency for any lawful purpose, including without limitation the purchase or call and redemption of Bonds, upon Written Request of the Agency to the Trustee, accompanied by a Certificate of the Agency to the effect that the matters specified in clause (ii) have been satisfied.

*Investment of Moneys in Funds and Accounts.* Upon the Written Request of the Agency received by the Trustee at least two Business Days prior to the date of such investment, moneys in the Special Fund, the Interest Account, the Principal Account, any Sinking Account, the Expense Fund (and any account therein), the Rebate Fund or the Reserve Account shall be invested by the Trustee in Authorized Investments. In the absence of such instructions the Trustee shall invest in the investments described in item (f) of the definition of Authorized Investments. The obligations in which moneys in the Special Fund, the Interest Account, the Principal Account or any Sinking Account are so invested shall mature prior to the date on which such moneys are estimated to be required to be paid out under the Indenture. The obligations in which moneys in the Reserve Account are so invested shall mature no later than the earlier of (a) five years from the date of purchase by the Trustee or (b) with respect to a pro rata portion of the Reserve Account, the final maturity date relating to each Series of Bonds; provided, however, that (i) an obligation which may be redeemed at par at the option of the Trustee on the Business Day prior to each Interest Payment Date during which such obligation is outstanding and (ii) an investment agreement which permits the Trustee to withdraw invested amounts, on any Business Day, on no more than five Business Days' notice, without penalty, to be used as required by the Indenture, may have any maturity. Any interest, income or profits from the deposits or investments of all funds (except the Redevelopment Fund, Expense Fund and Rebate Fund) and accounts shall be deposited in the Special Fund. For purposes of determining, the amount on deposit in any fund or account held pursuant to the Indenture, all Authorized Investments credited to such fund or account shall be valued monthly, at the lower of cost or market value (excluding accrued interest and brokerage commissions, if any). Except as otherwise provided in the Indenture, Authorized Investments representing an investment of moneys attributable to any fund or account and all investment profits or losses thereon shall be deemed at all times to be a part of said fund or account. Absent negligence, bad faith or willful misconduct by the Trustee, the Trustee shall not be responsible or liable for any loss suffered in connection with any investment of funds made by it in accordance with this section.

Amounts deposited in the Redevelopment Fund may be invested in any investment permitted by law for Agency funds. All earnings on amounts in the Expense Fund, the Rebate Fund and the Redevelopment Fund shall remain in such funds.

### **Covenants of the Agency**

*Punctual Payment.* The Agency will punctually pay the interest on and principal of and redemption premiums, if any, to become due with respect to the Bonds, but only from Tax Revenues, in strict conformity with the terms of the Bonds and of the Indenture and will faithfully satisfy, observe and perform all conditions, covenants and requirements of the Bonds and of the Indenture.

*Against Encumbrances.* The Agency will not mortgage or otherwise encumber, pledge or place any charge upon any of the Tax Revenues, except as provided in the Indenture, and will not issue any obligation or security superior to or on a parity with the Bonds payable in whole or in part from the Tax Revenues.

*Extension or Funding of Claims for Interest.* In order to prevent any claims for interest after maturity, the Agency will not, directly or indirectly, extend or consent to the extension of the time for the payment of any claim for interest on any Bonds and will not, directly or indirectly, be a party to or approve any such arrangements by purchasing or funding said claims for interest or in any other manner. In case any such claim for interest shall be extended or funded, whether or not with the consent of the Agency, such 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.

*Management and Operation of Properties.* The Agency will manage and operate all properties owned by the Agency and comprising any part of the Project in a sound and business-like manner and in conformity with all valid requirements of any governmental authority relative to the Project or any part thereof, and will keep such properties insured at all times in conformity with sound business practice.

*Payment of Claims.* The Agency will pay and discharge 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 any part thereof, or upon any funds in the hands of the Trustee, or which might impair the security of the Bonds, provided that nothing, contained in the Indenture shall require the Agency to make any such payments so long as the Agency in good faith shall contest the validity of any such claims.

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

The Agency will prepare and file with the Trustee annually as soon as practicable, but in any event not later than one hundred eighty (180) days after the close of each Fiscal Year, so long as any Bonds are Outstanding, an audited financial statement relating to the Tax Revenues and all funds or accounts established pursuant to the Indenture for the preceding Fiscal Year prepared by an Independent Certified Public Accountant, showing the balances in each such fund as of the beginning, of such Fiscal Year and all deposits in and withdrawals from each such fund during such Fiscal Year and the balances in each such fund as of the end of such Fiscal Year. The Trustee shall not be obligated to examine such financial statements. The Agency will furnish a copy of such audited financial statement to any Owner upon written request and will distribute a reasonable number of copies thereof as may be required to investment bankers, security dealers and others interested in the Bonds. The Trustee shall provide such statements with regard to any funds held by the Trustee, pursuant to the Indenture, to the Agency as the Agency may reasonably require to comply with the terms of the Indenture.

*Protection of Security and Rights of Owners.* The Agency will preserve and protect the security of the Bonds and the rights of the Owners, and will warrant and defend their rights against all claims and demands of all persons. From and after the sale and delivery of any Bonds by the Agency, such Bonds shall be incontestable by the Agency.

*Payment of Taxes and Other Charges.* The Agency will pay and discharge all taxes, service charges, assessments and other governmental charges which may be lawfully imposed upon the Agency or any properties owned by the Agency in the Project Area, or upon the revenues therefrom, when the same shall become due; provided that nothing contained in the Indenture shall require the Agency to make any such payments so long as the Agency in good faith shall contest the validity of any such taxes, service charges, assessments or other governmental charges.

*Financing the Project.* The Agency will commence the financing of the Project to be aided with the proceeds of the Bonds with all practicable dispatch, and such financing will be accomplished and completed in a sound, economical and expeditious manner and in conformity with the Redevelopment Plan and the Law so as to complete the Project as soon as possible.

*Taxation of Leased Property.* Whenever any property in the Project is redeveloped by the Agency and thereafter is leased by the Agency to any person or persons, or whenever the Agency leases any real property in the Project to any person or persons for redevelopment, the property shall be assessed and taxed in the same manner as privately-owned property (in accordance with the Law), and the lease or contract shall provide (1) that the lessee shall pay taxes upon the assessed value of the entire property and not merely upon the assessed value of the leasehold interest, and (2) that if for any reason the taxes paid by the lessee on such property in any year during the term of the lease shall be less than the taxes that would have been payable upon the entire property if the property were assessed and taxed in the same manner as privately-owned property, the lessee shall pay such difference to the Agency within thirty (30) days after the taxes for such year become payable, and in any event prior to the delinquency date of such taxes established by law, which such payments shall be treated as Tax Revenues and shall be deposited by the Agency in the Special Fund.

*Disposition of Property in Project Area.* Except as provided below, the Agency will not authorize the disposition of any real property in the Project Area to anyone which will result in such property becoming exempt from taxation because of public ownership or use or otherwise (except for public ownership or use contemplated by the Redevelopment Plan in effect on the date of execution and delivery of the Indenture, or property to be used for public streets or public off-street parking facilities or easements or rights of way for public utilities, or other similar uses) if such dispositions, together with all similar prior dispositions on or subsequent to the effective date of the Indenture, shall comprise more than ten percent (10%) of the land area in the Project Area. If the Agency proposes to make any such disposition which, together with all similar dispositions on or subsequent to the effective date of the Indenture, shall comprise more than ten percent (10%) of the land area in the Project Area, it shall cause to be filed with the Trustee a Consultant's Report on the effect of such proposed disposition. If the Consultant's Report concludes that the Tax Revenues will not be materially reduced by such proposed disposition, the Agency may proceed with such proposed disposition. If the Consultant's Report concludes that Tax Revenues will be materially reduced by such proposed disposition, the Agency shall not proceed with such proposed disposition unless, as a condition precedent to such proposed disposition, the Agency shall require that such new owner or owners either:

(1) Pay to the Agency, so long as any of the Bonds are Outstanding, an amount equal to the amount that would have been received by the Agency as Tax Revenues if such property were assessed and taxed in the same manner as privately-owned non-exempt property, which payment shall be made within thirty (30) days after taxes for each year would become payable to the taxing agencies for non-exempt property and in any event prior to the delinquency date of such taxes established by law; or

(2) Pay to the Agency a single sum equal to the amount estimated and certified to the Agency by an Independent Redevelopment Consultant to be receivable from taxes on such property from the date of such payment to the last maturity date of all Outstanding Bonds, less a reasonable discount value.

All such payments to the Agency in lieu of taxes shall be treated as Tax Revenues and shall be transferred by the Agency to the Trustee to be deposited by the Trustee in the Special Fund.

*Amendment of Redevelopment Plan.* If the Agency proposes to amend the Redevelopment Plan, it shall cause to be filed with the Trustee a Consultant's Report on the effect of such proposed amendment. If the Consultant's Report concludes that Tax Revenues will not be materially reduced by such proposed amendment, the Agency may adopt such amendment. If the Consultant's Report concludes that Tax Revenues will be materially reduced by such proposed amendment, the Agency shall not adopt such proposed amendment. The Trustee shall be entitled to rely upon any said Report and shall have no duty to verify the information or statements set forth therein.

*Tax Revenues.* The Agency shall comply with all requirements of the 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 Riverside County.

*Further Assurances.* The Agency shall adopt, make, execute and deliver any and all such further indentures, 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 of the rights and benefits provided in the Indenture.

*Tax Covenants.* The Agency shall not use or permit the use of any proceeds of the Bonds or any funds of the Agency, directly or indirectly, in any manner, and shall not take or omit to take any action that would cause any of the Bonds to be treated as an obligation not described in Section 103(a) of the Code.

*Agreements with Taxing Agencies.* So long as any Bonds are Outstanding, the Agency shall not enter into any new agreement or amend any existing agreement with any taxing agency entered into (i) pursuant to Section 33401 of the Law or (ii) which operates as a waiver of the Agency's right to receive Tax Revenues under the Redevelopment Plan, unless the Agency's obligations under such agreement are made expressly subordinate and junior to the Agency's obligations under the Indenture and the Bonds.

*Annual Review of Tax Revenues.* The Agency covenants that it will annually review the total amount of Tax Revenues remaining available to be received by the Agency under the Redevelopment Plan's cumulative tax increment limitation, as well as future cumulative Annual Debt Service. The Agency will not accept Tax Revenues greater than Annual Debt Service, in any year, if such acceptance will cause the amount remaining under the tax increment limit to fall below remaining cumulative Annual Debt Service, except for the purpose of depositing such revenues in escrow for the payment of interest on and principal of and redemption premiums, if any, on the Bonds.

#### **Amendment of the Indenture**

*Amendment by Consent of Owners.* The Indenture and the rights and obligations of the Agency and of the Owners may be amended at any time by a Supplemental Indenture which shall become binding when the written consents of the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Indenture, and the written consent of the Bond Insurer, if any, are filed with the Trustee. No such amendment shall (1) extend the maturity of or reduce the interest rate on, or otherwise alter or impair the obligation of the Agency to pay the interest or principal or redemption premium, 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 (2) permit the creation by the Agency of any mortgage, pledge or lien upon the Tax Revenues superior to or on a parity with the pledge and lien created in the Indenture for the benefit of the Bonds, or (3) reduce the percentage of Bonds required for the written consent to any such amendment, or (4) modify the rights or obligations of the Trustee without its prior written assent thereto.

The Indenture and the rights and obligations of the Agency and of the Owners may also be amended at any time by a Supplemental Indenture which shall become binding upon execution, without the consent of any Owners, but only 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 surrender any right or power reserved in the Indenture to or conferred upon the Agency;
- (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 regard to questions arising under the Indenture, as the Agency may deem necessary or desirable and not inconsistent with the Indenture, and which shall not materially adversely affect the interest of the Owners;

(c) To provide for the issuance of any Additional Bonds, and to provide the terms and conditions under which such Additional Bonds may be issued, subject to and in accordance with the provisions of the Indenture;

(d) To modify, amend or supplement the Indenture in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute thereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially adversely affect the interests of the Owners of the Bonds:

(e) To maintain the exclusion of interest on the Bonds from gross income for federal income tax purposes except with respect to any such Bonds which the Agency certifies to the Trustee are not intended to qualify for such exclusion;

(f) To the extent necessary to obtain a Bond Insurance Policy, to obtain a rating on the Bonds or in connection with satisfying all or a portion of the Reserve Account Requirement by crediting a letter of credit or Bond Insurance Policy to the Reserve Account; or

(g) For any other purpose that does not materially adversely affect the interests of the Owners.

*Disqualified Bonds.* Bonds owned or held by or for the account of the Agency or the Town shall not be deemed Outstanding for the purpose of any consent or other action in the Indenture provided for, and shall not be entitled to consent to, or take any other action in the Indenture provided for; provided, however, that for purposes of determining whether the Trustee shall be protected in relying on any such demand, request, direction, consent or waiver, only Bonds which the Trustee knows to be so owned or held will be disregarded.

*Endorsement or Replacement of Bonds After Amendment.* After the effective date of any action taken as provided in the Indenture, the Agency may determine that the Bonds may bear a notation, by endorsement in form approved by the Agency, as to such action, and in that case upon demand of the Owner of any Bond Outstanding at such effective date and presentation of his Bond for such purpose at the corporate trust office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, a suitable notation as to such action shall be made on such Bond. If the Agency shall so determine, new Bonds so modified as, in the opinion of the Agency, shall be necessary to conform to such action shall be prepared and executed, and in that case upon demand of the Owner of any Bond Outstanding at such effective date such new Bonds shall be exchanged at the office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, without cost to the Trustee or to each Owner, for Bonds then Outstanding, upon surrender of such Outstanding Bonds.

*Opinion of Counsel.* The Trustee may conclusively accept an opinion of nationally recognized bond counsel to the Agency that an amendment of the Indenture is in conformity with the related provisions of the Indenture.

#### **Events of Default and Remedies of Owners**

*Events of Default and Acceleration of Maturities.* If one or more of the following events ("Events of Default") shall happen, that is to say:

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

(b) If default shall be made in the due and payment of the interest on any Bond when and as the same shall become due and payable;

(c) If default shall be made by the Agency in the observance of any of the agreements, conditions or covenants on its part in the Indenture or in the Bonds contained, and such default shall have continued for a period of 60 days after the Agency shall have been given notice in writing of such default by the Trustee; provided, however, that such default shall not constitute an Event of Default under the

Indenture if the Agency shall commence to cure such default within said 60-day period and thereafter diligently and in good faith proceeds to cure such default within a reasonable period of time; or

(d) If the Agency shall file a petition or answer 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 shall approve a petition, filed with or without the consent of the Agency, 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 shall assume custody or control of the Agency or of the whole or any substantial part of its property;

then, and in each and every such case during the continuance of such event of default, the Trustee may, and upon the written request of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, shall, by notice in writing to the Agency, declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding; provided, however, that any such declaration shall be subject to the prior written consent of the Bond Insurer, if any.

The provisions, however, are subject to the condition that if, at any time after the principal of the Bonds shall have been so declared due and payable, and before any judgment or decree for the payment of the money due shall have been obtained or entered, the Agency shall deposit with the Trustee a sum sufficient to pay all principal on the Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, with interest at the rate of interest which would have been paid on such overdue principal on such overdue installments of principal and interest, and the expenses of the Trustee, including attorneys fees, and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding, by written notice to the Agency and to the Trustee, may, on behalf of the Owners of all of the Bonds, rescind and annul such declaration and its consequences; provided, however, that no such rescission or annulment shall occur without the prior written consent of the Bond Insurer, if any. No such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

*Application of Funds Upon Acceleration.* All money in the funds and accounts provided for in the Indenture (other than the Rebate Fund) upon the date of the declaration of acceleration by the Trustee as provided therein, and all Tax Revenues thereafter received by the Agency thereunder, shall be transmitted to the Trustee and shall be applied by the Trustee in the following order:

*First,* to the payment of the costs and expenses of the Trustee, if any in carrying out the provisions of the Indenture, including reasonable compensation to its agents and counsel (including in-house counsel to the extent not duplicative of other counsel's work), to the payment of any other amounts then due and payable to the Trustee, including any predecessor trustee, with respect to or in connection with the Indenture, whether as compensation, reimbursement, indemnification or otherwise, and thereafter to the payment of the costs and expenses of the Owners in providing for the declaration of such event of default, including reasonable compensation to their agents and counsel.

*Second,* upon presentation of the several Bonds, and the stamping thereon of the amount of the payment if only partially paid, or upon the surrender thereof if fully paid, to the payment of the whole amount then owing and unpaid upon the Bonds for interest and principal, with interest on the overdue interest and principal at the rate of interest which would have been paid on such overdue principal, and in case such money shall be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then to the payment of such interest, principal and interest on overdue interest and principal without preference or priority among such interest, principal and interest on overdue interest and principal, ratably to the aggregate of such interest, principal and interest on overdue interest and principal.

*Other Remedies of Owners.* Any Owner shall have the right, subject to the provisions of the Indenture, for the equal benefit and protection of all Owners similarly situated:

(a) By mandamus or other suit or proceeding at law or in equity to enforce his rights against the Agency and any of the members, officers and employees of the Agency, and to compel the Agency or any such members, officers or employees to perform and carry out their duties under the Law and their agreements with the Owners as provided in the Indenture:

(b) By suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Owners; or

(c) Upon the happening of an Event of Default (as defined in the Indenture), by a suit in equity to require the Agency and its members, officers and employees to account as the trustee of an express trust.

*Non-Waiver.* A waiver of any default or breach of duty or contract by any Owner shall not affect any subsequent default or breach of duty or contract, or impair any rights or remedies on any such subsequent default or breach. No delay or omission by any Owner or the Trustee 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 therein, and every power and remedy conferred upon the Owners 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.

If any suit, action or proceeding to enforce any right or exercise any remedy is abandoned or determined adversely to the Owners, the Trustee, the Agency 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, and the Trustee is appointed (and the successive respective Owners of the Bonds issued pursuant to the Indenture, by taking and holding the same, shall be conclusively deemed so to have appointed it the true and lawful attorney-in-fact of the 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 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 enforce any right or remedy unless it has been indemnified by the Owners from any liability or expense including without limitation fees and expenses of its attorneys.

*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 thereunder or thereafter 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, subject to the provisions of the Indenture.

*Owners' Direction of Proceedings.* Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, with the written consent of the Bond Insurer, if any, by an instrument or concurrent instruments in writing executed and delivered to the Trustee and upon furnishing the Trustee with indemnification satisfactory to it, to direct the method of conducting all remedial proceedings taken by the Trustee pursuant to the Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, that the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Owners not parties to such direction.

*Limitation on Owners' Right to Sue.* No Owner of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Law or any other applicable law with respect to such Bond, unless (1) such Owner shall have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Owners of not less than twenty-five percent (25 %) in aggregate principal amount of the Bonds then Outstanding

shall have made written request upon the Trustee to exercise the powers granted pursuant to the Indenture or to institute such suit, action or proceeding in its own name; (3) such Owner or said Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (4) 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, and (5) the Trustee shall not have received contrary directions from the Owners of a majority in aggregate principal amount of the Bonds then Outstanding.

Such notification, request, tender or indemnity and refusal or omission are, in every case, to be conditions precedent to the exercise by any Owner of any remedy under the Indenture or under law; 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 affect, disturb or prejudice the security of the Indenture or the rights of any other Owners, or to enforce any right under the Indenture, the Law or other applicable law with respect to the Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner therein provided and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

Nothing in the Indenture, or in the Bonds, shall affect or impair the obligation of the Agency, which is absolute and unconditional, to pay the interest on and principal of the Bonds to the respective Owners of the Bonds at the respective dates of maturity, as provided in the Indenture, out of the Tax Revenues pledged for such payment, or affect or impair the right of action, which is also absolute and unconditional, of such Owners to institute suit to enforce such payment by virtue of the contract embodied in the Bonds and in the Indenture.

#### **Defeasance**

*Discharge of Indebtedness.* If the Agency shall pay or cause to be paid, or there shall otherwise be paid, to the Owners of all Outstanding Bonds the interest due thereon and the principal thereof, at the times and in the manner stipulated therein and in the Indenture, then the Owners of such Bonds shall cease to be entitled to the pledge of Tax Revenues, and all covenants, agreements and other obligations of the Agency to the Owners of such Bonds under the Indenture shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee shall execute at the Written Request of the Agency, and at the expense of the Agency, and deliver to the Agency all such instruments as may be desirable to evidence such discharge and satisfaction, and the Trustee shall, after payment of amounts due the Trustee under the Indenture, pay over or deliver to the Agency all money or securities held by them pursuant to the Indenture which are not required for the payment of the interest due on and the principal of such Bonds other than the moneys, if any, in the Rebate Fund.

Bonds for the payment of which money shall have been set aside (through deposit by the Agency or otherwise) to be held in trust by the Trustee for such payment at the maturity or redemption date thereof shall be deemed, as of the date of such setting aside, to have been paid within the meaning and with the effect expressed in the first paragraph of this section.

Any Outstanding Bonds shall prior to the maturity date thereof be deemed to have been paid within the meaning and with the effect expressed in the first paragraph of this section if (1) there shall have been deposited with the Trustee, or another fiduciary or escrow agent, either money in an amount which shall be sufficient, or Federal Securities (including any Federal Securities issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) the principal of and the interest on which when paid will provide money which, together with the money, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the interest due and to become due on such Bonds on and prior to the maturity date thereof or such earlier redemption date as shall be irrevocably established, and the principal of and redemption premium, if any, on such Bonds (the sufficiency of such amounts to be appropriately verified) and (2) the Agency shall have given the Trustee in form satisfactory to it irrevocable instructions to mail, as soon as practicable, a notice to the Owners of such Bonds that the deposit required by (1) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with this section and stating the maturity date or earlier redemption date upon which money is to be available for the payment of the principal of such Bonds.

Neither Federal Securities nor money deposited with the Trustee pursuant to this section nor interest or principal payments on any such Federal Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the interest on and principal of such Bonds: provided that any cash received from such interest or principal payments on such Federal Securities deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested at the written direction of the Agency in Federal Securities maturing at times and in amounts sufficient to pay when due the interest on and principal of such Bonds on and prior to such maturity date thereof, and interest earned from such reinvestments shall be deposited in the Special Fund. For the purposes of this Section, Federal Securities shall mean and include only such securities as are not subject to redemption prior to their maturity.

*Unclaimed Money.* Anything in the Indenture to the contrary notwithstanding, any money held by the Trustee in trust for the payment and discharge of any of the Bonds or interest thereon which remain unclaimed for two (2) years after the date when such Bonds or interest thereon have become due and payable, if such money was held by the Trustee at such date, or for two (2) years after the date of deposit of such money if deposited with the Trustee after the said date when such Bonds or interest thereon become due and payable, shall be repaid by the Trustee to the Agency, as the Agency's absolute property and free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the Agency for the payment of such Bonds; provided, however, that before being required to make any such payment to the Agency, the Trustee shall, at the Written Request of the Agency and at the expense of the Agency, cause to be mailed to the registered Owners of such Bonds at their addresses as they appear on the registration books of the Trustee a notice that said money remains unclaimed and that, after a date named in said notice, which date shall not be less than thirty (30) days after the date of the mailing of such notice, the balance of such money then unclaimed will be returned to the Agency. Any money held by the Trustee in trust for the payment and discharge of any Bonds shall not bear interest or be otherwise invested from and after such maturity or redemption date.

**APPENDIX E**  
**FORM OF BOND COUNSEL OPINION**

[Bond Delivery Date]

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

\$2,665,000  
Yucca Valley Redevelopment Agency  
(Yucca Valley Redevelopment Project No. 1)  
Tax Allocation Bonds, Series 2004

Ladies and Gentlemen:

In our role as Bond Counsel to the Yucca Valley Redevelopment Agency (the "Agency"), we have examined certified copies of the proceedings taken in connection with the issuance by the Agency of its \$2,665,000 aggregate principal amount of its (Yucca Valley Redevelopment Project No. 1) Tax Allocation Bonds, Series 2004 (the "Bonds"). We have also examined supplemental documents furnished to us and have obtained such certificates and documents from public officials as we have deemed necessary for the purposes of this opinion. The Bonds are issued under the Community Redevelopment Law (Part 1 of Division 24 of the Health and Safety Code of the State of California), as in existence on the Closing Date (the "Redevelopment Law"), and pursuant to an Indenture, dated as of December 1, 1995 (the "Original Indenture"), as amended and supplemented by the First Supplemental Indenture, dated as of June 1, 2004 (the "First Supplemental Indenture," and together with the Original Indenture, the "Indenture"), by and between the Agency and BNY Western Trust Company, as trustee (the "Trustee"). The Bonds are being issued to finance redevelopment activities within or of benefit to the Yucca Valley Redevelopment Project No. 1. Capitalized terms used herein and not otherwise defined shall have the meanings assigned to them in the Indenture.

The Bonds are issued as fully registered bonds in the denomination of \$5,000 or any integral multiple thereof. The Bonds are dated, and bear interest from, the Closing Date. Interest on the Bonds is payable semiannually on June 1 and December 1 of each year, commencing December 1, 2004.

The Bonds are subject to redemption prior to maturity as provided in the Indenture.

Based upon the foregoing, we are of the opinion that:

1. The First Supplemental Indenture has been duly and validly authorized, executed and delivered by the Agency and, assuming such First Supplemental Indenture constitutes the legally valid and binding obligation of the Trustee, constitutes the legally valid and binding obligation of the Agency, enforceable against the Agency in accordance with its terms, and the Bonds are entitled to the benefits of the Indenture.

2. The proceedings for the issuance of the Bonds, have been taken in accordance with the laws and Constitution of the State of California, and the Bonds, having been issued in duly authorized form and executed by the proper officials and delivered to and paid for by the purchasers, constitute legal and binding special obligations of the Agency enforceable in accordance with their terms.

3. The Bonds are secured by a first pledge of the Tax Revenues and all moneys in the funds and accounts so specified and provided for in the Indenture.

4. The Internal Revenue Code of 1986 (the "Code"), imposes certain requirements that must be met subsequent to the issuance and delivery of the Bonds for interest thereon to be and remain excluded

from the gross income of the owners thereof for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Bonds to be included in gross income retroactive to the date of issue of the Bonds. The Agency has covenanted in the Indenture to maintain the exclusion of interest on the Bonds from the gross income of the owners thereof for federal income tax purposes.

In our opinion, under existing law, interest on the Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the aforementioned covenant, interest on the Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes.

We are of the further opinions that under existing statutes, regulations, rulings and court decisions, the Bonds are not "specified private activity bonds" within the meaning of section 57(a)(5) of the Code and, therefore, that interest on the Bonds will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code. The receipt or accrual of interest on Bonds owned by a corporation may affect the computation of the alternative minimum taxable income, upon which the alternative minimum tax is imposed, to the extent that such interest is taken into account in determining the adjusted current earnings of that corporation (75 percent of the excess, if any, of such adjusted current earnings over the alternative minimum taxable income being an adjustment to alternative minimum taxable income (determined without regard to such adjustment or to the alternative tax net operating loss deduction)).

Except as stated in the preceding three paragraphs, we express no opinion as to any federal or state tax consequences of the ownership or disposition of the Bonds. Furthermore, we express no opinion as to any federal, state or local tax law consequences with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof predicated or permitted upon the advice or approval of other bond counsel.

The opinions expressed in paragraphs 1 and 2 above are qualified to the extent the enforceability of the Indenture and the Bonds may be limited by applicable bankruptcy, insolvency, debt adjustment, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally or as to the availability of any particular remedy. The enforceability of the Indenture and the Bonds is subject to the effect of general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing, to the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law, and to the limitations on legal remedies against governmental entities in California.

No opinion is expressed herein on the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds.

We call attention to the fact that the opinions expressed herein and the exclusion from gross income of the interest on the Bonds as described above may be affected by actions taken or omitted or events occurring or not occurring after the date hereof. We have not undertaken to determine, or to inform any person or entity, whether any such actions or events are taken, omitted, occur or fail to occur.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Very truly yours,

## APPENDIX F

### FORM OF CONTINUING DISCLOSURE AGREEMENT

THIS CONTINUING DISCLOSURE AGREEMENT (the "Disclosure Agreement") is executed and delivered by the YUCCA VALLEY REDEVELOPMENT AGENCY, a public body organized and existing under the laws of the State of California (the "Agency") and BNY WESTERN TRUST COMPANY, as dissemination agent (the "Dissemination Agent") in connection with the issuance of \$2,665,000 Yucca Valley Redevelopment Agency (Yucca Valley Redevelopment Project No. 1) Tax Allocation Bonds, Series 2004 (the "Bonds"). The Bonds are being issued pursuant to an Indenture of Trust, dated as of December 1, 1995 (the "Original Indenture"), by and between the Agency and U.S. Trust Company of California, N.A., as succeeded by BNY Western Trust Company, as trustee (the "Trustee"), as amended by a First Supplemental Indenture, dated as of June 1, 2004 (the "First Supplemental Indenture" and, with the Original Indenture, the "Indenture"), by and between the Agency and the Trustee.

The Agency and the Dissemination Agent hereby covenant and agree as follows:

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Agency, the Dissemination Agent and the Trustee for the benefit of the holders of the Bonds and in order to assist the Participating Underwriters (as defined herein) 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 Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

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

"*Disclosure Representative*" shall mean the Executive Director of the Agency or his or her designee, or such other officer or employee as the Agency shall designate in writing to the Dissemination Agent and the Trustee from time to time.

"*Dissemination Agent*" shall mean the Trustee, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Agency and which has filed with the Trustee a written acceptance of such designation.

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

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

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

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

"*State Repository*" shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule. As of the date of this Agreement, 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 December 1 of each year, commencing December 1, 2004, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Agency may be submitted separately from and later than the

balance of the Annual Report if they are not available by the date required above for the filing of the Annual Report. Not later than fifteen (15) Business Days prior to said date, the Agency shall provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement. 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 it hereunder. The Dissemination Agent and Trustee may conclusively rely upon such certification of the Agency and shall have no duty or obligation to review such Annual Report.

(b) If by fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to Repositories, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Agency and the Dissemination Agent to determine if the Agency is in compliance with subsection (a).

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to the Municipal Securities Rulemaking Board in substantially the form attached as Exhibit A.

(d) 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) file a report with the Agency and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating that the date it was provided and listing all the Repositories to which it was provided.

Section 4. Content of Annual Reports. The Annual Report shall contain or incorporate by reference the following information in the same format as shown in the Official Statement:

- (a) Table 2—Breakdown of Assessed Valuation by Category of Use;
- (b) Table 3—Historical Taxable Values and Tax Increment Revenues;
- (c) Table 4—Largest Fiscal Year Property Taxpayers, by Revenue;
- (d) Table 5—Largest Fiscal Year Property Taxpayers, by Assessed Value;
- (e) Table 6—Tax Revenue Collections; and
- (f) Table 7—Appeal History.

Any or all of the items listed above may be incorporated by reference from 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 incorporated 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 incorporated by reference.

Section 5. Reporting of Significant Events.

(a) This Section 5 shall govern the giving of notices of the occurrence of any of the following events:

- (i) Delinquency in payment when due of any principal of or interest on the Bonds.
- (ii) Occurrence of any Event of Default under and as defined in the Indenture (other than as described in clause (1) above).
- (iii) Amendment to the Indenture or this Disclosure Agreement modifying the rights of the holders of the Bonds.
- (iv) Giving of a notice of optional or unscheduled redemption or any Bonds.
- (v) Defeasance of the Bonds or any portion thereof.

- (vi) Any change in the rating, if any, on the Bonds.
- (vii) Adverse tax opinions or events affecting the tax-exempt status of the Bonds.
- (viii) Any unscheduled draw on the Reserve Fund reflecting financial
- (ix) Any unscheduled draws on any credit enhancement reflecting financial difficulties.
- (x) Any change or substitution in the provider of any credit enhancement, or any failure by the credit enhancer to perform on the credit enhancement.
- (xi) The release, substitution or sale of property securing repayment of the Bonds (including property leased, mortgaged or pledged as such security).

(b) The Trustee shall, promptly after obtaining actual knowledge of the occurrence of any of the Listed Events (except events listed in clauses (a)(1), (4) or (5)), contact the Disclosure Representative, inform such person of the event, and request that the Agency promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f) and promptly direct the Trustee whether or not to report such event to the Bond holders unless otherwise required to be reported by the Trustee to the Bond holders under the Indenture. For purposes of this Disclosure Agreement, "actual knowledge" of the occurrence of such Listed Events shall mean actual knowledge by the Responsible Officer at the Trust Office.

(c) Whenever the Agency obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Dissemination Agent pursuant to subsection (b) or otherwise, the Agency shall as soon as possible determine if such event would constitute material information for holders of the Bonds under applicable Federal securities law, provided, that any event under subsection (a)(6) will always be deemed to be material.

(d) If the Agency has determined that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the Agency shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (9).

(e) If in response to a request under subsection (b), the Agency determines that the Listed Event would not be material under applicable Federal securities law, the Agency shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f).

(f) If the Dissemination Agent has been instructed by the Agency to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository. Notwithstanding the foregoing:

(i) notice of the occurrence of a Listed Event described in subsections (a)(1), (4) or (5) shall be given by the Dissemination Agent unless the Agency gives the Dissemination Agent affirmative instructions not to disclose such occurrence; and

(ii) notice of Listed Events described in subsections (a)(4) and (5) shall not be given under this subsection any earlier than the notice (if any) of the underlying event is given to owners of affected Bonds pursuant to the Indenture.

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

Section 7. Dissemination Agent. The Agency may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out their obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent. The Dissemination Agent may resign by providing thirty days written notice to the Agency and the Trustee.

## Section 8. Amendment.

(a) This Disclosure Agreement may be amended, by written agreement of the parties, without the consent of the Owners, if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Agency or the type of business conducted thereby, (2) this Disclosure Agreement as so amended would have complied with the requirements of the Rule as of the date of this Disclosure Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) the Agency shall have delivered to the Trustee an opinion of nationally recognized bond counsel or counsel expert in federal securities law, addressed to the Agency and the Trustee, to the same effect as set forth in clause (2) above, (4) the Agency shall have delivered to the Dissemination Agent an opinion of nationally recognized bond counsel or counsel expert in federal securities law, addressed to the Agency, to the effect that the amendment does not materially impair the interests of the Owners, and (5) the Agency shall have delivered copies of such opinion and amendment to each Repository.

(b) This Disclosure Agreement may be amended, by written agreement of the parties, upon obtaining consent of Owners of at least 25% of the outstanding Bonds.

(c) To the extent any amendment to this Disclosure Agreement results in a change in the type of financial information or operating data provided pursuant to this Disclosure Agreement, the first Annual Report provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change.

(d) If an amendment is made to the basis on which financial statements are prepared, the Annual Report 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. Such comparison shall include a quantitative and, to the extent feasible, 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.

Section 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Agency from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement 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 Agreement. 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 Agreement, the Agency shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

The Agency acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Agency, and that under some circumstances compliance with this Disclosure Agreement, without additional disclosures or other action, may not fully discharge all duties and obligations of the Agency under such laws.

Section 10. Default. In the event of a failure of the Agency or the Trustee to comply with any provision of this Disclosure Agreement, the Trustee shall, at the written direction of any Participating Underwriters or the holders of at least 25% aggregate principal amount of Outstanding Bonds, but only to the extent funds have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges of the Trustee whatsoever, including, without limitation, fees and expenses of its attorneys, or any Bondholder may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Agency or the Trustee, as the case may be, to comply with their obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture and the sole remedy under this Disclosure Agreement in the event of any failure of the Agency or the Trustee to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Section 7.02 of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture and the Dissemination Agent shall be entitled to the protection, immunities and limitations of liabilities afforded to the Trustee thereunder. The Dissemination Agent (if other than the Trustee or the Trustee in its capacity as Dissemination Agent and the Trustee) shall have only such duties as are specifically set forth in this Disclosure Agreement, 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 it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorney's fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's or Trustee's 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 hereunder and shall not be deemed to be acting in any fiduciary capacity for the Agency, the Bond Owners, or any other party. The obligations of the Agency under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 12. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

If to the Agency: Yucca Valley Redevelopment Agency  
57090 Twentynine Palms Highway  
Yucca Valley, California 92284  
Attention: Executive Director  
Phone: (760) 369-7207  
Fax: (760) 369-0626

If to the Trustee: BNY Western Trust Company  
700 South Flower Street, Suite 500  
Los Angeles, CA 90017  
Attention: Corporate Trust  
Phone: (213) 630-6258  
Fax: (213) 630-6215

If to the Dissemination Agent: BNY Western Trust Company  
700 South Flower Street, Suite 500  
Los Angeles, CA 90017  
Attention: Corporate Trust  
Phone: (213) 630-6258  
Fax: (213) 630-6215

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

Section 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Agency, the Trustee, the Dissemination Agent, the Participating Underwriters and holders from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 14. Counterparts. The Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Date: [Closing Date]

YUCCA VALLEY REDEVELOPMENT  
AGENCY

By \_\_\_\_\_  
Name \_\_\_\_\_  
Title \_\_\_\_\_

BNY WESTERN TRUST COMPANY, as  
Dissemination Agent and Trustee

By \_\_\_\_\_  
Name \_\_\_\_\_  
Title \_\_\_\_\_

EXHIBIT A

NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD  
OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: YUCCA VALLEY REDEVELOPMENT AGENCY

Name of Issue: Yucca Valley Redevelopment Project Area No. 1, Tax Allocation Bonds, Series  
2004

Date of Issuance: [Closing Date]

NOTICE IS HEREBY GIVEN that the Yucca Valley Redevelopment Agency has not provided an Annual Report with respect to the above-named Bonds as required by Section 6.06 of the Indenture of Trust, dated as of December 1, 1995 (the "Original Indenture"), by and between the Issuer and U.S. Trust Company of California, N.A., as succeeded by BNY Western Trust Company, as trustee, as amended by a First Supplemental Indenture, dated as of June 1, 2004. The Agency anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated:

\_\_\_\_\_  
BNY WESTERN TRUST COMPANY,  
on behalf of Issuer

cc: Issuer

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## APPENDIX G

### BOOK-ENTRY 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 City takes no responsibility for the accuracy or completeness thereof. The Agency cannot and does not 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 2004 Bonds or (b) certificates representing ownership interest in or other confirmation of ownership interest in the 2004 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](http://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.