

*In the opinion of Best Best & Krieger LLP, Riverside, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes, and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS" herein.*

NEW ISSUE—FULL BOOK ENTRY ONLY

RATINGS: Moody's "Aaa"  
S&P "AAA"  
S&P "A-" (underlying)  
(See "RATINGS" herein.)

**\$40,435,000**  
**REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE**  
**MERGED PROJECT AREA**  
**TAX ALLOCATION AND REFUNDING BONDS**  
**SERIES 2003**

Dated: Date of Delivery

Due: August 1, as shown below

The Merged Project Tax Allocation and Refunding Bonds, Series 2003 (the "Bonds") of the Redevelopment Agency of the City of Riverside (the "Agency") will be issued as fully registered bonds in book-entry form only, initially registered in the name of Cede & Co., New York, New York, as nominee of The Depository Trust Company ("DTC"), New York, New York. Interest payable on the Bonds will be payable on August 1 and February 1 of each year, commencing February 1, 2004. Principal payable on the Bonds will be paid by U.S. Bank National Association, Los Angeles, California, as trustee for the Bonds (the "Trustee"), to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Bonds.

The Bonds are being issued by the Agency for the purpose of (i) refinancing certain outstanding obligations of the Agency, originally issued to finance certain improvements in the Merged Project Area of the Agency (the "Project Area"), (ii) purchasing a reserve fund insurance policy for the Bonds, (iii) financing certain improvements in the Project Area, and (iv) paying the costs of issuing the Bonds.

The Bonds are limited obligations of the Agency payable solely from and secured by the Tax Revenues (defined herein), to be derived from the Project Area, and from the amounts on deposit in certain funds as described herein. See "THE BONDS—Parity Debt" herein for a description of the conditions upon which the Agency may issue additional obligations with a lien on a parity with the Bonds with respect to the Tax Revenues. The Bonds are issued pursuant to the Indenture (as defined herein), between the Agency and the Trustee.

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

Payment of the principal of and interest on the Bonds when due will be insured by a municipal bond insurance policy to be issued simultaneously with the execution and delivery of the Bonds (see "BOND INSURANCE" herein) by:



This cover page contains information for general reference only. It is not a summary of the security or terms of this issue. Investors must read the entire Official Statement, including the section entitled "RISK FACTORS AND LIMITATIONS ON TAX REVENUES," for a discussion of special factors which should be considered, in addition to the other matters set forth herein, in considering the investment quality of the Bonds. Capitalized terms used on this cover page and not otherwise defined shall have the meanings set forth herein.

THE BONDS ARE NOT A DEBT, OBLIGATION OR LIABILITY OF THE CITY OF RIVERSIDE, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS (OTHER THAN THE AGENCY), NOR DO THEY CONSTITUTE A PLEDGE OF THE FAITH AND CREDIT OR THE TAXING POWER OF ANY OF THE FOREGOING (INCLUDING THE AGENCY). THE AGENCY HAS NO TAXING POWER. THE BONDS DO NOT CONSTITUTE AN INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

**MATURITY SCHEDULE**  
**\$32,720,000 Serial Bonds**

Maturity (August 1)	Principa. Amount	Interest Rate	Yield	Maturity (August 1)	Principal Amount	Interest Rate	Yield
2004	\$1,220,000	2.000%	1.050%	2014	\$1,615,000	4.000%	3.600%
2005	1,255,000	2.000	1.330	2015	1,680,000	4.000	3.770
2006	1,280,000	2.000	1.580	2016	1,745,000	5.250	3.790
2007	1,305,000	2.000	1.950	2017	1,840,000	5.250	3.910
2008	1,330,000	2.375	2.300	2018	1,935,000	5.250	4.010
2009	1,360,000	2.750	2.630	2019	2,035,000	5.250	4.110
2010	1,400,000	4.000	2.950	2020	2,145,000	5.250	4.200
2011	1,455,000	3.100	3.200	2021	2,255,000	5.250	4.290
2012	1,500,000	3.500	3.320	2022	1,860,000	5.250	4.360
2013	1,550,000	4.000	3.460	2023	1,955,000	5.250	4.400

\$7,715,000 5.00% Term Bonds due August 1, 2033—Yield: 4.47%

The Bonds are being issued for sale to the Riverside Public Financing Authority (the "Authority"). The Authority will resell the Bonds to the Underwriter.

*The Bonds are offered, when, as and if issued and received by the Underwriter, subject to the approval of legality by Best Best & Krieger LLP, Riverside, California, Bond Counsel. Certain legal matters will be passed upon for the Agency by the City Attorney, its general counsel, and for the Underwriter by Nossaman, Guthner, Knox & Elliott, LLP, Irvine, California. It is expected that the Bonds, in book-entry form, will be available for delivery in New York, New York on or about July 29, 2003.*

**UBS Financial Services Inc.**

Dated: June 26, 2003



No dealer, broker, salesperson or other person has been authorized by the Agency or the Underwriter to give any information or to make any representations 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 or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

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

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

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

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

# REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE

## BOARD OF DIRECTORS

Ronald O. Loveridge, *Mayor*  
Joy Defenbaugh, *Chairperson*  
Chuck Beaty, *Member*  
Ameal Moore, *Member*  
Frank Schiavone, *Member*  
Ed Adkison, *Member*  
Nancy Hart, *Member*  
Laura Pearson, *Member*

## AGENCY STAFF

George A. Carvalho, *Executive Director*  
Paul C. Sundeen, *Treasurer*  
Colleen J. Nichol, *Secretary*  
Michael J. Beck, *Deputy City Manager*  
Brent A. Mason, *Assistant Treasurer*  
Carol A. Britton, *Development Fiscal Manager*  
Conrad Guzkowski, *Redevelopment Program Manager*  
Greg Priamos, Esq., *City Attorney/Agency Counsel*

## TRUSTEE/ ESCROW BANK

U.S. Bank National Association  
Los Angeles, California

## BOND COUNSEL

Best Best & Krieger LLP  
Riverside, California

## FISCAL CONSULTANT

DHA Consulting  
Long Beach, California

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## **OFFICIAL STATEMENT**

**\$40,435,000**  
**REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE**  
**MERGED PROJECT**  
**TAX ALLOCATION AND REFUNDING BONDS**  
**SERIES 2003**

### **INTRODUCTION**

#### **General**

This Official Statement is provided to furnish information in connection with the sale by the Redevelopment Agency of the City of Riverside (the "Agency") of \$40,435,000 aggregate principal amount of Merged Project Tax Allocation and Refunding Bonds, Series 2003 (the "Bonds"). The Bonds are being issued pursuant to the Constitution and laws of the State of California (the "State"), including the Community Redevelopment Law, being Part 1 of Division 24 of the Health and Safety Code of the State of California (the "Act"). The Bonds are issued pursuant to a Trust Indenture, dated as of July 1, 2003, between the Agency and U.S. Bank National Association (the "Trustee") (the "Indenture").

Proceeds of the Bonds will be used (i) to pay the costs of issuing the Bonds, (ii) to purchase a reserve fund insurance policy for the Bonds, (iii) to finance certain improvements in the Merged Project (the "Project Area"), and (iv) to refund in whole the Agency's Tax Allocation Refunding Bonds (Merged Project) 1993 Series A, originally issued in the principal amount of \$31,600,000, of which \$29,575,000 is currently outstanding (the "Prior Bonds"). See "THE REFUNDING PLAN," "THE IMPROVEMENTS" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

The Bonds will be sold to the Riverside Public Financing Authority (the "Authority") pursuant to the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 of Chapter 5 of Division 7 of Title 1 (commencing with Section 6484) of the California Government Code (the "JPA Law"). The Bonds purchased by the Authority will be resold immediately to UBS Financial Services Inc. (the "Underwriter").

Terms used in this Official Statement and not otherwise defined shall have the meaning given to them in APPENDIX A attached hereto.

#### **The City, the Agency and the Project Area**

The City of Riverside (the "City") was incorporated in 1883 and operates under a charter adopted in 1953. The City operates under a council-manager form of government, and is governed by a seven-member City Council elected by districts with four-year staggered terms. The Mayor is elected at large for a four-year term. Additionally, the positions of City Clerk, City Manager and City Attorney are filled by appointments of the City Council. The City encompasses approximately 85.6 square miles in the western portion of Riverside County (the "County"), about 60 miles east of downtown Los Angeles and approximately 90 miles north of San Diego. The City is the county seat of the County. The current population of the City is approximately 265,700. For other selected information concerning the City, see "APPENDIX C - CITY OF RIVERSIDE ECONOMIC AND FINANCIAL INFORMATION" hereto.

The Agency was activated in 1969 pursuant to the Act. The seven members of the City Council also serve as members of the Agency and exercise all rights, power and duties and privileges of the Agency.

The City adopted a redevelopment plan (the "Airport Industrial Redevelopment Plan") for the Airport Industrial Redevelopment Project (the "Airport Project Area") on December 1, 1976, and amended the Airport Industrial Redevelopment Plan on June 10, 1980 and again on November 27, 1984. The City adopted a redevelopment plan (the "Downtown Redevelopment Plan") for the Downtown Redevelopment Project (the "Downtown Project Area") on November 16, 1971, and amended it on December 9, 1972, May 7, 1974, November 11, 1975 and November 27, 1984. The amendments adopted in 1975 and 1984 expanded the Downtown Project Area's boundaries. On September 25, 1990, the City amended both the Airport Industrial Redevelopment Plan and the Downtown Redevelopment Plan to merge the Airport Project Area with the Downtown Project Area ("the Project Area"). The Airport Industrial Redevelopment Plan and the Downtown Redevelopment Plan are referred to herein collectively as the "Merged Redevelopment Plan."

The Project Area consists of approximately 2,367 acres, or approximately 5.1% of the City. Approximately 1,660 acres are attributable to the Airport Project Area and approximately 707 acres are attributable to the Downtown Project Area. Approximately 71% of the portion of the Project Area attributable to the Airport Project Area is designated for industrial or light industrial uses, while approximately 43% of the portion of the Project Area attributable to the Downtown Project Area is designated for residential uses. Assessed valuation of taxable property in the Project Area for Fiscal Year 2002/03 is approximately \$959,220,912, which is \$797,008,387 greater than the adjusted the "base year" of the Project Area. Approximately \$442,516,275 of the Fiscal Year 2002/03 assessed value is attributable to the Airport Project Area, and \$516,704,637 is attributable to the Downtown Project Area. See "THE PROJECT AREA" herein.

### **Security for the Bonds**

The Act authorizes the financing of redevelopment projects through the issuance of bonds secured by incremental tax revenues. Using this financing method, the last equalized assessed valuations of the property within a project area prior to adoption of the redevelopment plan become the base year valuations. The increased tax revenues which result from the increase in assessed valuations between the base year and subsequent years and which are allocated to a redevelopment agency for the payment of debt may be pledged to the payment of debt service on obligations issued to finance the redevelopment project.

The Bonds are payable solely from, and are secured by, the Tax Revenues (as defined under "SECURITY FOR THE BONDS" herein), and from amounts on deposit in the Reserve Account and other funds and accounts pledged under the Indenture. In addition, the Agency has purchased a reserve fund insurance policy with proceeds of the Bonds. See "SECURITY FOR THE BONDS – Reserve Account" herein.

See "THE BONDS – Parity Debt" herein for a description of the conditions upon which the Agency may issue additional obligations with a lien on a parity with the Bonds with respect to the Tax Revenues. See also "SECURITY FOR THE BONDS" herein.

The Agency has no power to levy and collect taxes, and any legislative enactment or State constitutional amendment having the effect of reducing the property tax rate

would necessarily reduce the amount of Tax Revenues available to pay the principal of and interest on the Bonds. Likewise, broadened property tax exemptions could have a similar effect. Additional factors affecting the availability of Tax Revenues are set forth under the caption "THE REDEVELOPMENT PLAN – Financial Limitations" below. See also "RISK FACTORS AND LIMITATIONS ON TAX REVENUES" for other matters which may affect the collection of Tax Revenues.

### **Bond Insurance**

Simultaneously with the delivery of the Bonds, a municipal bond insurance policy (the "Insurance Policy") will be issued by MBIA Insurance Corporation (the "Insurer") which provides for payment of the principal of and interest on the Bonds when due to the extent that the Trustee has not received payment therefor. See "BOND INSURANCE" herein.

### **Forward-Looking Statements**

This Official Statement contains forward-looking statements, including (i) statements containing projections of Tax Revenues and other financial items, (ii) statements of future economic performance of the Project Area, and (iii) statements of the assumptions underlying or relating to statements described in (i) and (ii) above, (collectively, the "Forward-Looking Statements"). All statements other than statements of historical facts included in this Official Statement, including without limitation statements under "THE PROJECT AREA" and "SECURITY FOR THE BONDS" regarding the financial position, capital resources and status of the Project Area are Forward-Looking Statements. Although the Agency believes that the expectations reflected in such Forward-Looking Statements are reasonable, no assurance can be given that such expectations will prove to be correct. Important factors which could cause actual results to differ materially from expectations of the Agency (collectively, the "Cautionary Statements") are disclosed in this Official Statement. All Forward-Looking Statements attributable to the Agency are expressly qualified in their entirety by the Cautionary Statements.

### **Summary of Terms**

Brief descriptions of the Bonds, the Indenture, the Agency, the Project Area and the Redevelopment Plan are included in this Official Statement. Such descriptions do not purport to be comprehensive or definitive. All references herein to the Indenture, the Act and the Constitution and the laws of the State are qualified in their entirety by reference to such documents, statute or law, and all references to the Bonds are qualified in their entirety by reference to the form thereof included in the Indenture. Copies of the proceedings of the Agency referred to above, the Indenture and other documents described in this Official Statement are available for inspection at the offices of the Agency, 3900 Main St., Riverside, CA 92501.

### **CONTINUING DISCLOSURE**

The Agency has covenanted to provide certain financial information and operating data by not later than nine months after the end of the Agency's Fiscal Year (presently June 30) in each year commencing with its report for the 2002/03 Fiscal Year (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events. The Annual Report and notices of material events will be filed by the Agency with each Nationally Recognized Municipal Securities Information Repository and the State Repository, if any. These covenants have been made in order to assist the Underwriter in complying with

Securities Exchange Commission Rule 15c2-12(b)(5) (the "Rule"). The specific nature of the information to be contained in the Annual Report or the notices of material events by the Agency is summarized in "APPENDIX F - FORM OF CONTINUING DISCLOSURE AGREEMENT." The Agency has never failed to comply in all material respects with any previous undertaking with respect to the Rule.

## **THE REFUNDING PLAN**

The Agency is selling the Bonds to provide, among other things, the moneys (together with other available funds of the Agency) necessary to refund in whole the Prior Bonds (CUSIP Nos. 769045LC7, 769045LD5, 769045LE3, 769045LF0, 769045LG8, 769045LH6 and 769045LK9). A portion of the proceeds of the Bonds, along with certain remaining funds from the Prior Bonds, will be used to establish an escrow fund (the "Escrow Fund") for the Prior Bonds to be held in trust by U.S. Bank National Association, acting as escrow bank for the Prior Bonds (the "Escrow Bank") under an Escrow Deposit and Trust Agreement between the Agency and the Escrow Bank, dated as of July 1, 2003 (the "Escrow Agreement"). Proceeds deposited into the Escrow Fund will be held uninvested and used to pay the scheduled debt service on the Prior Bonds due on August 1, 2003, and to pay the redemption price thereof, as specified in the Escrow Agreement. Upon deposit of such proceeds and other moneys into the Escrow Fund, the Prior Bonds will no longer be deemed outstanding.

Moneys deposited in the Escrow Fund are not available to pay principal of or interest on the Bonds.

## **THE IMPROVEMENTS**

Certain proceeds of the Bonds will be deposited in the Agency's Redevelopment Fund, to finance improvements within, or beneficial to, the Project Area. These improvements primarily consist of parking, road, sidewalk, utilities and other off-site improvements for a number of proposed commercial, retail, housing and airport projects in the Project Area.

## **THE BONDS**

### **Authority for Issuance**

Pursuant to a resolution of the Agency adopted on July 17, 2003, the Agency authorized the issuance of the Bonds pursuant to the Indenture.

### **Description of the Bonds**

The Bonds will be issued only in the form of fully registered Bonds without coupons, in denominations of \$5,000 or any whole multiple thereof. The Bonds will be dated the date of delivery, will mature on August 1 in the years and in the respective principal amounts, and will bear interest at the respective rates per annum, all as set forth on the cover hereof. Interest on the Bonds will be paid on August 1 and February 1 of each year, commencing February 1, 2004 (each, an "Interest Payment Date"), by check mailed by first class mail to the Owner at his address as it appears on such registration books, or by wire transfer to Owners of \$1,000,000 or more in aggregate principal amount of Bonds at such wire transfer address in the United States as such Owner shall specify in a written notice requesting

payment by wire transfer delivered to the Trustee prior to the Record Date (the fifteenth day of the month preceding each Interest Payment Date).

Each Bond shall bear interest from the Interest Payment Date next preceding the date of authentication thereof unless it is authenticated after a Record Date and on or before the following Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or unless it is authenticated on or before January 15, 2004, in which event it shall bear interest from the date of delivery; provided, however, if at the time of authentication interest is in default, the Bond shall bear interest from the Interest Payment Date to or for which interest has been paid or provided.

The principal of and redemption premium, if any, on each Bond will be payable upon the surrender of such Bond, at maturity or upon redemption prior to maturity, at the principal corporate trust office of the Trustee in Los Angeles, California.

### Redemption

**Optional Redemption.** The Bonds maturing on or before August 1, 2013, are not subject to call and redemption prior to maturity. The Bonds maturing on or after August 1, 2014 shall be subject to call and redemption prior to maturity, at the option of the Agency, as a whole or in part, on any date, among maturities as shall be determined by the Agency, and by lot within each maturity, from funds derived by the Agency from any source, on or after August 1, 2013 at a redemption price for each redeemed Bond equal to the principal amount thereof, with accrued interest to the date of redemption, without premium.

**Sinking Account Redemption.** The 2003 Bonds maturing on August 1, 2033 shall be subject to mandatory sinking fund redemption in part, by lot, on each August 1, from mandatory sinking fund payments set aside in the Principal Account, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date fixed for redemption, without premium, in the aggregate respective principal amounts and on the dates set forth below; provided, in the event that all or a portion of the principal of the Bonds of the same maturity have been optionally redeemed by the Agency, the total amount of all future sinking fund payments set forth in the preceding schedule will be reduced by the aggregate principal amount of the Term Bonds so redeemed, to be allocated among each sinking fund payment on a pro rata basis in integral multiples of \$5,000 as determined by the Trustee:

### 2033 Term Bonds

<u>Payment Date</u> <u>(August 1)</u>	<u>Principal Amount</u> <u>to be Redeemed</u>
2024	\$2,060,000
2025	1,040,000
2026	1,095,000
2027	685,000
2028	720,000
2029	755,000
2030	795,000
2031	180,000
2032	190,000
2033 (maturity)	195,000

**Purchase in Lieu of Redemption.** In lieu of depositing cash with the Trustee as a mandatory sinking fund payment, the Agency shall have the option to tender to the Trustee for cancellation at least 60 days prior to a sinking fund redemption date any amount of Term Bonds purchased by the Agency, which Term Bonds may be purchased by the Agency at public or private sale as and when and at such prices as the Agency may in its discretion determine. The par amount of any Term Bonds so purchased by the Agency and tendered to the Trustee in any twelve-month period ending on August 1, in any calendar year shall be credited towards and shall reduce the next mandatory sinking fund payments required to be made in the order in which they are required to be made.

**Notice of Redemption; Rescission.** The Trustee will mail (by first class mail, postage prepaid) notice of any redemption at least 30 but not more than 60 days prior to the redemption date, to the Owners of any Bonds designated for redemption at their respective addresses appearing on the Registration Books; but such mailing is a condition precedent to such redemption and neither failure to receive any such notice nor any defect therein will affect the validity of the proceedings for the redemption of such Bonds or the cessation of the accrual of interest thereon. Such notice will (a) state the redemption date; (b) state the redemption price; (c) state the place or places of redemption; (d) state the CUSIP numbers of the Bonds to be redeemed, the individual number of each Bond to be redeemed or that all Bonds between two stated numbers (both inclusive) or that all of the Bonds are 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; (e) state that on the redemption date there will become due and payable on each Bond the redemption price thereof and that from and after such redemption date interest thereon shall cease to accrue; and (f) require that such Bonds be then surrendered, with a written instrument of transfer duly executed by the Owner thereof or by his attorney duly authorized in writing if payment is to be made to a person other than the Owner.

Except in the case of optional redemption from the issuance of refunding obligations, the Trustee will not mail a redemption notice prior to the receipt of funds required for the redemption. Any optional redemption notice sent by the Trustee in connection with a redemption from the proceeds of refunding obligations may be rescinded upon the mailing to the Bond Owners by the Trustee of a written notice of such rescission if such refunding obligations are not issued, in which event the Bonds will not be redeemed and interest will continue to accrue thereon.

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

### **Book-Entry System**

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Bond will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. See "APPENDIX G - BOOK ENTRY PROVISIONS" herein.

The Agency and the Trustee cannot and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal, interest or premium with respect to the Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. The Agency and the Trustee are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner with respect to the Bonds or an error or delay relating thereto.

## **Parity Debt**

**Parity Debt.** The Agency has covenanted not to issue obligations with a lien on Tax Revenues senior to the lien of the Bonds. However, in addition to the Bonds the Indenture permits the Agency to issue or incur other loans, advances or indebtedness payable from Tax Revenues, by a Supplemental Indenture, on a parity with the Bonds to finance and refinance the Redevelopment Project in such principal amount as shall be determined by the Agency ("Parity Debt"). The Agency may issue and deliver any such Parity Debt subject to the following specific conditions:

(a) No Event of Default shall have occurred and then be continuing;

(b) A Tax Revenue Certificate shall be delivered to the Trustee stating that Tax Revenues to be received by the Agency in the current Fiscal Year, based upon the most recent assessed valuation of taxable property in the Project Area and as shown on the records of the County, is at least equal to one hundred and twenty-five percent (125%) of Maximum Annual Debt Service on all Bonds which will be Outstanding following the issuance of such Parity Debt; which calculation shall take into account (i) the effect of the County Pass-Through Agreement (as defined in APPENDIX A hereto) as of the County Pass-Through Accumulation Date (as defined in APPENDIX A hereto); and (ii) the final date for the receipt of Tax Revenues in various parts of the Project Area as a result of amendments to the Redevelopment Plan made from time to time prior to the date of the Indenture, in each such case assuming a tax rate of one percent (1%) (items (i) and (ii) being referred to as the "Increment Assumptions");

(c) The Agency shall certify to the Trustee that the aggregate amount of the principal of and interest on all Outstanding Bonds coming due and payable following the issuance of such Parity Debt shall not exceed the maximum amount of Tax Revenues permitted under the Redevelopment Plan to be allocated and paid to the Agency following the issuance of such Parity Debt;

(d) The Supplemental Indenture authorizing the issuance of Parity Debt shall provide that interest on such Parity Debt shall be calculated at a fixed interest rate if the Agency determines in such Supplemental Indenture that it is to be paid on a current basis, shall be payable on February 1 and August 1 in each year of the term of such Parity Debt except the first twelve-month period during which interest may be payable on any February 1 or August 1, and the principal of such Parity Debt shall be payable on August 1 in any year, as determined by the Agency, in which principal is payable;

(e) Money shall be deposited in a separate subaccount with respect to each series of Parity Debt in the Reserve Account (or a reserve fund letter of credit, bank insurance policy or other comparable credit facility provided) in an amount necessary to cause

the amount on deposit therein to equal to the Reserve Requirement for such series of Parity Debt; and

(f) The Agency shall deliver to the Trustee a certificate of the Agency certifying that the conditions precedent to the issuance of such Parity Debt set forth in the Indenture have been satisfied and that the deposit into the Reserve Account has been made.

For the purposes of the calculation of the coverage requirements set forth in subsection (b) with respect to the issuance of Parity Debt, Outstanding Bonds and Parity Debt shall not include a principal amount of such Parity Debt, determined on such basis among maturities as the Agency may determine, equal to the proceeds of such Parity Debt to be deposited in an escrow fund established for such Parity Debt (the "Escrowed Bonds"), provided that the Supplemental Indenture authorizing the issuance of such Parity Debt shall provide that:

(a) Such proceeds shall be invested in Permitted Investments, and an amount equal to the difference between the projected interest earnings on such proceeds and the interest due on the Escrowed Bonds shall be deposited in the Interest Account so as to pay interest on the Escrowed Bonds as it becomes due and payable;

(b) Moneys may be transferred from the escrow fund established for the Escrowed Bonds only if a Tax Revenue Certificate establishes that the amount of Tax Revenues, based on the most recent assessed valuation of taxable property in the Project Area as shown on the records of the County for the next Fiscal Year after the proposed transfer date of such Parity Debt at least equals one hundred and twenty-five percent (125%) of the Maximum Annual Debt Service on all Outstanding Bonds; which calculation shall take into account the Increment Assumptions (as defined above); and

(c) Such Parity Debt shall be redeemed from moneys remaining on deposit in the escrow fund established for the Escrowed Bonds at the expiration of a specified escrow period in such manner as may be determined by the Agency in the Supplemental Indenture.

**Issuance of Subordinate Debt.** In addition, the Agency may issue or incur obligations payable from Tax Revenues on a subordinate basis to the pledge of Tax Revenues to the repayment of the Bonds or Parity Debt without limitation.

## ESTIMATED SOURCES AND USES OF FUNDS

The sources and uses of funds are estimated as follows:

Sources of Funds:

Principal Amount of Bonds	\$40,435,000.00
Net Original Issue Premium	2,067,462.90
Underwriter's Discount	(187,158.77)
Amount Relating To Prior Bonds	<u>549.63</u>
<b>TOTAL SOURCES</b>	<b>\$42,315,853.76</b>

Uses of Funds:

Transfer to Refunding Escrow	\$30,682,251.25
Deposit to Redevelopment Fund	10,804,602.51
Costs of Issuance(1)	<u>829,000.00</u>
<b>TOTAL USES</b>	<b>\$42,315,853.76</b>

(1) Includes premium for the Insurance Policy and Debt Service Reserve Policy, fees and expenses of Bond Counsel, the Trustee and other costs of issuing the Bonds.

## DEBT SERVICE SCHEDULE

The following table sets forth the amount of debt service with respect to the Bonds for each twelve-month Bond Year ending on August 1:

Year (August 1)	Principal	Interest	Total Debt Service
2004	\$1,220,000	\$1,740,885.67	\$2,960,885.67
2005	1,255,000	1,706,867.52	2,961,867.52
2006	1,280,000	1,681,767.52	2,961,767.52
2007	1,305,000	1,656,167.52	2,961,167.52
2008	1,330,000	1,630,067.52	2,960,067.52
2009	1,360,000	1,598,480.00	2,958,480.00
2010	1,400,000	1,561,080.00	2,961,080.00
2011	1,455,000	1,505,080.00	2,960,080.00
2012	1,500,000	1,459,975.00	2,959,975.00
2013	1,550,000	1,407,475.00	2,957,475.00
2014	1,615,000	1,345,475.00	2,960,475.00
2015	1,680,000	1,280,875.00	2,960,875.00
2016	1,745,000	1,213,675.00	2,958,675.00
2017	1,840,000	1,122,062.50	2,962,062.50
2018	1,935,000	1,025,462.50	2,960,462.50
2019	2,035,000	923,875.00	2,958,875.00
2020	2,145,000	817,037.50	2,962,037.50
2021	2,255,000	704,425.00	2,959,425.00
2022	1,860,000	586,037.50	2,446,037.50
2023	1,955,000	488,387.50	2,443,387.50
2024	2,060,000	385,750.00	2,445,750.00
2025	1,040,000	282,750.00	1,322,750.00
2026	1,095,000	230,750.00	1,325,750.00
2027	685,000	176,000.00	861,000.00
2028	720,000	141,750.00	861,750.00
2029	755,000	105,750.00	860,750.00
2030	795,000	68,000.00	863,000.00
2031	180,000	28,250.00	208,250.00
2032	190,000	19,250.00	209,250.00
2033	195,000	9,750.00	204,750.00
<b>TOTALS</b>	<b>\$40,435,000</b>	<b>\$26,903,158.25</b>	<b>\$67,338,158.25</b>

## SECURITY FOR THE BONDS

### General

The Bonds are secured by an irrevocable pledge of the Tax Revenues (as defined in "Tax Revenues" below), and all funds and accounts pledged under the Indenture. The Tax Revenues shall be applied, on a parity basis, to the payment of the principal of, premium, if any, and interest on the Bonds and any Parity Debt issued pursuant to the Indenture, and to maintain the Reserve Account in an amount equal to the Reserve Requirement. Parity Debt payable from Tax Revenues on a parity with the Bonds may be issued under the Indenture (see "THE BONDS -- Parity Debt").

## Limited Obligations

The Bonds are not a debt of the City, the State or any of its political subdivisions, and neither the City, the State nor any of its political subdivisions, other than the Agency, is liable therefore. The principal of, premium, if any, and interest on the Bonds are payable solely from the Tax Revenues. The Agency's obligations under the Indenture are a limited obligation payable solely from Tax Revenues relating to such Indenture allocated to the Agency and from other amounts pledged under the Indenture. The Bonds do not constitute an indebtedness within the meaning of any constitutional or statutory debt limit or restriction.

## Tax Allocation Financing

The Act and the California Constitution provide a method for financing redevelopment projects based upon an allocation of taxes collected within a project area. First, the assessed valuation of the taxable property in a project area last equalized prior to adoption of the redevelopment plan is established and that valuation becomes the base roll. Thereafter, except for any period during which the assessed valuation drops below the base year level, the taxing agencies on behalf of which taxes are levied on property within such project area will receive the taxes produced by the levy of the then current tax rate upon the base roll. Except as discussed in the following section, taxes collected upon any increase in the assessed valuation of the taxable property in a project area over the levy upon the base roll may be pledged by a redevelopment agency to the repayment of any indebtedness incurred in financing the redevelopment project. Redevelopment agencies themselves have no authority to levy taxes on property and must look specifically to the allocation of taxes produced as described above.

## Tax Revenues

Under California law, the rate of *ad valorem* property taxes which may be levied with respect to property within a Project Area is generally limited to 1% of the "full cash" assessed value. In this Official Statement such taxes are referred to as the "general levy" and are allocated to the State, the County of Riverside (the "County"), the City and all other taxing entities having jurisdiction over all or a portion of the Project Area. The assessed values of property within such Project Area, as last equalized prior to adoption of the Redevelopment Plan, become the "base year" assessed values. Therefore, the base year with respect to the Project Area (the "Base Year") is adjusted to reflect the original adoption of the Downtown Redevelopment Plan and the Airport Redevelopment Plan, along with the amendments to each plan which added additional territory.

As provided in the Redevelopment Plan, and pursuant to the Act and Section 16 of Article XVI of the Constitution of the State of California, taxes levied upon taxable property in the Project Area each year by or for the benefit of the State of California and any city, county, city and county, district or other public corporation (herein collectively referred to as "Taxing Agencies") for fiscal years beginning after the effective date of the Redevelopment Plan, are divided as follows:

1. **To Taxing Agencies:** That portion of the taxes which would be produced by the tax rate levied each year by or for each of said Taxing Agencies on the total assessed value of the taxable property in the Project Area, as shown upon the assessment roll last equalized prior to the ordinance approving the Redevelopment Plan (the "Base Year Amount"), shall be allocated to, and when collected, shall be paid into the funds of the respective Taxing Agencies as taxes by or for said Taxing Agencies; and

2. **To the Agency:** Except for taxes attributable to a tax rate levied by a Taxing Agency for the purpose of repaying bonded indebtedness approved by its voters after January 1, 1989, which shall be allocated to and when collected shall be paid to the respective Taxing Agency, the portion of said levied taxes each year in excess of such Base Year Amount shall be allocated to, and when collected shall be paid to, a special fund of the Agency to pay principal of and interest on loans, moneys advanced to, or indebtedness incurred by the Agency to finance or refinance improvements within the Project Area. Such portion, subject to such exclusions and deductions as are set forth in proceedings for the adoption of the Redevelopment Plan, is generally herein referred to as "Incremental Tax Revenues."

The Agency has no power to levy and collect taxes, and any provision of law limiting property taxes or allocating additional sources of income to taxing agencies and having the effect of reducing the property tax rate must necessarily reduce the amount of Tax Revenues that would otherwise be available to pay debt service on the Bonds. Likewise, broadened property tax exemptions could have a similar effect (see "RISK FACTORS" below). Additionally, Tax Revenues will be reduced each year by a collection fee charged by the County. (See "RISK FACTORS AND LIMITATIONS ON TAX REVENUES -- Property Tax Administrative Costs" herein.)

Conversely, any increase in the present tax rate or assessed valuation, or any reduction or elimination of present property tax exemptions, would increase the Tax Revenues available to pay debt service on the Bonds (see "RISK FACTORS AND LIMITATIONS ON TAX REVENUES" for discussion of the Constitutional constraints of increasing tax rates and assessed valuation).

"Tax Revenues," as defined in the Indenture, means, for each Fiscal Year, all taxes annually allocated to the Agency with respect to the Project Area following the Closing Date pursuant to Article 6 of Chapter 6 (commencing with Section 33670) of the Act and Section 16 of Article XVI of the Constitution of the State and as provided in the Redevelopment Plan, including all payments, subventions and reimbursements (if any) to the Agency specifically attributable to *ad valorem* taxes lost by reason of tax exemptions and tax rate limitations; but excluding all amounts of such taxes required to be deposited into the Low and Moderate Income Housing Fund of the Agency in any Fiscal Year pursuant to Sections 33334.2 and 33334.3 of the Act; and all amounts required to be paid by the Agency to entities other than the Agency pursuant to the Pass-Through Agreements (see "The Pass-Through Agreements" below).

As described below under "THE REDEVELOPMENT PLAN -- Alleviation of Financial Burden of Taxing Entities," the Agency may pay a portion of the Incremental Tax Revenues to other Taxing Agencies pursuant to the Pass-Through Agreements. See also "RISK FACTORS AND LIMITATIONS ON TAX REVENUES - Tax Increment Limitations" herein.

Pursuant to the Merged Redevelopment Plan, the amount of bonds outstanding at any one time and payable from the tax increment revenues allocated to the Project Area cannot exceed \$149,000,000, and the tax increment revenue allocated to the Agency from the Project is limited to \$621,000,000. Incremental Tax Revenues will not include any special taxes levied by or on behalf of any taxing Agency having jurisdiction over all or a portion of the Project Area. See "THE REDEVELOPMENT PLAN -- Plan Limitations" and "RISK FACTORS AND LIMITATIONS ON TAX REVENUES - Tax Increment Limitations" herein.

The Agency has retained DHA Consulting (the "Fiscal Consultant") to prepare a Fiscal Consultant Report for the Project Area, a copy of which is attached hereto as APPENDIX

B. (See "THE PROJECT AREA-Projected Tax Revenues" and "RISK FACTORS AND LIMITATIONS ON TAX REVENUES-Estimated Revenues" herein).

### **The Pass-Through Agreements**

Pursuant to the Act, the Agency has entered into two separate Pass-Through Agreements, pursuant to which the Agency has agreed to reimburse Tax Increment Revenues to certain taxing agencies senior to payment of debt service on the Bonds. In particular, the Agency entered into an agreement with the County that provides that the County is to receive a portion of its share of the revenue generated by the one percent (1.0%) tax rate. The County's share of revenue in the Merged Project is approximately twenty-nine percent (29%), although the Agreement provides that portion that the County receives will vary over time, depending on the level of annual tax increment revenue in the Merged Project. In prior years, the Agency has made payments to the County ranging from 0% to 25%. Currently, the County receives 50% of its share of tax increment revenue under the Agreement, or about 15% of gross tax increment revenue. Payments to the County are to continue at a 50% share until such time as the Agency has retained from the County's share a total of \$23.1 million. At that time, the County is to begin receiving 100% of its share, or about 29% of gross tax increment revenue. As of the close of the 2001/02 Fiscal Year, the Agency had retained \$19.8 million of the County's share. It is anticipated that the Agency will reach \$23.1 million cap during 2004/05 Fiscal Year. The Fiscal Consultant's projections of Tax Revenues assume that payments to the County double in Fiscal Year 2004/05.

In addition, the Agency has entered into three separate Pass-Through Agreements, pursuant to which the Agency has agreed to reimburse Tax Increment Revenues to certain taxing agencies on a subordinate basis to payment of debt service on the Bonds. The terms of the Pass-Through agreements are described in APPENDIX B hereto. See "THE PROJECT AREA--Projected Tax Revenues" herein for a discussion of the impact of the Pass-Through Agreements on Tax Revenues.

### **Reserve Account**

Upon receipt of the proceeds from the sale of the Bonds, the Agency shall initially fund a subaccount in the Reserve Account in the amount of the initial Reserve Requirement for the Bonds. The Reserve Requirement, which is determined separately for the Bonds and each series of Parity Debt that may be issued by the Agency, is an amount equal to the lesser of (i) ten percent of the proceeds of each series Bonds Outstanding, (ii) 125% of Average Annual Debt Service of such series of Bonds, or (iii) the full amount of Maximum Annual Debt Service on such series Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" above. The Reserve Account for the Bonds is not pledged to the repayment of any Parity Debt. In lieu of funding the Reserve Account from Bond proceeds, the Agency is purchasing a reserve fund insurance policy from the Insurer in an amount equal to the Reserve Requirement (see "BOND INSURANCE - Debt Service Reserve Fund Surety Bond" herein).

In the event that on the Business Day preceding an Interest Payment Date the amount on deposit in the subaccount of the Reserve Account for the Bonds is less than the Reserve Requirement for the Bonds, the Trustee shall promptly notify the Agency of such fact. Promptly upon receipt of any such notice, the Agency will transfer to the Trustee an amount sufficient to maintain the Reserve Requirement for the Bonds on deposit in the Reserve Account. If there shall then not be sufficient Tax Revenues to transfer an amount sufficient to maintain the Reserve Requirement for the Bonds on deposit in the Reserve Account, the

Agency is obligated to continue making transfers as Tax Revenues become available until there is an amount sufficient to maintain the Reserve Requirement for the Bonds on deposit in the Reserve Account. All money in the subaccount of the Reserve Account for the Bonds will be used and withdrawn by the Trustee solely for the purpose of making transfers to the Interest Account, the Principal Account and the Sinking Account in such order of priority, in the event of any deficiency at any time in any of such accounts or for the retirement of the Bonds then Outstanding, except that so long as the Agency is not in default under the Indenture, any amount in the subaccount of the Reserve Account for the Bonds in excess of the Reserve Requirement for the Bonds shall be withdrawn from the Reserve Account by the Trustee and deposited in the Bond Fund.

The Reserve Requirement for a series of Bonds may be satisfied by crediting to the Reserve Account moneys, a letter of credit, a bond insurance policy, any other comparable credit facility or any combination thereof, which has been approved in writing by the rating agency then rating the Bonds and which in the aggregate make funds available in the Reserve Account in an amount equal to the Reserve Requirement for a series of Bonds. Upon the deposit with the Trustee of such letter of credit, bond insurance policy or other comparable credit facility, the Trustee shall transfer moneys then on hand in the Reserve Account for a series of Bonds to the Redevelopment Fund to be applied for lawful redevelopment purposes for which proceeds of tax-exempt bonds can be used.

#### **Bond Insurance**

Simultaneously with the delivery of the Bonds, a municipal bond insurance policy (the "Insurance Policy") will be issued by MBIA Insurance Corporation (the "Insurer") which provides for payment of the principal of and interest on the Bonds when due to the extent that the Trustee has not received payment therefor. See "BOND INSURANCE" herein.

#### **Low and Moderate Income Housing Requirements**

Chapter 1337, Statutes of 1976, added Sections 33334.2 and 33334.3 to the Act, requiring redevelopment agencies to set aside in a Low and Moderate Income Housing Fund not less than 20% of all tax increment for the purposes of improving the community's supply of low and moderate income housing. This low and moderate income housing requirement can be reduced or eliminated if the redevelopment agency finds that (i) no need exists in the community to improve or increase the supply of low and moderate income housing; or (ii) some stated percentage less than 20% of the tax increment is sufficient to meet the housing need.

Pursuant to the Act, housing set-aside funds may be pledged only to the repayment of bonds to the extent proceeds of such bonds are expended on qualifying housing purposes. Since the Agency is not using a portion of the proceeds of the Bonds to satisfy the set-aside requirements, Tax Revenues exclude amounts related to the 20% set-aside.

## BOND INSURANCE

The following information has been furnished by MBIA Insurance Corporation (the "Insurer") for use in this Official Statement. Reference is made to APPENDIX H for a specimen of the Insurer's policy.

### General

The Insurer's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Authority to the Trustee or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment, if any) and interest on, the Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, if any, the payments guaranteed by the Insurer's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

The Insurer's policy does not insure against loss of any redemption premium which may at any time be payable with respect to any Bond. The Insurer's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions, if any); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Insurer's policy also does not insure against nonpayment of principal of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Trustee or any other paying agent for the Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Trustee or any owner of a Bond the payment of an insured amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Trustee payment of the insured amounts due on such Bonds, less any amount held by the Trustee for the payment of such insured amounts and legally available therefor.

## The Insurer

The Insurer is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against the Insurer. The Insurer is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. The Insurer has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by the Insurer, changes in control and transactions among affiliates. Additionally, the Insurer is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

The Insurer does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Insurance Policy and the Insurer set forth under the heading "BOND INSURANCE". Additionally, the Insurer makes no representation regarding the Bonds or the advisability of investing in the Bonds.

The following documents filed by the Company with the Securities and Exchange Commission are incorporated herein by reference:

- (1) The Company's Annual Report on Form 10-K for the year ended December 31, 2001; and
- (2) The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this Official Statement and prior to the termination of the offering of the securities offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2002, and (2) the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003), are available (i) over the Internet at the SEC's web site at <http://www.sec.gov>; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of the Insurer is (914) 273-4545.

As of December 31, 2002, the Insurer had admitted assets of \$9.2 billion (audited), total liabilities of \$6.0 billion (audited), and total capital and surplus of \$3.2 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of March 31, 2003, the Insurer had admitted assets of \$9.3 billion (unaudited), total liabilities of \$6.1 billion (unaudited), and total capital and surplus of \$3.2 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Moody's Investors Service, Inc. rates the financial strength of the Insurer "Aaa".

Standard & Poor's, a division of The McGraw Hill Companies, Inc., rates the financial strength of the Insurer "AAA".

Fitch Ratings rates the financial strength of the Insurer "AAA".

Each rating of the Insurer should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of the Insurer and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal on any of the above ratings may have an adverse effect on the market price of the Bonds. The Insurer does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

#### **Debt Service Reserve Fund Surety Bond**

Application has been made to the Insurer for a commitment to issue a surety bond (the "Debt Service Reserve Fund Surety Bond"). The Debt Service Reserve Fund Surety Bond will provide that upon notice from the Trustee to the Insurer to the effect that insufficient amounts are on deposit in the Debt Service Fund to pay the principal of (at maturity or pursuant to mandatory redemption requirements) and interest on the Bonds, the Insurer will promptly deposit with the Trustee an amount sufficient to pay the principal of and interest on the Bonds or the available amount of the Debt Service Reserve Fund Surety Bond, whichever is less. Upon the later of: (i) three (3) days after receipt by the Insurer of a Demand for Payment in the form attached to the Debt Service Reserve Fund Surety Bond, duly executed by the Trustee; or (ii) the payment date of the Bonds as specified in the Demand for Payment presented by the Trustee to the Insurer, the Insurer will make a deposit of funds in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment to the Trustee, of amounts which are then due to the Trustee (as specified in the Demand for Payment) subject to the Surety Bond Coverage.

The available amount of the Debt Service Reserve Fund Surety Bond is the initial face amount of the Debt Service Reserve Fund Surety Bond less the amount of any previous deposits by the Insurer with the Trustee which have not been reimbursed by the Agency. The

Agency and the Insurer have entered into Financial Guaranty Agreement (the "Agreement"). Pursuant to the Agreement, the Agency is required to reimburse the Insurer, within one year of any deposit, the amount of such deposit made by the Insurer with the Trustee under the Debt Service Reserve Fund Surety Bond. Such reimbursement shall be made only after all required deposits to the Bond Fund have been made.

Under the terms of the Agreement, the Trustee is required to reimburse the Insurer, with interest, until the face amount of the Debt Service Reserve Fund Surety Bond is reinstated before any deposit is made to the Special Fund. No optional redemption of Bonds may be made until the Insurer's Debt Service Reserve Fund Surety Bond is reinstated. The Debt Service Reserve Fund Surety Bond will be held by the Trustee in the Reserve Fund and is provided as an alternative to the Agency depositing funds equal to the Reserve Requirement for outstanding Bonds. The Debt Service Reserve Fund Surety Bond will be issued in the face amount equal to Maximum Annual Debt Service for the Bonds and the premium therefor will be fully paid by the Agency at the time of delivery of the Bonds.

## THE AGENCY

### General

The Agency was established pursuant to the Act and was activated by Ordinance No. 3481 adopted by the City Council on November 14, 1967, at which time the City Council declared itself to be the governing board of the Agency. The Agency is charged with the authority and responsibility of redeveloping and upgrading blighted areas of the City. The Agency's goals and objectives for the Project Area, are set forth in the Merged Redevelopment Plan (see "THE REDEVELOPMENT PLAN" herein). In pursuing the foregoing objectives, the Agency expects to provide for the construction, reconstruction, replacement and repair of various public facilities, including flood control and drainage facilities, streets, sidewalks, curbs and gutters.

### Agency Members

The members of the Agency and expiration dates of their terms are as follows:

<u>Members of the Redevelopment Agency</u>	<u>Expiration of Term</u>
Ronald O. Loveridge, Mayor	November, 2005
Joy Defenbaugh, Chairperson	November, 2003
Chuck Beaty, Member	November, 2003
Ameal Moore, Member	November, 2005
Frank Schiavone, Member	November, 2005
Ed Adkison, Member	November, 2003
Nancy Hart, Member	November, 2005
Laura Pearson, Member	November, 2003

### Agency Powers

All powers of the Agency are vested in its members, who are elected members of the City Council. Pursuant to the Act, the Agency is a separate public body and exercises governmental functions in planning and implementing redevelopment projects.

Within its area of operation, the Agency may exercise broad governmental functions and authority to accomplish its purposes, including, but not limited to, the right of eminent domain, the right to issue bonds for authorized purposes and to expend the proceeds thereof, 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 may also 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 costs of land and buildings, facilities or other improvements to be publicly owned and operated, provided that such improvements are of benefit to a redevelopment project area and cannot be financed by any other reasonable method.

### **Other Project Areas**

In addition to the Merged Project, the Agency maintains four (4) other project areas. **NONE OF THE TAX INCREMENT GENERATED FROM PROPERTY LOCATED IN PROJECT AREAS OTHER THAN THE PROJECT AREA IS PLEDGED OR AVAILABLE TO PAY DEBT SERVICE ON THE BONDS.**

### **Agency Financial Statements**

The Agency accounts for its financial transactions through funds representing the Project Area. A copy of the Agency's audited annual financial statements for the fiscal year ended June 30, 2002 were prepared by the certified public accounting firm of KPMG LLP of Costa Mesa, California, and are attached hereto as APPENDIX D. Copies of the audited financial statements for the Fiscal Year ended June 30, 2002, as well as the Agency's audited financial statements for other Fiscal Years, can be obtained at the office of Executive Director at City Hall.

### **Certification of Agency Indebtedness**

The Act provides for the filing, not later than September 30 of each year, with the county auditor of a statement of indebtedness certified by the chief fiscal officer of the agency for each redevelopment project which receives tax increment. The statement of indebtedness is required to contain the date on which the bonds were delivered, the principal amount, term, purpose and interest rate of the bonds, the principal amount and interest due in the fiscal year in which the statement is filed, and the total principal and interest remaining to be paid. 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 statement must also indicate the total principal and interest due on all bonds, loans, advances or other indebtedness indicated on the statement, both for the current fiscal year and cumulatively over their lives, and the total amount of "available revenues" on hand at the time of filing of the statement. "Available revenues" is defined in Section 33675, and is based upon a calculation of the amounts received by the Agency in the prior fiscal year from all sources, less amounts paid on all bonds, loans, advances or indebtedness in the prior fiscal year, plus amounts held by the Agency and pledged to the payment of bonds, loans advances or indebtedness. The difference between the cumulative amount remaining to be paid on the lives of all bonds, loans, advances or other indebtedness as shown on the statement and the amount of available revenues is the maximum amount which can be paid to the Agency in tax increment revenue for the Fiscal Year in which the statement is filed.

Section 33675 also provides that the county auditor is limited in payment of tax increment to the payment of indebtedness. Section 33675 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 shall 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. The Bonds should be entitled to the protection of the statute so that they cannot be disputed by the county auditor.

## THE REDEVELOPMENT PLAN

### General

The City Council established the Project Area on September 25, 1990 by adoption of Ordinance No. 5872, which merged the Airport Project Area and the Downtown Project Area, and amended their respective Redevelopment Plans. The Airport Industrial Redevelopment Plan originally was adopted by the City Council by Ordinance No. 4355 on December 1, 1976 and amended by Ordinance No. 4800 on June 10, 1980 and again by Ordinance No. 5240 on November 27, 1984. The Downtown Redevelopment Plan was adopted by the City Council by Ordinance No. 3872 on November 16, 1971. Since 1971, the City Council has amended the Downtown Redevelopment Plan four times (in addition to the amendment creating the Project Area). Amendment No. 1 was adopted by Ordinance No. 3980 on December 19, 1972, Amendment No. 2 was adopted by Ordinance No. 4108 on May 7, 1974, Amendment No. 3 was adopted by Ordinance No. 4246 on November 11, 1975 and Amendment No. 4 was adopted by Ordinance No. 5238 on November 27, 1984. Amendment Nos. 3 and 4 expanded the Downtown Project Area's boundaries.

The Airport Project Area includes high intensity general industrial as well as aerospace industrial uses and local parks and golf facilities. The Downtown Project Area includes retail businesses, offices, public and institutional uses, service commercial uses, public parks and high and medium high density residential uses.

Pursuant to the Merged Redevelopment Plan, the amount of bonds outstanding at any one time and payable from the tax increment revenues allocated to the Project Area cannot exceed \$149,000,000, and the tax increment revenue allocated to the Agency from the Project is limited to \$621,000,000. See "RISK FACTORS AND LIMITATIONS ON TAX REVENUES – Tax Increment Limitations" herein for a discussion of certain other matters which limit Tax Revenues or impact the use thereof.

The Merged Redevelopment Plan describes the boundaries of the Project Area, contains a general statement of the objectives of the Project Area, land use, layout of principal streets, building intensities and standards, and other criteria proposed as the basis for redevelopment of the Project Area. The Merged Redevelopment Plan also describes how the Merged Redevelopment Plan effectuates the purposes of the Act and how the proposed redevelopment conforms to the General Plan of the City, and describes the impact of the Merged Redevelopment Plan upon residents thereof and upon the surrounding neighborhood.

The Merged Redevelopment Plan included the following goals:

- To remove structurally substandard buildings to permit the return of land to economic use through new construction.
- To rehabilitate those structures which are culturally, historically, physically and aesthetically worthy of rehabilitation, with emphasis on owner participation.
- To eliminate environmental deficiencies including lots of inadequate size and shape, inadequate street and alley layout, and mixed character of land uses.
- To stimulate private investment thereby improving the City's economic health, tax base and employment opportunities.
- To facilitate the assembly and disposition of land to achieve more productive and more appropriate land uses.
- To develop a pedestrian-oriented atmosphere linking the civic and governmental buildings on the Mall and White Park.
- To establish an environment reflecting a high level of concern for architectural and urban design principles, developed through encouragement, guidance, appropriate controls and professional assistance.
- To preserve the historic and architectural value of the Mission Inn through rehabilitation.
- To implement the provisions of the Merged Redevelopment Plan.

In addition, a portion of the Airport Project Area is subject to certain restrictions imposed by the Federal Aviation Administration. To the best knowledge of the Agency, development within the Airport Project Area portion of the Project Area is in compliance with these requirements.

As described above under "SECURITY FOR THE BONDS," the Redevelopment Plan provides that all taxes levied upon taxable property within the Project Area each year by or for the benefit of the State, the County, the City, any district, or any other public corporation (among the Taxing Agencies as described therein) will be divided among the Taxing Agencies as described therein.

### **Financial Limitations**

The Merged Redevelopment Plan provides that the total amount of Incremental Tax Revenues which may be divided and allocated to the Agency pursuant to the Merged Redevelopment Plan may not exceed \$621,000,000, unless the Redevelopment Plan is amended to provide a greater amount. Amounts received by the Agency and paid to other taxing entities as described below under "Agreements With Various Taxing Entities" are included for purposes of the limitation. In addition, the Merged Redevelopment Plan provides

that total Outstanding principal of bonds payable from such tax increment may not at any time exceed \$149,000,000. Based on Agency records, the Agency has received approximately \$120,232,255 of Incremental Tax Revenues through June 30, 2002. Incremental Tax Revenues pledged to existing obligations, including debt service on the Bonds, totals approximately \$67,338,158. Upon issuance of the Bonds, the total principal amount of Outstanding Bonds payable from Incremental Tax Revenues is \$40,435,000.

Assembly Bill 1290 ("AB 1290") was signed into law by the Governor in December 1993 and amends various provisions of the Act. AB 1290 provides for the placement of time limits on the effectiveness of every redevelopment plan, and provides that after 10 years from the termination date of a plan's effectiveness, no redevelopment agency, subject to certain exceptions, shall pay indebtedness or receive property taxes in connection therewith. The expiration date of the components of the Merged Redevelopment Plan, the final date to incur indebtedness (as permitted in the Indenture) and the final date to receive Incremental Tax Revenues from each component of the Project Area is set forth in the following table. While the date of final payment of principal of and interest on the Bonds is August 1, 2033, debt service has been structured to reflect the decrease in Tax Revenues resulting from termination of the effective date of each component of the Project Area. See "Senate Bill 211" below for a discussion of changes in the Act which could allow further extensions of these dates.

**REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE  
MERGED PROJECT AREA  
FINANCIAL LIMITATIONS**

<b>Project/Amendment</b>	<b><u>Limit on Incurring Debt</u></b>	<b><u>Expiration Date of Plan</u></b>	<b><u>Last Date to Receive Increment</u></b>
<b>Downtown</b>			
Original Area	11/16/11	11/16/11	11/16/21
1 <sup>st</sup> Amendment (1972)	12/19/12	12/19/12	12/19/22
2 <sup>nd</sup> Amendment (1974)	1/01/14	5/07/14	5/07/24
3 <sup>rd</sup> Amendment (1975)	1/01/14	11/18/15	11/18/25
4 <sup>th</sup> Amendment (1985)	11/27/14	11/27/24	11/27/34
<b>Airport</b>			
Original Area	1/01/14	10/22/16	10/22/26
1 <sup>st</sup> Amendment (1980)	1/01/14	11/27/19	6/10/30
2 <sup>ND</sup> Amendment (1985)	11/27/14	11/27/19	11/27/34

See "RISK FACTORS AND LIMITATIONS ON TAX REVENUES – Tax Increment Limitations" herein for a discussion of certain other matters which limit Tax Revenues or impact the use thereof.

**Low and Moderate Income Housing Provisions**

The Redevelopment Plan provides that a portion of all taxes which are allocated to the Agency pursuant to the Act must be paid into a separate low and moderate income housing fund and used by the Agency for the purpose of increasing and improving the community's supply of housing available at affordable cost to persons and families of low and moderate income. The Agency's low and moderate income housing fund may be used to

acquire or improve land and building sites, to donate land to public entities, to construct, rehabilitate or acquire buildings, and to provide subsidies to or for the benefit of persons and families of very low, low, or moderate income. Funds available from the low and moderate income housing fund may be used either inside or outside the Project Area on a finding by the Agency and the City Council that such use will be of benefit to the Project Area.

### **Alleviation of Financial Burden to Taxing Entities**

The Redevelopment Plan provides that the Agency may, in any year during which it owns property in a Project Area, pay directly to the City, the County, any district or any other public corporation for whose benefit a tax would have been levied upon such property had the Agency not been exempt, an amount of money in lieu of taxes.

The Agency may also pay to any taxing entity with territory located within a Project Area (other than the City) any amounts of money which, in the Agency's determination, are appropriate to alleviate any financial burden or detriment caused to the taxing entity by the Redevelopment Project.

### **Agreements With Various Taxing Entities**

The Agency has entered into various agreements with taxing entities which provide that a portion of the Incremental Tax Revenues will be paid to or used on behalf of such other taxing entities. See "SECURITY FOR THE BONDS - Pass-Through Agreements" herein for a description such agreements. See also "THE PROJECT AREA - Projected Tax Revenues" herein for a discussion of the impact of the Pass-Through Agreements on Tax Revenues. The Fiscal Consultant has projected payments due under the Pass-Through Agreements in connection with its calculation of Tax Revenues (see APPENDIX B hereto).

### **Tax Rates**

Tax Revenues projected by the Fiscal Consultant are computed based upon the annual incremental assessed value of the Project Area multiplied by a one percent (1.0%) tax rate. The tax rate consists of the general tax levy of \$1.00 per \$100 of assessed value and the override tax rate which represents the debt service levy whose indebtedness has been authorized by voter approval.

The override tax rates typically decline each year (1) as increasing property values reduce the override rate needed to be levied by the taxing entities to meet debt service and (2) as voter approved debt is eventually retired over time. The State Constitution prohibits redevelopment agencies from receiving taxes generated by new override tax rates which are reflective of debt approved after December 31, 1988. The total reported tax rate for the Project Area for Fiscal Year 2002/03 was 1.0067%, which includes the general levy and overrides for the tax districts listed below. The Tax Revenue projections in the Fiscal Consultant's Report assume that the tax rate will be 1.0%. The total reported tax rate for all the Project Area for Fiscal Year 2002/03 was as follows:

General Levy	1.000000%
Metropolitan Water District	<u>0.006700</u>
Total Tax Rate	1.006700%

Source: DHA Consulting.

The following table illustrates the historic tax rates levied within the Project Area.

**REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE  
MERGED PROJECT AREA  
HISTORIC TAX RATES  
(Fiscal Years 1998/99 – 2001/02)**

<u>Fiscal Year (Ending June 30)</u>	<u>Typical Tax Rate<sup>(1)</sup></u>
1999	1.0089%
2000	1.0089
2001	1.0088
2002	1.0077

Source: County of Riverside.

(1) Includes only that portion of the override rates which were approved by the voters prior to January 1988.

See APPENDIX B hereto for a discussion of the assumptions relating to tax rates utilized by the Fiscal Consultant in preparing the Tax Revenue projections.

## THE PROJECT AREA

### General

The Project Area encompasses approximately 2,367 acres, including 707 acres in the Downtown Project Area and 1,660 acres in the Airport Project Area, or about 5.1% of the total incorporated area of the City. The portion of the Project Area consisting of the Airport Project Area is bounded generally on the north by the City limits along the Santa Ana River and Central Avenue, on the east by Hillside Avenue, on the south by Cypress Avenue and on the west by Rutland Avenue and Van Buren Boulevard. It includes the 350-acre Riverside Municipal Airport which principally services general aviation operations. The portion of the Project Area consisting of the Downtown Project Area lies in the heart of downtown Riverside and is bounded generally by Brockton and Pine Streets on the west, the Tequesquite Arroyo to the south, the Riverside Freeway (State Route 91) to the east, and First Street to the north, with a northern corridor bounded by Orange Street, the Pomona Freeway (State Route 60) and Market Street.

The Airport Project Area is on the periphery of the City's residential development which has occurred to the east and northeast of the airport. Residential development also has occurred to the north of the airport, however, this latter area is separated from the Airport Project Area by a series of commercial developments. The area south of Van Buren Boulevard and Arlington Avenue is primarily devoted to commercial usage while the land west of the Airport Project Area is largely agricultural. Several offices are located in the northern portion of the Airport Project Area, in addition to scattered residences. Land use on the south side of Arlington Avenue is devoted to a mixture of public, private and commercial uses.

The Airport Project Area is surrounded by some of the most heavily used thoroughfares in the City. Rail service is available from a spur line of the Union Pacific Railroad along the western boundary of the Airport Project Area.

The campus of Riverside City College borders the Downtown Project Area on the south. Single and multi-family residential neighborhood in the northern portion of the Downtown Project Area separate the City's downtown area from an industrial development north of the Downtown Project Area.

The following table illustrates the land use breakdown of secured property in the Project Area.

**REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE  
MERGED PROJECT AREA  
LAND USE STATISTICS  
(Fiscal Year 2002/03)**

<u>Land Use</u>	<u>Parcels</u>	<u>2002/03 Assessed Value<sup>(1)</sup></u>	<u>Percent of Total<sup>(2)</sup></u>
Residential	1,018	\$105,374,758	11.0%
Commercial	444	257,263,562	26.8
Industrial	150	334,577,833	34.9
Recreational	2	1,561,451	0.2
Institutional	22	94,891,042	9.9
Vacant	369	32,212,445	3.4
Nonunitary (3)	[18]	681,596	0.1
Possessory Interest (3)	[130]	18,417,990	1.9
Unsecured (3)	[1,407]	112,728,750	11.8
Unknown	7	1,511,485	0.2
<b>TOTALS</b>	<b>2,012</b>	<b>\$959,220,912</b>	<b>100.0%</b>

Source: Riverside County Assessor's Office and DHA Consulting.

(1) Excludes exemptions.

(2) Based on total 2002/03 assessed value of \$959,220,912

(3) Indicates number of assessments but actually represent a duplicate parcel count, and are not included in total parcel count.

Ten major property owners in the Project Area were identified by the Fiscal Consultant based upon a review of the 2002/03 locally assessed taxable valuations reported by the County Assessor. The aggregated assessed valuation of these property owners is approximately 42.11% of the entire secured assessed valuation of property within the Project Area.

**REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE  
MERGED PROJECT AREA  
MAJOR PROPERTY TAXPAYERS  
(Fiscal Year 2002/03)**

<u>Property Owner</u>	<u>Use</u>	<u>No. of Parcels</u>	<u>Subarea</u>	<u>2002/03 Assessed Valuation</u>	<u>% of Total <sup>(6)</sup></u>
Riverside Healthcare System	Hospital	11	Downtown – Original	\$85,410,137	8.9%
Rohr Inc./B.F. Goodrich (1)	Industrial	12	Airport – 1985 Annex	75,964,751	7.9
Metal Container Corp (2)	Industrial	1	Airport – Original	48,208,995	5.0
Toro Company (Cy Rv) (3)	Industrial	5	Airport – 1980 Annex	44,414,212	4.6
Press Enterprise	Industrial	12	Downtown – 1975 Annex	38,811,214	4.1
Historic Mission Inn Corp.	Hotel	1	Downtown – Original	26,524,438	2.9
Dow Jones & Co/Realty Corp	Industrial	5	Airport – 1980 Annex	24,357,256	2.5
Kilroy Realty (4)	Office	4	Downtown – Original	21,636,216	2.3
Vertis Inc. (5)	Unsec.	1	Airport – 1980 Annex	20,917,376	2.2
Cal. Auto Dealers Exchange	Ind./Vac.	<u>18</u>	Airport – 1980 Annex	<u>17,693,616</u>	<u>1.8</u>
<b>TOTALS</b>		<b>70</b>		<b>\$403,938,211</b>	<b>42.11%</b>

Source: Riverside County Assessor and DHA Consulting.

- (1) The resolution of prior year appeals has resulted in a reduction to the value for this property from the amount shown to \$57,542,660.
- (2) The resolution of prior year appeals has resulted in a reduction to the value for this property from the amount shown to \$44,664,764.
- (3) Also referred to as Cy Rv in certain assessor records.
- (4) Formerly Mission Square Partnership.
- (5) This unsecured assessment is located on the parcel that was formerly Gruner & Jahr Printing & Publishing.
- (6) Based on total Fiscal Year 2002/03 assessed value of \$959,220,912.

The top five property taxpayers in Fiscal Year 2002/03 accounted for approximately 30.5% of the total assessed value in the Project Area in Fiscal Year 2002/03.

The following is a brief description of the top five taxpayers:

**Riverside Healthcare System.** Riverside Healthcare System operates as Riverside Community Hospital, which is a 369-bed full-service, acute-care hospital located in Riverside. In May 1997, Columbia/HCA Healthcare Corporation (NYSE: COL) announced completion of a joint venture with Riverside Community Hospital, giving the company a 75% interest in formerly tax-exempt Riverside Community Hospital from the Board of Community Health Corporation (CHC), the facility's parent company. Recently, Riverside Community Hospital celebrated the grand opening of its new \$8.2 million, 8,200 square foot Cancer Center on January 30, 2003. Plans are currently underway for a \$20 million expansion of the Emergency Room Services, which treats 55,000 patients per year.

**Rohr Inc./B.F. Goodrich.** Rohr Inc. is part of the Goodrich Aerospace/Aerostructures Group (NYSE: GR). The company manufactures nacelle systems, pylons or struts, and other components for commercial and military aircraft. The Riverside facility, which employs approximately 800 people, is approximately 1,170,000 square feet and is

located on 78.12 acres of land, and produces metal-bonded structures and assemblies for commercial programs.

**Metal Container Corp.** Metal Container Corporation ("MCC"), the largest business unit of Anheuser-Busch Packaging Group, produces more than 25 billion cans and 28 billion lids annually at its 11 can and lid manufacturing facilities. MCC supplies approximately 60 percent of Anheuser-Busch's can and 80 percent of Anheuser-Busch's lid requirements and is a significant supplier to the U.S. soft-drink container market. Anheuser-Busch Packaging Group is a subsidiary of Anheuser-Busch Companies, Inc. (NYSE: BUD). The Riverside facility is a lid manufacturing facility situated on 8.3 acres in an 83,000 square-foot building.

**Toro Company (Cy RV).** The Toro Company (NYSE: TTC) is a provider of outdoor maintenance and beautification products for home, recreation, and commercial landscapes. The Toro Company moved the manufacturing operation to Texas and Mexico in December 2001 and will be leasing the manufacturing facility at its Riverside location. A portion of the current building will undergo a \$4.5 million renovation from manufacturing and office uses to a regional corporate headquarters. Toro will use the surrounding land to plant turf for research and design of its products. The facility is situated on a 27.89 acre site with 185,000 square feet of buildings.

**Press Enterprise.** The Press-Enterprise Company is the leading provider of news and information for Inland Southern California, through newspaper and magazine publishing, printing, Internet and telephone information services. The Press-Enterprise has 180,000 subscribers daily and about 185,000 subscribers on Sundays. The Company's Riverside headquarters is on an 11.71 acre site with several buildings totaling approximately 250,000 square feet.

#### **Assessed Valuation**

The following table sets forth the taxable assessed valuations for the Project Area for the last ten Fiscal Years. According to the County, the assessed valuation of the Project Area for Fiscal Year 2002/03 was \$959,220,912, an increase of approximately 491.3% over the adjusted Base Year.

**REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE  
 MERGED PROJECT AREA  
 ASSESSED VALUATIONS  
 (Fiscal Years 1993/94 to 2002/03)**

<u>Fiscal Year</u>	<u>Assessed Value</u>	<u>Percentage Change</u>
1993/94	\$879,777,096	--
1994/95	838,929,638	(4.6%)
1995/96	815,833,987	(2.7)
1996/97	797,217,266	(2.3)
1997/98	778,614,559	(2.3)
1998/99	820,364,899	5.4
1999/00	858,242,208	4.6
2000/01	874,810,063	1.9
2001/02	920,741,649	5.2
2002/03	959,220,912	4.2

Source: County Auditor-Controller, County of Riverside; DHA Consulting

Incremental Tax Revenues produced from this incremental assessment are estimated by the Fiscal Consultant to be approximately \$8,268,401 in Fiscal Year 2002/03. For projections of growth in incremental assessed valuation and Tax Revenue, see "Projected Tax Revenue" below.

The following tables illustrate the County's calculation of taxable net assessed value and incremental value for property within the Project Area for Fiscal Year 2002/03.

**REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE  
MERGED PROJECT AREA  
INCREMENTAL ASSESSED VALUE  
(Fiscal Year 2002/03)**

	<u>Net Assessed Value</u>	<u>Adjusted Base Year Net Assessed Value</u>	<u>Incremental Net Assessed Value</u>
<b>Secured Valuation:</b>			
Land	\$207,224,072	\$ 44,824,841	\$162,399,231
Improvements	601,898,610	106,382,095	495,516,515
Personal Property	76,892,680	13,726,954	63,165,726
Exemptions	<u>(39,523,200)</u>	<u>(19,103,543)</u>	<u>(20,419,657)</u>
<b>Net Secured Assessed Value</b>	<b>\$846,492,162</b>	<b>\$145,830,347</b>	<b>\$700,661,815</b>
<b>Unsecured Valuation:</b>			
Land	\$ 1,498,384	\$ 252,464	\$ 1,245,920
Improvements	43,681,415	4,566,416	39,114,999
Personal Property	68,411,158	11,644,442	56,766,716
Exemptions	<u>(862,207)</u>	<u>(81,144)</u>	<u>(781,063)</u>
<b>Net Unsecured Assessed Value</b>	<b>\$112,728,750</b>	<b>\$ 16,382,178</b>	<b>\$ 96,346,572</b>
<b>Total Net Assessed Value</b>	<b><u>\$959,220,912</u></b>	<b><u>\$162,212,525</u></b>	<b><u>\$797,008,387</u></b>

Source: County of Riverside.

**Current Development in the Project Area**

In addition to the assessed value projections shown herein, there is currently new development recently completed or under construction in the Project Area which the Agency estimates will add a total of approximately \$15.6 million in assessed value over the next three (3) years. This value has been included in the projections of assessed value. The following table illustrates this new development.

<u>Description</u>	<u>Units/Sq Ft.</u>	<u>Estimated Value</u>
<b>Downtown Sub-Areas</b>		
Riv. Healthcare/New Cancer Ctr	N/A	\$ 6,600,000
Stalder Acquisition	N/A	(1,100,000)
1 & Market – Single Family Hsg	46	<u>8,740,000</u>
<b>Total Downtown</b>		<b>\$14,240,000</b>
<b>Airport Sub-Areas</b>		
Superform Industrial Bldg.	20,000	<u>\$ 1,400,000</u>
<b>Total Airport</b>		<b><u>\$ 1,400,000</u></b>
<b>TOTAL</b>		<b><u>\$15,640,000</u></b>

Source: Redevelopment Agency of the City of Riverside.

## Secured Tax Levy and Collections

The County currently computes preliminary incremental assessed values for redevelopment project areas by property category early in each fiscal year, and again after the equalized values are available. With the exception of supplemental revenues, the County's current policy is that tax disbursements to redevelopment agencies are not impacted by delinquencies or roll adjustments. The majority of the tax increment revenues received by the Agency are disbursed in two payments by the County: 50% in January and 50% in May. Since 1989, unitary revenues have been disbursed separately, lagging behind tax increment disbursements by fifteen to sixty days. In addition, supplemental revenues (resulting from a one time "additional" assessment of property at the time of a change in ownership or completion of construction) are disbursed as collected, on a monthly basis.

The County currently accounts for delinquencies and taxable value changes only on a County-wide basis. Taxing entities are impacted by delinquencies and value changes that occur throughout the County, and are only indirectly impacted by changes within their specific jurisdictions. It is the County's current policy to allocate to redevelopment agencies one hundred percent (100%) of the calculated tax increment due the project area (including supplemental payments) without adjustment for delinquencies, redemption payments or roll adjustments. This policy is set administratively and is therefore subject to change. The following table shows the tax collection in the Project Area for the past four Fiscal Years.

### REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE MERGED PROJECT AREA HISTORIC TAX COLLECTION (Fiscal Years 1998/99 – 2001/02)

<u>Fiscal Year</u>	<u>Total Levy<sup>(1)</sup></u>	<u>Total Receipts<sup>(2)</sup></u>	<u>Percent Collections</u>
1998/99	\$6,997,739	\$7,018,244	100.3%
1999/00	7,380,948	7,584,953	102.8
2000/01	7,486,894	7,503,006	100.2
2001/02	7,951,201	8,073,321	101.5

Source: Riverside County Auditor/Controller's Office.

(1) Estimated.

(2) Includes supplemental payments.

## Assessment Appeals

There are two basic types of assessment appeals provided for under California law. The first type of appeal, commonly referred to as a base year assessment appeal, involves a dispute on the valuation assigned by the Assessor immediately subsequent to a change in ownership or completion of new construction. If the base year value assigned by the Assessor is reduced, the valuation of the property cannot increase in subsequent years more than two percent annually unless and until another change in ownership and/or additional new construction activity occurs. The second type of appeal, commonly referred to as a Proposition 8 appeal, can result if factors occur causing a decline in the market value of the property to a level below the property's then current taxable value.

The County experienced a high level of assessment appeals in the late 1990's. Within the Project Area the primary cause of such appeals has been the declining market value of major assesses, and their successful appeals of assessed value. Further significant appeals to assessed values in the Project Area may be filed from time to time in the future. The Agency cannot predict the extent of these appeals or their likelihood of success.

There are currently 60 appeal requests on record with the County which, along with resolved appeals not yet reflected on the assessment rolls, the Fiscal Consultant estimates could decrease the Fiscal Year 2003/04 and subsequent assessed value of property within the Project Area by approximately \$53.2 million (5.55%). The County has two (2) years from the date of filing to rule on appeal requests. If the County reduces the assessed value of any parcel, there can be no assurance that the reduction will be by the amount estimated by the Fiscal Consultant. Also, additional appeals on property within the Project Area may be filed in the future.

See "Assessed Valuation" above, for a summary of historical assessed property valuations in the Project Area. The County established the assessed valuation of the Project Area for Fiscal Year 2002/03 at \$959,220,912, an increase of approximately \$38,479,263 (4.18%) from Fiscal Year 2001/02.

See APPENDIX B hereto for a discussion of the pending aggregated assessment appeals in the Project Area, and a projection of the estimated impact of pending appeals on assessed value.

## Historical Tax Revenues

The following table shows the historical valuation of taxable property in the Project Area and the historical Tax Revenues

### REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE MERGED PROJECT AREA HISTORICAL TAX REVENUES FISCAL YEARS 1997/98 - 2002/03

<u>Fiscal Year</u>	<u>Assessed Value(3)</u>	<u>Incremental Value Over Base Year</u>	<u>Tax Increment Revenue (4)</u>	<u>Housing Set Aside</u>	<u>Pass Through(5)</u>	<u>Tax Revenues</u>
1997/98	\$778,614,559	\$611,581,298	\$6,537,999	\$1,321,478	\$1,095,972	\$4,120,549
1998/99 <sup>(1)</sup>	820,364,899	658,152,374	6,893,597	1,403,649	1,133,293	4,356,655
1999/00	858,242,208	696,029,683	7,462,448	1,516,991	1,289,543	4,655,914
2000/01	874,810,063	712,597,538	7,383,885	1,500,601	1,269,310	4,613,974
2001/02	920,741,649	758,529,124	7,946,088	1,614,664	1,334,122	4,997,302
2002/03 <sup>(2)</sup>	959,220,912	797,008,387	8,138,623	1,653,680	1,376,124	5,108,819

Source: Redevelopment Agency of the City of Riverside and DHA Consulting

- (1) The Base Year value was reduced in Fiscal Year 1998/99 to reflect a reduction resulting from Project Area property converting to permanent public use.
- (2) Estimated.
- (3) Actual assessed value amounts.
- (4) Reflects deduction of County administration fee. See "RISK FACTORS AND LIMITATIONS ON TAX REVENUES – State Budget Deficit" herein for a discussion of how the Agency paid amounts currently required to be transferred to the Educational Revenue Augmentation Fund.
- (5) See "SECURITY FOR THE BONDS – PASS- Through Agreements" herein.

## Projected Tax Revenues

The Fiscal Consultant currently projects that Incremental Tax Revenues produced in the Project Area will be approximately \$8,268,401 in Fiscal Year 2002/03, an increase of \$192,535 (2.4%) from Fiscal Year 2001/02. The following projection reflects projected reductions in assessed values due to current appeals. The anticipated Tax Revenues are projected to be \$5,108,819, and are net of pass-through payments, County administrative charges and the 20% housing set-aside amount. In addition, the Fiscal Consultant has not assumed any growth in unsecured assessed value. See APPENDIX B hereto and "Assessment Appeals" above for a discussion of the Fiscal Consultant's assumptions regarding assessment appeals. Maximum annual debt service on the Bonds, which occurs in the year ending August 1, 2017, is \$2,962,062.50.

The following table shows the projected valuation of taxable property in the Project Area and the projected Tax Revenues. These projections are based on assessed valuation for the 2002/03 Fiscal Year, plus additional valuation of \$15.6 million representing new development completed or under construction in the Project Area (as described under "Current Development in the Project Area" above), and assume that secured assessed value will increase by 2% a year. Such projections are estimates only and no assurance can be given that such projections will be achieved.

**REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE  
 MERGED PROJECT AREA  
 PROJECTED TAX REVENUES  
 FISCAL YEARS 2003/04 - 2008/09**

<b>Fiscal Year</b>	<b>Assessed Value(1)</b>	<b>Incremental Value Over Base Year</b>	<b>Tax Increment Revenue(2)</b>	<b>Housing Set Aside(3)</b>	<b>Pass Through(4)</b>	<b>Tax Revenues(5)</b>
2003/04	\$ 953,253,949	\$791,041,424	\$ 7,266,358(6)	\$1,641,746	\$1,464,504	\$4,160,108
2004/05	956,602,117	794,389,592	8,107,193	1,648,443	2,668,621	3,790,129
2005/06	972,204,101	809,991,576	8,260,512	1,679,647	2,719,099	3,861,766
2006/07	989,379,976	827,167,451	8,429,516	1,713,998	2,774,714	3,940,804
2007/08	1,006,899,369	844,686,844	8,601,900	1,749,037	2,831,441	4,021,422
2008/09	1,024,769,149	862,556,624	8,777,732	1,784,777	2,889,302	4,103,653

Source: Redevelopment Agency of the City of Riverside and DHA Consulting

- (1) Secured assessed value for Fiscal Year 2002/03 plus a 2% inflation rate, and less projected decrease resulting from appeals of approximately \$29.8 million in Fiscal Year 2003/04, approximately \$15.6 million in fiscal year 2004/05, and approximately \$7.8 million in Fiscal year 2005/06 (see "Assessment Appeals" above). Unsecured assessed value assumes no growth from Fiscal Year 2002/03. In addition, the projection includes \$15.6 million of new development recently completed or currently under construction.
- (2) Tax Increment projections are based on a tax rate of 1.00%, plus unitary revenues of \$298,317, and less the County administration fee.
- (3) Housing Set Aside is 20% of Tax Increment Revenue to Agency. See "SECURITY FOR THE BONDS – Low and Moderate Income Housing Requirements" herein.
- (4) See "THE AGENCY-Agreements with Various Taxing Agencies" above. See also "SECURITY FOR THE BONDS – The Pass-Through Agreements" for a discussion of the anticipated increase of pass-through payments to the County.
- (5) Tax Revenues are Tax Increment Revenue less Housing Set-Aside and Pass-Through payments.
- (6) Assumes payment of \$810,000 to Educational Revenue Augmentation Fund, even though such payment, if any, may be subordinate to the lien of the Bonds (See "RISK FACTORS AND LIMITATIONS ON TAX REVENUES – State Budget Deficit" herein).

**Estimated Debt Service Coverage**

The following tables set forth the estimated Tax Revenues available for debt service coverage for the Bonds. There can be no assurance that such projected Tax Revenues will be obtained. For a discussion of certain matters that will or could cause reductions in the Tax Revenues available in future years, see "RISK FACTORS AND LIMITATIONS ON TAX REVENUES" herein.

**REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE  
 MERGED PROJECT AREA  
 ESTIMATED TAX REVENUES**

<u>Fiscal Year</u>	<u>Downtown Area Projected Tax Revenues</u>	<u>Airport Projected Tax Revenue</u>	<u>Total Projected Tax Revenues (1)</u>	<u>Debt Service</u>	<u>Coverage Ratio</u>	<u>Excess Tax Revenues</u>
2003/04	\$2,442,460	\$1,717,648	\$4,160,108	\$2,960,886	1.40	\$1,199,222
2004/05	2,227,542	1,562,587	3,790,129	2,961,868	1.28	828,261
2005/06	2,285,770	1,575,996	3,861,766	2,961,768	1.30	899,998
2006/07	2,330,684	1,610,120	3,940,804	2,961,168	1.33	976,636
2007/08	2,376,495	1,644,927	4,021,422	2,960,068	1.36	1,061,354
2008/09	2,423,224	1,680,430	4,103,653	2,958,480	1.39	1,145,173

Source: Redevelopment Agency of the City of Riverside, DHA Consulting and UBS Financial Services Inc.

(1) See "Projected Tax Revenues" above.

## **RISK FACTORS AND LIMITATIONS ON TAX REVENUES**

**The following summaries do not purport to be a complete statement of all factors which may be considered as risks in evaluating the credit quality of the Bonds, and the Official Statement should be read in its entirety.**

### **Tax Revenues**

Tax Revenues which secure the 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 values of property in the Project Area or a reduction of the rate of increase in taxable values of property in the Project Area caused by economic or other factors beyond the Agency's control (such as a relocation out of the Project Area by one or more major property owners, successful appeals by property owners for a reduction in a property's assessed value, a reduction in the rate of transfers of property, construction activity or other events that permit reassessment of property at lower values, or the destruction of property caused by natural or other disasters, including earthquakes) could occur, thereby causing a reduction in the Tax Revenues. This risk increases in proportion to the percent of total assessed value attributable to any single assessee in the Project Area and in relation to the concentration of property in the Project Area in terms of size or land use (see "THE PROJECT AREA -- General" hereunder). The five largest property tax payers in the Project Area account for approximately 30.5% of assessed value in Fiscal Year 2002/03. Any reduction in Tax Revenues from the Project Area could have an adverse effect on the Agency's ability to meet its obligations under the Indenture and the Agency's ability to pay the principal of and interest on the Bonds.

Any reduction in the tax rate applicable to property in the Project Area, by reason of discontinuance of certain override tax levies in excess of the 1% basic levy, will reduce the Tax Revenues. Such override can be expected to decline over time until it reaches the 1% basic levy and may be discontinued at any time, which may cause a reduction in the Tax Revenues.

### **Estimated Revenues**

The Fiscal Consultant has based its projections on certain assumptions with regard to development in the Project Area and Tax Revenue growth. See APPENDIX B hereto for a discussion of these assumptions. Additionally, no level of growth in the assessed value of property in the Project Area can be assured. These projections are based on assessed valuation for the 2002/03 Fiscal Year, include \$15.6 million of new development recently completed or currently under construction, assume that secured assessed value will increase by 2% a year, and that there will not be any growth in unsecured assessed value. There can be no assurance that assessed values will increase as projected, if at all. See "THE PROJECT AREA" hereto for a discussion of these assumptions.

The Fiscal Consultant has reviewed the assessed valuation of property in the Project Area for Fiscal Year 2002/03 and has estimated the Tax Revenues for Fiscal Year 2002/03 to be approximately \$5,108,819. Maximum annual debt service on the Bonds is \$2,962,062, which is payable in the Bond Year ending August 1, 2017.

Any reduction in assessed value in the Project Area, reduction in tax rates or reduction in taxes collected would reduce the Tax Revenues available to pay debt service on the Bonds. See "RISK FACTORS AND LIMITATIONS ON TAX REVENUES - Property Tax Administrative Costs" herein. See also "THE PROJECT AREA" hereto for a summary of historical assessed valuation of property in the Project Area, current assessment appeals and historical delinquencies.

If, as a result of some cause in the future, the Agency is found to have not met its annual funding requirements for the Low and Moderate Income Housing Fund, Tax Revenues from the Project Area in later years could be reduced, thus adversely affecting the Agency's ability to make timely payments of principal and interest on the Bonds. See "SECURITY FOR THE BONDS -- Low and Moderate Income Housing Requirements" herein.

### **Parity Debt**

Although the Agency has covenanted not to issue obligations senior to the Bonds, the Indenture permits the issuance by the Agency of certain indebtedness which may have a lien upon the Tax Revenues which is on a parity basis to the lien of the Bonds, if certain coverage tests are met (see "THE BONDS -- Parity Debt" herein). These coverage tests involve, to some extent, projections of Incremental Tax Revenues. If such indebtedness is issued, the debt service coverage for the Bonds will be diluted below what it otherwise would be subject to under the coverage tests. Moreover, there is no assurance that the assumptions which form the basis of such projections, if any, will be actually realized subsequent to the date of such projections. If such assumptions are not realized, the amount of future Tax Revenues may be less than projected, and the actual amount of Tax Revenues may be insufficient to provide for the payment of debt service on the Bonds and such additional indebtedness.

### **Current Litigation**

There is no controversy or litigation now pending against the Agency or, to the knowledge of its officers, threatened, restraining or enjoining the sale, execution or delivery of the Bonds or the Indenture, or in any way contesting or affecting the validity of the Bonds or the Indenture, or the ability of the Agency to receive and pledge the Tax Revenues as provided for in the Indenture.

### **Change in Law**

In addition to the other limitations on Incremental Tax Revenues described below, the California electorate or Legislature could adopt a constitutional or legislative property tax decrease with the effect of reducing Incremental 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 Incremental Tax Revenues and adversely affect the security of the Bonds.

### **Reduction in Inflationary Rate**

As described in greater detail below, Article XIII A of the California Constitution provides that the full cash value base of real property used in determining taxable value may be adjusted from year to year to reflect the inflationary rate, not to exceed a two percent 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. See the material

below for a discussion of how this measure or other initiative measures adopted by the California electorate could reduce Tax Revenues.

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 XIIA 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 most California Counties, including Riverside 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 in favor of a motion to restate the complaint as a class action. This case will go to the State 4th District Court of Appeal, and if it is upheld on appeal, the decision could have far-reaching implications for the property tax system in California. The Agency is unable to predict the outcome of this litigation and what effect, if any, it might have on assessed values in the Project Area and the receipt of Tax Revenues, although the Fiscal Consultant has estimated that assessed values could be reduced by up to \$26.8 million (or approximately 2.8% of the Fiscal Year 2002/03 assessed value). See APPENDIX B hereto.

### **Levy and Collection**

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 pay debt service on the Bonds. Likewise, delinquencies in the payment of property taxes could have an adverse effect on the Agency's ability to make timely debt service payments. See "Property Tax Collection Procedures" below.

### **Natural Disasters; Seismic Hazards**

Natural disasters, including floods and earthquakes, could damage improvements and/or property in the Project Area, or impair the ability of landowners within the Project Area to develop their properties or to pay property taxes.

There are several identified faults within close proximity to or within the boundaries of the Project Area that could potentially result in damage to buildings, roads, bridges, and property within the Project Area in the event of an earthquake. Past experiences have resulted in minimal damage to the infrastructure and property within the Project Area. A significant portion of existing property within the Project Area was generally developed prior to adoption of the 1988 Uniform Building Code standards.

If an earthquake were to substantially damage or destroy taxable property within a Project Area, the assessed valuation of such property would be reduced. Such a reduction of assessed valuations could result in a reduction of the Tax Revenues that secure the Bonds.

The property within the Project Area is generally not within any designated flood plain areas.

## **Hazardous Substances**

An environmental condition that may result in the reduction in the assessed value of parcels would be the discovery of hazardous substance that would limit the beneficial use of a property within the Project Area. In general, the owners and operators of a property may be required by law to remedy conditions of the property 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 of property whether or not the owner or operator as any thing to do with creating or handling the hazardous substance. The effect, therefore, should any of the property within the Project Area be affected by a hazardous substance, would be to reduce the marketability and value of the property by the costs of remedying the condition, since the purchaser, upon becoming an owner, will become obligated to remedy the condition just as is the seller.

## **Assessment Appeals**

Property taxable values may be reduced as a result of a successful appeal of the taxable value determined by the County Assessor. An appeal may result in a reduction to the Assessor's original taxable value and a tax refund to the applicant property owner. A reduction in taxable values within the Project Area and the refund of taxes which may arise out of successful appeals by property Owners will affect the amount of Tax Revenues. The Agency has in the past experienced reductions in its tax increment revenues as a result of assessment appeals. The actual impact to tax increment is dependent upon the actual revised value of assessments resulting from values determined by the County Assessment Appeals Board or through litigation and the ultimate timing of successful appeals. See "THE PROJECT AREA - Assessment Appeals" herein for a discussion of historical assessment appeals in the Project Area. While the Fiscal Consultant has estimated the impact of property tax assessment appeals, there can be no assurance that the actual result of the appeals will correspond to such projections.

## **Economic Risks**

The Agency's ability to make payments on the Bonds will be partially dependent upon the economic strength of the Project Area. If there is a decline in the general economy of the Project Area, the owners of property may be less able or less willing to make timely payments of property taxes causing a delay or stoppage of Tax Revenues. Furthermore, general economic declines are likely to result in additional reductions of assessed values as has occurred in each of the past four years. In the event of decreased values, Tax Revenues may decline even if property owners make timely payment of taxes. See "THE PROJECT AREA" herein for a discussion of historical decreases in assessed values within the Project Area, possible developments in the City which may effect the overall economic viability of the City and the Project Area, and a description of the principal taxpayers of the parcels in the Project Area.

## **State Budget Deficit**

In connection with its approval of a budget for the 1993/94 Fiscal Year, the State Legislature enacted Senate Bill 1135 which, among other things, reallocated approximately \$65 million from redevelopment agencies to school districts by shifting approximately 5.675% of

each agency's tax increment, net of amounts due to other taxing agencies, to school districts for the current and next Fiscal Years. The amount required to be paid by a redevelopment agency under such legislation was apportioned among all of its redevelopment areas on a collective basis, and was not allocated separately to individual project areas. The aggregate amount of tax revenues which the Agency was required to pay under the legislation during the two-year period was \$2,058,460.

In connection with its approval of a budget for the 2002/03 Fiscal Year, the State Legislature enacted Assembly Bill 1768, effective September 30, 2002, which reallocated \$75 million from redevelopment agencies to school districts during the 2002/03 Fiscal Year. Each agency's proportionate share of such amount is required to be transferred to the county auditor for deposit in the Educational Revenue Augmentation Fund prior to May 10, 2003. The Agency's share of this reallocation is approximately \$445,887, although the Agency does not expect to pay any of such amount from tax increment revenues generated in the Project Area. The Agency expects to transfer such amount as required by Assembly Bill 1768.

The State's budget deficit for the 2002/03 and 2003/04 fiscal years combined is presently estimated anywhere from \$26 billion to \$35 billion. On December 2, 2002, Governor Davis released a proposal for immediate steps to be taken by the Legislature to address part of this problem. With respect to redevelopment agencies, the Governor has proposed adoption of legislation which would transfer to the State's General Fund all unencumbered moneys as of December 1, 2002 in the Low and Moderate Income Housing Funds required to be maintained by all redevelopment agencies, which was estimated to provide \$500 million for the current year. As the date hereof, the State Legislature has not approved any such transfer.

On January 10, 2003, the Governor released his proposed budget, which included a proposal to shift the school district share of tax increment currently retained by redevelopment agencies back to schools, commencing with a \$250 million shift in Fiscal Year 2003/04 and increasing to the full amount over time. Statewide, such a total shift would decrease tax increment revenues by nearly 50%. On May 14, 2003, the Governor released his revised budget, reflecting an increase in the projected deficit to approximately \$38.2 billion. The revised budget also includes the proposed shift of the school district tax increment. As of the date hereof, no proposal has been introduced in the Legislature which would accomplish such a shift, and it is not known at this time whether any such legislation will be introduced, or if so, in what form. However, SB 53 (Chesbro) has been introduced, which includes a one-time reallocation of \$250 million from redevelopment agencies to school districts during the 2003/04 Fiscal Year.

The Agency cannot predict whether the Legislature will adopt the Governor's budget proposals, enact similar measures or enact some other measures which shift revenues away from the Agency, and cannot predict what, if any, the impact of any such legislation on Tax Revenues. As the date hereof, the State Legislature has not approved a budget for Fiscal Year 2003/04, and such budget is currently not expected to be approved until this Summer, at the earliest. The Agency cannot predict whether future State Budget legislation will further divert moneys from redevelopment agencies. The projections prepared by the Fiscal Consultant assume a payment of \$810,000 from the Project Area in Fiscal Year 2003/04 prior to payment of debt service on the Bonds, although there is no way to know at this time whether such payment will actually be required by the Legislature, and if so, whether it will be senior or subordinate to the lien of the Bonds.

## **Direct and Overlapping Indebtedness**

The ability of land owners within the Project Area to pay property tax installments as they come due could be affected by the existence of other taxes and assessments, imposed upon the land. In addition, other public agencies whose boundaries overlap those of the Project Area could, without consent of the Agency, and in certain cases without the consent of the owners of the land within the Project Area, impose additional taxes or assessment liens on the property to finance public improvements. See “Bankruptcy and Foreclosure” below.

## **Bankruptcy and Foreclosure**

The payment of property taxes by owners may be limited by bankruptcy, insolvency, or other laws generally affecting creditors rights or by the laws of the State relating to judicial foreclosure. The various legal opinions to be delivered concurrently with the delivery of the Bonds (including Bond Counsel’s approving legal opinion) will be qualified, as to the enforceability of the various legal instruments, by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

Although bankruptcy proceedings would not cause the property tax obligation of a landowner to become extinguished, such bankruptcy could result in a delay in collection of Tax Revenues, and would increase the likelihood of a delay or default in payment of the principal of and interest on the Bonds.

## **Property Tax and Spending Limitations**

**Article XIII A of the California Constitution.** Section 1(a) of Article XIII A of the California Constitution limits the maximum *ad valorem* tax on real property to one percent of full cash value, to be collected by the counties and apportioned according to law. Section 2 of Article XIII A defines “full cash value” to mean “the county assessor’s valuation of real property as shown on the 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 (2%) per year, or reduction in the consumer price index or comparable data for the area under taxing jurisdiction or reduced in the event of declining property value caused by substantial damage, destruction or other factors. Legislation enacted by the California Legislature to implement Article XIII A provides that notwithstanding any other law, local agencies may not levy any *ad valorem* property tax except to pay debt service on indebtedness approved by the voters as described above. A recent Orange County Superior Court Minute Order held that where a home’s taxable value did not increase, due to a flat real estate market, the Orange County assessor violated the two percent inflation adjustment provision of Article XIII A, when the assessor tried to “recapture” the tax value of the property by increasing its assessed value by 4% in a single year. See “RISK FACTORS – Reduction in Inflationary Rate” for a discussion of this decision.

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 will reduce the tax increment of the Agency. Other amendments permitted the Legislature to allow persons over 55 who sell their residence

and on or after November 5, 1986, 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 or assessed value applicable to situations in which the replacement dwelling purchased or constructed after November 8, 1988, is located within that county and the original property is located in another county within California.

In the June 1990 election, the voters of the State 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.

Both the California Supreme Court and the United States Supreme Court have upheld the constitutionality of Article XIII A.

**Article XIII B of the California Constitution.** On November 6, 1979, California voters approved Proposition 4, the 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.

Appropriations subject to Article XIII B include generally the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions, refunds of taxes, benefit payments from retirement, unemployment insurance and disability insurance funds.

Effective September 30, 1980, the California Legislature added Section 33678 to the Redevelopment Law which provides 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 the agency of proceeds of taxes levied by or on behalf of the agency within the meaning of Article XIII B or any statutory provision enacted in implementation thereof.

The constitutionality of Section 33678 has been upheld by the Second and Fourth District Courts of Appeal in two decisions: *Bell Community Redevelopment Agency v. Woosely* and *Brown v. Community Redevelopment Agency of the City of Santa Ana*.

**Proposition 218.** On November 5, 1996, the voters of the State approved Proposition 218, the "Right to Vote on Taxes Act." Proposition 218 added Articles XIII C and XIII D to the State Constitution, which contain a number of provisions affecting the ability of the public agencies to levy and collect both existing and future taxes, assessments, fees and charges.

Article XIII C removes limitations on the initiative power in matters of local taxes, special taxes, assessments, fees and charges. While the matter is not free from doubt, it is

likely that a court would hold that the initiative power cannot be used to reduce or repeal the levy of property taxes or to materially affect the collection and pledge of Tax Revenues.

The interpretation and application of the initiative provisions of Proposition 218 will ultimately be determined by the courts with respect to a number of the matters discussed above, and while it is not possible at this time to predict with certainty the outcome of such determination, the Agency does not believe that Proposition 218 will materially affect its ability to pay principal of or interest on the Bonds.

### **Implementing Legislation**

Legislation enacted by the California Legislature to implement Article XIII A provides that all taxable property is shown at full assessed value as described above. In conformity with this procedure, all taxable property value included in this Official Statement (except as noted) is shown at 100% of assessed value and all general tax rates reflect the \$1.00 per \$100 of taxable value. Tax rates for bond debt service and pension liability are also applied to 100% of assessed value.

Future assessed valuation growth allowed under Article XIII A (new construction, change of ownership, two percent (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. Local agencies and school districts will share the growth of "base" revenue from the tax rate area. Each year's growth allocation becomes part of each agency's allocation in the following year. The Agency is unable to predict the nature or magnitude of future revenue sources which may be provided by the State of California (the "State") to replace lost property tax revenues. Article XIII A effectively prohibits the levying of any other *ad valorem* property tax above the one percent (1%) limit except for taxes to support indebtedness approved by the voters as described above.

### **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 other liens (except certain federal claims) 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 the taxes on unsecured property, but may become a lien on certain other property owned by the taxpayer.

**Collections and Distributions.** The County levies a 1% property tax on behalf of all taxing agencies in the County. The taxes collected are allocated on the basis of a formula established by State law enacted in 1979. Under this formula, the County and all other taxing entities receive a base year allocation plus an allocation on the basis of "situs" growth in assessed value (new construction, change of ownership, and inflation) prorated among the jurisdictions which serve the tax rate areas within which the growth occurs. Tax rate areas are specifically defined geographic areas which were developed to permit the levying of taxes for less than county-wide or less than city-wide special districts. In addition, the County levies and

collects additional approved property taxes and assessments on behalf of any taxing agency within the County.

Property taxes on the secured roll are due in two installments, on November 1 and March 1. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. If such taxes remain unpaid as of June 30 of the fiscal year in which the taxes are levied, the property securing the taxes may only be redeemed by a payment of the delinquent taxes and the delinquency penalty, plus costs and a redemption penalty of 1-1/2% per month from the original June 30th date to the time of redemption. If taxes are unpaid for a period of five years or more, the tax-defaulted properties are thereafter subject to sale by the county tax collector as provided by law.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent if unpaid by August 31. A 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1-1/2% per month begins to accrue on November 1. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing of 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) secure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

See "THE PROJECT AREA – Secured Tax Levy and Collecting" herein for a discussion of the County's current policy of allocating tax revenues to redevelopment agencies.

**Supplemental Assessments.** A bill enacted in 1983, SB 813 (Chapter 498, Statutes of 1983), provided for the supplemental assessment and taxation of property as of the occurrence of a change in ownership or completion of new construction. This legislation eliminated delays in the realization of increased property taxes from new assessments, and provided increased revenue to redevelopment agencies to the extent that supplemental assessments as a result 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 supplemental assessments occur within the Project Area, Incremental Tax Revenues may increase.

### **Property Tax Administrative Costs**

In 1990, the Legislature enacted SB 2557 (Chapter 466, Statutes of 1990) which allows counties to charge for the cost of assessing, collecting and allocating property tax revenues to local government jurisdictions on a prorated basis. The County currently deducts the Agency's prorated share of administrative costs before apportioning the Incremental Tax Revenues to the Agency. The County fee for Fiscal Year 2002/03 is approximately \$129,778 for the Project Area.

The projections of Tax Revenue described herein under the heading "THE PROJECT AREA" reflect estimated reductions for such collection fees.

### **Unitary Property**

Assembly Bill 2890 (Statutes of 1986, Chapter 1457), which added Section 98.9 to the California Revenue and Taxation Code, provided that, commencing with the Fiscal Year

1988/89, assessed value derived from State-assessed unitary property (consisting mostly of operational property owned by utility companies) was to be allocated county-wide as follows: (i) each tax rate area will receive the same amount from each assessed utility received in the previous fiscal year unless the applicable county-wide values are insufficient to do so, in which case values will be allocated to each tax rate area on a pro-rata basis; and (ii) if values to be allocated are greater than in the previous fiscal year, each tax rate area will receive a pro-rata share of the increase from each assessed utility according to a specified formula. Additionally, the lien date on State-assessed property was changed from March 1 to January 1.

Assembly Bill 454 (Statutes of 1987, Chapter 921) further modified the distribution of tax revenues derived from property assessed by the State Board of Equalization. Chapter 921 provided for the consolidation of all State-assessed property, except for regulated railroad property, into a single tax rate area in each county. Chapter 921 further provided for a new method of establishing tax rates on State-assessed property and distribution of property tax revenues derived from State-assessed property to taxing jurisdictions within each county as follows: for revenues generated from the one percent tax rate, each jurisdiction, including redevelopment project areas, will receive a percentage up to 102% of its prior year State-assessed unitary revenue; and if county-wide revenues generated for unitary property are greater than 102% of the previous year's unitary revenues, each jurisdiction will receive a percentage share of the excess unitary revenue generated from the application of the debt service tax rate to county-wide unitary taxable value, further, each jurisdiction will receive a percentage share of revenue based on the jurisdiction's annual debt service requirements and the percentage of property taxes received by each jurisdiction from unitary property taxes in accordance with a new formula. Railroads will continue to be assessed and revenues allocated to all tax rate areas where railroad property is sited.

The intent of Chapters 1457 and 921 was to provide redevelopment agencies with their appropriate share of revenue generated from the property assessed by the State Board of Equalization.

On July 14, 1993, the Superior Court for the County of Sacramento entered a judgment validating a settlement agreement among all California counties and several public utility companies affecting the collection of unitary property taxes. The settlement agreement provides for a method of valuing unitary property for eight years, beginning in fiscal year 1991-92, which resulted in a reduction of unitary taxes collected by counties during that period.

The Fiscal Consultant projects that the Incremental Tax Revenues attributable to unitary public property for Fiscal Year 2002/03 will be approximately \$298,317 in the Project Area. The Agency cannot predict the effect of any future litigation or settlement agreements on the amount of unitary tax revenues received or to be received by the Agency.

#### **Additional Limitation on Tax Revenues**

On November 8, 1988 the voters of the State approved Proposition 87, which amended Article XVI, Section 16 of the California Constitution to provide that property tax revenue attributable to the imposition of taxes on property within a redevelopment project area for the purpose of paying debt service on bonded indebtedness approved by the voters of the taxing entity after January 1, 1989 will be allocated to the taxing entity and not to the redevelopment agency. The Agency does not currently project receiving any Incremental Tax Revenues as a result of general obligation bonds which were approved on or after January 1, 1989.

## **Low and Moderate Income Housing Requirements**

Pursuant to the Act, housing set-aside funds may be pledged only to the repayment of bonds to the extent proceeds of such bonds are expended on qualifying housing purposes. The Agency is subject to this statutory requirement. Since the Agency is not using a portion of the proceeds of the Bonds to satisfy the set-aside requirements, Tax Revenues exclude amounts related to the 20% set-aside. See "SECURITY FOR THE BONDS – Low and Moderate Income Housing Requirement" herein.

## **Tax Increment Limitation**

The Merged Redevelopment Plan provides that the total amount of Incremental Tax Revenues which may be divided and allocated to the Agency pursuant to the Merged Redevelopment Plan may not exceed \$621,000,000, unless the Redevelopment Plan is amended to provide a greater amount. Total Outstanding principal of bonds payable from such tax increment may not at any time exceed \$149,000,000. Based on Agency records, the Agency has received approximately \$120,232,255 of Incremental Tax Revenues through June 30, 2002. Incremental Tax Revenues pledged to existing obligations, including debt service on the Bonds, totals approximately \$67,338,158. Upon issuance of the Bonds, the total principal amount of Outstanding Bonds payable from Incremental Tax Revenues is \$40,435,000.

Assembly Bill 1290 ("AB 1290") was signed into law by the Governor in December 1993 and amends various provisions of the Act. AB 1290 provides for the placement of time limits on the effectiveness of every redevelopment plan, and provides that after 10 years from the termination date of a plan's effectiveness, no redevelopment agency, subject to certain exceptions, shall pay indebtedness or receive property taxes in connection therewith. The expiration date of the components of the Merged Redevelopment Plan, the final date to incur indebtedness (as permitted in the Indenture) and the final date to receive Incremental Tax Revenues from each component of the Project Area is set forth under "THE REDEVELOPMENT PLAN – Plan Limitations". Debt service has been structured to reflect the decrease in Tax Revenues resulting from termination of the effective date of each component of the Project Area. See "Senate Bill 211" below for a discussion of changes in the Act which could allow further extensions of these dates.

## **Senate Bill 211**

On October 10, 2001 the Governor of the State signed into law Senate Bill 211 ("SB 211"), which allows redevelopment agencies to eliminate the time limits on their ability to incur debt for project areas established prior to January 1, 1994. Additionally, SB 211 allows redevelopment agencies to extend the termination date of their redevelopment plans and the deadline for the receipt of tax increment for the repayment of debt by 10 years for project areas established prior to January 1, 1994. In order to extend the termination of the redevelopment plans or the deadline for the receipt of tax increment for the repayment of debt, the redevelopment agency must make certain findings of blight in the applicable project areas. Additionally, if a redevelopment agency elects to extend the time limits on the incurrence of debt, the termination of the redevelopment plans or the deadline for the receipt of tax increment for the repayment of debt, the redevelopment agency must make certain additional statutory pass-throughs to other taxing entities. While the Agency does not currently have any intention of extending Project Area limits as provided in SB 211, in the event it does elect to extend any of the deadlines for the Project Area the growth of Tax Revenues, if any, would be negatively affected.

The Agency does not currently expect to extend the duration of the redevelopment plan or to extend the time to collect tax increment revenues and to pay indebtedness.

### **Loss of Tax Exemption**

As discussed in this Official Statement under the caption "TAX MATTERS," interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued, as a result of future acts or omissions of the Agency in violation of its covenants in the Indenture. Should such an event of taxability occur, the Bonds are not subject to a special redemption and will remain outstanding until maturity or until redeemed under one of the other redemption provisions contained in the Indenture.

### **TAX MATTERS**

In the opinion of Best Best & Krieger LLP, Riverside, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes, and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporation, provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the Agency comply with all requirements of the Internal Revenue Code of 1986 (the "Code") that must be satisfied subsequent to the issuance of the Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The Agency has covenanted to comply with each requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds.

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

Owners of the Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Bonds other than as expressly described above.

A complete copy of the proposed form of opinion of Bond Counsel is set forth in APPENDIX E hereto.

### **CERTAIN LEGAL MATTERS**

Legal matters incident to the issuance of the Bonds are subject to the approving opinion of Best Best & Krieger LLP, Riverside, California, Bond Counsel. A complete copy of the proposed form of Bond Counsel opinion is contained in APPENDIX E hereto. Certain

matters will be passed upon for the Underwriter by Nossaman, Guthner, Knox & Elliott, LLP, Irvine, California, and for the Agency by the City Attorney, as its General Counsel.

### LITIGATION

There is no action, suit or proceeding pending or, to the knowledge of the Agency officials, threatened, restraining or enjoining the execution or delivery of the Bonds or the Indenture, or in any way contesting or affecting the validity of the foregoing or any proceedings of the Agency or the City taken with respect to any of the foregoing.

### PROFESSIONAL FEES

In connection with the execution of the Bonds, fees payable to Best Best & Krieger LLP, as Bond Counsel, and U.S. Bank National Association, as Trustee are contingent upon the execution and delivery of the Bonds.

### RATINGS

Standard & Poor's Credit Market Services, a division of The McGraw-Hill Companies, Inc. ("S&P") and Moody's Investors Service ("Moody's") will assign their municipal bond ratings of "AAA" and "Aaa," respectively, to the Bonds, with the understanding that upon delivery of the Bonds, a policy insuring the payment when due of the principal of and interest on the Bonds will be issued by the Insurer. In addition, S&P has rated the Bonds "A-" without regard to the delivery of the Insurance Policy. The ratings reflects only the views of such organizations, and an explanation of the significance of such ratings may be obtained from Moody's or S&P.

There is no assurance that such ratings will continue for any given period of time for the Bonds or that it will not be revised downward or withdrawn entirely by such rating agencies, if, in the judgment of such rating agencies, circumstances so warrant. The Insurer undertakes no responsibility to bring to the attention of the Owners the downward revision or withdrawal of any rating obtained, and the Agency undertakes no responsibility to oppose any such revision or withdrawal. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

### UNDERWRITING

The Agency has agreed to sell the Bonds to the Authority, which will then sell the Bonds to UBS Financial Services Inc. (the "Underwriter"). The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the Authority at a purchase price of \$42,315,304.13 (the principal amount of the Bonds, less an Underwriter's discount in the amount of \$187,158.77, plus net original issue premium of \$2,067,462.90). The obligations of the Underwriter are subject to certain conditions precedent, and it will be obligated to purchase all such Bonds if any such Bonds are purchased. The public offering prices of the Bonds may be changed from time to time by the Underwriter.

The Underwriter reserves the right to join with dealers and other underwriters in offering the Bonds to the public. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) at prices lower than the



## APPENDIX A

### SUMMARY OF THE INDENTURE

The following is a brief summary of certain provisions of the Indenture of Trust (the "Indenture") authorizing the Bonds that are not otherwise described in the text of this Official Statement. Such summary is not intended to be definitive, and reference is made to the actual Indenture (copies of which may be obtained from the Agency) for the complete terms thereof.

**"Annual Debt Service"** means, for each Fiscal Year, the sum of (a) the interest payable on the Outstanding Bonds in such Fiscal Year assuming that the Outstanding Serial Bonds are retired as scheduled and that the Outstanding Term Bonds are redeemed from sinking fund payments as scheduled and (b) the principal amount of the Outstanding Serial Bonds payable by their terms in such Fiscal Year and the principal amount of the Outstanding Term Bonds scheduled to be paid or redeemed from sinking fund payments in such Fiscal Year, excluding the redemption premiums, if any, thereon. For purposes of such calculation, there shall be excluded the principal of and interest on any Parity Bonds, determined among the maturities of such Parity Bonds in such manner as may be determined by the Agency in the Supplemental Indenture under which such amounts may not be released to the Agency except in accordance with the provisions of the Indenture relating to Parity Bonds.

**"Bond Counsel"** means any attorney or firm of attorneys nationally recognized for expertise in rendering opinions as to the legality and tax-exempt status of securities issued by public entities and selected by the Agency.

**"Bond Fund"** means the fund by that name established pursuant to the Indenture.

**"Bond Insurer"** means MBIA Insurance Corporation, as issuer of the Municipal Bond Insurance Policy.

**"Bond Year"** means, with respect to the 2003 Bonds, the twelve-month period extending from August 2 in any year to the following August 1, both dates inclusive; provided, however, that the first Bond Year shall begin on the Closing Date and end on August 1, 2004, and with respect to any Parity Bonds, shall have the meaning ascribed in any Supplemental Indenture relating thereto.

**"Bonds"** means the 2003 Bonds and, to the extent required by any Supplemental Indenture, any Parity Bonds authorized by, and at any time Outstanding pursuant to the Indenture and such Supplemental Indenture.

**"Business Day"** means any day other than a Saturday, a Sunday or a day on which banking institutions in New York, New York, Los Angeles, California, and the city in which the Corporate Trust Office is located, are authorized or obligated by law to be closed.

**"Chair"** means the chairperson of the Agency appointed pursuant to Section 33113 of the Health and Safety Code of the State of California, or other duly appointed officer of the Agency authorized by the Agency by resolution or by law to perform the functions of the chairperson in the event of the chairperson's absence or disqualification.

**"City"** means the City of Riverside, California.

**"Closing Date"** means any date upon which there is a physical delivery of any series of the Bonds in exchange for an amount representing the purchase price of the Bonds by the original purchaser.

**"Code"** means the Internal Revenue Code of 1986, as amended. Any reference to a provision of the Code shall be deemed to include the applicable Tax Regulations promulgated with respect to such provision.

**"Continuing Disclosure Agreement"** means the agreement of that name between the Agency and the Dissemination Agent named therein, dated the Closing Date and any amendments or supplements thereto.

**"Corporate Trust Office"** means the corporate trust office of the Trustee at 550 South Hope Street, Suite 500, Los Angeles, California 90071; or such other address as it shall designate in writing to the Agency and the Owners; provided, however for transfer, registration, exchange, payment and surrender of Bonds means care of the corporate trust office of U.S. Bank National Association in St. Paul, Minnesota or such other office designated by the Trustee from time to time.

**"Costs of Issuance"** means items of expense payable or reimbursable directly or indirectly by the Agency and related to the authorization, sale and issuance of the Bonds, which items of expense shall include, but not be limited to, printing costs, costs of reproducing and binding documents, closing costs, filing and recording fees, initial fees and charges of the Trustee including its first annual administration fee, expenses incurred by the Agency in connection with the issuance of the Bonds, underwriter's discount, original issue discount, legal fees and charges, including bond counsel and financial consultants' fees, costs of cash flow verifications, premiums for any municipal bond insurance policy that may be purchased and for any reserve account surety bond the Agency may purchase, rating agency fees, charges for execution, transportation and safekeeping of the Bonds and other costs, charges and fees in connection with the original issuance of the Bonds.

**"Costs of Issuance Fund"** means the fund by that name established by the Indenture.

**"County"** means Riverside, California.

**"County Assessor"** means the person who holds the office in the County in which the Agency is located designated as the County Assessor, or one of his duly appointed deputies, or any person or persons performing substantially the same duties in the event said office is ever abolished or changed.

**"County Auditor-Controller"** means the person who holds the office in the County in which the Agency is located designated as the County Auditor-Controller, or one of his duly appointed deputies, or any person or persons performing substantially the same duties in the event said office is ever abolished or changed.

**"County Pass-Through Accumulation Date"** means the date, as determined by a Redevelopment Consultant, on which the aggregate total of the County's Share (as defined in the County Pass-Through Agreement) of tax increment revenues allocated to the Redevelopment Project over its life (including tax increment revenues allocated to the former Airport Redevelopment Project and the former Downtown Mile Square Redevelopment Project) and retained by the Agency in accordance with Section 3 of the County Pass-Through Agreement equals \$23.1 million.

**"County Pass-Through Agreement"** means the agreement entitled "Agreement for Cooperation Between the County of Riverside, the Redevelopment Agency of the City of Riverside and the City of Riverside" dated January 15, 1991, by and among the Agency, the City and the County, as amended or supplemented from time to time.

**"Defeasance Obligations"** mean any of the following: (1) cash, (2) U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series - "SLGS"); (3) direct obligations of the Treasury which have been stripped by the Treasury itself, CATS, TIGRS and similar securities; (4) Resolution Funding Corp. (REFCORP), only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form are acceptable; (5) pre-refunded municipal bonds

rated "Aaa" by Moody's and "AAA" by S&P. (If, however, the issue is only rated by S&P (i.e., there is no Moody's rating), then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA rated pre-refunded municipals to satisfy this condition); (6) obligations issued by the following agencies which are backed by the full faith and credit of the U.S.: (a) U.S. Export-Import Bank (Eximbank) - direct obligations or fully guaranteed certificates of beneficial ownership; (b) Farmers Home Administration (FmHA) Certificates of beneficial ownership; (c) Federal Financing Bank; (d) General Services Administration - participation certificates; (e) U.S. Maritime Administration - guaranteed Title XI financing; (f) U.S. Department of Housing and Urban Development (HUD) - Project Notes; Local Authority Bonds; or New Communities Debentures - U.S. government guaranteed debentures.

**"Executive Director"** means the executive director of the Agency appointed pursuant to the Law, or other duly appointed officer of the Agency authorized by the Agency by resolution or by law to perform the functions of the executive director including, without limitation, any deputy executive director of the Agency.

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

**"Fiscal Year"** means any twelve-month period extending from July 1 in one calendar year to June 30 of the succeeding calendar year, both inclusive, or any other twelve-month period hereafter selected and designated by the Agency as its official fiscal year period.

**"Independent Certified Public Accountant"** means any accountant or firm of such accountants duly licensed or registered or entitled to practice and practicing as such under the laws of the State of California, appointed by the Agency, and who, or each of whom: (1) is in fact independent and not under 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 an officer or employee of the Agency, but who may be regularly retained to make reports to the Agency.

**"Independent Financial Consultant"** means any financial consultant or firm of such consultants appointed by the Agency, and who, or each of whom: (1) is in fact independent and not under 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 an officer or employee of the Agency, but who may be regularly retained to make reports to the Agency.

**"Information Services"** means Financial Information, Incorporated's "Daily Called Bond Service," 30 Montgomery Street, 10<sup>th</sup> Floor, Jersey City, New Jersey 07302, Attention: Editor, Mergent/MIS," 5250 77 Center Drive, Suite 150, Charlotte, NC 28217, Attention: Called Bonds Department; and Kenny S&P, 55 Water Street, 45<sup>th</sup> Floor, New York, New York 10041, Attention: Notification Department; or in accordance with then-current guidelines of the Securities and Exchange Commission, such other services providing information with respect to called bonds, or no such services, as the Agency may indicate in a certificate of the Agency delivered to the Trustee.

**"Interest Account"** means the Account by that name established pursuant to the Indenture.

**"Interest Payment Date"** means February 1 and August 1 in any year in which Bonds are Outstanding, commencing February 1, 2004.

**"Law"** means the Community Redevelopment Law of the State of California, constituting Part 1 (commencing with Section 33000) of Division 24 of the Health and Safety Code of the State of California, and the acts amendatory thereof and supplemental thereto.

**"Maximum Annual Debt Service"** means, as of the date of any calculation, the largest Annual Debt Service with respect to the Bonds during the current or any future Fiscal Year.

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

**"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 cancelled 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 (regardless of whether all Bonds shall have been so paid or so deemed to have been paid); 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 or any Supplemental Indenture.

**"Owner" or "Bondowner"** means the person or persons whose name appears on the registration books maintained by the Trustee as the registered owner of a Bond or Bonds.

**"Municipal Bond Insurance Policy"** means the municipal bond insurance policy issued by the Bond Insurer and insuring the payment when due of the principal of and interest on the 2003 Bonds.

**"Parity Bonds"** means any bonds, notes, loans, advances, or indebtedness issued or incurred by the Agency on a parity with the 2003 Bonds in accordance with the provisions of the Indenture.

**"Participant"** means those broker-dealers, banks and other financial institutions from time to time for which DTC holds 2003 Bonds as securities depository.

**"Pass-Through Agreements"** means collectively: (a) the County Pass-Through Agreement; and (b) that certain agreement entitled "Cooperation Agreement Between Riverside County Flood Control and Water Conservation District, the Redevelopment Agency of the City of Riverside and the City of Riverside" dated January 8, 1991, by and among the Agency, the City and the County, as amended or supplemented from time to time.

**"Permitted Investments"** means: (A) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury, and CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America; (B) bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself): (1) U.S. Export-Import Bank (Eximbank) - direct obligations or fully guaranteed certificates of beneficial ownership; (2) Farmers Home Administration (FmHA) - certificates of beneficial ownership; (3) Federal Financing Bank; (4) Federal Housing Administration Debentures (FHA); (5) General Services Administration - participation certificates; (6) Government National Mortgage Association (GNMA or "Ginnie Mae") - GNMA - guaranteed mortgage-backed bonds; or GNMA - guaranteed pass-through obligations; (7) U.S. Maritime Administration - guaranteed Title XI financing; (8) U.S. Department of Housing and Urban Development (HUD) - Project Notes; Local Authority Bonds; New Communities Debentures - U.S. government guaranteed debentures; U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds; (C) bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself): (1) Federal Home Loan Bank System - senior debt obligations; (2) Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac") - participation certificates; or senior debt obligations; (3) Federal National Mortgage Association (FNMA or "Fannie Mae") - mortgage-backed securities and senior debt obligations; (4) Student Loan Marketing Association (SLMA or "Sallie Mae") - senior debt obligations; (5)

Resolution Funding Corp. (REFCORP) obligations; (6) Farm Credit System - consolidated systemwide bonds and notes; (D) money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P Of AAAM-G; AAA-m or AA-m and, if rated by Moody's, rated Aaa, Aa1 or Aa2; (E) Certificates of deposit secured at all times by collateral described in (A) and/or (B) above. (Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. The collateral must be held by a third party and the Bondholders must have a perfected first security interest in the collateral); (F) certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF; (G) Investment Agreements, including Guaranteed Investment Contracts, Forward Purchase Agreements and Reserve Fund Put Agreements acceptable to the Bond Insurer; (H) commercial paper rated, at the time of purchase, "Prime - 1" by Moody's and "A-1" or better by S&P; (I) bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest rating categories assigned by such agencies; (J) federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime - 1" or "A3" or better by Moody's and "A-1" or "A" or better by S&P; (K) the Local Agency Investment Fund in the State Treasury of the State of California as permitted by the State Treasurer pursuant to Section 16429.1 of the California Government Code or any similar pooled investment fund administered by the State, to the extent such investment is held in the name and to the credit of the Trustee; (L) Repurchase Agreements for 30 days or less, which must follow the following criteria. (Repurchase Agreements which exceed 30 days must be acceptable to the Bond Insurer): (1) Repurchase Agreements must be between the Trustee or the Agency and a dealer bank or securities firm which are either; (a) Primary dealers on the Federal Reserve reporting dealer list which are rated A or better by S&P and Moody's, or (b) Banks rated "A" or above by S&P and Moody's; (2) the written Repurchase Agreement must include the following: (a) securities which are acceptable for transfer are: (1) Direct U.S. governments, or (2) Federal agencies backed by the full faith and credit of the U.S. Government or FNMA or FHLMC; (b) the term of the Repurchase Agreement may be up to 30 days; (c) the collateral must be delivered to the Agency or the Trustee (if the Trustee is not supplying the collateral) or a third party acting as agent for the Trustee (if the Trustee is supplying the collateral) before/ simultaneous with payment (perfection by possession of certificated securities); (d) Valuation of Collateral: (1) the securities must be valued weekly, marked-to market at current market plus accrued interest, (2) the value of collateral must be equal to 104% of the amount of cash transferred by the Agency or the Trustee to the dealer bank or security firm under the repurchase agreement plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by the Agency or the Trustee, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%; and (3) a legal opinion which must be delivered to the Trustee or the Agency stating that the Repurchase Agreement meets guidelines under state law for legal investment of public funds.

**"Principal Account"** means the Account by that name established pursuant to the Indenture.

**"Principal Payment Date"** means August 1 in each year in which any of the 2003 Bonds mature by their respective terms; and with respect to any Parity Bond means the stated maturity date of such Parity Bond.

**"Rebate Account"** means the Account by that name established and held by the Trustee pursuant to the Indenture.

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

**"Redemption Fund"** means the fund by that name established by the Indenture.

**"Redevelopment Consultant"** means any consultant or firm of consultants appointed by the Agency and judged by the Agency to have experience in matters relating to the collection of Tax Revenues or otherwise with respect to financing in redevelopment project areas, and who, or each of whom: (1) is in fact independent and not under 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 an officer or employee of the Agency, but who may be regularly retained to make reports to the Agency.

**"Redevelopment Fund"** means the fund by that name established by the Indenture.

**"Redevelopment Plan"** or **"Plan"** means the redevelopment plan for the Redevelopment Project approved and adopted by the City on September 25, 1990 by adoption of Ordinance No. 5872 which merged the Airport Industrial Project Area and the Downtown Project Area and amended their respective Redevelopment Plans. The Airport Industrial Redevelopment Plan originally was adopted by the City Council by Ordinance No. 4355 on December 1, 1976 and amended by Ordinance No. 4800 on June 10, 1980 and again by Ordinance No. 5240 on November 27, 1984. The Downtown Redevelopment Plan was adopted by the City Council by Ordinance No. 3872 on November 16, 1971 and amended four times (in addition to the amendment effectuating the merger): Amendment No. 1 adopted by Ordinance No. 3980 on December 9, 1972, Amendment No. 2 adopted by Ordinance No. 4108 on May 7, 1974, Amendment No. 3 adopted by Ordinance No. 4246 on November 11, 1975 and Amendment No. 4 adopted by Ordinance No. 5238 on November 27, 1984.

**"Redevelopment Project"** or **"Project"** means the undertaking of the Agency pursuant to the Redevelopment Plan, as amended, and the Law for the redevelopment of the Redevelopment Project Area.

**"Redevelopment Project Area"** or **"Project Area"** means the Redevelopment Project Area described in the Redevelopment Plan.

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

**"Report"** means a Report in writing signed by an Independent Certified Public Accountant, Independent Financial Consultant or Redevelopment Consultant 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; and (3) a statement that, in the opinion of such person or firm, sufficient examination or investigation was made as is necessary to enable said consultant to express an informed opinion with respect to the subject matter referred to in the Report.

**"Reserve Account"** means the account by that name established pursuant to the Indenture, within which Reserve Account there shall be created separate subaccounts with respect to each series of the Bonds.

**"Reserve Requirement"** means, with respect to each series of the Bonds, as of the date of calculation an amount equal to the lesser of (i) 10% of the initial outstanding principal amount of such series of Bonds excluding from said principal amount in the case of any Parity Bonds an amount equal to the amount then on deposit in any escrow fund created with respect to such Parity Bonds created pursuant to the Indenture; (ii) Maximum Annual Debt Service on such series of Bonds; or (iii) 125% of average Annual Debt Service on such series of Bonds.

**"S&P"** shall mean Standard & Poor's Rating Service, a division of McGraw-Hill Companies, Inc., its successors and assigns.

**"Securities Depositories"** means The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax (516) 227-4039 or 4190; Philadelphia Depository Trust Company, Reorganization Division, 1900 Market Street, Philadelphia, Pennsylvania 19103, Attention: Bond Department, Fax (215) 496-5058; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the Agency may designate in a Written Request of the Agency delivered to the Trustee.

**"Serial Bonds"** means with respect to the 2003 Bonds, all of the 2003 Bonds other than the 2003 Bonds which are Term Bonds, and with respect to Parity Bonds, means all of the Bonds of such series of Parity Bonds of such series which are not Term Bonds.

**"Special Fund"** means the fund by that name established by the Indenture.

**"Supplemental Indenture"** means an agreement, resolution or other instrument then in full force and effect which has been duly adopted by the Agency, amendatory of or supplemental to the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

**"Tax Regulations"** means temporary and permanent regulations promulgated under Section 103 and related provisions of the Code.

**"Tax Revenue Certificate"** means a written certificate of the Agency identifying the amount of Tax Revenues shown on the records of the County Assessor to be received by the Agency in either the current Bond Year or the next Bond Year.

**"Tax Revenues"** means all taxes annually allocated to the Agency with respect to the Project Area following the Closing Date pursuant to Article 6 of Chapter 6 (commencing with Section 33670) of the Law and Section 16 of Article XVI of the Constitution of the State and as provided in the Redevelopment Plan, including all payments, subventions and reimbursements (if any) to the Agency specifically attributable to ad valorem taxes lost by reason of tax exemptions and tax rate limitations; but excluding (a) all amounts of such taxes required to be deposited into the Low and Moderate Income Housing Fund of the Agency in any Fiscal Year pursuant to Sections 33334.2 and 33334.3 of the Redevelopment Law; and (b) all amounts required to be paid by the Agency to entities other than the Agency pursuant to the Pass-Through Agreements.

**"Term Bonds"** means, with respect to the 2003 Bonds, the 2003 Bonds originally issued under the Indenture maturing on August 1, 2033; and with respect to any Parity Bonds, means such Parity Bonds which are payable on or before their specified Principal Payment Dates from sinking account payments established for that purpose and calculated to retire such Parity Bonds on or before their respective Principal Payment Dates.

**"Treasurer"** means the treasurer of the Agency appointed pursuant to the Law, or other duly appointed officer of the Agency authorized by the Agency by resolution delivered to the Trustee or by law to perform the functions of the treasurer including, without limitation, the Assistant Treasurer of the Agency.

**"2003 Bonds"** means the Agency's \$40,435,000 aggregate principal amount Merged Project Tax Allocation and Refunding Bonds Series 2003, issued pursuant to the Indenture.

**"2003 Bonds Reserve Subaccount"** means the subaccount by that name in the Reserve Account established pursuant to the Indenture.

**"Written Request of the Agency"** means an instrument in writing signed by either the Chairman, the Executive Director, the Treasurer, the Redevelopment Director or by any other officer of the Agency duly authorized by the Agency for that purpose.

**"Yield"** means that yield which, when used in computing the present worth of all payments of principal and interest (or other payments in the case of Permitted Investments which require payments in a form not characterized as principal and interest) on a Permitted Investment or on any series of the Bonds produces an amount equal to the Purchase Price (as defined in the Indenture) of such Permitted Investment or any series of the Bonds, as the case may be, all computed as prescribed in the applicable Tax Regulations.

### **COSTS OF ISSUANCE FUND; REDEVELOPMENT FUND; REDEMPTION FUND**

Costs of Issuance Fund. The Indenture creates a "Costs of Issuance Fund," which shall be held by the Trustee in trust. The moneys in the Costs of Issuance Fund shall be used and withdrawn by the Trustee from time to time to pay the Costs of Issuance upon submission of a Written Request of the Agency stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund. On the date six months following the Closing Date, or upon the earlier Written Request of the Agency stating that all known Costs of Issuance have been paid, all amounts, if any, remaining in the Costs of Issuance Fund shall be withdrawn therefrom by the Trustee and transferred to the Agency to be applied for lawful redevelopment purposes.

Redevelopment Fund. The Indenture creates a special fund to be known as the "Redevelopment Fund", which the Trustee shall hold in trust for the benefit of the Agency. The moneys deposited in the Redevelopment Fund shall remain therein until requisitioned from time to time by one or more Written Requests of the Agency to the Trustee, which requisitions shall state the amount being requisitioned and that it will be used by the Agency in accordance with the provisions of the Indenture. All moneys so requisitioned by the Agency shall be expended from time to time for the purpose of paying any portion of the costs of the Redevelopment Project, and other costs related thereto, which other costs may include, but are not limited to the costs of improvements and other costs which may not benefit the Redevelopment Project exclusively but which are necessary to the redevelopment of the Redevelopment Project Area and the disposition of land therein. All amounts on deposit in the Redevelopment Fund shall be invested by the Trustee at the written direction of the Agency in Permitted Investments. Investment earnings on such Permitted Investments shall be retained in the Redevelopment Fund.

Redemption Fund. The Indenture establishes the Redemption Fund which shall be held by the Trustee. On or before the Business Day preceding any date on which the Bonds are to be redeemed pursuant to the Indenture, the Agency shall deposit with the Trustee for deposit in the Redemption Fund (after taking into account moneys, if any, in the Principal Account for such purpose) an amount required to pay the principal of and premium, if any, on the Bonds to be redeemed pursuant to the Indenture. All moneys in the Redemption Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of and premium, if any, on the Bonds to be redeemed pursuant to the Indenture, on the date set for such redemption.

### **THE TAX REVENUES; SPECIAL FUND; BOND FUND AND ACCOUNTS; SURPLUS**

Pledge of Tax Revenues. The Indenture provides that the Bonds shall be secured by a pledge of and first lien on all of the Tax Revenues (except as otherwise provided in the Indenture), and, by a pledge of all of the moneys in the Special Fund, the Bond Fund, the Interest Account, the Principal Account, the Reserve Account (each subaccount therein being pledged to a separate series of the Bonds) and the Redemption Fund. The Tax Revenues shall be allocated solely to the payment of the principal and interest, and redemption premium, if any, of the Bonds and to the Reserve Account for the purposes set forth in the Indenture; except

that the Tax Revenues may be apportioned in such amounts for such other purposes as are expressly permitted by the Indenture. The pledge and allocation of Tax Revenues is for the exclusive benefit of the Bonds and shall be irrevocable until all of the Bonds have been paid and retired or until moneys have been set aside irrevocably for that purpose.

In consideration of the acceptance of the Bonds by those who shall own them from time to time, the Indenture shall be deemed to be and shall constitute a contract between the Agency and the Owners from time to time of the Bonds and the covenants and agreements set forth in the Indenture to be performed on behalf of the Agency shall be for the equal and proportionate 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, of the time of sale, execution and delivery thereof, or otherwise for any cause whatsoever, except as expressly provided therein or in the Indenture.

Special Fund; Deposit of Tax Revenues. Under the Indenture, the Agency agrees to establish and hold a special fund to be known as the "Merged Project Tax Allocation Bonds Special Fund" (the "Special Fund"). The Agency shall deposit all of the Tax Revenues received in any Bond Year in the Special Fund promptly upon receipt thereof; 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 in the Special Fund exceeds the amounts required to be transferred to the Trustee for deposit in the Interest Account, Principal Account and the Reserve Account in such Bond Year pursuant to the Indenture. On or before the second Business Day immediately preceding each Interest Payment Date, the Agency shall transfer from the Special Fund to the Bond Fund an amount equal to the principal and interest owing on the Bonds on such Interest Payment Date and an amount, if any, necessary to increase the amount in the Reserve Account to the Reserve Requirement. Any Tax Revenues received by the Agency during any Bond Year in excess of the amounts required to be transferred to the Trustee for deposit into the Interest Account, the Principal Account and the Reserve Account in such Bond Year pursuant to the Indenture, shall be released from the pledge and lien under the Indenture and may be used for any lawful purposes of the Agency.

Bond Fund; Establishment and Maintenance of Accounts. The Indenture establishes the "Bond Fund" which shall be held by the Trustee. Within the Bond Fund the Indenture directs the Trustee to establish an Interest Account, a Principal Account and a Reserve Account. The Indenture provides that all moneys in the Bond Fund shall be transferred and set aside by the Trustee in the following respective special accounts of the Bond Fund in the following order of priority:

(a) Interest Account. At least one Business Day prior to each Interest Payment Date, the Trustee shall transfer from the Bond Fund and set aside in the Interest Account an amount which, when added to the amount contained in the Interest Account will be equal to the aggregate amount of the interest becoming due and payable on the Outstanding Bonds on such Interest Payment Date. No deposit need be made into the Interest Account if the amount contained therein is at least equal to the interest to become due on the next succeeding Interest Payment Date upon all of the Bonds issued under the Indenture and then Outstanding. The Trustee shall also deposit in the Interest Account any other moneys received by it from the Agency and designated in writing by the Agency for deposit in the Interest Account. All moneys in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Indenture).

(b) Principal Account. At least one Business Day prior to each Principal Payment Date, the Trustee shall transfer from the Bond Fund and set aside in the Principal Account an amount which, when added to the amount contained in the Principal Account will be equal to the principal becoming due and payable on the Bonds on such Principal Payment Date, whether by reason of scheduled maturity or mandatory sinking fund redemption pursuant to the Indenture. No deposit need be made

into the Principal Account if the amount contained therein is at least equal to the principal to become due on such Principal Payment Date, whether by reason of scheduled maturity or mandatory sinking fund redemption. The Trustee shall also deposit in the Principal Account any other moneys received by it from the Agency and designated in writing by the Agency for deposit in the Principal Account. All moneys in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal on the Bonds as it shall become due and payable, whether by reason of scheduled maturity or mandatory sinking fund redemption.

(c) Reserve Account. At least one Business Day before each Interest Payment Date and after the deposits required pursuant to the preceding subparagraphs have been made, the Trustee shall withdraw from the Bond Fund and deposit in the Reserve Account and the separate subaccounts therein an amount of money, if any, required to maintain the Reserve Account and the separate subaccounts therein in the full amount of the Reserve Requirement. No deposit need be made in the Reserve Account and the separate subaccounts therein so long as there shall be on deposit therein a sum equal to at least the amount required by this paragraph to be on deposit therein. The Indenture further establishes the 2003 Bonds Reserve Subaccount in the Reserve Account. The 2003 Bonds Reserve Subaccount is pledged to the repayment of the 2003 Bonds and is not pledged to any other series of Bonds. There shall be established in the Reserve Account in connection with issuance of any series of Parity Bonds a separate subaccount into which there shall be deposited the amount required by the Supplemental Indenture relating to such series of Parity Bonds and which shall be pledged to repayment of such series of Parity Bonds. All money in the Reserve Account, and each subaccount therein on a series by series basis, shall be used and withdrawn by the Trustee solely for the purpose of replenishing the Interest Account and the Principal Account, in such order, in the event of any deficiency at any time in any of such accounts, or for the purpose of paying the interest on or principal of or redemption premiums, if any, on the applicable series of Bonds in the event that no other money of the Agency is lawfully available therefor, or for the retirement of all the applicable series of Bonds then Outstanding, except that so long as the Agency is not in default hereunder, any amount in the Reserve Account and each subaccount therein in excess of the amount required by the Indenture to be on deposit therein except as otherwise provided in the Indenture, shall be transferred to the Bond Fund.

The Reserve Requirement for a series of Bonds may be satisfied by crediting to the Reserve Account moneys, a letter of credit, a bond insurance policy, any other comparable credit facility or any combination thereof, which has been approved in writing by the rating agency then rating the Bonds (which in the case of the 2003 Bonds is S&P) and which in the aggregate make funds available in the applicable subaccount in the Reserve Account in an amount equal to the Reserve Requirement. Upon the deposit with the Trustee of such letter of credit, bond insurance policy or other comparable credit facility, the Trustee shall transfer moneys then on hand in the applicable subaccount in the Reserve Account to the Redevelopment Fund to be applied for lawful redevelopment purposes for which proceeds of tax-exempt bonds can be used.

In the case of the 2003 Bonds, such requirement may be satisfied by a surety bond that is issued by an insurance agency rated in the highest rating category by S&P and Moody's and, if rated by A.M. Best & Company, is also rated in the highest rating category by A.M. Best & Company (a "2003 Bonds Qualified Reserve Fund Surety"). The 2003 Bonds Qualified Reserve Fund Surety shall initially be a Debt Service Reserve Surety Bond issued by the Insurer on the Closing Date (the "Insurer's Reserve Surety Bond"). The Indenture directs the Trustee to draw up the Insurer's Reserve Surety Bond in accordance with its terms; provided that the Trustee shall deliver a demand for payment to the Insurer with respect to the Insurer's Reserve Surety Bond at least three days prior to the date funds are required under the Indenture. In the event the Reserve Requirement with respect to the 2003 Bonds is satisfied with a combination of cash and the Insurer's Reserve Surety Bond, the Indenture

directs the Trustee to first draw down completely on such cash before any demand is made on the Insurer's Reserve Surety Bond.

Pursuant to the provisions of the Financial Guaranty Agreement between the Agency and the Insurer (the "Financial Guaranty Agreement") with respect to the Insurer's Reserve Surety Bond, the Agency agrees and covenants as follows:

(a) any available Tax Revenues (after required deposits have been made to the Interest Account and the Principal Account) shall, with respect to the 2003 Bonds Subaccount of the Reserve Account, be used first to reimburse the Insurer for draws on the Insurer's Reserve Surety Bond and thereafter to replenish cash, if any, that had been on deposit in such subaccount before such draw; provided that with respect to any deposits to subaccounts of the Reserve Fund for Parity Bonds, any deposits to the Reserve Account to fund required deposits to subaccounts therein shall be made on a pro rata basis among all such subaccounts in any case where such subaccounts cannot be funded in full from such deposits; and

(b) the Indenture shall remain in full force and effect until the later of the date (i) all Bonds issued thereunder have been paid or defeased in accordance with the terms thereof; or (ii) all amounts owing to the Insurer under the Financial Guaranty Agreement have been paid in full;

(c) so long as any amounts are owing and unpaid to the Insurer under the Financial Guaranty Agreement, the Agency shall not optionally redeem 2003 Bonds under the terms of the Indenture; and

(d) the Agency shall require the Trustee to maintain adequate records, available to the Insurer upon written request to the Trustee, with respect to the amounts available to be drawn under the Insurer's Reserve Surety Bond and amounts paid or owing to the Insurer under the terms of the Insurer's Reserve Surety Bond.

(d) Surplus. Except as may be otherwise provided in any Supplemental Indenture, the Agency shall not be obligated to transfer to the Trustee for deposit in the Bond Fund in any Bond Year an amount of Tax Revenues which, together with other available amounts in the Bond Fund, exceeds the amounts required in such Bond Year pursuant to the Indenture. In the event that for any reason whatsoever any amounts shall remain on deposit in the Bond Fund on any August 2 after making all of the transfers theretofore required to be made pursuant to the preceding clauses (a), (b) and (c) and pursuant to any Supplemental Indenture, the Trustee shall withdraw such amounts from the Bond Fund and transfer such amounts to the Agency, to be used for any lawful purposes of the Agency.

#### **COVENANTS OF THE AGENCY**

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

Extension of Time for Payment. In order to prevent any accumulation of claims for interest after maturity, the Agency covenants in the Indenture that it will not, directly or indirectly, extend or consent to the extension of the time for the payment of any claim for interest on any of the Bonds and will not, directly or

indirectly, approve any such arrangement 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 thereunder 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.

Against Encumbrances. Except for Parity Bonds issued in accordance with the terms of the Indenture, the Agency covenants in the Indenture that it will not issue any other obligations payable, as to either principal or interest, from the Tax Revenues which have, or purport to have, any lien upon the Tax Revenues superior to or on a parity with the lien of the Bonds; provided, however, that nothing in the Indenture shall prevent the Agency from issuing and selling pursuant to law refunding bonds or other refunding obligations payable from and having a first lien on a parity basis with all Outstanding Parity Bonds upon the Tax Revenues if such refunding bonds or other refunding obligations are issued and are sufficient for the purpose of refunding all or a portion of the Bonds then Outstanding.

Protection of Security and Rights of Bondowners. The Agency covenants in the Indenture that it will preserve and protect the security of the Bonds and the rights of the Bondowners, and will warrant and defend their rights against all claims and demands of all persons. From and after the sale and delivery of any of the Bonds by the Agency the Bonds shall be incontestable by the Agency.

Payments of Taxes and Other Charges. The Agency covenants in the Indenture that it will pay and discharge, or cause to be paid and discharged, all taxes, service charges, assessments and other governmental charges which may be lawfully imposed upon the Agency or the properties then owned by the Agency in the Project Area, or upon the revenues therefrom, when the same shall become due. The Agency is not required to make any such payment so long as the Agency in good faith shall contest the validity of said taxes, assessments or charges. The Agency will duly observe and conform with all valid requirements of any governmental authority relative to the Project or any part thereof.

Compliance with Law, Completion of Project. The Agency covenants in the Indenture that it will comply with all applicable provisions of the Law in completing the Project including, without limitation, duly noticing and holding any public hearing required by either Section 33445 or 33679 of the Law prior to application of proceeds of the Bonds to any portion of the Project subject to either Section 33445 or 33679. In addition, the Agency will comply timely with the public hearing and further requirements of Section 33334.6. The Agency covenants in the Indenture that it will commence, and will continue to completion, with all practicable dispatch, the Project and the Project will be accomplished and completed in a sound and economical manner and in conformity with the Redevelopment Plan and the Law. Notwithstanding the foregoing, the Agency may, in accordance with applicable provisions of the Law, amend the limits of the Redevelopment Plan from time to time in order to extend the term of any of such limits, so long as any such amendment will not reduce the amount of Tax Revenues to be received by the Agency, as certified in a certificate of a Redevelopment Consultant.

Financial Statements. The Agency covenants in the Indenture that it will cause to be prepared and filed with the Trustee annually, within two hundred and forty (240) days after the close of each Fiscal Year so long as any of the Bonds are Outstanding, complete financial statements with respect to such Fiscal Year showing the Tax Revenues, all disbursements from the Redevelopment Fund and the financial condition of the Project, including the balances in all funds and accounts relating to the Project, as of the end of such Fiscal Year. The Trustee shall have no duty to review such financial statements.

Taxation of Leased Property. The Agency covenants in the Indenture that whenever any property in the Redevelopment Project has been redeveloped and thereafter is leased by the Agency to any person or persons (other than a public agency) or whenever the Agency leases real property in the Redevelopment Project

to any person or persons (other than a public agency) for redevelopment, the property shall be assessed and taxed in the same manner as privately owned property, as required by Section 33673 of the Law.

Disposition of Property. The Agency covenants in the Indenture that it will not participate in the disposition of any land or 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 property dedicated for public right-of-way and except property planned for public ownership or use by the Redevelopment Plan in effect on the date of the Indenture) if the effect of such disposition would be to cause the amount of Tax Revenues for the then current Fiscal Year based on assessed valuation of property in the Project Area as evidenced in a written document from the County, to fall below 125% of Maximum Annual Debt Service.

Tax Revenues. The Agency covenants in the Indenture that it 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 the County.

Use of Proceeds. The Agency covenants in the Indenture that the proceeds of the sale of the Bonds will be deposited and used as provided in the Indenture and the Law.

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

Private Activity Bond Limitation. The Agency covenants in the Indenture that it shall assure that the proceeds of the 2003 Bonds are not so used as to cause the 2003 Bonds to satisfy the private business tests of Section 141(b) of the Code or the private loan financing test of Section 141(c) of the Code.

Federal Guarantee Prohibition. The Agency covenants in the Indenture that it shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause any of the 2003 Bonds to be "federally guaranteed" within the meaning of Section 149(b) of the Code.

Rebate Requirement. The Agency covenants in the Indenture that it shall take any and all actions necessary to assure compliance with Section 148(f) of the Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the 2003 Bonds.

No Arbitrage. The Agency covenants in the Indenture that it shall not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the 2003 Bonds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the date of issuance of the 2003 Bonds, would have caused the 2003 Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code.

Maintenance of Tax-Exemption. The Agency covenants in the Indenture that it shall take all actions necessary to assure the exclusion of interest on the 2003 Bonds from the gross income of the Owners of the 2003 Bonds to the same extent as such interest is permitted to be excluded from gross income under the Code as in effect on the date of issuance of the 2003 Bonds.

Limit on Indebtedness. In the Indenture, the Agency covenants with the Owners of all of the Bonds at any time Outstanding that it will not enter into any obligation or make any expenditure payable from taxes allocated to the Agency under the Law the payments of which, together with payments theretofore made or to be made with respect to other obligations (including, but not limited to, the Bonds) previously entered into by

the Agency, would exceed the then-effective limit on the amount of taxes which can be allocated to the Agency pursuant to Section 33333.2(1) of the Law and the Redevelopment Plan.

Continuing Disclosure. The Agency covenants in the Indenture that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Indenture, failure of the Agency to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, the Trustee shall, at the written request of any participating underwriter or the Owners of at least 25% aggregate principal amount of Outstanding Bonds, but only to the extent the Trustee has been indemnified from and against any loss, cost, expense, claim or liability, including, without limitation, fees and expenses of attorneys and additional fees and expenses of the Trustee or any Bondowner may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Agency to comply with its obligations under the Continuing Disclosure Agreement.

Annual Review of Tax Revenues. The Agency covenants in the Indenture that it shall annual 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 commutative 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 for the Redevelopment Plan to fall below the remaining cumulative Annual Debt Service, except for the purpose of depositing such Revenues in escrow for future cumulative Annual Debt Service or to call Bonds.

#### **THE TRUSTEE; INVESTMENT OF MONEYS**

Removal of Trustee. The Agency may remove the Trustee, at any time, unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee (i) if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing), (ii) if at any time requested to do so by the Bond Insurer; or (iii) if at any time the Trustee shall cease to be eligible in accordance with the Indenture, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation. In each case such removal shall be accomplished by the giving of written notice of such removal by the Agency to the Trustee, and the Bond Insurer, whereupon in the case of the Trustee, the Agency shall appoint a successor Trustee by an instrument in writing.

Resignation. The Trustee may at any time resign by giving written notice of such resignation to the Agency and the Bond Insurer and by giving the Bondowners notice of such resignation by mail at their respective addresses shown on the Registration Books. Upon receiving such notice of resignation, the Agency shall promptly appoint a successor Trustee by an instrument in writing. The Trustee shall not be relieved of its duties until such successor Trustee has accepted such appointment.

Successor Trustee. Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee and approved by the Bond Insurer. If no successor Trustee shall have been appointed and have accepted appointment within thirty (30) days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any Bondowner (on behalf of himself and all other Bondowners), at the expense of the Agency, may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee.

Trustee Qualification. Any Trustee appointed under the provisions of the Indenture shall be a corporation or other entity organized and doing business under the laws of any state, the District of Columbia or the

United States of America, authorized under such laws to exercise corporate trust powers, which shall have (or, in the case of a corporation included in a bank holding company system, the related bank holding company shall have) a combined capital and surplus of at least fifty million dollars (\$50,000,000), and subject to supervision or examination by federal or state authority.

Deposit and Investment of Moneys in Funds. Moneys in the Interest Account, the Principal Account, the Reserve Account, the Redemption Account, the Redevelopment Fund and the Costs of Issuance Fund shall be invested by the Trustee in Permitted Investments as specified by the Treasurer of the Agency and shall be promptly confirmed in writing by the Agency with the Trustee within at least one (1) Business Day. In the absence of any such direction provided by the Treasurer of the Agency, the Trustee shall invest any such moneys in Permitted Investments described in clause (f) of the definition thereof which by their terms mature prior to the date on which such moneys are required to be paid out under the Indenture.

Obligations purchased as an investment of moneys in any fund shall be deemed to be part of such fund or account. Whenever in the Indenture any moneys are required to be transferred by the Agency to the Trustee, such transfer may be accomplished by transferring a like amount of Permitted Investments which by their terms mature prior to the date on which such moneys are required to be paid out thereunder. All interest or gain derived from the investment of amounts in any of the funds or accounts established under the Indenture (other than with respect to funds held by the Agency) shall be retained in the respective funds and accounts to be used for the purposes thereof; provided, however, that all interest or gain from the investment of amounts in the respective subaccounts of the Reserve Account shall be deposited by the Trustee in the Interest Account, but only to the extent that the amount remaining in the respective subaccounts of the Reserve Account following such deposit is equal to the Reserve Requirement for the applicable series of Bonds.

Moneys credited to any fund or account under the Indenture which are uninvested pending disbursement or receipt of proper investment directions or as directed by the Agency as provided therein, may be deposited to and held in a non-interest bearing demand deposit account established with the commercial banking department of the Trustee or any bank affiliated with the Trustee. The Trustee may make any investments under the Indenture through its own bond or investment department or trust investment department, or those of its parent or any affiliate.

For purposes of acquiring any investments under the Indenture, the Trustee may in its discretion commingle funds held by it thereunder. The Trustee (or any of its affiliates) may act as principal or agent in the acquisition of any investment. The Trustee shall incur no liability for losses arising from any investments made pursuant to the Indenture. For purposes of determining the amount on deposit in any fund or account held under the Indenture, all Permitted Investments credited to such fund or account shall be valued by the Trustee, at least monthly, at the market value (excluding accrued interest and brokerage commissions, if any). In making any such valuations, the Trustee may utilize computerized securities pricing services that may be available to it, including those available through its regular accounting system.

Accounting Records and Financial Statements. The Trustee will at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with industry standards, in which complete and accurate entries shall be made of all transactions relating to the proceeds of the Bonds and all funds and accounts established and held by the Trustee pursuant to the Indenture. Such books of record and account shall be available for inspection by the Agency at reasonable hours, upon reasonable notice and under reasonable circumstances. The Trustee shall furnish to the Agency, at least monthly, an accounting of all transactions relating to the proceeds of the Bonds and all funds and accounts established pursuant to the Indenture, which may be in the form of the Trustee's regular monthly statement.

## **MODIFICATION OR AMENDMENT OF THE INDENTURE**

Amendments Permitted. The Indenture and the rights and obligations of the Agency and of the Owners of the Bonds may be modified or amended at any time by a Supplemental Indenture with written consent of the Bond Insurer and pursuant to the affirmative vote at a meeting of Bondowners or with the written consent without a meeting of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Indenture. No such modification or amendment shall (1) extend the maturity of any Bond or reduce the interest rate thereon, or otherwise alter or impair the obligation of the Agency to pay the principal thereof, or interest thereon, or any premium payable on the redemption thereof, at the time and place and at the rate and in the currency provided therein without the express 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 for the benefit of the Bonds (except as otherwise provided in the Indenture) or reduce the percentage of Bonds required for the affirmative vote or written consent to an amendment or modification or (3) modify any of the rights or obligations of the Trustee without its written assent thereto.

The Indenture and the rights and obligations of the Agency and of the Owners of the Bonds may also be modified or amended at any time by a Supplemental Indenture with the written consent of the Bond Insurer, but without the consent of any Bondowners, 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 limit or surrender any right or power therein reserved to or conferred upon the Agency; or

(b) to make modifications not adversely affecting any Outstanding series of Bonds of the Agency in any material respect; or

(c) with the written consent of the Trustee 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 and the Trustee may deem necessary or desirable and not inconsistent with the Indenture, and which shall not materially adversely affect the rights of the Owners of the Bonds; or

(d) to provide for the issuance of any Parity Bonds, and to provide the terms and conditions under which such Parity Bonds may be issued, subject to and in accordance with the provisions of the Indenture.

Procedure for Amendment with Written Consent of Bondowners. The Agency may at any time adopt a Supplemental Indenture amending the provisions of the Bonds or of the Indenture or any Supplemental Indenture, to the extent that such amendment is permitted by the Indenture, to take effect when and as provided therein. A copy of such Supplemental Indenture, together with a request to Bondowners for their consent thereto, shall be mailed by the Agency to each registered Owner of Bonds Outstanding, but failure to mail copies of such Supplemental Indenture and request shall not affect the validity of the Supplemental Indenture when assented to as in the Indenture.

Such Supplemental Indenture shall not become effective unless there shall be filed with the Trustee the written consents of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding (exclusive of Bonds disqualified as provided in the Indenture) and a notice shall have been mailed as provided in the Indenture. Each such consent shall be effective only if accompanied by proof of ownership of the Bonds for which such consent is given which proof shall be such as is permitted by the Indenture. Any such consent shall be binding upon the Owner of the Bonds giving such consent and on any subsequent Owner (whether or

not such subsequent Owner has notice thereof) unless such consent is revoked in writing by the Owner giving such consent or a subsequent Owner by filing such revocation with the Trustee prior to the date when the notice provided in the Indenture has been mailed. Any revocation received by the Trustee after such notice has been mailed shall be of no force or effect.

After the Owners of the required percentage of Bonds shall have filed their consents to the Supplemental Indenture, the Agency shall mail a notice to the Bondowners in the manner provided in the Indenture for the mailing of the Supplemental Indenture, stating in substance that the Supplemental Indenture has been consented to by the Owners of the required percentage of Bonds and will be effective as provided in the Indenture (but failure to mail copies of said notice shall not affect the validity of the Supplemental Indenture or consents thereto). Proof of the mailing of such notice shall be filed with the Trustee. A record consisting of the papers required by the Indenture to be filed with the Trustee shall be proof of the matters therein stated until the contrary is proved. The Supplemental Indenture shall become effective upon the filing with the Trustee of the proof of mailing of such notice, and the Supplemental Indenture shall be deemed conclusively binding (except as otherwise specifically provided in the Indenture) upon the Agency and the Owners of all Bonds at the expiration of sixty (60) days after such filing, except in the event of a final decree of a court of competent jurisdiction setting aside such consent in a legal action or equitable proceeding for such purpose commenced within such sixty-day period.

#### **EVENTS OF DEFAULT AND REMEDIES OF BONDOWNERS**

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

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

(b) if default shall be made by the Agency in the observance of any of the covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, other than a default described in the preceding clause (a), and such default shall have continued for a period of thirty (30) days following the receipt by the Agency of written notice from the Trustee or any Bondowner of the occurrence of such default; provided, however, that if in the reasonable opinion of the Agency the failure stated in such notice can be corrected, but not within such thirty (30)-day period, the Trustee shall not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the Agency within such thirty (30)-day period and diligently pursued until such failure is corrected; or

(c) 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.

If an Event of Default has occurred under the Indenture and is continuing, the Trustee shall give written notice thereof to the Bond Insurer. If an Event of Default shall occur, then, and in each and every such case during the continuance of such Event of Default, the Trustee may with the consent of the Bond Insurer, and if requested in writing by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding or if directed by the Bond Insurer, the Trustee shall (a) declare the principal of the Bonds, together with the accrued interest thereon, to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, anything in the Indenture or in the Bonds to the contrary notwithstanding,

and (d) subject to the provisions of the Indenture, exercise any other remedies available to the Trustee and the Bondowners in law or at equity.

Immediately upon obtaining actual knowledge of the occurrence of an Event of Default, the Trustee shall give notice of such Event of Default to the Bond Insurer and the Agency by telephone confirmed in writing. Such notice shall also state whether the principal of the Bonds shall have been declared to be or have immediately become due and payable. With respect to any Event of Default described in clause (a) or (c) above the Trustee shall, and with respect to any Event of Default described in clause (b) above the Trustee in its sole discretion may, also give such notice to the Owners of the Bonds in the same manner as provided in the Indenture for notices of redemption of the Bonds.

The foregoing, however, is 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 moneys 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 on such overdue installments of principal and interest at the net effective rate then borne by the Outstanding Bonds, and the reasonable fees and expenses of the Trustee, 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. However, 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.

Subject to the provisions of the Indenture, the Trustee agrees to enforce by mandamus, suit or other proceeding at law or in equity the covenants and agreements of the Agency contained in the Indenture.

Application of Funds Upon Acceleration. All of the Tax Revenues and all sums in the funds and accounts established and held by the Trustee under the Indenture upon the date of the declaration of acceleration (other than the Rebate Account) as provided in the Indenture, and all sums thereafter received by the Trustee thereunder, shall be applied by the Trustee in the following order upon presentation of the several Bonds, and the stamping thereon of the payment if only partially paid, or upon the surrender thereof if fully paid:

First, to the payment of the fees, costs and expenses of the Trustee and thereafter of the Bondowners in declaring such Event of Default, including reasonable compensation to its or their agents, attorneys and counsel; and

Second, to the payment of the whole amount then owing and unpaid upon the Bonds for principal and interest, with interest on the overdue principal and installments of interest at the net effective rate then borne by the Outstanding Bonds (to the extent that such interest on overdue installments of principal and interest shall have been collected), and in case such moneys shall be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then to the payment of such principal and interest without preference or priority of principal over interest, or interest over principal, or of any installment of interest over any other installment of interest, or any Bond over any other Bond, ratably to the aggregate of such principal and interest.

Power of Trustee to Control Proceedings. In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties under the Indenture, whether upon its own discretion or upon the request of the Owners of a majority in principal amount of the Bonds then Outstanding, it shall have full power, in the exercise of its discretion for the best

interests of the Owners of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues an Event of Default, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of a majority in principal amount of the Outstanding Bonds under the Indenture opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation.

Limitation on Bondowners' Right to Sue. No Owner of any Bond issued under the Indenture shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted to it or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee indemnity acceptable to the Trustee, against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of thirty (30) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

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

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

To the extent that the Indenture confers upon or gives or grants to the Bond Insurer any right, remedy or claim under or by reason of the Indenture, the Bond Insurer is explicitly recognized as being a third-party beneficiary thereunder and may enforce any such right remedy or claim conferred, given or granted thereunder.

#### **DISCHARGE OF INDENTURE**

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

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

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

(3) by irrevocably depositing with the Trustee, in trust, Defeasance Obligations in such amount as an Independent Financial Consultant shall certify to the Trustee, based upon a certificate of an Independent Certified Public Accountant, will together with the interest to accrue thereon and moneys then on deposit in the funds and accounts established pursuant to the Indenture, be fully sufficient to pay and discharge the indebted-

ness on all Bonds (including all principal, interest and redemption premiums) at or before their respective maturity dates; and if such Bonds are to be redeemed prior to the maturity thereof notice of such redemption shall have been given as in the Indenture provided or provision satisfactory to the Trustee shall have been made for the giving of such notice,

then notwithstanding that any Bonds shall not have been surrendered for payment, the pledge of the Tax Revenues and other funds provided for in the Indenture and all other obligations of the Agency under the Indenture with respect to all Bonds Outstanding shall cease and terminate, except only the obligation of the Agency to pay or cause to be paid to the Owners of the Bonds not so surrendered and paid all sums due thereon, and thereafter Tax Revenues shall not be payable to the Trustee. Notice of such election shall be filed with the Trustee.

If, subject to above conditions, the Agency shall pay or cause to be paid or make provision for the payment to the Owners of less than all of the Outstanding Bonds the principal of and premium, if any, and interest on such Bonds which is and shall thereafter become due and payable upon such Bonds in accordance with the provisions of clauses (1), (2) and (3) above, such Bonds, or portions thereof, shall cease to be entitled to any lien, benefit or security under the Indenture.

Notwithstanding the foregoing provisions of the Indenture, in the event that the principal, interest and redemption premium (if any) on the 2003 Bonds shall be paid by the Bond Insurer pursuant to the Municipal Bond Insurance Policy, the obligations of the Trustee and the Agency shall continue in full force and effect and the Bond Insurer shall be fully subrogated to the rights of all Owners of the 2003 Bonds so paid. In addition, the obligations of the Trustee and the Agency under the Indenture shall continue in full force and effect, and shall not be terminated until such time as the Agency shall have paid all amounts (if any) as shall be due and owing to the Bond Insurer under the Municipal Bond Insurance Policy; and the Trustee shall not distribute any funds to the Agency pursuant to the preceding paragraph unless the Agency shall have certified to the Trustee that there are no obligations then due and owing by the Agency to the Bond Insurer under the Municipal Bond Insurance Policy.

Any funds thereafter held by the Trustee which are not required for said purpose or for any remaining fees or expenses of the Trustee shall be paid over to the Agency.

**APPENDIX B**  
**FISCAL CONSULTANT REPORT**

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Redevelopment Agency  
of the City of Riverside  
Downtown/Airport  
Merged Project Area

## **Fiscal Consultant's Report**

March 2003

Prepared By:

DHA Consulting  
3621 California Avenue  
Long Beach, CA 90807

# **Redevelopment Agency of the City of Riverside Merged Project Area Fiscal Consultant Report**

## **Section A - Introduction**

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The Redevelopment Agency of the City of Riverside is proposing to issue refinancing tax allocation bonds to be secured by tax increment revenues from the Downtown/Airport Industrial Merged Project Area (Merged Project Area). In connection with the proposed financing, the Agency has retained DHA Consulting to conduct a review of assessed values and prepare a projection of future tax increment revenues for the Project Area. This report summarizes the findings of that review.

The California Community Redevelopment Law (CRL) provides for the creation of a redevelopment agency for the purpose of eliminating blight. To achieve this purpose, the CRL, along with Article 16, Section 16 of the California Constitution, authorized the Agency to receive that portion of property tax revenue generated from the increase of the current year project taxable values over the taxable values that existed at the time of the Project Area's adoption. This portion of property tax revenue is referred to as tax increment revenue. The CRL provides that the tax increment revenue may be pledged by the Agency for the repayment of Project Area indebtedness.

This Fiscal Consultant Report will present an examination of valuations and tax receipts and a projection of future tax increment revenues for the Merged Project Area. The projections are based on assumptions determined by a review of the taxable value history of the Project Area; anticipated new development activities; and the property tax assessment and property tax apportionment procedures of Riverside County.

This report is organized into the following sections:

- A. Introduction
- B. The Merged Project Area
- C. Historical Taxable Values
- D. Assessment Appeals
- E. Tax Allocation and Disbursement
- F. Tax Increment Projections
- G. Agency Obligations.
- H. Other Issues

## **Section B – The Merged Project Area**

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The Merged Project Area consists of two formerly independent redevelopment project areas that were merged together for financing purposes in 1990 per Ordinance No. 5872. The two project areas that were merged together are the Downtown Redevelopment Project, formerly known as Riverside Mall and Whitepark, and the Airport Industrial Redevelopment Project. Since the 1990 Merger, the Merged Project Area has been amended twice: once in 1994 to bring the Redevelopment Plan into conformity with AB 1290 and again in 1997 to update the Plan and extend certain time limitations.

The Redevelopment Plan for the Downtown Redevelopment Project was originally adopted on November 16, 1971 by Ordinance No. 3872. It was subsequently amended 4 times prior to its merger with Airport: 1972, 1974, 1975, and 1984. The four amendments added territory and made certain other changes to the Plans.

The Redevelopment Plan for the Airport Industrial Redevelopment Project was originally adopted on December 1, 1976 by Ordinance No. 4355. The area was amended twice to add territory, once in 1980 and again in 1984. The 1990 merger represented the third amendment for the Airport Project Area.

This report makes reference to the various subareas based on the reporting categories and names utilized by the County. A summary of the references utilized is included below:

<b>Report Reference</b>	<b>Description</b>
Original Downtown Project -	1971 adoption and 1972 amendment
1975 Amendment -	Area added to Downtown in 1974 and 1975
1985 Amendment/Downtown -	Area added to Downtown in 1984
Downtown Project-	Downtown Project with all amendments
Original Airport Project -	1976 adoption
1980 Amendment -	Area added to Airport in 1980
1985 Amendment/Airport -	Area added to Airport in 1984
The Airport Project-	Airport Project with all amendments

The 2002-03 assessed values for the Merged Project are actually a compilation of the values reported by the County for each of the above subareas. A breakdown of the 2002-03 assessed values assigned to each of the above subareas is included below:

### 2002-03 Assessed Value Breakdown

Description	Original Area	First Amendment (1)	1985 Amendment	Total All Areas
<b>AIRPORT</b>				
Secured	128,865,119	167,300,299	90,299,038	386,464,456
SBE	156,564	229,434	0	385,998
Unsecured	12,369,284	37,941,674	5,354,863	55,665,821
<b>Total Value</b>	<b>141,390,967</b>	<b>205,471,407</b>	<b>95,653,901</b>	<b>442,516,275</b>
Base Year	7,267,616	26,286,468	52,808,778	86,362,862
<b>Incremental Value</b>	<b>134,123,351</b>	<b>179,184,939</b>	<b>42,845,123</b>	<b>356,153,413</b>
% of Total	37.66%	50.31%	12.03%	100.00%
<b>DOWNTOWN</b>				
Secured	110,496,909	312,456,149	36,393,052	459,346,110
SBE	0	0	295,598	295,598
Unsecured	19,365,437	34,861,258	2,836,234	57,062,929
<b>Total Value</b>	<b>129,862,346</b>	<b>347,317,407</b>	<b>39,524,884</b>	<b>516,704,637</b>
Base Year	13,086,296	43,177,132	19,586,235	75,849,663
<b>Incremental Value</b>	<b>116,776,050</b>	<b>304,140,275</b>	<b>19,938,649</b>	<b>440,854,974</b>
% of Total	26.49%	68.99%	4.52%	100.00%

(1) The first amendment for the Downtown Project was in 1975 and the Airport in 1980.

As shown above, the majority of the values for both subareas are attributable to the original areas and first amendments. The 1985 amendments added areas with much lower levels of assessed values. The various subareas are subject to varying time limitations. These limitations are discussed below.

The current time limits for each of the components of the Merged Project Area are as shown in the following table:

PROJECT/AMENDMENT	INCUR DEBT	PLAN TERM	RECEIVE TAX INCR.	TAX INCR. LIMIT	BONDED DEBT LIMIT
<b>MERGED PROJECT</b>				\$621,000,000	\$149,000,000
<b>Downtown</b>					
Original Area	11/16/11	11/16/11	11/16/21		
1st Amndmt (Original)	12/19/12	12/19/12	12/19/22		
2nd Amndmt (1975)	01/01/14	05/07/14	05/07/24		
3rd Amndmt (1975)	01/01/14	11/18/15	11/18/25		
4th Amndmt (1985)	11/27/14	11/27/24	11/27/34		
<b>Airport</b>					
Original Area	01/01/14	10/22/16	10/22/26		
1st Amndmt (1980)	01/01/14	11/27/19	06/10/30		
2nd Amndmt (1985)	11/27/14	11/27/19	11/27/34		

As shown above, the Agency is eligible to receive up to \$621,000,000 in tax increment revenue for the Merged Project as a whole. Through the end of the 2001-02 fiscal year, the Agency has received the following amounts of tax increment revenue:

Downtown	\$ 71,197,907
Airport	\$ 49,034,348
<b>TOTAL MERGED</b>	<b>\$ 120,232,255</b>

The Downtown Project Area lies in the heart of downtown Riverside and is bounded generally by the Riverside Freeway to the east, First Street to the north Brockton and Pine Streets on the west, the Tequesquite Arroya to the south. In addition, the Downtown boundaries extend further north via a narrower corridor bounded by Orange Street, the Pomona Freeway and Market Street. The Airport Project Area is located in the far western portion of the City and is bounded generally on the east by Hillside Avenue, on the north by the City limits, on the south by Cypress Avenue and on the west by Rutland Avenue and Van Buren Boulevard.

The Merged Project encompasses approximately 2,360 acres and contains commercial, industrial and residential land uses. The following is a summary of the distribution of the taxable value among the various uses in the Project Area.

### Use Category Summary

<b>Category</b>	<b>Parcels (1)</b>	<b>Net Values</b>	<b>% of Total</b>
Residential	1,018	105,374,758	11.0%
Commercial	444	257,263,562	26.8%
Industrial	150	334,577,833	34.9%
Recreational	2	1,561,451	0.2%
Institutional	22	94,891,042	9.9%
Vacant Land	369	32,212,445	3.4%
Unknown	7	1,511,485	0.2%
SBE Nonunitary (2)	[18]	681,596	0.1%
Possessory Interest (2)	[130]	18,417,990	1.9%
Unsecured (2)	[1407]	112,728,750	11.8%
<b>TOTALS</b>	<b>2,012</b>	<b>959,220,912</b>	<b>100.0%</b>

(1) Count excludes 267 parcels which are exempt from taxation.

(2) Shows number of assessments but actually represent a duplicate parcel count and are not included in the total.

### Major Taxpayers

The Major Taxpayers in the Merged Project Area are summarized on Table 1. The total taxable value for the major assesseees represents \$403.9 million or 42 percent of the total value for the entire Merged Project Area. The two largest assesseees are Riverside Healthcare System in the Downtown Project at \$85 million and the Rohr property (BF Goodrich) in the Airport Project at about \$75 million. Riverside Healthcare is a hospital facility that was previously tax exempt. The healthcare facility converted to taxable 5 years ago when the property transferred ownership. The Rohr property is an aerospace manufacturing facility located in the Airport 1985 Amendment. The value of the two assesseees, at about \$161.0 million, equals about 17 percent of the total value for the Merged Project.

## **Section C – Taxable Values and Historical Revenues**

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### *Taxable Values*

Real property consists of land and improvements and can either appear on the secured or the unsecured roll. The secured roll includes property on which the property tax levied becomes a lien on the property to secure the payment of taxes. Unsecured property does not become a lien on such property, but may become a lien on other property of the taxpayer.

Locally assessed real property is subject to the provisions of Article XIII A of the California Constitution, commonly referred to as Proposition 13. Under Proposition 13, property is valued based either on its value in 1975-76 or, if newly constructed or sold after this date, then on the full cash value of the property at that time. Property values may only increase annually by an inflation factor of up to 2 percent annually. The Proposition 13 value of property is sometimes referred to as the factored base year value. Pursuant to Section 51 (b) of the Revenue and Taxation Code, assessors must enroll the lesser of the market value or the factored base year value of property.

Personal property values can be classified as either secured or unsecured property. Personal property is not subject to the provisions of Proposition 13. Such property is annually appraised at the full cash value of the property.

State-assessed property is also not subject to the provisions of Proposition 13. State-assessed property is categorized as secured property and is either unitary or non-unitary property. Since 1987-88, the value of unitary property has been reported on a county-wide basis, with unitary revenues allocated to taxing entities and redevelopment projects pursuant to a formula contained in AB 454. State-assessed non unitary values and railroad values are reported at the local situs level.

### *Project Area Value Trends*

Table 2 shows the historical taxable values reported by the County for the Airport Project, the Downtown Project and the total Merged Project Area over the past five years. Project Area values are reported by the County in August and then are generally updated in October each year. The October values are the basis of the tax increment revenues the Agency receives each year.

Taxable values for the Airport Project have increased from \$350.3 million in 1998-99 to \$442.5 million in 2002-03. The total percentage change was 26 percent over the five year period. The average annual percentage change in values was 6.5 percent. Property transfers and business expansions accounted for the majority of the increases.

Taxable values for the Downtown Project have increased from \$469.9 million in 1998-99 to \$516.7 million in 2002-03. The total percentage change was 9.9 percent over the five year period. The average annual percentage change in values was 2.4 percent. In the prior period, a hospital's (Riverside Healthcare) conversion from tax exempt to taxable caused a significant increase in Project value for 1998-99. Since 1998-99, significant changes, either positive or negative, have not occurred.

Values declined over the five year period in the Downtown Project for only one year, 2000-01, which represented a 2.5 percent decline over the prior year value. The decline was largely attributable to valuation reductions for some major assesseees without any significant property transfers or new development activities to serve as a counterbalance. As discussed below, reductions associated with several different assesseees resulted in the overall decline.

The value for Press Enterprise, a major assessee in the Downtown Project Area dropped about \$8 million. This was the result of the late processing of a prior year successful appeal and a reduction in the value of fixtures and personal property. (Personal property is subject to depreciation and annual reappraisal.) The Press Enterprise appeal is a Proposition 8 appeal, meaning that the value can be restored when market conditions justify an increase. As of 2002-03, the value for the Press Enterprise has not been restored and the property has been subject to minor additional reductions for fixtures and personal property.

The value for two other major assesseees, Riverside Healthcare and Kilroy Realty, dropped in 2000-01 as the result of the processing of prior year appeals (a 1996 supplemental assessment and a 1998 regular assessment). The decrease for Riverside Healthcare was about \$6.5 million and about \$1.5 million for Kilroy Realty. These reductions were not related Proposition 8 appeals and therefore represent permanent reductions to the assessed values of these parcels. The 2002-03 assessed values for these properties represent slight increases over the reduced 2000-01 levels. Under Proposition 13 restrictions, property assessed values can be increased by inflation up to 2.0 percent per year, or can be reappraised to reflect new construction or change in ownership.

Reported values for the Project as a whole increased by over 3 percent per year from 2000-01 through 2002-03. Reductions to the amounts shown on Table 2 have occurred since the values were reported by the County in October. The 2002-03 reductions, which are related to the resolution of prior year appeals, have been included in the tax revenue projections and are discussed in greater detail in the following section.

## **Section D – Assessment Appeals**

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Taxpayers may appeal their property tax assessments. Depending on the outcome of the appeal, taxes paid in the current year may be either higher or lower than the initial assessment. An appeal which results in a lower valuation is referred to in this Report as a successful appeal. In addition, when an appeal is successfully resolved after the disputed taxes have already been paid, a refund is subsequently issued to the taxpayer by the county. Overpaid taxes are repaid with interest by the county. Because of the way that Riverside County allocates taxes to redevelopment agencies, the Agency is not impacted by appeals or tax refunds unless a value reduction occurs in the subsequent fiscal year. The methodology employed by Riverside County to allocate taxes is discussed in greater detail below in Section E under “Tax Allocation and Disbursement Procedures”.

Due to the impact that assessment appeals can have on the taxable values and tax increment revenues of a redevelopment project area, a review of appeal activity was conducted. Appeals have routinely been filed by major taxpayers in the Merged Project on an annual basis. Since 1998-99 the total assessed value under dispute through the appeals process has ranged from \$157 million to \$368 million. While reductions of up to 25 percent of value have occurred for two major taxpayers (Rohr/BF Goodrich and Press Enterprise), overall reductions from all appeals filed in a given year have ranged from 5 to 10 percent of total appeal value.

Table 3 represents a summary of the appeal information that is projected to potentially impact future assessed values in the Merged Project. Included in Table 3 are appeals which have already been resolved, but are projected to impact current or future values and currently outstanding appeals which may have an impact on future values.

Resolved appeals that are projected to impact future Project values include two assessments in the Airport Project Area: Rohr (B.F. Goodrich) and Metal Container Corporation. The value reductions have been processed by the County and 2002-03 values have been reduced by \$21.9 million. Because of the way in which Riverside County allocates tax increment revenues, the 2002-03 reduction will not affect Agency revenues. Future year values and tax increment revenues however, are projected to be negatively impacted by the \$21.9 million reduction.

A number of appeals for 2002 and prior fiscal years are still outstanding. These appeals are shown on Table 3 and are comprised of several major assessees as well as some other more minor assessments (“Other Miscellaneous Appeals”). Overall, 35 assessees have appeals outstanding on 60 parcels with a total value of \$312.6 million. Twenty-four of the 35 assessees are appealing minor

assessments, which total \$10.1 million combined. The remaining \$302.4 million in assessed value under appeal is attributable to major taxpayers. The major taxpayers with outstanding appeals are detailed on Table 3 and include Rohr and Metal Container Corporation, which have appeals outstanding for 2002-03 even though prior year appeals resulted in reductions to the 2002-03 values.

The reduction in value experienced in 2000-01 is the result of the resolution of appeals filed in 1998 and prior fiscal years. Reductions to reported 2002-03 values will also occur as a result of the resolution of more recent prior year appeals. Because of these prior precedents, it can be assumed that currently outstanding appeals may likewise impact future values and revenues. For the purposes of projecting future tax increment revenues, it has been estimated that currently outstanding appeals will negatively impact taxable values in 2003-04 and thereafter. Specifically, it has been assumed that the resolution of the outstanding appeals will result in a 10 percent assessed value reduction, on average. This equates to a projected assessed value loss of \$31.2 million. The tax increment projections included herein assume the loss of \$31.2 million in assessed value as a result of the resolution of currently outstanding appeals.

Because of Riverside County's allocation methodology, tax refunds should not impact the Agency regardless of how the outstanding appeals are resolved. Estimates for tax refunds have therefore not been assumed herein. See "Property Tax Allocation Procedures under Section E below for additional information on Riverside County's allocation procedures.

## **Section E – Tax Allocation and Disbursement**

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### *Tax Rates*

Tax increment revenues included in this analysis are computed based upon incremental assessed value of the Merged Project Area multiplied by a 1.0 percent tax rate. Actual taxes allocated by the County to the Project, however, are based on a tax rate that is in excess of 1.0 percent. The tax rate utilized by the County consists of the general tax levy of \$1.00 per \$100 of assessed value and the override tax rate which represents the debt service levy where indebtedness has been authorized by voter approval. An amendment to the Constitution prohibits redevelopment agencies from receiving taxes generated by override tax rates which were approved by the voters after December 31, 1988.

Override tax rates typically decline each year for two reasons: 1) increasing property values reduce the override rate needed to be levied by the taxing entities to meet debt service; and 2) voter approved debt is eventually retired over time.

For the 2002-03 fiscal year, tax increment revenues allocated to the Merged Project Area are based on a single tax rate: 1.0067%. Other higher override tax rates exist in portions of the Project Area, but as they were approved after 1988, the Agency is not eligible to receive any part of the taxes resulting from the higher rates. The table below shows the components of the applicable override rate, excluding any rates associated with indebtedness approved by the voters in 1989 or thereafter.

<u>Taxing Entity</u>	<u>2002-03 Rate</u>
Metro Water District	0.006700 %
General	1.000000 %
<b>Total Tax Rate</b>	<b>1.006700 %</b>

As mentioned above, tax increment revenue projections included herein are calculated without the inclusion of any override rates, i.e., the revenue projections are based on a 1.0 percent tax rate.

#### *Property Tax Allocation Procedures*

The method by which a county allocates property taxes and tax increment revenues can have a significant impact on the receipt of such revenues.

Riverside County computes preliminary incremental assessed values for redevelopment project areas by property category early in each fiscal year. The report is then generated a second time after the equalized values are available.

Tax increment is allocated by the County based on the second calculation. With the exception of supplemental revenues, tax disbursements to redevelopment agencies are not impacted by delinquencies or roll adjustments. The majority of the tax increment revenues received by the Agency are disbursed in two payments by the County: 50% in January and 50% in May. Since 1989, unitary revenues have been disbursed separately, lagging behind tax increment disbursements by fifteen to sixty days. In addition, supplemental revenues are disbursed as collected, on a monthly basis. (Supplemental revenues result from a one time "additional" assessment of property at the time of a change in ownership or completion of construction.)

The County accounts for delinquencies and taxable value changes only on a County-wide basis. Taxing entities are impacted by delinquencies and value changes that occur throughout the County and are only indirectly impacted by changes within their specific jurisdictions. It is the County's current policy to allocate to redevelopment agencies 100 percent of the calculated tax increment due the project area without adjustment for delinquencies, redemption payments

or roll adjustments. This policy is set administratively and is therefore subject to change.

A review of the tax receipts for the Project Area since 1998 confirms that the County has been allocating revenues in accordance with their current administrative policy. The result of the policy is that the Merged Project is somewhat insulated from the impacts of appeals, tax refunds and taxable value adjustments.

*Historical Tax Increment Revenues*

As stated above, Riverside County does not adjust allocations of taxes due to redevelopment agencies for actual tax collections. In order to confirm the implementation of this policy, actual tax receipts were compared with estimates of tax increment revenues. In each instance, actual collections met or exceeded the initial tax levy estimate. Collections for the Merged Project are as follows:

<b>Description</b>	<b>1998-99</b>	<b>1999-00</b>	<b>2000-01</b>	<b>2001-02</b>
Est. Levy	6,997,739	7,380,948	7,486,894	7,951,201
Tax Receipts (1)	7,018,244	7,584,953	7,503,006	8,073,321
% Receipts to Levy	100%	103%	100%	102%

(1) Includes all tax receipts including supplemental revenues.

**Section F – Tax Increment Projections**

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Tax increment revenues are calculated by first subtracting the base year value of a project area from the current year taxable value in order to determine the incremental taxable value of the project area. Applicable tax rates are then applied to the incremental taxable value in order to determine tax increment revenues.

Unitary revenues are allocated to the Project Area based on a formula contained in AB 454. Generally, the Agency receives unitary revenues on the basis of amounts that were received in the prior fiscal year. The prior year allocations are adjusted annually based on county-wide changes in unitary revenue.

The Agency also routinely receives supplemental property taxes for the Project Area. Due to the difficulty of estimating supplemental revenues, such revenues have not been included in the enclosed revenue projections. Supplemental

property taxes typically increase the amount of tax increment revenue actually received.

*Current and Projected Revenues*

Projections of tax increment revenues are shown on Tables 4.0 through 4.2. Table 4.0 shows the value for the entire Merged Project Area while Tables 4.1 and 4.2 show the projections for Airport and Downtown respectively. The 2002-03 values for the areas are as reported by Riverside County in August 2002.

Tax increment revenue for 2002-03 has been estimated by applying a 1.0 percent tax rate to incremental taxable value, then adding unitary revenues. The County's initial calculation of 2002-03 unitary revenue for the Merged Project is \$298,317. Future year's unitary revenues have been held constant at the 2002-03 level.

The future levels for assessed values have been estimated and are included on the projection tables. Changes to the 2002-03 assessed values have been assumed to occur in future fiscal years. For the Merged Project, unitary revenue and other property are assumed to remain at their 2002-03 levels. Elements which are projected to change future assessed values and/or revenues are as follows:

<b>Impacts to Future Values</b>	<b>Assumption</b>
<b>Positive Impacts</b>	
Trended Taxable Value	2.0 Percent/Secured
New Development	Developments Completed or Under Construction
<b>Negative Impacts</b>	
Appeals	As Estimated in Table 3

**Trended Taxable Value:** Secured property values have been increased based on a 2 percent inflation factor. The 2 percent factor is the maximum inflation factor that county assessors can use to increase assessed values. However, in certain fiscal years the inflation factor has been less than 2 percent. Should the Assessor not apply a 2 percent factor to property in the Merged Project, tax increment could be lower than that shown on Tables 4.0 through 4.2 in future fiscal years.

**New Development:** Future year tax increment revenues have been increased for new developments that have been recently completed or that are currently under construction in the Project Area. Development activity was obtained from Agency staff. Amounts estimated as added are as follows:

<b>Description</b>	<b>Units/ Sq Ftge</b>	<b>Value Added</b>
<b><u>Downtown</u></b>		
Riv. Healthcare/New Cancer Ctr	N/A	6,600,000
Stalder Acquisition	N/A	-1,100,000
1 & Market – Single Family Hsg	46	<u>8,740,000</u>
<b>Total Downtown</b>		<b>14,240,000</b>
<b><u>Airport</u></b>		
Superform Industrial Bldg.	20,000	<u>1,400,000</u>
<b>Total Airport</b>		<b>1,400,000</b>
<b>TOTAL MERGED</b>		<b>15,640,000</b>

**Appeals:** Assumptions regarding the resolution of appeals that are utilized in the enclosed projections are as shown in Table 3 and presented in the above “Assessment Appeals” section. Valuation reductions resulting from the resolution of pending appeals are assumed to occur in 2003-04 and 2004-05. Refunds related to the resolution of these appeals have not been incorporated into the revenue projections as the County’s practice for the allocation of those refunds holds redevelopment agencies harmless.

## **Section G – Agency Obligations**

The tax increment revenues for the Project Area are subject to certain Agency obligations as described in this section. It has been assumed that the adjustments and liens discussed below must be paid prior to the payment of debt service on the Bonds.

### *Administrative Fee*

Reductions to the tax increment revenues shown on Tables 4.0 through 4.2 are included to allow for property tax administrative fees. State law allows counties to charge taxing entities, including redevelopment agencies, for the cost of administering the property tax collection system. The fees have been estimated based on Riverside County’s historical charges.

### *Housing Set-Aside*

Redevelopment agencies are required to deposit not less than 20 percent of the tax increment generated in a project area into a special fund to be used for qualified low and moderate income housing programs. Tables 4.0 through 4.2 show the full housing set-aside as a deduction to tax increment revenue.

### *Negotiated Tax Sharing Payments/Superior Lien*

**Riverside County:** The Agency entered into an agreement with Riverside County that provides that the County is to receive a portion of its share of the revenue generated by the 1.0 percent tax rate. The County's share of revenue in the Merged Project is approximately 29 percent. The Agreement provided that portion that the County receives would vary over time, depending on the level of annual tax increment revenue in the Merged Project. In prior years, the Agency made payments to the County in amounts equaling from 0 to 25 percent of the County's share of tax increment.

Currently, the County receives 50 percent of its share of tax increment revenue under the Agreement, or about 15 percent of gross tax increment revenue. Payments to the County are to continue at a 50 percent share until such time as the Agency has retained from the County's share a total of \$23.1 million. At that time, the County is to begin receiving 100 percent of its share, or about 29 percent, of gross tax increment revenue. As of the close of the 2001-02 fiscal year, the Agency had retained \$19.8 million of the County's share. It is anticipated that the Agency will reach the \$23.1 million cap during the 2004-05 fiscal year. The projections included on Tables 4.0 to 4.2 include the assumption that payments to the County double in 2004-05.

**Riverside County Flood Control and Water Conservation District:** The Agency entered into an Agreement with the Flood Control District which provided for the District to receive a portion of its share of taxes generated. The District's share of tax increment revenues is about 3 percent.

The District is to receive 100 percent of its share, or about 3 percent of gross tax increment, once the cumulative amount of tax increment received reaches certain specified levels: \$60 million for Downtown and \$30 million for Airport. In years prior to the year in which the receipt targets are met, the District is to receive a portion of its share. The portion due the District in any given year increases over time: from 0 percent in the early years to 100 percent by 2021. For 2002-03, the District is entitled to 100 percent of its share in both Project Areas as gross tax receipts in both Project Areas have exceeded the levels specified in the Agreement.

**Alvord Unified School District:** The Agreement with Alvord Unified School District (“Alvord”) provides that the Agency is to pay Alvord 16 percent of its share for a period of 15 years from the date the Agreement was executed (March 1986). The last payment required under the terms of the Agreement was for the 2000-01 fiscal year.

*Negotiated Tax Sharing Payments/Subordinate Lien*

**Riverside Unified School District:** The Agreement with Riverside Unified School District (“RUSD”) provides that RUSD is to receive the lesser of: 31 percent of its share of net tax increment revenues (tax increment after deducting housing and administrative charges), or \$700,000. RUSD’s share of tax increment revenue is about 43 percent in those portions of the Merged Project where it has jurisdiction. At current 2002-03 levels of tax increment revenues, 31 percent of RUSD’s share of tax increment exceeds \$700,000. As a result, estimated payments to RUSD for 2002-03 and thereafter are estimated to equal \$700,000.

The Agreement provides that after July 1, 2000, payments to RUSD may be subordinate to the repayment of Agency incurred indebtedness. Prior to the issuance of such debt, the Agency is required to provide RUSD with notification of the intent to issue debt and a certification that the Agency will be able to repay the debt and make payments to RUSD.

**Riverside County Superintendent of Schools:** The Agreement with the Riverside County Superintendent of Schools (“Superintendent”) provides that it is to receive 37.5 percent of its share of net tax increment revenues (tax increment after deducting housing and administrative charges) in the Downtown and Airport 1985 Amendment Areas. The Superintendent is not eligible to receive a portion of the taxes from the other subareas of the Merged Project. The Superintendent’s share of tax increment revenues is 4.31 percent in the Airport 1985 Amendment and 2.96 percent in the Downtown 1985 Amendment.

The Agreement provides that payments to the Superintendent are subordinate to the repayment of Agency incurred indebtedness. Prior to the issuance of such debt, the Agency is required to provide the Superintendent with notification of the intent to issue debt and a certification that the Agency will be able to repay the debt and make payments to the Superintendent.

**Riverside Community College District:** The Agreement with the Riverside Community College District provides that the District is to receive 30 percent of its share of net tax increment revenues (tax increment after deducting housing and administrative charges). The District’s share of tax increment revenues is slightly over 5 percent in both Downtown and Airport.

The Agreement provides that payments to the District are subordinate to the repayment of Agency incurred indebtedness. Prior to the issuance of such debt, the Agency is required to provide the District with notification of the intent to issue debt and a certification that the Agency will be able to repay the debt and make payments to the District.

### *ERAF*

The state's projected 2002-03 budget shortfall was ameliorated, in part, with revenues from redevelopment agencies. AB 1768 (Statutes of 2002, Chapter 1127) required redevelopment agencies to contribute \$75 million to an Educational Revenue Augmentation Fund ("ERAF") to meet the current State budget shortfall. The Agency's share of the \$75 million equaled \$445,887, with \$244,741 as the Merged Project's proportionate share. The Agency intends to meet its 2002-03 ERAF contribution with funds on hand from Agency project areas other than the Merged Project.

ERAF contributions from redevelopment agencies have not been required since 1994. The Agency was required to make similar contributions in 1993-94 and 1994-95, which it paid out of then current funds. Additional ERAF contributions may be required of the Agency in the future, as discussed below.

The State's current budget deficit for the 2002-03 and 2003-04 fiscal years is estimated to be upwards of \$34.8 billion. On January 10, 2003, the Governor released his proposed budget (the "January Budget Proposal"). As part of the January Budget Proposal, the Governor suggested that the school district share of property tax revenue resulting from growth in assessed value in redevelopment project areas, which is currently retained by redevelopment agencies, be passed through to schools beginning at the level of \$250 million in 2003-04, and increasing to the full amount of diverted property taxes over time.

The manner in which such future ERAF shifts of revenues would be implemented and their impact on pre-existing debt of redevelopment agencies, including the Agency, remains unclear. Moreover, the January Budget Proposal does not indicate whether any shifts in revenue would be limited or affected by pre-existing agreements between redevelopment agencies and school districts, community college districts and county superintendents of schools (collectively, "Educational Entities"). Given the level of the State of California's deficit as well as the January Budget Proposal, the Agency's tax increment revenues may be substantially reduced in the future.

Within the Merged Project, approximately 50 percent of tax increment revenues are derived from portions of the roll attributable to Educational Entities. In addition, approximately 9 percent of the Merged Project's tax increment revenues are already being passed through to schools under the provisions of existing statutory pass-through agreements. Thus, the potential impact of future

legislation, should the legislature implement the Governor's budget proposal, is great and could be material to the Agency and the tax increment revenues available from the Merged Project.

In addition to amounts due or potentially due as outlined above, the Governor previously proposed using existing redevelopment housing funds to assist the state in its budget crisis (the "December 2, 2002 Proposal"). Specifically, the Governor proposed that the Legislature enact legislation to transfer all funds of an Agency dedicated to low and moderate income housing that are not legally committed to specified projects as of December 1, 2002 to the State's General Fund to offset approximately \$500 million of the budget deficit for the current fiscal year.

At this point, it cannot be predicted whether the Legislature will enact legislation which adopts the December 2, 2002 Proposal, the January Budget Proposal, a similar measure or another measure which shifts revenues away from the Agency or what, if any, the form such legislation may take or its impact on available tax increment revenues.

For the purpose of this analysis, the actual contribution required for the 2002-03 fiscal year is not shown on Table 4.0 because the Agency intends to meet that obligation with funds on hand from the Agency's other redevelopment project areas. For the 2003-04 fiscal year, an estimated ERAF shift amount has been deducted from tax increment revenues shown on Table 4.0. The estimate is based on the assumption that the 2003-04 ERAF contribution will equal \$250 million and that it will be based on the same formula as that used for 2002-03. Similar payments, if any, for 2004-05 and thereafter have not been projected or deducted from revenues shown on Tables 4.0 through 4.2.

## **Section H – Other Issues**

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### *County of Orange v. Orange County Assessment Appeals Board*

This case was decided at the Superior Court level and does not represent binding precedent in any future cases. Under the facts in the case, a property owner purchased property in 1995 that was placed on the 1996-97 tax roll at \$330,000, which reflected the Proposition 13 base year value. In 1997-98, the property was not increased by the allowed 2 percent inflation factor, because the Assessor believed the resulting value would have exceeded the market value of the property. For 1998-99, the Assessor found that the factored base year value of the property, (the value adjusted by 2 percent per year for 1997-98 and 1998-99), was less than the market value. The Assessor therefore enrolled the factored base year value. The issue of whether the inflation adjustment can exceed 2 percent in a given year was ultimately brought before the Superior Court.

The Court found that, based on the facts in this case, that the inflation adjustment couldn't exceed 2 percent per year when applied to the base year value of the property. However, the Court also stated that the value of property could be increased by more than 2 percent per year "in situations described in the law". Although not entirely clear, this statement seems to indicate that increases of value that occur under Proposition 8 appeals that exceed 2 percent per year are not included in the Superior Court's ruling.

In order to estimate the assessed value impact that might result if the case became precedent, a review of the assessed value changes in excess of 2 percent was undertaken. To be conservative, all increases above 2.0%, unless related to change in ownership or new construction, were assumed eligible for the assessment rollback that would be required if the case became precedent. Because of the unavailability of Project-wide information, the review focused on major assessees and extrapolated those findings to other categories of value. Based on this methodology, it has been estimated that the impact to the Merged Project would equal approximately \$26.8 million if the case became precedent and applicable to escalations in excess of 2.0 percent for market value escalation reasons as well as Proposition 8 reductions. If the precedent did not include Proposition 8 reductions, the impact to the Project Area might be significantly less. The \$26.8 million should be considered an approximation only as detailed Project-wide information was not available.

### *Caveats*

The value and revenue estimates contained in this Report are based upon information, data and assumptions believed to be reasonable and accurate. The assessment practices and county allocation procedures discussed in this Report are based on information provided by representatives of Riverside County. Assessment practices and allocation procedures are set, in part, administratively and can be changed. Nothing came to the fiscal consultant's attention during this review to indicate that any changes are imminent. To a certain extent, the estimates of revenue are based on assumptions that are subject to a degree of uncertainty and variation and therefore are not represented as results that will actually be achieved. The analyses presented herein, however, have been conscientiously prepared on the basis of the fiscal consultant's experience in the field of financial analysis for redevelopment agencies.

Table 1  
 Redevelopment Agency of the City of Riverside  
 Merged Downtown/Airport Redevelopment Project  
 Major Taxpayers

No	Assessee Name	Use	No. of Parcels	Subarea	2002-03	
					Total	Total
1	Riverside Healthcare System	Hospital	11	Downtown - Original	85,410,137	
2	Rohr Inc./B. F. Goodrich (1)	Industrial	12	Airport - 1985 Annex	75,964,751	
3	Metal Container Corp (2)	Industrial	1	Airport - Original	48,208,995	
4	Toro Company (Cy Rv) (3)	Industrial	5	Airport - 1980 Annex	44,414,212	
5	Press Enterprise	Industrial	12	Downtown - 1975 Annex	38,811,214	
6	Historic Mission Inn Corporation	Hotel	1	Downtown - Original	26,524,438	
7	Dow Jones & Co/Realty Corp	Industrial	5	Airport - 1980 Annex	24,357,256	
8	Kilroy Realty (4)	Office	4	Downtown - Original	21,636,216	
9	Vertis Inc. (5)	Unsecured	1	Airport - 1980 Annex	20,917,376	
10	California Auto Dealers Exchange	Industrial/Vacant	18	Airport - 1980 Annex	17,693,616	
<b>TOTAL</b>					<b>403,938,211</b>	
TOTAL PROJECT VALUE					959,220,912	
PERCENT OF TOTAL						42.11%

- (1) The resolution of prior year appeals has resulted in a reduction to the value for this property from the amount shown to \$57,542,660.
- (2) The resolution of prior year appeals has resulted in a reduction to the value for this property from the amount shown to \$44,664,764.
- (3) Also referred to as Cy Rv in certain assessor records.
- (4) Formerly Mission Square Partnership.
- (5) This unsecured assessment is located on the parcel that was formerly Gruner & Jahr Printing & Publishing.

Table 2  
 Redevelopment Agency of the City of Riverside  
 Merged Downtown/Airport Redevelopment Project  
 Historical Assessed Values

	1998-99	1999-00	2000-01	2001-02	2002-03 (1)
<b>AIRPORT</b>					
Secured	327,525,820	331,177,437	359,521,463	367,228,158	386,464,456
SBE	575,393	395,908	366,649	366,649	385,998
Unsecured	22,296,658	31,911,936	32,611,355	54,588,237	55,665,821
<b>TOTAL VALUE</b>	<b>350,397,871</b>	<b>363,485,281</b>	<b>392,499,467</b>	<b>422,183,044</b>	<b>442,516,275</b>
% Change		3.74%	7.98%	7.56%	4.82%
				Total \$\$ Change	92,118,404
				Total % Change	26.29%
				Average \$\$ Change	23,029,601
				Average % Change	6.57%
<b>DOWNTOWN</b>					
Secured	415,385,701	440,823,164	430,485,452	442,728,820	459,346,110
SBE	295,598	295,598	295,598	295,598	295,598
Unsecured	54,285,729	53,638,165	51,529,546	55,534,187	57,062,929
<b>TOTAL VALUE</b>	<b>469,967,028</b>	<b>494,756,927</b>	<b>482,310,596</b>	<b>498,558,605</b>	<b>516,704,637</b>
% Change		5.27%	-2.52%	3.37%	3.64%
				Total \$\$ Change	46,737,609
				Total % Change	9.94%
				Average \$\$ Change	11,684,402
				Average % Change	2.49%
<b>MERGED TOTAL</b>					
Secured	742,911,521	772,000,601	790,006,915	809,956,978	845,810,566
SBE	870,991	691,506	662,247	662,247	681,596
Unsecured	76,582,387	85,550,101	84,140,901	110,122,424	112,728,750
<b>TOTAL VALUE</b>	<b>820,364,899</b>	<b>858,242,208</b>	<b>874,810,063</b>	<b>920,741,649</b>	<b>959,220,912</b>
% Change		4.62%	1.93%	5.25%	4.18%
				Total \$\$ Change	138,856,013
				Total % Change	16.93%
				Average \$\$ Change	34,714,003
				Average % Change	4.23%

(1) Values shown do not reflect taxable value adjustments which may have occurred after the Project values were originally reported. For 2002-03 \$21.9 million in reductions have been identified.

Table 3  
 Redevelopment Agency of the City of Riverside  
 Merged Downtown/Airport Redevelopment Project  
 Appeals of Valuation

APPLICANT	Years Outstanding	No. of Assmts.	2002-03 Appeal Value	Reduction Assumed (1)	Resolved Value	Total Value Change
<b>RESOLVED APPEALS (2)</b>						
Rohr Inc. (B. F. Goodrich)	2001	1	74,571,033	N/A	56,148,942	(18,422,091)
Metal Container Corp	2000 & 2001	1	48,208,995	NA	44,664,764	(3,544,231)
<b>TOTAL RESOLVED</b>		<b>2</b>	<b>122,780,028</b>		<b>100,813,706</b>	<b>(21,966,322)</b>
<b>OUTSTANDING APPEALS</b>						
Dow Jones & Company Inc.	2001 & 2002	4	24,542,722			
Johnson Machinery	2002	1	4,121,400			
Metal Container Corp	2002	1	44,664,764			
Toro Company (Cy Rv)	2001 & 2002	1	43,802,333			
Fleetwood Enterprises	2002	3	2,992,985			
Rohr Inc. (B. F. Goodrich)	2001 & 2002	1	56,148,942			
Chippewa Enterprises	2001 & 2002	1	15,601,704			
Kilroy Realty Square	2002	4	21,636,216			
Computerized Diagnostic	2002	7	3,862,619			
Riverside Healthcare System	2001 & 2002	13	85,105,717			
Other Miscellaneous Appeals	Varies	24	10,178,006			
<b>TOTAL OUTSTANDING</b>		<b>60</b>	<b>312,657,408</b>	<b>10%</b>	<b>281,390,000</b>	<b>(31,267,408)</b>
<b>GRAND TOTAL AV REDUCTION</b>						
		<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>382,203,706</b>	<b>(53,233,730)</b>
<b>ESTIMATED TAX REFUNDS (3)</b>						
						<b>N/A</b>

(1) For resolved appeals, the reduction amount shown is actual. For outstanding appeals, the reduction amount shown is estimated. The estimated reduction is based on recent appeal resolution history for the Merged Project and other areas in the City of Riverside.  
 (2) Includes only those resolved appeals which are estimated to impact current or future value/revenues.  
 (3) Because of the way in which Riverside County allocates taxes to redevelopment agencies, the Agency will not be impacted by any refunds due to taxpayers because of valuation reductions.

Table 4.0  
 Redevelopment Agency of the City of Riverside  
 Merged Downtown/Airport Redevelopment Project  
 Tax Increment Projection

MERGED PROJECT	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Secured (1)	845,810,566	862,726,777	856,640,475	860,055,607	875,969,630	893,489,023	911,358,803
Appeals (2)	-	(29,783,174)	(15,633,704)	(7,816,852)	-	-	-
New Development (3)	-	6,900,000	2,185,000	6,555,000	-	-	-
Subtotal	845,810,566	839,843,603	843,191,771	858,793,755	875,969,630	893,489,023	911,358,803
SBE	681,596	681,596	681,596	681,596	681,596	681,596	681,596
Unsecured	112,728,750	112,728,750	112,728,750	112,728,750	112,728,750	112,728,750	112,728,750
TOTAL VALUE	959,220,912	953,253,949	956,602,117	972,204,101	989,379,976	1,006,899,369	1,024,769,149
Base Year	162,212,525	162,212,525	162,212,525	162,212,525	162,212,525	162,212,525	162,212,525
Incremental Value	797,008,387	791,041,424	794,389,592	809,991,576	827,167,451	844,686,844	862,556,624
Incremental Revenue	7,970,084	7,910,414	7,943,896	8,099,916	8,271,675	8,446,868	8,625,566
Unitary Revenue (4)	298,317	298,317	298,317	298,317	298,317	298,317	298,317
<b>TOTAL REVENUE</b>	<b>8,268,401</b>	<b>8,208,731</b>	<b>8,242,213</b>	<b>8,398,233</b>	<b>8,569,992</b>	<b>8,745,185</b>	<b>8,923,883</b>
Less:							
Housing Revenue	1,653,680	1,641,746	1,648,443	1,679,647	1,713,998	1,749,037	1,784,777
Pass Throughs/Superior (5)	1,376,124	1,464,504	2,668,621	2,719,099	2,774,714	2,831,441	2,889,302
ERAF (6)	-	810,000	-	-	-	-	0
Administration Charges	129,778	132,373	135,021	137,721	140,476	143,285	146,151
<b>AVAILABLE FOR DEBT SERVICE</b>	<b>5,108,819</b>	<b>4,160,108</b>	<b>3,790,129</b>	<b>3,861,766</b>	<b>3,940,804</b>	<b>4,021,422</b>	<b>4,103,653</b>
Less:							
Pass Throughs/Subordinate (7)	805,338	804,407	804,802	806,746	808,934	811,166	813,442
Other	-	-	-	-	-	-	-
<b>NET TAX REVENUE</b>	<b>4,303,481</b>	<b>3,355,701</b>	<b>2,985,327</b>	<b>3,055,019</b>	<b>3,131,870</b>	<b>3,210,257</b>	<b>3,290,212</b>

- (1) Values reported by the County for 2002-03 are assumed to increase in future fiscal years by 2.0%, in accordance with Proposition 13.
- (2) Includes estimated reductions related to assessment appeals. See "Assessment Appeals" section of the Fiscal Consultant Report.
- (3) New development included in the above estimates has been limited to developments that are under construction or completed. See "Tax Increment Projection" section of the Fiscal Consultant Report for details on developments included.
- (4) The amounts of unitary revenue to be received by the Project Area in future fiscal years are projected to remain at 2002-03 levels.
- (5) Tax sharing payments to various taxing entities, the lien of which are thought to be superior to the proposed bonds. The amounts due are estimated to increase significantly in 2004-05 as a result of an escalation clause in the Agency's tax sharing agreement with the County.
- (6) Deduction shown is based on the assumption of a statewide ERAF shift of \$250 million for 2003-04 only. The Agency's 2002-03 ERAF obligation is not shown above because it is being met with funds on hand from the Agency's other redevelopment project areas.
- (7) Tax sharing payments to various taxing entities, the lien of which are thought to be subordinate to the proposed bonds.

Table 4.1  
 Redevelopment Agency of the City of Riverside  
 Merged Downtown/Airport Redevelopment Project  
 Tax Increment Projection

AIRPORT/ALL SUBAREAS	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
<b>Category</b>							
Secured (1)	386,464,456	394,193,745	376,714,718	375,478,504	378,602,820	386,174,877	393,898,374
Appeals (2)	-	(26,265,591)	(8,598,537)	(4,299,269)	-	-	-
New Development (3)	-	1,400,000	-	-	-	-	-
Subtotal	386,464,456	369,328,155	368,116,180	371,179,235	378,602,820	386,174,877	393,898,374
SBE	385,998	385,998	385,998	385,998	385,998	385,998	385,998
Unsecured	55,665,821	55,665,821	55,665,821	55,665,821	55,665,821	55,665,821	55,665,821
TOTAL VALUE	442,516,275	425,379,974	424,167,999	427,231,054	434,654,639	442,226,696	449,950,193
Base Year	86,362,862	86,362,862	86,362,862	86,362,862	86,362,862	86,362,862	86,362,862
Incremental Value	356,153,413	339,017,112	337,805,137	340,868,192	348,291,777	355,863,834	363,587,331
Incremental Revenue	3,561,534	3,390,171	3,378,051	3,408,682	3,482,918	3,558,638	3,635,873
Unitary Revenue (4)	29,303	29,303	29,303	29,303	29,303	29,303	29,303
<b>TOTAL REVENUE</b>	<b>3,590,837</b>	<b>3,419,474</b>	<b>3,407,354</b>	<b>3,437,985</b>	<b>3,512,221</b>	<b>3,587,941</b>	<b>3,665,176</b>
Less:							
Housing Revenue	718,167	683,895	681,471	687,597	702,444	717,588	733,035
Pass Throughs/Superior (5)	641,760	611,134	1,105,363	1,115,300	1,139,382	1,163,947	1,189,002
ERAF (6)	-	350,000	-	-	-	-	-
Administration Charges	55,684	56,798	57,933	59,092	60,274	61,479	62,709
<b>AVAILABLE FOR DEBT SERVICE</b>	<b>2,175,226</b>	<b>1,717,648</b>	<b>1,562,587</b>	<b>1,575,996</b>	<b>1,610,120</b>	<b>1,644,927</b>	<b>1,680,430</b>
Less:							
Pass Throughs/Subordinate (7)	389,984	371,373	370,057	373,384	381,446	389,670	398,058
Other	-	-	-	-	-	-	-
<b>NET TAX REVENUE</b>	<b>1,785,241</b>	<b>1,346,274</b>	<b>1,192,530</b>	<b>1,202,612</b>	<b>1,228,674</b>	<b>1,255,257</b>	<b>1,282,372</b>

- (1) Values reported by the County for 2002-03 are assumed to increase in future fiscal years by 2.0%, in accordance with Proposition 13.
- (2) Includes estimated reductions related to assessment appeals. See "Assessment Appeals" section of the Fiscal Consultant Report.
- (3) New development included in the above estimates has been limited to developments that are under construction or completed. See "Tax Increment Projection" section of the Fiscal Consultant Report for details on developments included.
- (4) The amounts of unitary revenue to be received by the Project Area in future fiscal years are projected to remain at 2002-03 levels.
- (5) Tax sharing payments to various taxing entities, the lien of which are thought to be superior to the proposed bonds. The amounts due are estimated to increase significantly in 2004-05 as a result of an escalation clause in the Agency's tax sharing agreement with the County.
- (6) Deduction shown is based on the assumption of a statewide ERAF shift of \$250 million for 2003-04 only. The Agency's 2002-03 ERAF obligation is not shown above because it is being met with funds on hand from the Agency's other redevelopment project areas.
- (7) Tax sharing payments to various taxing entities, the lien of which are thought to be subordinate to the proposed bonds.

Table 4.2  
 Redevelopment Agency of the City of Riverside  
 Merged Downtown/Airport Redevelopment Project  
 Tax Increment Projection

DOWNTOWN / ALL SUBAREAS	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
<b>Category</b>							
Secured (1)	459,346,110	468,533,032	479,925,758	484,577,103	497,366,810	507,314,146	517,460,429
Appeals (2)	0	(3,517,583)	(7,035,167)	(3,517,583)	0	0	0
New Development (3)	0	5,500,000	2,185,000	6,555,000	0	0	0
Subtotal	459,346,110	470,515,449	475,075,591	487,614,519	497,366,810	507,314,146	517,460,429
SBE	295,598	295,598	295,598	295,598	295,598	295,598	295,598
Unsecured	57,062,929	57,062,929	57,062,929	57,062,929	57,062,929	57,062,929	57,062,929
<b>TOTAL VALUE</b>	516,704,637	527,873,976	532,434,118	544,973,046	554,725,337	564,672,673	574,818,956
Base Year	75,849,663	75,849,663	75,849,663	75,849,663	75,849,663	75,849,663	75,849,663
Incremental Value	440,854,974	452,024,313	456,584,455	469,123,383	478,875,674	488,823,010	498,969,293
Incremental Revenue	4,408,550	4,520,243	4,565,845	4,691,234	4,788,757	4,888,230	4,989,693
Unitary Revenue (4)	269,014	269,014	269,014	269,014	269,014	269,014	269,014
<b>TOTAL REVENUE</b>	<b>4,677,564</b>	<b>4,789,257</b>	<b>4,834,859</b>	<b>4,960,248</b>	<b>5,057,771</b>	<b>5,157,244</b>	<b>5,258,707</b>
Less:							
Housing Revenue	935,513	957,851	966,972	992,050	1,011,554	1,031,449	1,051,741
Pass Throughs/Superior (5)	734,364	853,370	1,563,257	1,603,799	1,635,332	1,667,494	1,700,300
ERAF (6)		460,000					1,59%
Administration Charges	74,094	75,576	77,087	78,629	80,202	81,806	83,442
<b>AVAILABLE FOR DEBT SERVICE</b>	<b>2,933,593</b>	<b>2,442,460</b>	<b>2,227,542</b>	<b>2,285,770</b>	<b>2,330,684</b>	<b>2,376,495</b>	<b>2,423,224</b>
Less:							
Pass Throughs/Subordinate (7)	415,354	433,034	434,745	433,363	427,488	421,496	415,384
Other							
<b>NET TAX REVENUE</b>	<b>2,518,240</b>	<b>2,009,426</b>	<b>1,792,797</b>	<b>1,852,407</b>	<b>1,903,196</b>	<b>1,955,000</b>	<b>2,007,840</b>

- (1) Values reported by the County for 2002-03 are assumed to increase in future fiscal years by 2.0%, in accordance with Proposition 13.
- (2) Includes estimated reductions related to assessment appeals. See "Assessment Appeals" section of the Fiscal Consultant Report.
- (3) New development included in the above estimates has been limited to developments that are under construction or recently completed. See "Tax Increment Projection" section of the Fiscal Consultant Report for details on developments included.
- (4) The amounts of unitary revenue to be received by the Project Area in future fiscal years are projected to remain at 2002-03 levels.
- (5) Tax sharing payments to various taxing entities, the lien of which are thought to be superior to the proposed bonds. The amounts due are estimated to increase significantly in 2004-05 as a result of an escalation clause in the Agency's tax sharing agreement with the County.
- (6) Deduction shown is based on the assumption of a statewide ERAF shift of \$250 million for 2003-04 only. The Agency's 2002-03 ERAF obligation is not shown above because it is being met with funds on hand from the Agency's other redevelopment project areas.
- (7) Tax sharing payments to various taxing entities, the lien of which are thought to be subordinate to the proposed bonds.

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## APPENDIX C

### CITY OF RIVERSIDE ECONOMIC AND DEMOGRAPHIC INFORMATION

*The following information regarding the City and the surrounding area of Riverside County is presented as general background data. The Bonds are payable solely from the sources described herein (see "SECURITY FOR THE BONDS"). The taxing power of the City of Riverside, the County of Riverside, the State of California or any political subdivision thereof is not pledged to the payment of the Bonds. See the information under the caption "THE BONDS."*

#### **General**

The City is the county seat of Riverside County (the "County") and is located in the western portion of the County about 60 miles east of downtown Los Angeles and approximately 90 miles north of San Diego. Within 10 miles of the City are the cities of San Bernardino, Loma Linda, Corona, Norco, Fontana, Ontario, Rialto, Colton, Moreno Valley and Redlands, among others. These cities and the City are located in the Counties of Riverside and San Bernardino and comprise the Riverside-San Bernardino Primary Metropolitan Statistical Area (the "PMSA"). The PMSA represents an important economic area of the State and of Southern California. It lays to the west and south respectively of the strategic San Geronio and Cajon Passes, from which three transcontinental railroads and interstate highways converge to connect the Los Angeles area with the other areas of the nation. The City is situated in close proximity to the metropolitan centers of Los Angeles and Orange Counties.

Riverside and San Bernardino Counties cover 27,400 square miles, a land area larger than the State of Virginia. As of July 2002, Riverside County had a population of approximately 1,677,100 and San Bernardino County had a population of approximately 1,811,700. With a population of over 3.4 million, the PMSA ranks as one of the largest Metropolitan Statistical Areas ("MSAs") in the United States. Riverside County alone is larger than the State of New Jersey. The PMSA, though small geographically in relation to the bi-county area, contains most of the two counties' population.

#### **Municipal Government**

The City was incorporated in 1883 and covers 85.6 square miles. The City is a charter city and has a council-manager form of government with a seven-member council being elected by ward for four-year overlapping terms. The mayor is elected at large for a four-year term and is the presiding officer of the council, but does not have a vote except in case of a tie. The position of City Manager is filled by appointment of the council to serve as administrator of the staff and to carry out the policies of the council. Functions of the City government are carried out by approximately 2,642 full and part-time personnel. The City operates and maintains a sewer system. Water is supplied by the City system. Electricity is provided by the City-owned electric utility system. Other City services include diversified recreation programs, parks, a museum and libraries.

## Employee Relations

City employees are covered by memoranda of understanding with four primary employee organizations: Service Employees International Union/Public Employees Association of Riverside County, Police Officers' Association and Fire Fighters' Association and the International Brotherhood of Electrical Workers.

## Population

As of January 1, 2002 the population of the City was approximately 269,400, an increase of approximately 15.9% percent over the census population of the City in 1990. The following table presents population data for both the City and County.

### POPULATION

<u>Year</u>	<u>City of Riverside</u>	<u>Riverside County</u>
1950 .....	46,764	170,046
1960 .....	84,332	306,191
1970 .....	140,089	459,074
1980 .....	165,087	663,923
1990 .....	226,505	1,170,413
2000 .....	255,165	1,545,397
2001 .....	261,200	1,583,600
2002 .....	269,400	1,677,100*

\* Population statistics available for the County of Riverside as of July 2002  
Sources: 1950-2000 U.S. Census; California Department of Finance  
(Demographic Research Unit)

## Personal Income

The following table is based on effective buying income, as reported in the annual publication "Survey of Buying Power," published by Sales and Marketing Management. Effective buying income is defined as personal income less personal taxes and non-tax payments. Personal income includes wages and salaries, other labor-related income, proprietor's income, rental income, dividends, personal interest income and transfer payments. Deductions are then made for federal, state and local taxes, non-tax payments (such as fines and penalties) and personal contributions for social insurance. The following items are not included in the definition of effective buying income: (1) employer contributions to private pension funds, supplemental unemployment insurance funds and privately administered workers' compensation programs; (2) imputed personal income, which includes the imputed value of services provided by depository institutions and income earned by life insurance carriers and private noninsured pension funds on the principal amounts contributed by policy holders and pension beneficiaries; and (3) imputed rental income of owner-occupied nonfamily dwellings.

Between 1995 and 2001 the City's median household effective buying power increased approximately 15.2%, while at the same time, the County's increased approximately 21.1%, the State increased approximately 26.0% and there was growth of approximately 19.0% for the United States. The table below summarizes the total effective buying income and the median

household effective buying income for the City, the County, the State and the United States from 1995 through 2001.

**PERSONAL INCOME**  
**For Calendar Years 1995 Through 2001**

<u>Year and Area</u>	<u>Total Effective Buying Income (\$ in thousands)</u>	<u>Median Household Effective Buying Income</u>
<b>1995</b>		
City of Riverside	\$ 3,042,181	\$32,295
County of Riverside	17,823,798	30,951
State of California	477,640,503	34,533
United States	3,964,285,118	32,238
<b>1996</b>		
City of Riverside	3,036,507	32,777
County of Riverside	18,120,962	31,337
State of California	492,516,991	35,216
United States	4,161,512,384	33,482
<b>1997</b>		
City of Riverside	3,381,231	34,280
County of Riverside	19,477,361	32,690
State of California	524,439,600	36,483
United States	4,399,998,035	34,618
<b>1998</b>		
City of Riverside	3,583,867	34,835
County of Riverside	20,543,675	33,089
State of California	551,999,317	37,091
United States	4,621,491,738	35,377
<b>1999</b>		
City of Riverside	3,590,924	33,843
County of Riverside	22,453,426	35,145
State of California	590,376,663	39,492
United States	4,877,786,658	37,233
<b>2000</b>		
City of Riverside	3,735,911	37,395
County of Riverside	25,144,120	39,293
State of California	652,190,282	44,464
United States	5,230,824,904	39,129
<b>2001</b>		
City of Riverside	3,636,701	37,231
County of Riverside	23,617,301	37,480
State of California	650,521,407	43,532
United States	5,303,481,498	38,365

Source: Sales and Marketing Management, Survey of Buying Power.

A comparison of effective buying income groupings per household for 2001 is shown in the following table:

**INCOME GROUPINGS FOR 2001**

<u>Percent of Households by EBI Group</u>	<u>City of Riverside</u>	<u>Riverside County</u>	<u>State of California</u>
\$ 20,000-34,999 .....	26.5%	25.6%	21.8%
\$ 35,000-49,999 .....	23.0	21.4	19.0
\$ 50,000 and over .....	30.2	31.9	41.9

Source: Sales and Marketing Management, Survey of Buying Power.

**Education**

The City is included within the boundaries of the Riverside Unified School District and the Alvard Unified School District, which also serves the County area southwest of the City. These two districts include 59 elementary and middle schools and high schools. There are also about 46 private or parochial schools for kindergarten through twelfth grade. Average daily attendance for the two public school districts is given below.

**COUNTY OF RIVERSIDE PUBLIC SCHOOL ENROLLMENT  
1996-97 through 2001-02**

<u>Grades</u>	<u>1996-97</u>	<u>1997-98</u>	<u>1998-99</u>	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>
K-8 .....	200,838	205,572	211,973	219,433	228,348	237,880
9-12 .....	<u>76,483</u>	<u>79,944</u>	<u>83,256</u>	<u>87,622</u>	<u>91,562</u>	<u>95,450</u>
Total .....	<u>277,321</u>	<u>285,516</u>	<u>295,229</u>	<u>307,055</u>	<u>319,910</u>	<u>333,330</u>

Source: State Department of Education.

Locally, higher education is available at four institutions: Riverside City College, which had an enrollment of approximately 20,811 in the Fall of 2002; University of California at Riverside, which had a graduate and undergraduate enrollment of approximately 12,703 in the Fall of 2002; California Baptist University, which had an enrollment of 1,954 in the Fall of 2002; and La Sierra University at Riverside, which had an enrollment of approximately 1,286 in the Fall of 2002. Also located in the City are the California School for the Deaf, which had an enrollment of 499 during the Spring of 2002, and the Sherman Institute, a federally-run school for Indians, which had an enrollment of 373 during the Fall of 2002.

**Employment**

Annual employment information is unavailable separately for the City. The following table summarizes the yearly averages for the labor force employment and unemployment figures for the County of Riverside, the State and the United States for calendar years 1996 through February 2003.

**LABOR FORCE EMPLOYMENT AND UNEMPLOYMENT**  
**Yearly Average for Calendar Years 1996 through February 2003**

<u>Year and Area</u>	<u>Civilian Labor Force</u>	<u>Employed</u>	<u>Unemployed</u>	<u>Unemployment Rate</u>
1996				
Riverside County.....	615,600	565,200	50,400	8.2%
California.....	15,511,600	14,391,500	1,120,100	7.2
United States.....	133,943,000	126,708,000	7,236,000	5.4
1997				
Riverside County.....	642,900	594,800	48,100	7.5
California.....	15,947,200	14,942,500	1,004,700	6.3
United States.....	136,297,000	129,558,000	6,739,000	4.9
1998				
Riverside County.....	663,700	619,600	44,100	6.6
California.....	16,336,500	15,367,500	969,000	5.9
United States.....	137,673,000	131,463,000	6,210,000	4.5
1999				
Riverside County.....	696,300	658,500	37,800	5.4
California.....	16,596,500	15,731,700	864,800	5.2
United States.....	139,368,000	133,488,000	5,880,000	4.2
2000				
Riverside County.....	721,800	682,000	39,800	5.5
California.....	16,884,200	16,048,900	835,300	4.9
United States.....	140,863,000	135,208,000	5,655,000	4.0
2001				
Riverside County.....	759,300	719,600	39,700	5.2
California.....	17,182,900	16,260,100	922,800	5.4
United States.....	141,815,000	135,073,000	6,742,000	4.8
2002				
Riverside County.....	794,100	745,400	48,700	6.1
California.....	17,404,600	16,241,800	1,162,800	6.7
United States.....	143,669,000	134,992,000	8,677,000	6.0
2003*				
Riverside County.....	806,3000	759,500	46,800	5.8
California.....	17,515,400	16,304,500	1,210,900	6.9
United States.....	145,693,000	136,433,000	9,260,000	6.4

\* As of February, 2003

Source: California Employment Development Department.

The following table presents the annual average distribution of persons in various wage and salary employment categories for Riverside-San Bernardino Primary Metropolitan Statistical Area ("PMSA") for 1999, 2000, 2001, 2002, and through February 2003.

**RIVERSIDE-SAN BERNARDINO PRIMARY METROPOLITAN STATISTICAL AREA  
ANNUAL AVERAGE EMPLOYMENT COMPARISON**

<u>Industry</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003*</u>
Total, All Industries	960,300	1,010,100	1,050,700	1,078,700	1,083,700
Total Farm Production.....	21,300	21,700	20,900	20,900	18,000
Total Non-Farm	939,000	988,400	1,029,700	1,057,800	1,065,700
Total Private	755,800	796,300	829,500	845,400	848,400
Goods Producing .....	188,300	201,500	208,200	206,100	205,200
Natural Resources and Mining.....	1,300	1,300	1,200	1,100	1,100
Construction .....	71,700	80,100	88,400	90,300	90,800
Manufacturing .....	115,300	120,100	118,600	114,700	113,300
Service Producing.....	750,700	786,900	821,600	851,700	860,500
Trade, Transportation & Public					
Utilities.....	201,400	212,200	219,400	224,300	225,900
Trade (Wholesale).....	34,900	38,300	41,600	41,000	40,200
Trade (Retail) .....	121,800	127,400	132,200	137,700	140,500
Transportation, Warehousing and					
Utilities.....	44,800	46,400	45,600	45,600	45,200
Information .....	12,800	12,900	14,600	14,000	13,500
Financial Activities.....	34,800	34,800	38,200	39,800	40,300
Professional and Business Services.....	89,400	97,000	101,700	105,600	106,000
Educational and Health Services.....	99,700	102,200	106,000	111,200	112,500
Leisure and Hospitality					
Other Services	95,800	100,800	104,400	106,100	105,900
Government .....	13,900	15,300	15,700	16,200	15,900
	183,100	192,100	200,200	212,400	217,300

Source: California Employment Development Department.

The ten largest employers in the City are shown below.

**CITY OF RIVERSIDE  
LARGEST EMPLOYERS  
(As of December, 2002)**

<u>Company</u>	<u>Type of Industry</u>	<u>Employees</u>
Riverside Unified School District	Education	2,924
University of California, Riverside	Education	2,800
City of Riverside	Government	2,642
Pacific Bell	Communications	1,800
Kaiser Permanente	Health Care	1,700
Press Enterprise	Newspaper	1,300
Alvord Unified School District	Education	1,200
Riverside Community Hospital	Health Care	1,053
Riverside Medical Clinic	Health Care	700
SB Communications	Communications	625

Source: Riverside Chamber of Commerce

**Construction Activity**

The total valuation of building permits issued in the City equaled \$324,031,204 in calendar year 2002. The following table provides a summary of residential building permit valuations and nonresidential building permit valuations, and the total number of all building permit valuations in the City during the past five years, including the two months of calendar year 2003.

**CITY OF RIVERSIDE BUILDING PERMIT ACTIVITY  
For Calendar Years 1998 Through February 2003**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003*</u>
Residential .....					
Single Family.....	\$133,165,770	\$189,1500,864	\$254,494,169	\$218,696,092	\$19,662,294
Multi-Family.....	49,402,436	54,910,880	2,718,970	0	0
Alter & Additions.....	11,100,435	10,607,768	11,064,171	12,584,670	2,473,076
Total Residential:.....	<u>\$193,668,641</u>	<u>\$254,669,512</u>	<u>\$268,277,310</u>	<u>\$231,288,762</u>	<u>\$22,135,370</u>
Nonresidential .....					
New Commercial.....	\$9,567,531	\$12,403,972	\$41,60,469	\$53,790,774	\$17,579,016
New Industrial .....	14,967,430	3,191,916	13,086,404	6,190,790	3,380,220
Other New Nonres. ....	7,308,670	5,697,892	9,976,964	17,948,322	2,174,031
Alter & Additions	31,559,551	21,943,481	31,886,172	32,820,556	15,561,874
Total Nonresidential..	<u>\$63,403,182</u>	<u>\$43,237,261</u>	<u>\$96,552,009</u>	<u>\$110,750,442</u>	<u>\$38,695,141</u>
Total All Building Permit Valuations.....	<u>\$257,071,823</u>	<u>\$297,906,773</u>	<u>\$364,829,319</u>	<u>\$342,031,204</u>	<u>\$60,830,511</u>

\* February 2003

Source: Construction Industry Research Board

## Retail Sales

The following table indicates growth of taxable transactions for the period 1996 through second quarter 2001 in the City by type of business:

**CITY OF RIVERSIDE TAXABLE TRANSACTIONS**  
**For Calendar Years 1996 Through Second Quarter 2001**  
**(\$ in thousands of dollars)**

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001*</u>
Apparel stores.....	\$68,031	\$67,783	\$68,851	78,605	92,241	44,884
General merchandise stores .....	376,900	392,005	411,743	438,137	465,490	218,687
Food stores .....	128,791	124,750	121,359	125,986	133,363	66,891
Eating & drinking places.....	176,177	183,560	196,734	209,049	223,253	117,989
Home furnishings & appliances.....	81,416	66,256	65,720	74,817	77,552	35,504
Building materials & farm implements.....	161,239	201,844	253,925	275,433	290,734	160,850
Auto dealers and auto supplies	422,746	428,380	505,421	580,804	698,147	362,212
Service stations.....	141,216	139,748	129,197	151,413	200,155	105,593
Other retail stores	<u>242,292</u>	<u>269,798</u>	<u>285,618</u>	<u>313,917</u>	<u>341,252</u>	<u>162,406</u>
Retail Stores Totals.....	1,798,808	1,874,394	2,038,568	2,248,161	2,522,187	1,275,016
All other outlets .....	<u>461,158</u>	<u>497,539</u>	<u>563,407</u>	<u>661,371</u>	<u>697,707</u>	<u>347,839</u>
Total all outlets.....	<u>2,259,966</u>	<u>2,371,933</u>	<u>2,601,975</u>	<u>2,909,532</u>	<u>3,219,894</u>	<u>1,623,855</u>

\* Through second quarter of 2001.

Source: California State Board of Equalization.

## Community Facilities

Among the City's cultural institutions and activities are a convention center, a municipal art center, a museum, a library, an auditorium, the opera society and the symphony society. There are three major hospitals in the City: Parkview Community Hospital Medical Center; Riverside Community Hospital; and Kaiser Permanente Hospital, with licensed bed capacities of 193, 369 and 215, totaling a licensed capacity of 777 beds.

## Transportation

The City is served by a variety of land and air transportation facilities. Light rail commuter service is provided by Metrolink to Los Angeles and Orange Counties. Interstate bus service is available via Greyhound, and local bus service is provided by the Southern California Rapid Transit District and Riverside Transit Agency. Most major trucking firms serve the City in addition to numerous local carriers. Overnight delivery can be scheduled to San Francisco, Los Angeles, San Diego and Sacramento.

Freight rail service to the City is provided by two major transcontinental railroads: the Santa Fe and Union Pacific. Amtrak-operated passenger train service is available at San Bernardino, approximately 15 miles north of the City.

Scheduled air transportation is available from the Ontario International Airport, approximately 18 miles to the west. The City-operated Riverside Municipal Airport is a general aviation facility.

The City is served by the Riverside Freeway (State Route 91), which provides access to Orange County; Interstate 215, which connects the City to San Diego, San Bernardino and points beyond; and the Pomona Freeway (U.S. Highway 60), an east-west route.

To support transportation improvements, in November 1988 Riverside County voters approved Measure A, a one-half cent sales tax increase. Measure A was to expire in 2009, but in 2002, Riverside County voters approved extending Measure A until 2039. Measure A is expected to generate \$4.6 billion between 2009 and 2039.

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**APPENDIX D**

**AGENCY'S AUDITED FINANCIAL  
STATEMENTS FOR FISCAL YEAR 2001/02**

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600 Anton Boulevard  
Suite 700  
Costs Mesa, CA 92626-7651

## Independent Auditors' Report

The Honorable Members of City Council  
Redevelopment Agency of the City of Riverside, California:

We have audited the accompanying basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Redevelopment Agency of the City of Riverside, California (the Agency), a component unit of the City of Riverside, California as of and for the year ended June 30, 2002, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these basic 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 opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Redevelopment Agency of the City of Riverside, California as of June 30, 2002 and the respective changes in financial position 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 30, 2002 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis on pages 2 through 6 is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the Agency's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

**KPMG LLP**

September 30, 2002

## Management's Discussion and Analysis

As management of the Redevelopment Agency of the City of Riverside (the Agency), we offer readers of the Agency's financial statements this narrative overview and analysis of financial activities for the fiscal year ended June 30, 2002. We encourage readers to consider the information presented here in conjunction with additional information furnished in our letter of transmittal, which can be found on pages v-xvii of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements. The Agency's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the Agency's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of the Agency's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in the net assets may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The *Statement of Activities* presents information showing how the Agency's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements highlight functions of the Agency that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the Agency include redevelopment activities and interest on long-term debt. Redevelopment activities include the development of projects and infrastructure necessary to eliminate blight and encourage economic expansion, which creates and preserves jobs for citizens of the project areas.

The government-wide financial statements can be found on pages 7-8 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Agency are in the governmental funds category.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources* as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Agency maintains eighteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the Downtown/Airport and University Corridor/Sycamore Canyon Debt Service Funds and for the Casa Blanca, Downtown/Airport and University Corridor/Sycamore Canyon Capital Projects Funds, all of which are considered to be major funds. Data from the other thirteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* as supplementary information.

The basic governmental fund financial statements can be found on pages 9 and 11 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14-25 of this report.

**Other information.** The combining statements referred to earlier in connection with nonmajor governmental funds can be found in the supplementary information on pages 25-28 of this report.

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Agency, liabilities exceeded assets by \$81,692 at June 30, 2002.

By far the largest portion of the Agency's net deficit reflects its bonded indebtedness. The Agency, operating under California Redevelopment Law, must maintain debt in excess of its available assets to legally receive tax increment revenue. Bond funds are used to construct infrastructure, which becomes an asset of the City, or to alleviate blight. These expenditures do not create assets to offset bonded debt. Future tax increment revenues must be used to liquidate noncurrent bond liabilities.

A summary of the Agency's net assets at June 30, 2002, is as follows:

Non-capital assets		Governmental
Capital assets		<u>Activities</u>
Total assets		\$ 88,027
		<u>1,898</u>
		<u>89,925</u>
Long-term liabilities outstanding		165,540
Other liabilities		<u>6,077</u>
Total liabilities		<u>171,617</u>
Net assets:		
Invested in capital assets, net of related debt		1,898
Restricted		14,602
Unrestricted		(98,192)
Total net assets		<u>\$(81,692)</u>

**Governmental activities.** Governmental activities decreased the Agency's net assets by \$1,423. Key elements of this decrease are as follows:

Revenues:		Governmental
Program revenues:		<u>activities</u>
Charges for services	\$ 3,562	
Capital grants and contributions	1,837	
General revenues:		
Property tax increment	14,859	
Other	<u>3,565</u>	
Total revenues	<u>23,823</u>	
Expenses:		
Redevelopment activities	17,957	
Interest on long-term debt	<u>7,289</u>	
Total expenses	<u>25,246</u>	
Decrease in net assets	(1,423)	
Net assets (deficit) – July 1, 2001	<u>(80,269)</u>	
Net assets (deficit) – June 30, 2002	<u>\$(81,692)</u>	

- Charges for services such as rental income and principal payoffs on notes receivable decreased by \$1,264 during the year because there was a large note receivable payoff in the prior year and sublease revenue from California Tower decreased due to vacancies in the building.
- Capital grants for governmental activities decreased by \$1,628. Lower expenditures from funds provided by the U. S. Department of Housing and Urban Development Section 108 loan for Mission Village was the main reason for this decrease.
- Property tax increment revenues increased by \$1,580 (11.9%) during the year. Most of this increase results from the rebound in assessed property values due to better economic conditions and to the recent expansion of the Arlington Project Area.
- Other general revenues decreased by \$1,183. This decrease reflects lower interest earnings on cash and investments.
- Redevelopment activity expenses increased \$5,277 over the prior year. Several large projects were underway during the year, causing large expenses. Examples of these projects are the Casa Blanca Library, University Village Parking Garage, School of the Arts and the Culver Arts Center.

**Financial Analysis of the Agency's Funds**

As noted earlier, the Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the Agency's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Agency's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$51,565, an increase of \$8,407 in comparison with the prior year. Approximately half of this total amount (\$30,413) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period (\$2,635), 2) to pay debt service (\$9,815), and 3) for a variety of other restricted purposes (\$8,702).

**Capital Asset and Debt Administration**

**Capital assets.** The Agency's investment in capital assets for its governmental activities as of June 30, 2002 amounts to \$1,898 (net of accumulated depreciation). This investment in capital assets includes land and equipment. A summary of the Agency's capital assets, net of depreciation, follows:

Land	\$1,289
Improvements other than buildings	370
Machinery and equipment	<u>689</u>
Subtotal	2,348
Less accumulated depreciation	<u>(450)</u>
Total	<u>\$1,898</u>

Additional information on the Agency's capital assets can be found in note 6 on page 19 of this report.

**Long-term debt.** At the end of the current fiscal year, the Agency had total bonded debt outstanding of \$111,880. The bonds are secured solely by specified revenue sources (i.e., tax allocation bonds).

The Agency's total debt increased by \$10,563 offset by retirements of \$3,233 during the current fiscal year. Increases were due to advances from the City to provide interim financing for the University Village Parking Garage and to purchase property for the School of the Arts.

Time and bonded debt limitations exist in all project areas. Time limitations vary by dates area was added to the project.

<u>Project Area</u>	<u>Time limitations to incur debt</u>	<u>Bonded Debt Limit (in millions)</u>
Arlington	2014-2019	\$ 75
Casa Blanca	2004-2014	265
Downtown/Airport	2011-2014	149
Magnolia Center	2018	55
University Corridor/Sycamore Canyon	2014-2017	187

The Agency does not have an overall credit rating. Bond issues are rated individually at time of issuance.

Additional information on outstanding debt may be found on pages 19-22 of this report.

**Economic Factors and Next Year's Budget**

The assessed value of property continues to rise in the redevelopment project areas. Management estimates that tax increment revenues will increase by 2.9% for the next fiscal year. Much of that increase, however, will be absorbed by the transfer to the Educational Revenue Augmentation Fund (ERAF) required by California legislation during the State budget process. Additional information on the ERAF transfer can be found in note 12 on page 24.

**Request for information**

This financial report is designed to provide a general overview of the Agency's finances for all those with an interest in the Agency's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Redevelopment Agency Treasurer, 3900 Main Street, Riverside, CA 92522.

REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE  
 STATEMENT OF NET ASSETS  
 June 30, 2002  
 (amounts expressed in thousands)

<u>Assets:</u>	
Cash and investments	\$27,192
Cash and investments at fiscal agent	18,812
Receivables (net of allowances for uncollectibles)	921
Rehabilitation loans receivable	5,439
Prepaid items	15
Capital lease receivable	28,240
Advances to the City	229
Land and improvements held for resale	7,179
Capital assets (net of accumulated depreciation)	1,898
Total assets	<u>89,925</u>
<u>Liabilities</u>	
Accounts payable and other accrued liabilities	3,855
Accrued interest payable	1,958
Deferred revenue	28,317
Deposits	264
Noncurrent liabilities:	
Due within one year	2,951
Due in more than one year	134,272
Total liabilities	<u>171,617</u>
<u>Net Assets</u>	
Invested in capital assets, net of related debt	1,898
Restricted for:	
Housing projects	4,587
Debt service	5,931
Unrestricted	(94,108)
Total net assets (deficit)	<u>(\$81,692)</u>

The notes to the financial statements are an integral part of this statement.



REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE  
 (a component unit of the City of Riverside, California)  
 BALANCE SHEET  
 GOVERNMENTAL FUNDS  
 June 30, 2002  
 (amounts expressed in thousands)

Assets	Debt Service			Capital Projects Funds			Total Funds
	Downtown/ Airport	University Corridor/ Sycamore Canyon	Casa Blanca	Downtown/ Airport	University Corridor/ Sycamore Canyon	Other Funds	
Cash and investments	\$2,074	\$1,009	\$2,247	\$9,959	\$7,662	\$4,240	\$27,191
Cash and investments at fiscal agent	3,634	1,874	6,817	1,589	2,477	2,422	18,813
Interest receivable	24	36	28	116	93	39	336
Accounts receivable, net	172	80	0	190	10	36	488
Intergovernmental receivables	0	0	0	97	0	0	97
Rehabilitation loans receivable	0	0	486	796	459	3,698	5,439
Capital lease receivable	28,240	0	0	0	0	0	28,240
Prepaid items	0	2	0	12	0	1	15
Due from other funds	0	0	0	1,031	0	0	1,031
Advances to the City	0	229	0	0	0	0	229
Land and improvements held for resale	0	0	238	5,376	0	1,565	7,179
<b>Total Assets</b>	<b>34,144</b>	<b>3,230</b>	<b>9,816</b>	<b>19,166</b>	<b>10,701</b>	<b>12,001</b>	<b>89,058</b>
<b>Liabilities and Fund Balances</b>							
<b>Liabilities:</b>							
Account payable	529	22	262	884	1,652	263	3,612
Accrued liabilities	0	0	0	31	0	0	31
Compensated absences	0	0	0	9	0	0	9
Deferred revenue	28,240	29	25	774	3	3,475	32,546
Deposits	0	0	0	224	40	40	264
Due to other funds	0	0	0	0	0	1,031	1,031
<b>Total Liabilities</b>	<b>28,769</b>	<b>51</b>	<b>287</b>	<b>1,922</b>	<b>1,655</b>	<b>4,809</b>	<b>37,493</b>
<b>Fund Balances:</b>							
Reserved for:							
Encumbrances	0	0	2,033	219	40	343	2,635
Advances to the City	0	200	0	0	0	0	200
Debt service	5,375	2,979	0	0	0	1,461	9,815
Non-current loans receivable	0	0	462	164	459	225	1,310
Prepaid items	0	0	0	12	0	1	13
Land and improvements held for resale	0	0	238	5,376	0	1,565	7,179
Unreserved, designated for future operations	0	0	4,802	6,531	6,906	0	18,239
Unreserved, undesignated:							
Capital projects funds	0	0	1,994	4,942	1,641	1,140	9,717
Special revenue funds	0	0	0	0	0	2,457	2,457
<b>Total Fund Balances</b>	<b>5,375</b>	<b>3,179</b>	<b>9,529</b>	<b>17,244</b>	<b>9,046</b>	<b>7,192</b>	<b>51,565</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$34,144</b>	<b>\$3,230</b>	<b>\$9,816</b>	<b>\$19,166</b>	<b>\$10,701</b>	<b>\$12,001</b>	<b>\$89,058</b>

See accompanying independent auditors' report.

REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE  
(a component unit of the City of Riverside, California)  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
June 30, 2002  
(amounts expressed in thousands)

Amounts reported for governmental activities in the statement of net assets are different because:

Total fund balances - governmental funds	\$51,565
Capital assets used in governmental activities that are not financial resources and, therefore, are not reported in the funds.	1,898
Other long-term assets that are not available to pay for current-period expenditures and therefore, are deferred in the funds.	4,229
Long-term liabilities, including bonds payable, that are not due and payable in the current period and therefore are not reported in the funds.	<u>(139,384)</u>
Net assets of governmental activities	<u><u>(\$81,692)</u></u>

The notes to the financial statements are an integral part of this statement.

REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE  
(a component unit of the City of Riverside, California)  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Fiscal Year Ended June 30, 2002  
(amounts expressed in thousands)

	Debt Service		Capital Projects Funds			Total Funds
	Downtown/ Airport	University Corridor/ Sycamore Canyon	Casa Blanca	Downtown Airport	University Corridor/ Sycamore Canyon	
<b>Revenues:</b>						
Tax increment	\$6,459	\$2,936	\$0	\$0	\$0	\$14,859
Interest	107	263	357	633	330	1,957
Intergovernmental	200	0	0	2,438	9	2,647
Miscellaneous	1,564	299	0	2,017	95	4,491
<b>Total Revenues</b>	<b>8,330</b>	<b>3,498</b>	<b>357</b>	<b>5,088</b>	<b>434</b>	<b>23,954</b>
<b>Expenditures:</b>						
<b>Current:</b>						
Salaries and administrative	8	10	887	2,209	14	3,404
Professional services	142	65	14	1,149	67	1,663
Property acquisitions	0	0	0	415	26	441
Relocation costs	0	0	0	309	0	309
Project improvements	0	0	1,474	923	3,084	6,377
Pass-through agreement	0	0	267	2,119	727	3,285
Debt service:						
Principal	1,649	607	0	0	0	2,745
Interest	4,656	1,635	0	0	0	7,252
Repayment of advances	558	0	0	0	0	961
<b>Total Expenditures</b>	<b>7,013</b>	<b>2,317</b>	<b>2,642</b>	<b>7,124</b>	<b>3,918</b>	<b>26,075</b>
<b>Excess(Deficiency) of Revenues Over(Under) Expenditures</b>	<b>1,317</b>	<b>1,181</b>	<b>(2,285)</b>	<b>(2,036)</b>	<b>(3,484)</b>	<b>(2,121)</b>
<b>Other Financing Sources(Uses):</b>						
Transfers in	1,720	500	578	3,919	1,719	9,770
Transfers out	(3,919)	(1,719)	0	(82)	(52)	(9,770)
Advances from the City	25	35	0	3,503	7,000	10,563
Gain (loss) on land held for resale	0	0	72	(15)	0	(35)
<b>Total Other Financing Sources(Uses)</b>	<b>(2,174)</b>	<b>(1,184)</b>	<b>650</b>	<b>7,325</b>	<b>8,667</b>	<b>10,528</b>
<b>Excess(Deficiency) of Revenues and Other Financing Sources Over(Under) Expenditures and Other Financing Uses</b>	<b>(857)</b>	<b>(3)</b>	<b>(1,635)</b>	<b>5,289</b>	<b>5,183</b>	<b>8,407</b>
<b>Fund Balances, July 1</b>	<b>6,232</b>	<b>3,182</b>	<b>11,164</b>	<b>11,955</b>	<b>3,863</b>	<b>43,158</b>
<b>Fund Balances, June 30</b>	<b>\$5,375</b>	<b>\$3,179</b>	<b>\$9,529</b>	<b>\$17,244</b>	<b>\$9,046</b>	<b>\$51,565</b>

See accompanying independent auditors' report.

REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE  
(a component unit of the City of Riverside, California)  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2002  
(amounts expressed in thousands)

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances-total governmental funds **\$8,407**

Governmental funds report project improvements as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which project improvements exceeded depreciation in the current period. **(63)**

The issuance of long-term debt (e.g., bonds, leases, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. **(9,767)**

Change in net assets of governmental activities **(\$1,423)**

The notes to the financial statements are an integral part of this statement.

REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE  
(a component unit of the City of Riverside, California)  
NOTES TO FINANCIAL STATEMENTS  
Fiscal Year Ended June 30, 2002

(amounts expressed in thousands)

**Note 1. Summary of Significant Accounting Policies**

**A. Nature of Operations**

The Redevelopment Agency of the City of Riverside (Agency) rehabilitates blighted areas within five active project areas located within the boundaries of the City of Riverside (City). The members of the City Council serve as the governing board of the Agency (Board). The Agency actively participates in projects of a public nature which encourage the development or rehabilitation of private and public development projects. Additionally, the Agency is actively involved in City-wide historic preservation and initiated a program in early 1990 designed to preserve, through redevelopment activities along with special State and Federal incentives, the integrity of historic civic, commercial and residential structures and neighborhoods. The Agency plans to use the special features that give the City its unique character as a catalyst for new development, tourism and economic revitalization.

**B. Reporting Entity**

The Agency is considered a "component unit" of the City of Riverside for financial reporting purposes. The Agency was created in 1971, in accordance with the Community Redevelopment Law of California and the State of California Health and Safety Code, and acts as a legal entity, separate and distinct from the City of Riverside.

Actions of the Agency are binding, and business, including the incurrence of long-term obligations, is routinely transacted in the Agency's name by its appointed representatives. The Agency is broadly empowered to engage in general economic revitalization and redevelopment of the City through acquisition and development of property in City areas determined to be in a declining condition.

In fiscal year 1988, the Riverside Public Financing Authority (Authority), a non-profit corporation, was created as a joint-powers authority between the Agency and the City to serve as a conduit for the issuance of bonds to fund improvements in various redevelopment project areas. The Authority has issued tax allocation bonds secured by loan agreements between the Agency and the Authority. These loan agreements are secured by a first pledge of and lien on a portion of property tax revenues within the respective project areas. Financial data of the Authority is included in the appropriate fund types of the Agency. Separate completed Authority financial statements may be obtained from the City's Finance Department, 3900 Main Street, Riverside, California 92522.

The Agency has received/advanced monies from/to the City of Riverside for use on redevelopment projects. Agreements between the Agency and the City provide for the Agency to repay the advances from future tax increment revenues, subordinated to the Agency's bonded debt. Included in the statement of net assets at June 30, 2002, are advances from the City and accumulated interest totaling \$14,246.

REVELOPMENT AGENCY OF THE CITY OF RIVERSIDE  
(a component unit of the City of Riverside, California)  
NOTES TO FINANCIAL STATEMENTS  
Fiscal Year Ended June 30, 2002

(amounts expressed in thousands)

C. Government-wide and Fund Financial Statements

The Agency-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Agency. All significant interfund activity has been removed from these statements. The Agency provides only governmental activities, which are supported by taxes and intergovernmental revenues. Major individual governmental funds are reported as separate columns in the fund financial statements.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Agency-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue when all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Agency reports the following major governmental funds:

Debt service funds for the Downtown/Airport and the University Corridor/Sycamore Canyon project areas are reported as major funds. The debt service funds account for the resources accumulated and payments made for principal and interest on long-term obligation debt of the Agency.

Capital projects funds for the Casa Blanca, Downtown/Airport and University Corridor/Sycamore Canyon project areas are reported as major funds. The capital projects funds account for the resources accumulated and payments made for projects of the Agency.

Program revenues consist of charges for services and capital grants and contributions. Charges for services include parking revenue, lease payments received on California Tower and principal payments on loans. Capital grants and contributions include revenue from the Section 108 loan from the U. S. Department of Housing and Urban Renewal for Mission Village.

E. Cash and Investments

In accordance with Agency policy, the Agency's cash and investments, except for cash and investments with fiscal agents, are invested in a pool managed by the Treasurer of the City. The Agency does not own specific, identifiable investments of the pool. The pooled interest earned is allocated monthly based on the month end cash balances.

REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE  
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NOTES TO FINANCIAL STATEMENTS  
Fiscal Year Ended June 30, 2002

The City values its cash and investments in accordance with the provisions of Government Accounting Standards Board (GASB) Statement No. 31, Accounting and Financial Reporting for Certain Investments and External Investment Pools (GASB 31), which requires governmental entities, including governmental external investment pools, to report certain investments at fair value in the statement of net assets/balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. Fair value is determined using quoted market prices.

Cash accounts of all funds are pooled for investment purposes to enhance safety and liquidity while maximizing interest earnings.

F. Cash and Investments at Fiscal Agents

Cash and investments maintained by fiscal agents are considered restricted by the Agency and are pledged as collateral for payment of principal and interest on bonds.

G. Capital Assets

Assets are capitalized at historical cost or, in the case of gifts or contributions, at fair value at the time of receipt by the Agency. Assets are depreciated based on their estimated useful lives: improvements, 20-99 years and machinery and equipment, 3-15 years.

H. Land and Improvements Held for Resale

Land and improvements held for resale are generally acquired under Developer Disposition Agreements (DDAs) in the normal course of redevelopment activity. The DDAs provide for transfer

(amounts expressed in thousands)

of the property to developers after certain redevelopment obligations have been fulfilled. The property is carried at cost until an event occurs to indicate a lower net realizable value.

I. Compensated Absences

The Agency's employees receive ten to twenty-three vacation days a year based upon length of service. A maximum of two years' vacation accrual can be accumulated and unused vacation is paid in cash upon separation.

Employees primarily receive one day of sick leave for each month of employment with unlimited accumulation. Upon retirement or death, a percentage of unused sick leave is paid to certain employees or their estates in lump sum based on longevity. Compensated absences of \$194 have been recorded in the statement of net assets.

J. Long-Term Obligations

In the Agency-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, government fund types recognize bond premiums and discounts, as well as bond issuance costs, as expenditures of the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other

REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE  
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NOTES TO FINANCIAL STATEMENTS  
Fiscal Year Ended June 30, 2002

financing sources while discounts on debt issuance are reported as other financing uses.

K. Fund Equity

In the fund financial statements, reserves represent those portions of fund equity not available for appropriation or legally segregated for a specific future use. Designated fund balances represent amounts identified by management for the future use of financial resources.

L. Interfund Transactions

Interfund transactions at the fund level are accounted for as revenues and expenditures. Transactions which constitute reimbursements are eliminated in the reimbursed fund and accounted for as expenditures in the fund to which the transaction is applicable.

During the year, transactions occur between individual funds for goods provided or services rendered. Related receivables and payables are classified as "due from/to other funds" on the accompanying fund level statements. The noncurrent portion of long-term interfund loans are reported as advances from/to other funds and are equally offset by a fund balance reserve to indicate that the receivable does not constitute available expendable financial resources. These advances received from the City are for capital purposes and have been treated as an external borrowing in the fund financial statements. Advances the Agency has made to the City include accrued interest which has been offset by deferred revenue.

(amounts expressed in thousands)

M. Deferred Revenues

Governmental funds report deferred revenue on their balance sheets. Deferred revenues arise in governmental funds when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the Agency before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, revenue is recognized.

Deferred revenues on the Agency's financial statements include future revenues from the capital lease of California Tower building to the State of California and other loans receivable.

N. Property Tax Calendar

Under California law, general property taxes are assessed for up to 1% of assessed value. General property taxes are collected by the counties along with other special district taxes and assessments and voter approved debt. General property tax revenues are collected and pooled by the county throughout the fiscal year and then allocated and paid to the county, cities and school districts based on complex formulas prescribed by State statutes.

Property taxes are levied on assessed values as of January 1 for the ensuing fiscal year. On July 1 of the fiscal year the levy is placed and a lien is attached to the property. Property taxes are due in two installments. The first installment is due November 1 and is delinquent on December 10. The second installment is

REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE  
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 NOTES TO FINANCIAL STATEMENTS  
 Fiscal Year Ended June 30, 2002

(amounts expressed in thousands)

due February 1 and is delinquent on April 10. Property taxes receivable represent current and prior years' delinquent tax levies, adjusted for uncollectable amounts.

**Note 2: Rehabilitation Loans Receivable and Capital Lease Receivable**

Rehabilitation Loans Receivable

O. Tax Incremental Revenues  
 Incremental property taxes are considered as revenue by the Agency when they become measurable and available for financing redevelopment activities during the year.

The Agency grants loans of up to 30 years bearing interest from 0 to 12 percent secured by deeds of trust to individuals and businesses to assist in the redevelopment of the City.

Incremental property tax revenues represent property taxes collected from the taxes levied and collected each year on a redevelopment project in excess of the amount that would have been levied and collected on the base year property tax assessment. (A property tax base year is determined to be the year prior to the establishment of a redevelopment project area.)

All loans must be approved by the Agency's Governing Board. At the time such loans are approved, a commitment is established for the total loan amount. Portions of the loans are disbursed as construction and other rehabilitation costs are incurred.

As of June 30, 2002, loans receivable by project area are as follows:

P. Use of Estimates

The preparation of financial statements in conformity with accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures. Specifically, the Agency has made certain estimates and assumptions relating to the collectibility of its receivables and the valuation of property held for resale. Actual results may differ from those estimates and assumptions.

Special Revenue Funds:

Arlington	\$ 12
Casa Blanca	2,455
Downtown/Airport	380
University Corridor/Sycamore Canyon	704
Rehabilitation	147
	<u>3,698</u>
Capital Projects Funds:	
Casa Blanca	486
Downtown/Airport	796
University Corridor/Sycamore Canyon	459
	<u>1,741</u>

**Total**

**\$5,439**

REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE  
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NOTES TO FINANCIAL STATEMENTS  
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(amounts expressed in thousands)

Capital Lease Receivable

The Agency has a Capital Lease Agreement with the State of California for the California Tower Office Complex, located in the Downtown/Airport Project Area. The Agreement is for a thirty year period and at maturity the ownership of California Tower will be transferred to the State. The terms of the Agreement require annual installments from \$95 to \$2,730 through October 1, 2024.

The minimum future annual installments to be received are as follows:

2003	\$2,169
2004	2,199
2005	2,221
2006	2,249
2007	2,273
Thereafter	45,967
Total Capital Lease Receivable	<u>57,078</u>
Less: Unearned Interest	<u>(28,838)</u>

**Net Capital Lease Receivable**

**\$28,240**

**Note 3. Land and Improvements Held for Resale**

A summary of the estimated net realizable value of land and improvements held for resale by project area as of June 30, 2002, is as follows:

Special Revenue Funds:	\$	175
Casa Blanca		448
Downtown/Airport		<u>942</u>
University Corridor/Sycamore Canyon		<u>1,565</u>

Capital Projects Funds:

Casa Blanca	238
Downtown/Airport	<u>5,376</u>
	<u>5,614</u>
<b>Total</b>	<b><u>\$ 7,179</u></b>

**Note 4. Due From/To Other Funds**

Agency capital projects funds temporarily loaned cash to special revenue funds to cover negative cash balances. A summary of these temporary loans at June 30, 2002, is as follows:

Receivable Fund	Payable Fund	Amount
Redevelopment	Redevelopment	
Agency -- Capital Projects	Agency --	
	Special Revenue	\$ <u>1,031</u>
	<b>Total</b>	<b>\$ <u>1,031</u></b>

REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE  
(a component unit of the City of Riverside, California)  
NOTES TO FINANCIAL STATEMENTS  
Fiscal Year Ended June 30, 2002

(amounts expressed in thousands)

**Note 5. Transfers In/Out**

Transfers are made between funds for debt service payments on housing bonds, to pay pass-through agreements and to transfer revenues available for capital projects. A summary of transfers between Redevelopment Agency funds at June 30, 2002, is as follows:

<u>Transfer In Fund</u>	<u>Transfer Out Fund</u>	<u>Amount</u>
Debt Service	Special Revenue	\$ 2,592
	Capital Projects	52
Capital Projects	Debt Service	7,024
Special Revenue	Debt Service	20
	Capital Projects	82
	<b>Total</b>	<b>\$9,770</b>

**Note 6. Capital Assets**

A summary of changes in the capital assets is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Sales or Dispositions</u>	<u>Ending Balance</u>
Land	\$ 1,289	\$ 0	\$ 0	\$ 1,289
Improvements	355	15	0	370
Equipment	652	43	(6)	689
<b>Subtotal</b>	<b>\$2,296</b>	<b>\$58</b>	<b>\$(6)</b>	<b>\$2,348</b>
Less accumulated depreciation for:				
Improvements	2	17	0	19
Equipment	333	104	(6)	431
<b>Subtotal</b>	<b>335</b>	<b>121</b>	<b>(6)</b>	<b>450</b>
<b>Capital assets, Net</b>	<b>\$1,961</b>	<b>\$(63)</b>	<b>\$0</b>	<b>\$1,898</b>

**Note 7. Long-Term Obligations**

Changes in Long-Term Obligations

The following is a summary of changes in long-term obligations during the fiscal year:

	<u>Balance, Beginning of Year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, End of Year</u>	<u>Due within One Year</u>
Advances from the City	\$ 4,282	\$ 10,563	\$ 599	\$ 14,246	\$ 339
Lease Revenue Bonds	28,505	0	265	28,240	315
Notes Payable	11,631	0	534	11,097	347
Tax Allocation Bonds	84,845	0	1,820	83,025	1,930
Revenue Bonds	630	0	15	615	20
<b>Total</b>	<b>\$129,893</b>	<b>\$10,563</b>	<b>\$3,233</b>	<b>\$137,223</b>	<b>\$2,951</b>

Notes Payable

The following notes payable were issued to promote development and expansion of areas with the project areas. The Agency has the following notes payable at June 30, 2002:

	<u>Principal Outstanding</u>
The Agency entered into an Agreement with the City of Riverside to make payments on a HUD Section 108 Loan used to fund the University Village Project, interest at 5.36% to 7.66%. The note is payable in annual principal and interest installments of \$272 to \$425 through August, 2015.	\$3,520

REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE  
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NOTES TO FINANCIAL STATEMENTS  
Fiscal Year Ended June 30, 2002

(amounts expressed in thousands)

The Agency entered into an Agreement with the City of Riverside to make payments on a HUD Section 108 loan used to fund the Mission Village Project, interest at 6.15% to 6.72%, payable in semi-annual installments beginning August 1, 1999 of \$110 to \$420 through August 1, 2026.

Note payable to Pepsi Cola Bottling Company of Los Angeles, interest at 10.5%. Once a certificate of completion is issued, the note is payable in net annual installments of principal and interest of \$341 through June, 2026. The certificate of completion cannot be issued until Pepsi has reached a \$26 million investment requirement.

Note payable to Marketplace MKB Partners, interest at 10%, payable in annual installments of \$28, including principal and interest through 2007.

Note payable to the City of Riverside at no interest, payable in annual installments of \$20 through 2006, for Magnolia Center Project Area formation costs.

**Total Notes Payable**

\$ 11,097

The following is a schedule of annual debt service requirements to maturity as of June 30, 2002:

Fiscal Year	Principal	Interest	Total
2003	\$ 347	\$ 847	\$1,194
2004	377	824	1,201
2005	402	799	1,201
2006	423	772	1,195
2007	438	742	1,180
2008-2012	2,706	3,196	5,902
2013-2017	3,536	2,015	5,551
2018-2022	1,587	988	2,575
2023-2027	1,281	430	1,711
<b>Totals</b>	<b>\$11,097</b>	<b>\$10,613</b>	<b>\$21,710</b>

Bonds Payable

100

Bonds Payable at June 30, 2002, consisted of the following:

Tax Allocation Bonds

\$31,600 1993 Downtown/Airport Project Area, Tax Allocation Refunding Bonds, \$6,975 serial bonds, 4.0% to 5.4%, due in annual installments from \$155 to \$1,015 through August 1, 2008; and \$24,190 term bonds, 5.625%, due in annual installments from \$1,070 to \$2,300 through August 1, 2023

Principal  
Outstanding

\$30,330

REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE  
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NOTES TO FINANCIAL STATEMENTS  
Fiscal Year Ended June 30, 2002

	Principal Outstanding	Principal Outstanding
		(amounts expressed in thousands)
<u>Revenue Bonds</u>		
\$12,090 1994 Multiple Project Areas, Tax Allocation Serial Refunding Bonds issued through the Association of Bay Area Government Bond Pool, 4.7% to 6.4%, due in annual installments from \$175 to \$840 through December 1, 2024.	10,660	\$13,285 1991 Public Financing Authority Revenue Bonds, Series A, Multiple Project Areas: \$1,470 serial bonds, 7.15% to 7.60%, due in annual installments from \$100 to \$145 through February 1, 2003; \$4,175 term bonds, 8.00%, due in annual installments from \$155 to \$450 through February 1, 2018 (portion not refunded).
\$17,025 1999 University Corridor/Sycamore Canyon Merged Project Area, Tax Allocation Bonds, Series A; 3.4% to 4.7% due in annual installments from \$40 to \$570 through August 1, 2014; \$4,810 term bonds at 4.75% due August 1, 2021; and \$6,010 term bonds at 5.0% due August 1, 2027	16,645	
\$6,055 1999 University Corridor/Sycamore Canyon Merged Project Area, Subordinate Tax Allocation Bonds, series B; 4.5% to 5.5% due in annual installments from \$35 to \$190 through September 1, 2013; \$1,135 term bonds at 5.5% due September 1, 2018; and \$3,020 term bonds at 5.625% due September 1, 2027	5,920	
\$20,395 1999 Casa Blanca Project Area, Tax Allocation Bonds, Series A; 3.4% to 4.7% due in annual installments from \$455 to \$780 through August 1, 2014; \$2,565 term bonds at 4.75% due August 1, 2017; \$4,035 term bonds at 4.75% due August 1, 2021; and \$4,870 term bonds at 5.0% due August 1, 2025.	19,470	\$24,810 1994 Downton/Airport Project Area, Series A, Tax Exempt Bonds: \$4,085 serial bonds, 4.60% to 6.00%, due in annual installments from \$90 to \$610 through October 1, 2009; \$5,250 term bonds, 6.00%, due in annual installments from \$675 to \$1,090 through October 1, 2015; \$13,140 term bonds, 6.375%, due in annual installments from \$1,190 to \$2,155 through October 1, 2023; \$2,335 term bonds, 6.50%, due a single installment on October 1, 2024.
<b>Total</b>	<b><u>\$ 83,025</u></b>	<b><u>\$ 615</u></b>

REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE  
(a component unit of the City of Riverside, California)  
NOTES TO FINANCIAL STATEMENTS  
Fiscal Year Ended June 30, 2002

(amounts expressed in thousands)

\$4,305 1994 Downtown/Airport Project Area, Series B, Taxable Bonds: \$45 term bonds, 7.50%, due in annual installments from \$5 to \$25 through October 1, 1999; \$295 term bonds, 8.30%, due in annual installments from \$35 to \$75 through October 1, 2004; \$470 term bonds, 8.65%, due in annual installments from \$80 to \$110 through October 1, 2009; \$3,495 term bonds, 8.80%, due in annual installments from \$120 to \$395 through October 1, 2024.

<b>Total</b>	<u>4,175</u>
<b>Total Bonds Payable</b>	<u>\$ 28,240</u>
	<u>\$ 111,880</u>

Annual debt service requirements to maturity for Bonds Payable, as of June 30, 2002, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 2,265	\$ 6,193	\$ 8,458
2004	2,400	6,086	8,486
2005	2,525	5,969	8,494
2006	2,690	5,843	8,533
2007	2,835	5,705	8,540
2008-2012	17,085	26,018	43,103
2013-2017	23,220	20,485	43,705
2018-2022	31,385	12,692	44,077
2023-2027	25,875	3,113	28,988
2028-2032	1,600	41	1,641
<b>Total</b>	<u>\$111,880</u>	<u>\$92,145</u>	<u>\$204,025</u>

Advances from the City of Riverside

All advances from the City accrue interest at the rate earned by the City's pooled investments which was 5.03% at June 30, 2002.  
A schedule of the Agency's advances and related accrued but unpaid interest from the City at June 30, 2002, follows:

	<u>Principal</u>	<u>Accrued Interest</u>	<u>Total</u>
Downtown/Airport Project - \$2,500 advance of December 3, 1985, due July 1, 2013.	\$2,500	\$1,148	\$3,648
Downtown/Airport Project - \$1,000 advance of October 16, 2001, due October 16, 2006.	1,000	36	1,036
Magnolia Center Project - \$91 advance of April 18, 2000, due April 18, 2005	56	0	56
Downtown/Airport Project - \$2,503 advance of March 12, 2002, due March 12, 2007	2,461	10	2,471
Central Industrial Project - \$7,000 advance of May 24, 2002, due upon obtaining permanent financing	7,000	35	7,035
<b>Total</b>	<u>\$13,017</u>	<u>\$1,229</u>	<u>\$14,246</u>

REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE  
(a component unit of the City of Riverside, California)  
NOTES TO FINANCIAL STATEMENTS  
Fiscal Year Ended June 30, 2002

(amounts expressed in thousands)

**Note 8. Self Insurance Program**

The Agency participates in a self-insurance program for Workers' Compensation and General Liability coverage which is administered by the City. The Agency pays an amount to the City representing an estimate of amounts to be paid for reported claims incurred and unreported claims based upon past experience, modified for current trends and information.

While the ultimate losses incurred through June 30, 2002, are dependent upon future developments, the Agency's management believes that amounts paid are sufficient to cover such losses. Premiums paid by the Agency for the year ended June 30, 2002, were \$42 and were allocated to the project areas.

**Note 9. Employees' Retirement Plans**

Agency employees are covered under the City's participation in the State of California's Public Employees Retirement System (CalPERS).

All permanent full-time and selected part-time Agency employees are eligible for participation in CalPERS. Benefits vest after five years of service and are determined by a formula that considers the employee's age, years of service and salary. Employees may retire at age 55 and receive 2.7% of their highest average annual salary for each year of service completed. CalPERS also provides death and disability benefits. These benefit provisions and all other requirements are established by State statute and City ordinance. Employee contributions are 8% and are paid by the Agency. The Agency is required to contribute the remaining amounts necessary to fund the benefits for its members, using the actuarial basis recommended by the CalPERS actuaries and

actuarial consultants and adopted by the Board of Administration. Contributions made for Agency employees were \$86 for the year ended June 30, 2002.

Citywide information concerning elements of unfunded pension benefit obligation, contributions to CalPERS for the year ended June 30, 2002, and recent trend information may be found in the notes of the City's "Comprehensive Annual Financial Report".

**Note 10. Deficit Fund Balances**

Deficit fund balances of \$2 and \$631 exist in the Special Revenue Fund Eastside Project Area and Special Revenue Fund Downtown/Airport Project Area. Property tax appeals have reduced the amount of property tax increment revenues received in both of these funds. Subsequent years expenditures will be appropriately monitored to correct the deficit balances with future revenues.

**Note 11. Commitments and Litigation**

Commitments

The Agency is committed to incur construction, relocation and other redevelopment costs under various Developer Disposition Agreements (DDA's), Owner Participation Agreements (OPA's) and Financial Loan Guaranties related to the implementation of redevelopment plans. The Agency has included approximately \$17,166 in the Fiscal Year 2002/2003 Budget relating to these commitments.

REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE  
(a component unit of the City of Riverside, California)  
NOTES TO FINANCIAL STATEMENTS  
Fiscal Year Ended June 30, 2002

(amounts expressed in thousands)

Litigation

The Agency is a defendant in various claims and legal actions arising in the normal course of operations. Management, based in part on the opinion of the Agency's outside legal counsel, does not believe the ultimate liability from such actions and claims will have a material adverse effect on the Agency's financial position or operations.

**Note 12: Subsequent Events**

Redevelopment agencies in the State of California are required to transfer a total of \$75 million (unaudited) in property tax revenues to the Education Revenue Augmentation Fund (ERAF) in fiscal year 2003 to help balance the state's budget. The Agency share of ERAF for fiscal year 2003 is \$446.

REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE  
(a component unit of the City of Riverside, California)  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
June 30, 2002  
(amounts expressed in thousands)

Assets	Special Revenue						Debt Service	
	Arlington	Casa Blanca	Eastside	Magnolia Center	Downtown/Airport	University Corridor/Sycamore Canyon		Totals
Cash and investments	\$173	\$214	\$0	\$174	\$0	\$1,117	\$1,950	\$49
Cash and investments at fiscal agent	0	0	0	0	0	1,984	1,984	59
Interest receivable	2	1	0	1	0	11	18	4
Accounts receivable, net	0	0	0	0	0	2	2	0
Rehabilitation loans receivable	12	2,455	0	0	380	704	3,698	0
Prepaid items	0	0	0	0	1	0	1	0
Land and improvements held for resale	0	175	0	0	448	942	1,565	0
Total Assets	187	2,845	0	175	829	4,760	9,218	112
<b>Liabilities and Fund Balances (Accumulated Deficit)</b>								
Liabilities:								
Accounts payable	4	4	0	2	14	46	85	0
Deferred revenues	0	2,455	0	0	377	643	3,475	0
Due to other funds	0	0	2	0	1,029	0	1,031	0
Deposits	0	0	0	0	40	0	40	0
Total Liabilities	4	2,459	2	2	1,460	689	4,631	0
Fund Balances (Accumulated Deficit):								
Reserved for encumbrances	0	0	0	0	19	320	339	0
Reserved for non-current loans receivable	12	0	0	0	3	63	225	0
Reserved for prepaid items	0	0	0	0	1	0	1	0
Reserved for land and improvements held for resale	0	175	0	0	448	942	1,565	0
Reserved for debt service	0	0	0	0	0	0	0	112
Unreserved, designated for future operations	0	63	0	0	23	1,504	1,590	0
Unreserved, undesignated	171	148	(2)	173	(1,125)	1,242	867	0
Total Fund Balances (Accumulated Deficit)	183	386	(2)	173	(631)	4,071	4,587	112
Total Liabilities and Fund Balances	\$187	\$2,845	\$0	\$175	\$829	\$4,760	\$9,218	\$112

See accompanying independent auditors' report.

(a component unit of the City of Riverside, California)  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 June 30, 2002  
 (amounts expressed in thousands)

Assets	Debt Service				Capital Projects Funds				Total Nonmajor Funds
	Casa Blanca	Eastside	Magnolia Center	Totals	Arlington	Eastside	Magnolia Center	Totals	
Cash and investments	\$929	\$30	\$0	\$1,008	\$813	\$0	\$469	\$ 1,282	\$4,240
Cash and investments at fiscal agent	344	35	0	438	0	0	0	0	2,422
Interest receivable	9	0	2	15	4	0	2	6	39
Accounts receivable, net	0	0	0	0	0	0	34	34	36
Rehabilitation loans receivable	0	0	0	0	0	0	0	0	3,698
Prepaid items	0	0	0	0	0	0	0	0	1
Land and improvements held for resale	0	0	0	0	0	0	0	0	1,565
<b>Total Assets</b>	<b>1,282</b>	<b>65</b>	<b>2</b>	<b>1,461</b>	<b>817</b>	<b>0</b>	<b>505</b>	<b>1,322</b>	<b>12,001</b>
<b>Liabilities and Fund Balances (Accumulated Deficit)</b>									
<b>Liabilities:</b>									
Accounts payable	0	0	0	0	85	0	93	178	263
Deferred revenues	0	0	0	0	0	0	0	0	3,475
Due to other funds	0	0	0	0	0	0	0	0	1,031
Deposits	0	0	0	0	0	0	0	0	40
<b>Total Liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>85</b>	<b>0</b>	<b>93</b>	<b>178</b>	<b>4,809</b>
<b>Fund Balances (Accumulated Deficit):</b>									
Reserved for encumbrances	0	0	0	0	4	0	0	4	343
Reserved for non-current loans receivable	0	0	0	0	0	0	0	0	225
Reserved for prepaid items	0	0	0	0	0	0	0	0	1
Reserved for land and improvements held for resale	0	0	0	0	0	0	0	0	1,565
Reserved for debt service	1,282	65	2	1,461	0	0	0	0	1,461
Unreserved, designated for future operations	0	0	0	0	397	0	220	617	2,207
Unreserved, undesignated	0	0	0	0	331	0	192	523	1,390
<b>Total Fund Balances (Accumulated Deficit)</b>	<b>1,282</b>	<b>65</b>	<b>2</b>	<b>1,461</b>	<b>732</b>	<b>0</b>	<b>412</b>	<b>1,144</b>	<b>7,192</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$1,282</b>	<b>\$65</b>	<b>\$2</b>	<b>\$1,461</b>	<b>\$817</b>	<b>\$0</b>	<b>\$505</b>	<b>\$1,322</b>	<b>\$12,001</b>

See accompanying independent auditors' report.

REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE  
(a component unit of the City of Riverside, California)  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (ACCUMULATED DEFICIT)  
NONMAJOR GOVERNMENTAL FUNDS  
For the Fiscal Year Ended June 30, 2002  
(amount expressed in thousands)

	Special Revenue						Totals	Debt Service
	Arlington	Casa Blanca	Eastside	Magnolia Center	Downtown/Airport	University Corridor/Sycamore Canyon		
Revenues:								
Tax increment	\$123	\$388	\$11	\$101	\$1,615	\$734	\$2,972	\$490
Interest	5	2	0	6	6	169	202	11
Miscellaneous	0	2	0	0	28	417	447	0
Total Revenues	128	392	11	107	1,649	1,320	3,621	501
Expenditures:								
Current:								
Salaries and administrative	0	70	1	0	94	6	171	0
Professional services	11	23	0	9	22	53	118	8
Project improvements	0	0	0	0	0	862	862	0
Pass-through agreement	0	0	0	0	0	0	0	0
Debt service:								
Principal	0	0	0	0	0	0	0	0
Interest	0	0	0	0	0	0	0	13
Repayment of advances	0	0	0	0	0	0	0	40
Total Expenditures	11	93	1	9	116	921	1,151	61
Excess(Deficiency) of Revenues Over(Under) Expenditures	117	299	10	98	1,533	399	2,470	440
Other Financing Sources(Uses):								
Transfers in	0	0	20	0	82	0	102	13
Transfers out	(13)	(404)	(7)	0	(1,720)	(448)	(2,592)	(450)
Loss on sale of land held for resale	0	0	0	0	0	(92)	(92)	0
Total Other Financing Sources(Uses)	(13)	(404)	13	0	(1,638)	(540)	(2,582)	(437)
Excess(Deficiency) of Revenues and Other Financing Sources Over(Under) Expenditures and Other Financing Uses	104	(105)	23	98	(105)	(141)	(112)	3
Fund Balances (Accumulated Deficit), July 1	79	491	(25)	75	(526)	4,212	4,699	109
Fund Balances (Accumulated Deficit), June 30	\$183	\$386	(\$2)	\$173	(\$631)	\$4,071	\$4,587	\$112

See accompanying independent auditors' report.

(a component unit of the City of Riverside, California)  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (ACCUMULATED DEFICIT)**  
**NONMAJOR GOVERNMENTAL FUNDS**  
 For the Fiscal Year Ended June 30, 2002  
 (amount expressed in thousands)

	Debt Service				Capital Projects Funds				Total Nonmajor Funds
	Casa Blanca	Eastside	Magnolia Center	Totals	Arlington	Eastside	Magnolia Center	Totals	
<b>Revenues:</b>									
Tax increment	\$1,552	\$44	\$406	\$2,492	\$0	\$0	\$0	\$0	\$5,464
Interest	13	3	0	27	24	0	14	38	267
Miscellaneous	0	0	0	0	35	0	34	69	516
<b>Total Revenues</b>	<b>1,565</b>	<b>47</b>	<b>406</b>	<b>2,519</b>	<b>59</b>	<b>0</b>	<b>48</b>	<b>107</b>	<b>6,247</b>
<b>Expenditures:</b>									
<b>Current:</b>									
Salaries and administrative	2	0	0	2	35	0	68	103	276
Professional services	32	1	8	49	45	0	14	59	226
Project improvements	0	0	0	0	0	0	34	34	896
Pass-through agreement	0	0	0	0	85	0	87	172	172
<b>Debt service:</b>									
Principal	470	6	0	489	0	0	0	0	489
Interest	897	24	0	961	0	0	0	0	961
Repayment of advances	0	0	41	41	0	0	0	0	41
<b>Total Expenditures</b>	<b>1,401</b>	<b>31</b>	<b>49</b>	<b>1,542</b>	<b>165</b>	<b>0</b>	<b>203</b>	<b>368</b>	<b>3,061</b>
<b>Excess(Deficiency) of Revenues Over(Under) Expenditures</b>	<b>164</b>	<b>16</b>	<b>357</b>	<b>977</b>	<b>(106)</b>	<b>0</b>	<b>(155)</b>	<b>(261)</b>	<b>3,186</b>
<b>Other Financing Sources(Uses):</b>									
Transfers in	404	7	0	424	450	0	358	808	1,334
Transfers out	(578)	(20)	(358)	(1,406)	0	0	0	0	(3,998)
Loss on sale of land held for resale	0	0	0	0	0	0	0	0	(92)
<b>Total Other Financing Sources(Uses)</b>	<b>(174)</b>	<b>(13)</b>	<b>(358)</b>	<b>(982)</b>	<b>450</b>	<b>0</b>	<b>358</b>	<b>808</b>	<b>(2,756)</b>
<b>Excess(Deficiency) of Revenues and Other Financing Sources Over(Under) Expenditures and Other Financing Uses</b>	<b>(10)</b>	<b>3</b>	<b>(1)</b>	<b>(5)</b>	<b>344</b>	<b>0</b>	<b>203</b>	<b>547</b>	<b>430</b>
<b>Fund Balances (Accumulated Deficit), July 1</b>	<b>1,292</b>	<b>62</b>	<b>3</b>	<b>1,466</b>	<b>388</b>	<b>0</b>	<b>209</b>	<b>597</b>	<b>6,762</b>
<b>Fund Balances (Accumulated Deficit), June 30</b>	<b>\$1,282</b>	<b>\$65</b>	<b>\$2</b>	<b>\$1,461</b>	<b>\$732</b>	<b>\$0</b>	<b>\$412</b>	<b>\$1,144</b>	<b>\$7,192</b>

See accompanying independent auditors' report.

REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE  
(a component unit of the City of Riverside, California)  
**CALCULATION OF EXCESS SURPLUS IN THE LOW AND MODERATE INCOME HOUSING FUND**  
June 30, 2002

(in thousands)

Fund Balance, June 30, 2002	\$4,587
Less Unavailable Amounts:	
Encumbrances	\$339
Rehabilitation loans	225
Land and improvements held for resale	1,565
Unspent debt proceeds	1,984
Available Low and Moderate Income Housing Funds	(4,113)
	474
Limitation (greater of \$1,000 or four years set-aside)	
Set-aside for last four years	
2001-2002	\$2,972
2000-2001	2,656
1999-2000	2,566
1998-1999	2,367
Excess(Deficit) of Available Low and Moderate Income Housing Funds Over(Under) Limitation	(10,561)
	(\$10,087)
Computed Excess Surplus, June 30, 2002	\$0

600 Anton Boulevard  
Suite 700  
Costs Mesa, CA 92626-7651

**Report of Independent Auditors on Compliance and on Internal Control over  
Financial Reporting Based on an Audit of the Financial Statements  
Performed in Accordance with Government Auditing Standards**

Honorable Board of the Redevelopment Agency of the City of Riverside  
The City of Riverside, California:

We have audited the basic financial statements of the Redevelopment Agency of the City of Riverside (Agency), a component unit of the City of Riverside, California (City), as of and for the year ended June 30, 2002 and have issued our report thereon, dated September 30, 2002. 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 Agency's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including those contained in the *Guidelines for Compliance Audits of California Redevelopment Agencies* issued by the State Controller's Office, Division of Local Government Fiscal Affairs, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 basic 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 basic 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 solely for the information and use of the Board of the Agency, management and the State Controller's Office and is not intended to be and should not be used by anyone other than these specified parties.

**KPMG LLP**

## APPENDIX E

### FORM OF OPINION OF BOND COUNSEL

Redevelopment Agency of the City of Riverside  
3900 Main Street  
Riverside, CA 92522

Re: \$40,435,000 Redevelopment Agency of the City of Riverside Merged Project Tax Allocation and Refunding Bonds, Series 2003

Members of the Redevelopment Agency:

We have acted as bond counsel in connection with the issuance by the Redevelopment Agency of the City of Riverside (the "Agency") of its \$40,435,000 aggregate principal amount Redevelopment Agency of the City of Riverside Merged Project Tax Allocation and Refunding Bonds, Series 2003 (the "Bonds"). The Bonds are issued pursuant to the provisions of the Community Redevelopment Law, being Part 1 (commencing with Section 33000) of Division 24 of the Health and Safety Code of the State of California (the "Law") and a Trust Indenture dated as of July 1, 2003 (the "Trust Indenture") by and between the Agency and U.S. Bank National Association, as Trustee (the "Trustee"). We have examined the Law, the Trust Indenture and such certified proceedings and other papers as we deem necessary to render this opinion.

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

Based upon our examination, we are of the opinion, as of the date hereof, that:

1. The Agency is a duly organized and validly existing public body, corporate and politic.
2. The Bonds constitute valid, legal and binding special obligations of the Agency enforceable in accordance with their terms.
3. The Trust Indenture has been duly and legally authorized, executed and delivered and constitutes a valid, legal and binding obligation of the Agency enforceable in accordance with its terms. The Trust Indenture creates a valid lien on funds pledged by the Trust Indenture for the security of the Bonds, comprised of Tax Revenues (as defined in the Trust Indenture) and certain amounts in the funds and accounts established by the Trust Indenture for the Bonds.
4. The Internal Revenue Code of 1986, as amended (the "Code"), sets forth certain investment, rebate and related requirements which must be met subsequent to the issuance and delivery of the Bonds for the interest on the Bonds to be and remain excluded from gross income for purposes of federal income taxation. Noncompliance with such requirements could cause the interest on the Bonds to be subject to federal income taxation retroactive to the date of issue of the Bonds. Pursuant to the Trust Indenture, the Agency has covenanted to comply with the requirements of the Code. We are of the opinion that, assuming compliance with the aforementioned covenant, the interest on the Bonds is excluded from gross income for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions. We are further of the opinion that interest on the Bonds is not a specific preference item for purposes of the alternative minimum tax

provisions of the Code. However, interest on the Bonds received by corporations will be included in corporate adjusted current earnings, a portion of which may increase the alternative minimum taxable income of such corporations. We are further of the opinion that the interest on the Bonds is exempt from personal income taxation imposed by the State of California. Although the interest on the Bonds is excluded from gross income for federal tax purposes, the accrual or receipt of interest on the Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend on the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

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

Respectfully submitted,

## APPENDIX F

### FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement"), dated as of July 1, 2003, is executed and delivered by Redevelopment Agency of the City of Riverside (the "Agency") and U.S. Bank, National Association (the "Trustee"), as trustee in connection with the issuance by the Agency of the above-entitled bonds (the "Bonds"). The Bonds are issued pursuant to a Trust Indenture, dated as of July 1, 2003 (the "Indenture"), between the Agency and the Trustee. The Bonds are payable from and secured by certain Tax Revenues (as defined in the Indenture) of the Agency. The Agency covenants and agrees as follows:

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

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

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

"*Dissemination Agent*" means 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 Agency and the Trustee a written acceptance of such designation.

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

"*National Repository*" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently recognized by the Securities and Exchange Commission are currently set forth in the SEC website located at <http://www.sec.gov/consumer/nrmsir.htm>.

"*Official Statement*" means the Official Statement, dated July 29, 2003, relating to the Bonds.

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

"*Repository*" means each National Repository and each State Repository.

"*Rule*" means 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*" means any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by

the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

### Section 3. Provision of Annual Reports

(a) The Agency shall provide, or shall cause the Dissemination Agent to provide, to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement by not later than nine months after the end of the Agency's fiscal year, commencing with the 2002/03 fiscal year. Not later than fifteen (15) Business Days prior to said date, the Agency shall provide the Annual Report to the Dissemination Agent (if other than the Agency). The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the financial information on the Project Area called for in the Annual Report may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date. If the Agency's fiscal year changes, the Agency, upon becoming aware of such change, shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) If by fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the Repositories, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Agency 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 directly provided to the Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall, unless the Agency has done so pursuant to Section 3(a) above:

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

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

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

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

(b) Financial information and operating data with respect to the Agency for the prior fiscal year of the type included in the Official Statement, in the following categories (to the extent not included in the Agency's audited financial statements): (i) aggregate assessed values of the Project Area; (ii) list of top ten largest local secured property taxpayers within the Project Area; (iii) calculation of the coverage ratio for such fiscal year, including any parity debt, calculated in the same manner as provided in the Official Statement in under the Section entitled "THE PROJECT AREA - Estimated Debt Service Coverage" and (iv) description of outstanding indebtedness payable from Tax Revenues issued during such fiscal year.

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

Neither the Trustee nor the Dissemination Agent shall have any responsibility for the content of the Annual Report, or any part thereof.

#### Section 5. Reporting of Significant Events

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

1. Principal and interest payment delinquencies.
2. Non-payment related defaults.
3. Unscheduled draws on debt service reserves reflecting financial difficulties.
4. Unscheduled draws on credit enhancements reflecting financial difficulties.
5. Substitution of credit or liquidity providers, or their failure to perform.
6. Adverse tax opinions or events affecting the tax-exempt status of the security.
7. Modifications to rights of security holders.
8. Bond calls.
9. Defeasances.
10. Release, substitution or sale of property securing repayment of the Bonds.
11. Rating changes.

(b) Whenever the Agency obtains knowledge of the occurrence of a Listed Event, the Agency shall determine as soon as possible if such event would constitute material information for Holders of Bonds within the meaning of the federal securities laws.

(c) If the Agency determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the Agency shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository, if any. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds pursuant to the Indenture.

(d) 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 with a copy to the Agency. Notwithstanding the foregoing notice of Listed Events described in subsections (a)(8) and (9) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the holders of affected Bonds pursuant to the Indenture.

Section 6. Termination of Reporting Obligation. The Agency's and Dissemination Agent'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(c).

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

Section 8. Amendment Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Agency may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Section 3(a), 4 or 5(a), it may be made only in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

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

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

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 Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the Agency to comply with any provision of this Disclosure Agreement, any Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Agency to comply with its obligations under this Disclosure 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 to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Agency agrees to indemnify and hold harmless the Dissemination Agent, its officers, directors, employees and agents, against any loss, expense and liabilities which the Dissemination Agent may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Agency under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. Neither the Trustee nor the Dissemination Agent shall be required to consent to any amendment which would impose any greater duties or risk of liability on the Trustee or the Dissemination Agent. No person shall have any right to commence any action against the Dissemination Agent seeking any remedy other than to compel specific performance of this Agreement. The Dissemination Agent shall not be liable under any circumstances for monetary damages to any person for any breach of this Agreement. The Dissemination Agent shall have no responsibility whatsoever for the content of any report or notice required of the Agency hereunder.

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

**REDEVELOPMENT AGENCY OF THE CITY OF  
RIVERSIDE**

By: \_\_\_\_\_  
Executive Director

The undersigned hereby agrees to act as Dissemination Agent pursuant to the foregoing Continuing Disclosure Agreement

**U.S. BANK, NATIONAL ASSOCIATION, as  
Dissemination Agent**

By: \_\_\_\_\_  
Authorized Signatory

**EXHIBIT A**

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

Name of Issuer:       Redevelopment Agency of the City of Riverside

Name of Bond Issue: Redevelopment Agency of the City of Riverside Merged Project Tax  
Allocation Refunding Bonds, Series 2003

Date of Issuance:     July 29, 2003

NOTICE IS HEREBY GIVEN that Redevelopment Agency of the City of Riverside (the "Agency") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Agreement dated July 1, 2003 executed by the Agency for the benefit of the holders and beneficial owners of the above-referenced bonds. The Agency anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

**U.S. BANK, NATIONAL ASSOCIATION,**

By: \_\_\_\_\_  
Authorized Signatory

cc:     Redevelopment Agency of the City of Riverside

## APPENDIX G

### BOOK ENTRY PROVISIONS

The information concerning DTC set forth herein has been supplied by DTC, and the Agency assumes no responsibility for the accuracy thereof.

Unless a successor securities depository is designated pursuant to the Indenture, DTC will act as Securities Depository for the Bonds. The Bonds 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 Bond will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

**DTC and Its Participants.** 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 transfer 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 securities brokers and dealers, banks and 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 of "AAA." The DTC Rules applicable to its Participants are on file with the Securities Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

**Purchase of Ownership Interests.** Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("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 Bonds 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 the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds 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 Bonds 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 Bonds; 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 Participants will remain responsible for keeping account of their holdings on behalf of their customers.

**Notices and Other Communications.** 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. **THE AGENCY AND THE TRUSTEE WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE BONDS.**

Redemption notices shall be sent to DTC. If less than all of the Bonds 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.

**Voting Rights.** Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to an 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 the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

**Redemption Proceeds.** Payments of principal and interest with respect to the Bonds 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 on interest payment dates in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the interest payment date. 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 Trustee, or the Agency, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC is the responsibility of the 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.

**THE TRUSTEE AND THE AGENCY SHALL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DTC PARTICIPANT, ANY BENEFICIAL OWNER OR ANY OTHER PERSON CLAIMING A BENEFICIAL OWNERSHIP INTEREST IN THE BONDS UNDER OR THROUGH DTC OR ANY DTC PARTICIPANT, OR ANY OTHER PERSON WHICH IS NOT SHOWN ON THE REGISTRATION BOOKS OF THE TRUSTEE AS BEING AN OWNER OF**

BONDS, WITH RESPECT TO THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT; THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OF ANY AMOUNT IN RESPECT OF THE PRINCIPAL OF, AND PREMIUM, IF ANY, OR INTEREST WITH RESPECT TO THE BONDS; ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO OWNER OF THE BONDS UNDER THE INDENTURE; THE SELECTION BY DTC OR ANY DIRECT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE BONDS; ANY CONSENT OR OTHER ACTION TAKEN BY DTC AS OWNER OF THE BONDS; OR ANY OTHER PROCEDURES OR OBLIGATIONS OF DTC UNDER THE BOOK-ENTRY SYSTEM.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE REGISTERED OWNERS OF THE BONDS SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS (EXCEPT FOR THE MATTERS UNDER THE CAPTION "TAX MATTERS" HEREIN)

The foregoing description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal and interest with respect to the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial owner interest in such Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owner is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters, and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

**Discontinuance of Book-Entry System.** DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Agency or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds are required to be printed and delivered as described in the Indenture.

The Agency may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered as described in the Indenture and payment of interest to each Owner who owns of record \$1,000,000 or more in aggregate principal amount of Bonds may be made to such Owner by wire transfer to such wire address within the United States that such Owner may request in writing for all Interest Payment Dates following the 15<sup>th</sup> day after the Trustee's receipt of such request.

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**APPENDIX H**

**SPECIMEN MUNICIPAL BOND INSURANCE POLICY**

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# FINANCIAL GUARANTY INSURANCE POLICY

**MBIA Insurance Corporation  
Armonk, New York 10504**

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of a such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]  
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

**MBIA Insurance Corporation**

\_\_\_\_\_  
President

Attest:

\_\_\_\_\_  
Assistant Secretary

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