NEW ISSUE—FULL BOOK ENTRY ONLY

RATINGS: S&P—"AA"
Fitch—"AA"
(See "RATINGS" herein.)

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 Series A 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. ***Interest on the Series B Bonds is not excluded from gross income for federal income tax purposes.*** *In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes. See "TAX MATTERS" herein.*

$4,550,000
REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE
ARLINGTON REDEVELOPMENT PROJECT
2004 TAX ALLOCATION BONDS
SERIES A (TAX EXEMPT)

$2,975,000
REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE
ARLINGTON REDEVELOPMENT PROJECT
2004 TAX ALLOCATION BONDS
SERIES B (TAXABLE)

Dated: Date of Delivery

Due: August 1, as shown on inside cover

The Arlington Redevelopment Project 2004 Tax Allocation Bonds, Series A (Tax Exempt) (the "Series A Bonds") and the Arlington Redevelopment Project 2004 Tax Allocation Bonds, Series B (Taxable) (the "Series B Bonds" and, collectively with the Series A Bonds, 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 August 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) financing certain improvements in the Arlington Redevelopment Project of the Agency (the "Project Area"), (ii) funding a reserve account for the Bonds, and (iii) 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 (excluding the Amendment No. 3 Area thereof), 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 principal of and interest on the Bonds will be insured in accordance with the terms of a financial guaranty insurance policy (the "Policy") to be issued simultaneously with the delivery of the Bonds by RADIAN ASSET ASSURANCE INC. (the "Insurer").

Radian Asset Assurance Inc. RADIAN

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.

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, 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 April 20, 2004.

UBS Financial Services Inc.

Dated: March 31, 2004

MATURITY SCHEDULE

SERIES A BONDS*

$420,000 3.80% Term Series A Bonds due August 1, 2014—Price: 100%
$615,000 4.60% Term Series A Bonds due August 1, 2024—Price: 100%
$3,515,000 4.70% Term Series A Bonds due August 1, 2034—Price: 100%

SERIES B BONDS

$2,975,000 5.50% Term Series B Bonds due August 1, 2024—Price: 100%

* Privately placed by Agency with Fannie Mae.

REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE

BOARD OF DIRECTORS

Ronald O. Loveridge, *Mayor*
Art Gage, *Member*
Frank Schiavone, *Member*
Dom Betro, *Member*
Ameal Moore, *Member*
Ed Adkison, *Member*
Nancy Hart, *Member*
Steve Adams, *Member*

AGENCY STAFF

George A. Caravalho, *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

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.

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OFFICIAL STATEMENT

$4,550,000
REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE
ARLINGTON REDEVELOPMENT PROJECT
2004 TAX ALLOCATION BONDS
SERIES A (TAX EXEMPT)

$2,975,000
REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE
ARLINGTON REDEVELOPMENT PROJECT
2004 TAX ALLOCATION BONDS
SERIES B (TAXABLE)

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 $4,550,000 aggregate principal amount of Arlington Redevelopment Project 2004 Tax Allocation Bonds, Series A (Tax Exempt) (the "Series A Bonds") and $2,975,000 aggregate principal amount of Arlington Redevelopment Project 2004 Tax Allocation Bonds, Series B (Taxable) (the "Series B Bonds" and, collectively with the Series A Bonds, 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 April 1, 2004, 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 fund a reserve account for the Bonds, and (iii) to finance certain improvements in the Arlington Redevelopment Project (the "Project Area"). See "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 274,100. 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 Council adopted a redevelopment plan (the "Redevelopment Plan") for the Arlington Redevelopment Project (the "Project Area") on November 28, 1978 by adoption of Ordinance No. 4619, which at the time encompassed approximately 40 acres (the "Original Area"). The Redevelopment Plan originally was amended by Ordinance No. 6193 on December 20, 1994, to comply with certain provisions of AB 1290 (see "Financial Limitations" below), by Ordinance No. 6466 adopted April 13, 1999, which added approximately 998 acres to the Project Area (the "1999 Amendment Area), and by Ordinance No. 6685, adopted June 24, 2003, which added Sub-Areas E and F (as defined and described in Ordinance No. 6685) (the "Amendment No. 3 Area"). Incremental Tax Revenues (as defined herein) generated in the Amendment No. 3 Area are excluded from Tax Revenues. The Project Area includes primarily residential and commercial uses.

The Project Area encompasses approximately 1,038 acres in the northwestern portion of the City, including 40 acres in the Original Area and 998 acres in the 1999 Amendment Area, or about 1.9% of the total incorporated area of the City. Assessed valuation of taxable property in the Project Area for Fiscal Year 2003/04 is approximately $410,222,286, which is $104,178,823 greater than the adjusted the "base year" of the Project Area. Approximately $15,042,105 of the Fiscal Year 2003/04 assessed value is attributable to the Original Area, and $395,180,181 is attributable to the 1999 Amendment 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 funded the Reserve Account with proceeds of the Bonds. See "SECURITY FOR THE BONDS – Reserve Account" herein.

Simultaneously with the issuance of the Bonds, the Agency is using cash to defease its obligations from the Project Area, with respect to a loan agreement, dated as of June 1, 1991 (the "1991 Loan") executed in connection with the issuance of the Riverside Public Financing Authority 1991 Revenue Bonds, Series A (Multiple Project Loans) (the "1991 Bonds"). No other debt secured by the Tax Revenues is outstanding. 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.

Financial Guaranty Insurance

A financial guaranty insurance policy (the "Policy") will be issued by Radian Asset Assurance Inc. (the "Insurer") simultaneously with the issuance and delivery of the Bonds. See "FINANCIAL GUARANTY INSURANCE" herein.

OTHER THAN WITH RESPECT TO INFORMATION CONCERNING RADIAN ASSET ASSURANCE INC. CONTAINED UNDER THE CAPTION "FINANCIAL GUARANTY INSURANCE" HEREIN AND IN APPENDIX H HERETO, NONE OF THE INFORMATION IN THIS OFFICIAL STATEMENT HAS BEEN SUPPLIED OR VERIFIED BY RADIAN ASSET ASSURANCE INC., AND RADIAN ASSET ASSURANCE INC. MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO: (i) THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION; (ii) THE VALIDITY OF THE BONDS; OR (ii) THE TAX STATUS OF THE INTEREST ON THE BONDS.

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 2003/04 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 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 streetscape, public infrastructure and facilities (including the Arlington Library), problem land use removal in the Project Area and certain multifamily housing improvements. In addition, proceeds of the Series B Bonds will be used for financial assistance to the Arlington Village mixed use development, daycare facilities, property consolidation and reuse assistance, commercial center conversions and façade and sign rehabilitation.

THE BONDS

Authority for Issuance

Pursuant to a resolution of the Agency adopted on February 24, 2004, 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 August 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 July 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 Series A Bonds maturing on or before August 1, 2014, are not subject to call and redemption prior to maturity. The Series A Bonds maturing on or after August 1, 2015 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 (each Series A Bond being deemed to be composed of $5,000 portions with each such portion being separately redeemable), from funds derived by the Agency from any source, on or after August 1, 2014 at a redemption price for each redeemed Series A Bond equal to the principal amount thereof, with accrued interest to the date of redemption, without premium.

The Series B Bonds maturing on or before August 1, 2014, are not subject to call and redemption prior to maturity. The Series B Bonds maturing on or after August 1, 2015 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 (each Series B Bond being deemed to be composed of $5,000 portions with each such portion being separately redeemable), from funds derived by the Agency from any source, on or after August 1, 2014 at a redemption price for each redeemed Series B Bond equal to the principal amount thereof, with accrued interest to the date of redemption, without premium.

Sinking Account Redemption. (i) The Series A Bonds maturing on August 1, 2014 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 Series A 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 Series A 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:

2014 Term Series A Bonds
(Maturing August 1, 2014)

Payment Date (August 1)	Principal Amount to be Redeemed
2005	$35,000
2006	40,000
2007	40,000
2008	40,000
2009	45,000
2010	40,000
2011	40,000
2012	45,000
2013	50,000
2014 (maturity)	45,000

(ii) The Series A Bonds maturing on August 1, 2024 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 Series A 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 Series A 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:

2024 Term Series A Bonds
(Maturing August 1, 2024)

Payment Date (August 1)	Principal Amount to be Redeemed
2015	$50,000
2016	50,000
2017	55,000
2018	60,000
2019	60,000
2020	60,000
2021	65,000
2022	70,000
2023	70,000
2024 (maturity)	75,000

(iii) The Series A Bonds maturing on August 1, 2034 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 Series A 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 Series A 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:

2034 Term Series A Bonds
(Maturing August 1, 2034)

Payment Date (August 1)	Principal Amount to be Redeemed
2025	$325,000
2026	340,000
2027	355,000
2028	370,000
2029	315,000
2030	330,000
2031	345,000
2032	360,000
2033	380,000
2034 (maturity)	395,000

(iv) The Series B Bonds maturing on August 1, 2024 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 Series B 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 Series B 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:

2024 Term Series B Bonds
(Maturing August 1, 2024)

Payment Date (August 1)	Principal Amount to be Redeemed
2005	$ 85,000
2006	90,000
2007	95,000
2008	100,000
2009	105,000
2010	115,000
2011	120,000
2012	125,000
2013	130,000
2014	140,000
2015	145,000
2016	155,000
2017	160,000
2018	170,000
2019	180,000
2020	190,000
2021	200,000
2022	210,000
2023	225,000
2024 (maturity)	235,000

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 sixty (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, 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 Bonds;

(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 Debit 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, with the prior written notice to the Insurer, 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 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);

(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; and

(d) The Insurer shall be provided with notice of the issuance of such Escrow Bonds and a copy of the related Supplemental Indenture.

Refunding Bonds which do not defease all of the Bonds may be issued without the consent of the Insurer, provided there is no increase in Maximum Annual Debt Service. The issuance of variable rate indebtedness (indebtedness which does not bear a fixed rate of interest to maturity) or balloon indebtedness (indebtedness of which 25% or more of the principal amount comes or may come due in any one fiscal year by maturity, mandatory sinking fund redemption or optional or mandatory tender by the holder thereof) by the Agency, shall be subject to the prior approval of the Insurer.

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; provided that, (i) following an Event of Default under this Indenture, no such subordinate debt shall be paid prior to the Bonds or any other Parity Debt in any Fiscal Year of the Agency, and (ii) if the holder of any subordinate debt is a commercial bank, savings bank, savings and loan association or other financial institution which is authorized by law to accept and hold deposits of money or issue certificates of deposit, such holder must agree to waive any common law or statutory right of setoff with respect to any deposits of the Agency maintained with or held by such holder.

ESTIMATED SOURCES AND USES OF FUNDS

The sources and uses of funds are estimated as follows:

Sources of Funds:	Series A Bonds	Series B Bonds
Principal Amount	$4,550,000.00	$2,975,000.00
Underwriter's Discount	0.00	34,182.75
Placement Fee	52,279.50	0.00
TOTAL SOURCES	$4,497,720.50	$2,940,817.25
Uses of Funds:		
Deposit to Reserve Account	$ 300,556.98	$ 196,518.02
Deposit to Redevelopment Fund	4,000,000.00	2,620,000.00
Costs of Issuance(1)	197,163.52	124,299.23
TOTAL USES	$4,497,720.50	$2,940,817.25

(1) Includes premium for the Insurance 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)	SERIES A BONDS Principal	Interest	Series A Debt Service	SERIES B BONDS Principal	Interest	Series B Debt Service	Total Debt Service
2004	$ 0	$ 58,764	$ 58,764	$ 0	$ 45,906	$ 45,905	$ 104,670
2005	35,000	209,455	244,455	85,000	163,625	248,625	493,080
2006	40,000	208,125	248,125	90,000	158,950	248,950	497,075
2007	40,000	206,605	246,605	95,000	154,000	249,000	495,605
2008	40,000	205,085	245,085	100,000	148,775	248,775	493,860
2009	45,000	203,565	248,565	105,000	143,275	248,275	496,840
2010	40,000	201,855	241,855	115,000	137,500	252,500	494,355
2011	40,000	200,335	240,335	120,000	131,175	251,175	491,510
2012	45,000	198,815	243,815	125,000	124,575	249,575	493,390
2013	50,000	197,105	247,105	130,000	117,700	247,700	494,805
2014	45,000	195,205	240,205	140,000	110,550	250,550	490,755
2015	50,000	193,495	243,495	145,000	102,850	247,850	491,345
2016	50,000	191,195	241,195	155,000	94,875	249,875	491,070
2017	55,000	188,895	243,895	160,000	86,350	246,350	490,245
2018	60,000	186,365	246,365	170,000	77,550	247,550	493,915
2019	60,000	183,605	243,605	180,000	68,200	248,200	491,805
2020	60,000	180,845	240,845	190,000	58,300	248,300	489,145
2021	65,000	178,085	243,085	200,000	47,850	247,850	490,935
2022	70,000	175,095	245,095	210,000	36,850	246,850	491,945
2023	70,000	171,875	241,875	225,000	25,300	250,300	492,175
2024	75,000	168,655	243,655	235,000	12,925	247,925	491,580
2025	325,000	165,205	490,205	0	0	0	490,205
2026	340,000	149,930	489,930	0	0	0	489,930
2027	355,000	133,950	488,950	0	0	0	488,950
2028	370,000	117,265	487,265	0	0	0	487,265
2029	315,000	99,875	414,875	0	0	0	414,875
2030	330,000	85,070	415,070	0	0	0	415,070
2031	345,000	69,560	414,560	0	0	0	414,560
2032	360,000	53,345	413,345	0	0	0	413,345
2033	380,000	36,425	416,425	0	0	0	416,425
2034	395,000	18,565	413,565	0	0	0	413,565
TOTALS	$4,550,000	$4,832,214	$9,382,214	$2,975,000	$2,047,081	$5,022,081	$14,404,295

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 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, that portion of taxes annually allocated to the Agency with respect to the Project Area (but excluding therefrom the Amendment No. 3 Area unless this definition of Tax Revenues is amended by a Supplemental Indenture) following the Closing Date pursuant to Article 6 of Chapter 6 (commencing with Section 33670) of the Redevelopment 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 (a) all amounts that is 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 Act, and (b) all amounts required to be paid to entities other than the Agency pursuant to statutory tax-sharing arrangements imposed by Section 33607.5 of the Act (see "The Pass-Through Agreements" below). The "Amendment No. 3 Area" is Sub-Areas E and F as defined

and described in Amendment No. 3 of the Redevelopment Plan adopted by Ordinance No. 6685 on June 24, 2003.

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 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 $75,000,000, and the incremental Tax Revenue allocated to the Agency from the Original Area is limited to $50,000,000. There is no limit on the Incremental Tax Revenue which may be allocated from the 1999 Amendment Area. 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.

Simultaneously with the issuance of the Bonds, the Agency is using cash to defease its obligations under the 1991 Loan. No other debt secured by the Tax Revenues is outstanding.

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

The Agency has not entered into any Pass-Through Agreements pursuant to which the Agency has agreed to reimburse Incremental Tax Revenues to certain taxing agencies senior to payment of debt service on the Bonds. However, the 1999 Amendment Area is subject to the statutory pass through requirements of the Act, which payments are senior to payment of the Bonds. The statutory pass through requirements provide for specific formulas for payments to be made by the Agency to affected taxing entities as follows: (1) from the first Fiscal Year in which the Agency receives tax increment until the last Fiscal Year in which the Agency receives the tax increment, 25% of the tax increments are passed through to the entities (net of the 20% Housing Set Aside); (2) commencing in the eleventh year, an additional 21% of the tax increment in excess of the tenth year tax increment is passed through to the entities (net of the 20% Housing Set Aside); and (3) commencing in the thirty first year, an additional 14% of the tax increment in excess of the thirtieth year tax increment is passed through to the entities (net of the 20% Housing Set Aside).

See "THE PROJECT AREA - Projected Tax Revenues" herein for a discussion of the impact of the statutory pass-through payments 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 the Bonds Outstanding, (ii) 125% of Average Annual Debt Service on the Bonds, or (iii) the full amount of Maximum Annual Debt Service on the 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 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 and the Principal 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.

Financial Guaranty Insurance

A financial guaranty insurance policy (the "Policy") will be issued by Radian Asset Assurance Inc. (the "Insurer") simultaneously with the issuance and delivery of the Bonds. See "FINANCIAL GUARANTY 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.

FINANCIAL GUARANTY INSURANCE

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

Description of Financial Guaranty Insurance Policy

A financial guaranty insurance policy (the "Policy") will be issued by Radian Asset Assurance Inc. (the "Insurer") simultaneously with the issuance and delivery of the Bonds. The Policy is noncancelable during its term and provides for the prompt payment of principal of and interest on the Bonds to the extent that the Trustee has not received sufficient funds for payment of the Bonds on the "due date." The Insurer is obligated to make the required payment on the later of the due date or the first business day after which the Insurer has received notice from The Bank of New York, as Insurance Trustee (the "Insurance Trustee"), that amounts due on the Bonds have not been paid. Under the Policy, the "due date" of the Bonds, when referring to the payment of principal, means the stated maturity date thereof or the date on which payment of principal is due by reason of mandatory sinking fund payments and does not mean any earlier date on which payment is due by reason of any call for redemption, acceleration, or other advancement of maturity, other than in the discretion of the Insurer. With respect to interest on the Bonds, the "due date" means the stated date for payment of interest. The Policy guarantees reimbursement of any recovery of any such payment from a Holder or the Trustee pursuant to a final judgment by any court of competent jurisdiction holding that such payment constituted a voidable preference within the meaning of any applicable bankruptcy law.

Upon the occurrence and continuance of an Event of Default, the Insurer, may, in its discretion, direct the acceleration of the Bonds at a price equal to the principal amount thereof plus accrued interest, or the Insurer may elect to continue to pay principal and interest on the originally scheduled due dates of the Bonds. For specific information on the coverage provided, reference should be made to the Policy that has been reproduced in specimen form in APPENDIX H hereto. The Policy does not insure against nonpayment of principal or interest on the Bonds due to the insolvency, misconduct or negligence of the Trustee. The Policy does not insure the payment of any redemption premium.

Description of Insurer

The Insurer is a financial guaranty insurance company, regulated by the Insurance Department of the State of New York and licensed to do business in all 50 states and the District of Columbia. The Insurer was formerly known as "Asset Guaranty Insurance Company". The Insurer changed its corporate name to Radian Asset Assurance Inc. The Insurer has received approval to use its new corporate name in all jurisdictions where it is licensed to do business. As of September 30, 2003, the Insurer had total shareholders' equity of approximately $550,924,000 (unaudited) and total assets of approximately $918,580,000 (unaudited). The financial information relating to the Insurer presented in this Official Statement was prepared internally by the Insurer, based on generally accepted accounting principles, and has not been audited by independent certified public accountants. The address of the Insurer's administrative office is 335 Madison Avenue, New York, New York 10017, and its telephone number is 212-983-5859.

The Insurer has filed the following information with entities designated as Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs") pursuant to Rule 15c2-12 of the Securities Exchange Act of 1934:

(i) the Insurer's consolidated financial statements as of December 31, 2002 and for each of the three years in the period ended December 31, 2002 prepared in accordance with generally accepted accounting principles with the accompanying report of the Insurer's independent authors, which expresses an unqualified opinion and includes an explanatory paragraph referring to a significant insurance loss recognized subsequent to the balance sheet date;

(ii) the Insurer's quarterly unaudited consolidated balance sheet as of March 31, 2003 and unaudited consolidated statement of operations for the three month period then ended, prepared in accordance with generally accepted accounting principles;

(iii) the Insurer's quarterly unaudited consolidated balance sheet as of June 30, 2003 and unaudited consolidated statement of operations for the six month period then ended, prepared in accordance with generally accepted accounting principles; and,

(iv) the Insurer's quarterly unaudited consolidated balance sheet as of September 30, 2003 and unaudited consolidated statement of operations for the nine month period then ended, prepared in accordance with generally accepted accounting principles.

The Insurer has an insurance financial strength rating of "AA" from Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P"), and "AA" by Fitch Ratings Services ("Fitch"). Such ratings reflect only the views of S&P and Fitch, respectively, do not constitute a recommendation to buy, sell or hold securities and are subject to revision or withdrawal at any time by such rating agencies.

The Insurer is a wholly-owned indirect subsidiary of Radian Group Inc. ("Radian), a publicly-owned corporation with its shares listed on the New York Stock Exchange (symbol "RDN"). Radian is a leading credit enhancement provider to the global financial and capital markets, headquartered in Philadelphia. Radian's subsidiaries provide products and services through three business lines: financial guaranty, mortgage insurance and mortgage services. None of Radian, Radian's other subsidiaries or any of Radian's investors is obligated to pay the debts of or claims against the Insurer. A complete copy of the December 31, 2002 audited consolidated financial statements and additional information of Radian, together with the accompanying report of independent auditors, is available from the Insurer upon written request.

On January 14, 2004, Radian announced that the Insurer will add $96.0 million to its loss reserves in anticipation of $111.0 million in claims from a single manufactured housing transaction in which the Insurer reinsured from an affiliate. The Insurer held a $15.0 million loss reserve for this transaction as of September 30, 2003 and the increased reserve totaling $111.0 million, represents the Insurer's par exposure on the transaction. Although no claims have been paid to date, the Insurer expects losses to be paid out over the next several years. After Radian's announcement, S&P and Fitch affirmed their respective current "AA" insurance financial strength ratings of the Insurer, but S&P revised its outlook on the Insurer and Radian from "stable" to "negative." Radian also announced that it will immediately contribute $65.0 million in capital to the Insurer from funds currently held at Radian to offset (on an after-tax basis) the effect of this loss on the Insurer.

Neither the Insurer nor any of its affiliates makes any representation regarding the Bonds or the advisability of purchasing the Bonds and makes no representation regarding this Official Statement other than as to the information supplied by the Insurer and presented under the heading "FINANCIAL GUARANTY INSURANCE" and as set forth in APPENDIX H of this Official Statement. The Insurer's role is limited to providing the coverage set forth in the Policy. In accordance with applicable law, in the event the Insurer becomes insolvent, any claims arising under this policy are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 15.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

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 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:

Members of the Redevelopment Agency	Expiration of Term
Ronald O. Loveridge, Mayor	November, 2005
Art Gage, Member	November, 2007
Dom Betro, Member	November, 2007
Ameal Moore, Member	November, 2005
Frank Schiavone, Member	November, 2005
Ed Adkison, Member	November, 2007
Nancy Hart, Member	November, 2005
Steve Adams, Member	November, 2007

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 Arlington Redevelopment Project, the Agency maintains six 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, 2003 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, 2003, 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 November 28, 1978 by adoption of Ordinance No. 4619 (the "Redevelopment Plan"), which encompassed approximately 40 acres (the "Original Area"). The Redevelopment Plan originally was amended by Ordinance No. 6193 on December 20, 1994, to comply with certain provisions of AB 1290 (see "Financial Limitations" below), by Ordinance No. 6466 adopted April 13, 1999, which added approximately 998 acres to the Project Area (the "1999 Amendment Area), and by Ordinance No. 6685, adopted June 24, 2003, which added the Amendment No. 3 Area. Incremental Tax Revenues generated in the Amendment No. 3 Area are excluded from Tax Revenues. The Project Area includes primarily residential and commercial uses.

The 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 Redevelopment Plan also describes how the 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 Redevelopment Plan upon residents thereof and upon the surrounding neighborhood.

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 Redevelopment Plan provides that the total amount of Incremental Tax Revenues which may be divided and allocated to the Agency pursuant to the Redevelopment Plan from the Original Area may not exceed $50,000,000, unless the Redevelopment Plan is amended to provide a greater amount. There is no limit on the amount of Incremental Tax Revenue allocated from the 1999 Amendment Area. Amounts received by the Agency and paid to other taxing entities as described below under "Agreements With Various Taxing Entities" are not included for purposes of the limitation. In addition, the Redevelopment Plan provides that total outstanding principal of bonds payable from such tax increment may not at any time exceed $75,000,000. Based on Agency records, the Agency has received approximately $1,544,802 of Incremental Tax Revenues from the Original Area through December 31, 2003. Incremental Tax Revenues pledged to existing obligations, including debt service on the Bonds, totals approximately $14,404,295. Upon issuance of the Bonds and defeasance of the 1991

Bonds, the total principal amount of Outstanding Bonds payable from Incremental Tax Revenues is $7,525,000.

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 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, 2034, 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. In addition, in connection with the shift of certain Incremental Tax Revenues, SB 1045 allows the Agency to extend the effective date of the Redevelopment Plan, and the date to receive Incremental Tax Revenues, by one year see "RISK FACTORS AND LIMITATIONS ON TAX REVENUES - State Budget Deficit" herein). The Agency has not taken such action with respect to the Redevelopment Plan, but may do so at some time in the future.

REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE
ARLINGTON REDEVELOPMENT PROJECT
FINANCIAL LIMITATIONS

Project Area Component	Limit on Incurring Debt	Expiration Date of Plan	Last Date to Receive Increment
Original Area	1/1/14	11/28/18	11/28/28
1999 Amendment Area	1/1/19	4/13/29	4/13/44

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

Although the Agency has not entered into pass-through 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, it is required to pay certain statutory pass-through payments in connection with adoption of the 1999 Amendment Area. See "THE PROJECT AREA - Projected Tax Revenues" herein for a discussion of the impact of the pass-through payments on Tax Revenues. The Fiscal Consultant has projected such payments 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 Metropolitan Water District. The reported tax rate for Fiscal Year 2003/04 is 1.0056%, although the Tax Revenue projections in the Fiscal Consultant's Report assume that the tax rate will be 1.0%.

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

REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE
ARLINGTON REDEVELOPMENT PROJECT
HISTORIC TAX RATES
(Fiscal Years 1999/00 – 2003/04)

Fiscal Year (Ending June 30)	Typical Tax Rate[1]
2000	1.0089%
2001	1.0088
2002	1.0077
2003	1.0067
2004	1.0056

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 1,038 acres in the northwestern portion of the City, including 40 acres in the Original Area and 998 acres in the 1999 Amendment Area, or about 1.9% of the total incorporated area of the City. The following table illustrates the land use breakdown of secured property in the Project Area (excluding the Amendment No. 3 Area).

REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE
ARLINGTON REDEVELOPMENT PROJECT
LAND USE STATISTICS
(Fiscal Year 2003/04)

Land Use	Parcels	2003/04 Assessed Value[1]	Percent of Total[2]
Residential	866	$132,640,598	32.33%
Commercial	187	132,135,753	32.21
Industrial	14	33,806,471	8.24
Recreational	1	0	0.00
Institutional	11	3,097,755	0.76
Vacant	137	23,941,018	5.84
Exempt	94	0	0.00
Nonunitary (3)	6	436,198	0.11
Possessory Interest (3)	3	12,382,777	3.02
Unsecured (3)	520	36,493,826	8.90
Unknown	372	35,287,890	8.60
TOTALS	1,682	$410,222,286	100.00%

Source: Riverside County Assessor's Office and DHA Consulting.
(1) Excludes exemptions and the Amendment No. 3 Area.
(2) Based on total 2003/04 assessed value of $410,222,286.
(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 2003/04 locally assessed taxable valuations reported by the County Assessor. The aggregated assessed valuation of these property owners is approximately 22% of the entire secured assessed valuation of property within the Project Area. All of these owners are located in the 1999 Amendment Area.

In addition to these property owners, the County currently reflects the property of Helicon Inc. as a taxable parcel valued at approximately $11.2 million. However, this property should be reflected as tax-exempt.

REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE
ARLINGTON REDEVELOPMENT PROJECT
MAJOR PROPERTY TAXPAYERS
(Fiscal Year 2003/04)

Property Owner	Use	No. of Parcels	Assessed Valuation	% of Total[(1)]
Lowes HIW Inc.	Home Imp Store/Center	3	$17,638,660	4.3%
Fleetwood Enterprises Inc.	Industrial Mfg.	5	13,888,849	3.4
Wal Mart Real Estate Business Trust	Discount Store/Center	3	13,818,577	3.4
Aanenson Stonewood Apartments	Multi-Family Residential	2	12,087,000	2.9
Food 4 Less of California Inc.	Grocer Store/Center	1	7,437,000	1.8
Clementina W. Hawksley Trust	Retail Center	6	6,307,766	1.5
Union Development Company Inc.	Industrial Mfg.	2	6,054,000	1.5
Frome Realty Fund Alpha	Multi-Family Residential	1	4,841,026	1.2
REA Riverside General	Lowes Shopping Center	4	4,398,336	1.1
99 Cent Only Stores	Retail Store	2	3,743,320	0.9
TOTALS		29	$90,214,534	22.0%

Source: Riverside County Assessor and DHA Consulting.
(1) Based on total Fiscal Year 2003/04 assessed value of $410,222,286.

Assessed Valuation

The following table sets forth the taxable assessed valuations for the Project Area for the last four Fiscal Years (following the addition of the 1999 Amendment Area, but excluding the Amendment No. 3 Area). According to the County, the assessed valuation of the Project Area for Fiscal Year 2003/04 is $410,222,286, an increase of approximately 34% over the Base Year.

REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE
ARLINGTON REDEVELOPMENT PROJECT
ASSESSED VALUATIONS
(Fiscal Years 2000/01 to 2003/04)

Fiscal Year	Assessed Value	Percentage Change
2000/01	$319,722,642	230.4%[(1)]
2001/02	356,505,122	11.5
2002/03	373,876,875	4.9
2003/04	410,222,286	9.7

Source: County Auditor-Controller, County of Riverside; DHA Consulting.
(1) Increase reflects addition of 1999 Amendment Area in Fiscal Year 1999/00.

Incremental Tax Revenues produced from the incremental increase in increase assessed value are estimated by the Fiscal Consultant to be approximately $1,030,036 in Fiscal Year 2003/04, and Tax Revenues are projected to be approximately $601,571. 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 2003/04.

REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE
ARLINGTON REDEVELOPMENT PROJECT
INCREMENTAL ASSESSED VALUE
(Fiscal Year 2003/04)

	Original Area	1999 Amendment Area	Total Net Assessed Value	Adjusted Base Year Net Assessed Value	Incremental Net Assessed Value
Secured Valuation:					
Land	$ 6,018,197	$135,739,571	$ 141,757,768	$110,799,216	$ 30,958,552
Improvements	7,061,200	229,818,190	236,879,390	185,719,762	51,159,628
Personal Property	15,500	6,095,640	6,111,140	5,496,793	614,347
Exemptions	(420,309)	(11,035,727)	(11,456,036)	(20,468,522)	9,012,486
SBE	0	436,198	436,198	0	436,198
Net Secured Assessed Value	$ 12,674,588	$361,053,872	$ 373,728,460	$281,547,249	$ 92,181,211
Unsecured Valuation:					
Land	$ 0	$ 46,472	$ 46,472	$ 373,867	$ (327,395)
Improvements	693,727	14,176,620	14,870,347	12,272,320	2,598,027
Personal Property	1,673,790	19,903,217	21,577,007	12,021,455	9,555,552
Exemptions	0	0	0	(171,428)	171,428
Net Unsecured Assessed Value	$ 2,367,517	$ 34,126,309	$ 36,493,826	$ 24,496,214	$ 11,997,612
Total Net Assessed Value	**$15,042,105**	**$395,180,181**	**$410,222,2836**	**$306,043,463**	**$104,178,823**

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 1999 Amendment Area which the Agency estimates will add a total of approximately $33.6 million in assessed value over the next two (2) years. This value has been included in the projections of assessed value. The following table illustrates this new development.

Description	Units/Sq Ft.	Estimated Value	Completion Date
ORIGINAL AREA			
No New Development Identified			
1999 AMENDMENT AREA			
Helicon (tax exempt restoration)		$(11,240,194)	Jan., 2004
Lowe's Development			
Ancilary Retail	37,000	2,775,000	Oct., 2003
Fixtures/Personal Property	37,000	925,000	Jan., 2004
Total Lowe's Value Added		3,700,000	
Fairfield Multi-family Housing			
Land		3,500,000	Feb., 2003
Upscale Apartments	256	30,000,000	Oct., 2004
El Tapatio/Rest Addition	23,000	2,875,000	Aug., 2003
Norm's Restaurant	7,300	1,095,000	April, 2003
TOTAL 1999 AMENDMENT AREA		**$33,629,806**	

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 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
ARLINGTON REDEVELOPMENT PROJECT
HISTORIC TAX COLLECTION
(Fiscal Years 1999/00 – 2002/03)

Fiscal Year	Total Levy[1]	Total Receipts[2]	Percent Collections
1999/00	$ 98,793	$100,351	102%
2000/01	140,553	185,674	132
2001/02	510,831	612,625	120
2002/03	684,914	825,423	121

Source: Riverside County Auditor/Controller's Office.
(1) Estimated.
(2) Includes supplemental payments and County administrative charge.

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, and 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 7 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 2004/05 and subsequent assessed value of property within the Project Area by approximately $2.0 million (0.5%). 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 2003/04 at $410,222,286, an increase of approximately $36,345,410 (9.7%) from Fiscal Year 2002/03.

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 following addition of the 1999 Amendment Area (but excluding the Amendment No. 3 Area).

REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE
ARLINGTON REDEVELOPMENT PROJECT
HISTORICAL TAX REVENUES
FISCAL YEARS 2000/01 - 2002/03

Fiscal Year	Assessed Value(1)	Incremental Value Over Base Year	Tax Increment Revenue (2)	Housing Set Aside	Pass Through(3)	Tax Revenues
2000/01	$319,722,642	$13,679,179	$184,225	$ 37,135	$ 16,089	$131,001
2001/02	356,505,122	50,461,659	604,449	122,525	85,233	396,691
2002/03	373,876,875	67,833,412	815,216	165,085	123,684	526,447

Source: Redevelopment Agency of the City of Riverside and DHA Consulting
(1) Actual assessed value amounts.
(2) Reflects deduction of County administration fee. Reflects actual receipts, including supplemental payments.
(3) 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 $1,030,036 in Fiscal Year 2003/04, an increase of $214,820 (26.0%) from actual collections in Fiscal Year 2002/03. The anticipated Tax Revenues are projected to be $601,571, and are net of pass-through payments, County administrative charges, the 20% housing set-aside amount and an estimated contribution of $33,623 to the Educational Revenue Augmentation Fund (see "RISK FACTORS AND LIMITATIONS ON TAX REVENUES – State Budget Deficit" herein). In addition, the Fiscal Consultant has not assumed any growth in other 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, 2006, is $497,075.

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 2003/04 Fiscal Year, plus additional valuation of $33.6 million representing new development completed or under construction in the Project Area (as described under "Current Development in the Project Area" above) and less anticipated assessment appeal reductions, and certain assumptions (as set forth therein) relating to increases in real property value. Such projections are estimates only and no assurance can be given that such projections will be achieved.

REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE
ARLINGTON REDEVELOPMENT PROJECT
PROJECTED TAX REVENUES
FISCAL YEARS 2003/04 - 2009/10

Fiscal Year	Assessed Value(1)	Incremental Value Over Base Year	Tax Increment Revenue(2)	Housing Set Aside(3)	Senior Pass Through(4)	Tax Revenues(5)
2003/04	$410,222,286	$104,178,823	$1,030,036	$209,008	$185,134	$ 601,571
2004/05	422,928,721	116,885,257	1,156,800	234,421	211,247	711,132
2005/06	448,757,721	142,714,258	1,414,784	286,079	262,905	865,800
2006/07	456,872,052	150,828,589	1,495,616	302,308	279,134	914,174
2007/08	465,148,670	159,105,207	1,578,063	318,861	295,687	963,515
2008/09	473,590,820	167,547,357	1,622,159	335,745	312,571	1,013,844
2009/10	482,201,813	176,158.350	1,747,938	352,967	329,793	1,065,178

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

(1) Total assessed value for Fiscal Year 2003/04 plus a 1.87% inflation rate on real property values (land and improvements) for Fiscal Year 2004/05, with a 2% rate thereafter, and less projected decrease resulting from appeals of approximately $2.0 million in Fiscal Year 2004/05 (see "Assessment Appeals" above). In addition, the projection includes $33.6 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 $3,252, and less the County administration fee.

(3) Housing Set Aside is 20% of gross Tax Increment Revenue to Agency. See "SECURITY FOR THE BONDS – Low and Moderate Income Housing Requirements" herein.

(4) See "SECURITY FOR THE BONDS – The Pass-Through Agreements."

(5) Tax Revenues are Tax Increment Revenue less Housing Set-Aside and Pass-Through payments. Only the total for Fiscal Year 2003/04 is reduced by payment of $33,623 to Educational Revenue Augmentation Fund (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
ARLINGTON REDEVELOPMENT PROJECT
ESTIMATED TAX REVENUES

Fiscal Year	Total Projected Tax Revenues[1]	Debt Service	Coverage Ratio	Excess Tax Revenues
2003/04	$ 601,571	$104,670	5.75	$496,901
2004/05	711,132	493,080	1.44	218,052
2005/06	865,800	497,075	1.74	368,725
2006/07	914,174	495,605	1.84	418,569
2007/08	963,515	493,860	1.95	469,655
2008/09	1,013,844	496,840	2.04	517,004
2009/10	1,065,178	494,355	2.15	570,823
2010/11	1,103,262	491,510	2.22	611,752
2011/12	1,142,108	493,390	2.31	648,718
2012/13	1,181,730	494,805	2.39	686,925

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 ten largest property tax payers in the Project Area account for approximately 24% of assessed value in Fiscal Year 2003/04. 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.

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. On March 26, 2004 the State 4th District Court of Appeal, overturned the lower court decision and upheld the practice of the County Assessor. It is not known if the plaintiffs will appeal, but if so, and the lower court decision is reinstated, 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. The Agency has not made any adjustment in the projections of Incremental Tax Revenues shown herein by reason of the foregoing litigation. Tax Revenues could be reduced if the above described litigation is upheld and any similar litigation is brought with respect to property in the Project Area.

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 2003/04 Fiscal Year, include $33.6 million of new development recently completed or currently under construction, assume that real property assessed value will increase by up to 2% a year, and that there will not be any growth in the assessed value of other property. 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 2003/04 and has estimated the Tax Revenues for Fiscal Year 2003/04 to be approximately $601,571. Maximum annual debt service on the Bonds is $497,075, which is payable in the Bond Year ending August 1, 2006.

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 XIIIA 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.

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 was approximately $445,887, and was transferred 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 July 27, 2003, in connection with its approval of a budget for the 2003/04 Fiscal Year, the State Senate adopted AB 1755, which would have reallocated $250 million from

redevelopment agencies to school districts during the 2003/04 Fiscal Year. On July 29, 2003, in connection with its approval of a budget for the 2003/04 Fiscal Year, the State Assembly adopted SB 1045, which reallocated $135 million from redevelopment agencies to school districts during the 2003/04 Fiscal Year. On August 3, 2003 the Governor signed the budget bill for Fiscal Year 2003/04, and on August 19, 2003, the State Senate voted to concur with the Assembly on SB 1045, and the governor signed the bill on September 1, 2003. The Agency estimates its share of the $135 million shift, which must be paid by May 14, 2004, to be approximately $775,864, which it expects to pay from surplus Incremental Tax Revenues allocated on a pro-rata basis among its seven project areas. The contribution from the Project Area is approximately $33,623.

The budget bills do not resolve the State's budget deficit. Certain litigation is challenging some of the revenue enhancements provided in the current budget, which if either is ultimately successful or significantly delays realization of such revenues, will result in a material increase of the State budget deficit. It is therefore anticipated that there will be additional future legislation which addresses this situation. The Agency cannot predict what measures may be proposed or implemented for the current fiscal year or in the future. Given the magnitude of the State's budgetary deficit, it is possible that future legislation will further reduce or require a further shift of Incremental Tax Revenues. In addition, pursuant to a special election held on October 7, 2003, Governor Davis was recalled and Arnold Schwarzenegger was elected to complete his term, and was sworn into office on November 17, 2003. The Agency cannot predict the impact of this process on the resolution of current or future redevelopment funding issues.

On January 9, 2004, the Governor released his proposed budget, which included a proposed permanent shift to school districts of $135 million of tax increment presently retained by redevelopment agencies. 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. 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. The Agency estimates that such a shift would decrease Tax Revenues by approximately $33,623 a year, based on current legislative action relating to prior shifts. The projections of Tax Revenues prepared by the Fiscal Consultant currently do not reflect a permanent shift of Tax Revenues.

As the date hereof, the State Legislature has not approved a budget for Fiscal Year 2004/05, 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, and the effect such diversion would have on the receipt of Tax Revenues and, accordingly, the payment of debt service on 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 XIIIA of the California Constitution. Section 1(a) of Article XIIIA 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 XIIIA 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 XIIIA 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 XIIIA, 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 XIIIA. 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 XIIIA. 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 XIIIA 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 XIIIA 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 XIIIA.

Article XIIIB of the California Constitution. On November 6, 1979, California voters approved Proposition 4, the Gann Initiative, which added Article XIIIB to the California Constitution. The principal effect of Article XIIIB 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 XIIIB 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 form 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 XIIIB 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 XIIIC and XIIID 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 XIIIC 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 certainly 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 XIIIA 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 XIIIA (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 XIIIA 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 2003/04 is estimated to be approximately $15,004 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.

The Fiscal Consultant projects that the Incremental Tax Revenues attributable to unitary public property for Fiscal Year 2003/04 will be approximately $2,849 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 Redevelopment Plan provides that the total amount of Incremental Tax Revenues which may be divided and allocated to the Agency pursuant to the Redevelopment Plan from the Original Area may not exceed $50,000,000, unless the Redevelopment Plan is

amended to provide a greater amount. There is no limit on amounts which may be allocated from the 1999 Amendment Area. Total Outstanding principal of bonds payable from such tax increment may not at any time exceed $75,000,000. Based on Agency records, the Agency has received approximately $1,544,802 of Incremental Tax Revenues from the Original Area through December 31, 2003. Incremental Tax Revenues pledged to existing obligations, including debt service on the Bonds, totals approximately $14,404,295. Upon issuance of the Bonds, the total principal amount of Outstanding Bonds payable from Incremental Tax Revenues is $7,525,000.

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 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.

In addition, in connection with the shift of certain Incremental Tax Revenues, SB 1045 allows the Agency to extend the effective date of the Redevelopment Plan, and the date to receive Incremental Tax Revenues, by one year. The Agency has not taken such action (see "State Budget Deficit" above) , although it anticipates doing so at some point in the future.

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.

Early Redemption of Premium Bonds

Bonds purchased, whether at original issuance or otherwise, for an amount greater than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated for federal tax purposes as having amortizable premium. If such Premium Bonds are redeemed prior to maturity (or, in some cases, prior to a

scheduled prepayment date) as described herein under "THE BONDS – Redemption," not all of the amortized premium may be realized by the Owner. The Premium Bonds are treated as all other Bonds for purposes of selection for redemption prior to maturity as described herein.

Loss of Tax Exemption

As discussed in this Official Statement under the caption "TAX MATTERS," interest on the Series A Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Series A 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 Series A 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 Series A 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. **Interest on the Series B Bonds is not excluded from gross income for federal income tax purposes.**

The opinions set forth in the preceding paragraph with respect to the Series A Bonds 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 Series A 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 on the Series A Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Series A 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.

The proposed forms of opinions of Bond Counsel are 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 Fitch Ratings Services ("Fitch") will assign their municipal bond ratings of "AA" and "AA," 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. The ratings reflects only the views of such organizations, and an explanation of the significance of such ratings may be obtained from Fitch 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 privately place the Series A Bonds with Fannie Mae, and sell the Series B Bonds to UBS Financial Services Inc. (the "Underwriter"). The Underwriter has agreed, subject to certain conditions, to purchase the Series B Bonds from the Authority at a purchase price of $2,940,817.25 (the principal amount of the Series B Bonds, less an Underwriter's discount in the amount of $34,182.75). In addition, the Underwriter will be paid a placement fee of $52,279.50 in connection with placing the Series A Bonds.

The obligations of the Underwriter are subject to certain conditions precedent, and it will be obligated to purchase all such Series B Bonds if any such Series B Bonds are purchased. The public offering prices of the Series B 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 Series B Bonds to the public. The Underwriter may offer and sell the Series B Bonds to certain dealers (including dealers depositing Series B Bonds into investment trusts) at prices lower than the public offering prices, and such dealers may reallow any such discounts on sales to other dealers.

MISCELLANEOUS

References are made herein to certain documents and reports which are brief summaries and do not purport to be complete or definitive. Prospective purchasers of the Bonds are advised to refer to such documents and reports for full and complete statements of their contents. Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Agency and the purchasers or Owners of any of the Bonds. The execution of this Official Statement and its use in connection with the offering of the Bonds for sale have been authorized by the Agency.

REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE

By: /s/ Paul C. Sundeen
Treasurer

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APPENDIX A

SUMMARY OF THE INDENTURE

The following is a brief summary of certain provisions of the Trust Indenture (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.

Definitions

"Amendment No. 3 Area" means the area as defined and described in Amendment No. 3 for the Redevelopment Project adopted by Ordinance No. 6685 on June 24, 2003.

"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 Parity Bonds are issued, to the extent the proceeds thereof are then deposited in an escrow fund from which 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 Year" means, with respect to the 2004 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 2004 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 633 West Fifth Street, 24th Floor, Los Angeles, California 90017; or such other address or office as it shall designate in writing to the Agency and the Owners.

"**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.

"**Defeasance Obligations**" mean any of the following: (1) Cash; (2) U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series B "SLGS"); (3) with the prior written consent of the Insurer, direct obligations of the Treasury which have been stripped by the Treasury itself, CATS, TIGRS and similar securities; (4) with the prior written consent of the Insurer, 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; 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, 10th 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, 45th 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.

"**Insurance Trustee**" means The Bank of New York.

"**Insurer**" means Radian Asset Assurance Inc., a corporation organized under the laws of the State of New York or any successor thereto.

"**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 August 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.

"**Parity Bonds**" means any bonds, notes, loans, advances, or indebtedness issued or incurred by the Agency on a parity with the 2004 Bonds in accordance with the provisions of the Indenture.

"**Permitted Investments**" means:

(i) Certificates or interest-bearing notes or obligations of the United States, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest;

(ii) Investments in any of the following obligations provided such obligations are backed by the full faith and credit of the United States (a) direct obligations or fully guaranteed certificates of beneficial interest of the Export-Import Bank of the United States, (b) debentures of the Federal Housing Administration, (c) guaranteed mortgage backed bonds of the Government National Mortgage Association, (d) certificates of beneficial interest of the Farmers Home Administration, (e) obligations of the Federal Financing Bank or (f) project notes and local authority bonds of the Department of Housing and Urban Development;

(iii) Investments in (a) senior obligations of the Federal Home Loan Bank System, (b) participation certificates or senior debt obligations of the Federal Home Loan Mortgage Corporation, (c) mortgage-backed securities and senior debt obligations (excluding stripped mortgage securities that are valued greater than par on the portion of unpaid principal) of the Federal National Mortgage Association or (d) senior debt obligations of the Student Loan Marketing Association;

(iv) Repurchase agreements with primary dealers and/or banks rated, at all times, AA and AA2 or better by S&P and Moody's, respectively, collateralized with the obligations described in (i) or (ii) above, held by a third party custodian, at the levels set forth below, which repurchase agreements have been approved by the Insurer;

(v) S.E.C. registered money market mutual funds conforming to Rule 2a-7 of the Investment Company Act of 1940 that invest primarily in direct obligations issued by the U.S. Treasury and repurchase agreements backed by those obligations, including funds for which the Trustee or an affiliate of the Trustee acts as an advisor, and rated in the highest category by S&P and Moody's;

(vi) Certificates of deposit of any bank (including the Trustee), trust company or savings and loan association whose short term obligations are rated, at all times, A-1 or better by Standard & Poor's Corporation and P-1 by Moody's Investors Service, Inc. provided that such certificates of deposit are fully secured by the obligations described in (i) or (ii) above, at the levels set forth below, the Trustee has a perfected first security interest in the obligations securing the certificates and the Trustee holds (or shall have the option to appoint a bank, trust company or savings and loan association as its agent to hold) the obligations securing the certificates;

(vii) Certificates of deposit of any bank (including the Trustee), trust company or savings and loan association which certificates are fully insured by the Federal Deposit Insurance Corporation;

(viii) Commercial paper rated, at all times, P-1 or better by Moody's and A-1+ by S&P;

(ix) Obligations of, or obligations fully guaranteed by, any state of the United States of America or any political subdivision thereof which obligations, at all times, are rated by S&P and Moody's in the highest rating categories (without regard to any refinement or graduation of rating category by numerical modifier or otherwise) and without regard to credit enhancement assigned by such rating agencies to obligations of that nature.

(x) 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.

(xi) investment agreements approved in writing by the Insurer.

(xii) other forms of investments approved in writing by the Insurer.

Collateral Levels for United States Government Securities:

	Remaining Maturity				
Frequency of Valuation	1 Year or less	5 Years or less	10 Years or less	15 Years or less	30 Years or less
Daily	102	105	106	107	113
Weekly	103	110	111	113	118
Monthly	106	116	119	123	130
Quarterly	106	118	128	130	135

Further Requirements: (1) On each valuation date the market value of the collateral will be an amount equal to the requisite collateral percentage of the obligation (including unpaid accrued interest) that is being secured. (2) In the event the collateral level is below its collateral percentage on a valuation date, such percentage shall be restored within the following restoration periods: One business day for daily valuations, two business days for weekly valuations, and one month for monthly and quarterly valuations. The use of different restoration periods affect the requisite collateral percentage. (3) The Trustee shall terminate the repurchase agreement upon a failure to maintain the requisite collateral percentage after the restoration period and, if not paid by the counterparty in federal funds against transfer of the repo securities, liquidate the collateral.

"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 2004 Bonds mature by their respective terms; and with respect to any Parity Bond means the stated maturity date of such Parity Bond.

"Purchase Price", for the purpose of computation of the Yield of the Bonds, has the same meaning as the term "issue price" in Section 1273(b) and 1274 of the Code, and, in general, means the initial offering price to the public (not including bond houses and brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of the Bonds are sold or, if the Bonds are privately placed, the price paid by the original purchaser thereof or the acquisition cost of such original purchaser. The term "Purchase Price," for the purpose of computation of the Yield of Permitted Investments, means the fair market value of the Permitted Investments on the date of use of Bond proceeds for acquisition thereof, or if later, on the date that any Permitted Investment becomes a Nonpurpose Investment, as defined in the Code, of the Bonds.

"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 and held by the Trustee pursuant to the Indenture, which Redevelopment Fund shall include therein a "2004 Series A Redevelopment Account" and a "2004 Series B Redevelopment Account".

"Redevelopment Plan" or **"Plan"** means the redevelopment plan for the Redevelopment Project approved and adopted by the City by adoption of Ordinance No. 0-4619 and amended by Ordinance Nos. 6193, 6466 and 6685, and includes any amendment of said plan heretofore or hereafter made pursuant to the Law.

"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; and, in accordance with then current guidelines of the Securities and Exchange Commission, 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 2004 Bonds, all of the 2004 Bonds other than the 2004 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.

"State" means the State of California.

"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 that portion of taxes annually allocated to the Agency with respect to the Project Area (but excluding therefrom the Amendment No. 3 Area unless the definition of Tax Revenues is amended by a Supplemental Indenture) following the Closing Date pursuant to Article 6 of Chapter 6 (commencing with Section 33670) of the Redevelopment 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 that are 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 to entities other than the Agency pursuant to tax-sharing arrangements imposed by Section 33607.5 of the Law.

"Term Bonds" means, with respect to the 2003 Bonds, the 2004 Bonds originally issued under the Indenture maturing on August 1, 2014, August 1, 2024 and August 1, 2034 and the 2004 Series B Bonds originally issued under the Indenture maturing on August 1, 2024; 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.

"2004 Bonds" means the 2004 Series A Bonds and 2004 Series B Bonds, issued pursuant to the Indenture.

"2004 Series A Bonds" means the $4,550,000 aggregate principal amount of Redevelopment Agency of the City of Riverside Arlington Redevelopment Project 2004 Tax Allocation Bonds, Series A (Tax-Exempt).

"2004 Series B Bonds" means the $2,975,000 aggregate principal amount of Redevelopment Agency of the City of Riverside Arlington Redevelopment Project 2004 Tax Allocation Bonds, Series B (Taxable).

"2004 Bonds Reserve Subaccount" means the subaccount by that name in the Reserve Account established by the Indenture, which 2004 Bonds Reserve Subaccount shall include therein a "2004 Series A Reserve Sub-subaccount and a "2004 Series B Reserve Sub-subaccount".

"Written Request of the Agency" means an instrument in writing signed by any of the Chairman, the Executive Director, the Assistant Executive Director, the Deputy Executive 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 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

Cost 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 Agency of the City of Riverside, Arlington Redevelopment Project 2004 Tax Allocation Bonds Redevelopment Fund" (the "Redevelopment Fund"), which the Agency shall hold. Within the Redevelopment Fund, there shall be established (i) the 2004 Series A Redevelopment Account into which there shall be deposited proceeds of the 2004 Series A Bonds in the amount set forth in the Indenture; and (ii) the 2004 Series B Redevelopment Account into which there shall be deposited proceeds of the 2004 Series B Bonds in the amount set forth in the Indenture. The moneys deposited in the Redevelopment Fund, and the accounts therein, shall remain therein until expended from time to time for the purpose of paying any portion of the costs of the Redevelopment Project permitted by the Law; 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 and which are permitted by the Law. All amounts on deposit in the Redevelopment Fund shall be invested by the Agency in Permitted Investments. Investment earnings on such Permitted Investments shall be retained in the applicable account of the Redevelopment Fund. The Agency covenants that moneys in the 2004 Series A Redevelopment Account shall be used in a manner that shall not cause interest on the 2004 Series A Bonds to be included in gross income for federal income tax purposes.

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 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 "Arlington Redevelopment 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 fifth 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 of the Indenture and may be used for any lawful purposes of the Agency.

Bond Fund; Establishment and Maintenance of Accounts. The Indenture establishes a special fund to be known as the "Arlington Redevelopment Project Tax Allocation Bonds Bond Fund (the "Bond Fund") which shall be held by the Trustee. Within the Bond Fund the Trustee shall establish an Interest Account, a Principal Account and a Reserve Account. 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 (each of which is created under the Indenture and to be held in trust by the Trustee) 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 2004 Bonds Reserve Subaccount in the Reserve Account. The 2004 Bonds Reserve Subaccount is pledged to the repayment of the 2004 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 under the Indenture, any amount in the Reserve Account and each subaccount therein in excess of the amount required by this paragraph 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 other than the 2004 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 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 the applicable series of bonds can be used.

(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 September 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 permitted by the Law.

COVENANTS OF THE AGENCY

Punctual Payment. The Agency covenants in the Indenture that it will 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 it will 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 under the Indenture to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest which shall not have been so extended or funded.

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 hereafter 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. Nothing contained in the Indenture shall require the Agency to make any such payment so long as the Agency in good faith shall contest the validity of said taxes, assessments or charges. The Agency will duly observe and conform with all valid requirements of any governmental authority relative to the 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 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 or amount 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 that it 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 2004 Series A Bonds are not so used as to cause the 2004 Series A 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 2004 Series A 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 Series B 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 2004 Series A 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 2004 Series A Bonds, would have caused the 2004 Series A 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 2004 Series A Bonds from the gross income of the Owners of the 2004 Series A 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 2004 Series A Bonds.

Limit on Indebtedness. The Agency covenants in the Indenture that it 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.

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 Insurer or (iii) if at any time the Trustee shall cease to be eligible in accordance with the provisions of 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, 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 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 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 in succession to the Trustee 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. If such corporation or other entity publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this subsection (e) the combined capital and surplus of such corporation or other entity shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this subsection (e), the Trustee shall resign immediately in the manner and with the effect specified in Section (d).

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 (v) of the definition thereof which by their terms mature prior to the date on which such moneys are required to be paid out under the Indenture. Investments on such accounts shall be valued at market at least semi-annually.

Investments of moneys in the 2004 Bonds Reserve Subaccount shall be allocated to the respective sub-subaccounts of the 2004 Bonds Reserve Subaccount in a manner consistent with the deposit of moneys into such sub-subaccounts. Moneys in the 2004 Bonds Reserve Account shall only be invested in the investments described in items (i), (ii) and (v) of the definition of Permitted Investments with maturities of no longer than 5 years and such other investments described in the definition of Permitted Investments, with respect to which the Insurer has granted it prior written consent.

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 under the Indenture. 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 in the Indenture, 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.

For purposes of acquiring any investments under the Indenture, the Trustee may in its discretion commingle funds held by it under the Indenture. 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, other than in the case of the Reserve Account (where accrued interest shall be included) and excluding 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 corporate trust 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 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 written consent of the 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 in the Indenture 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 in the Indenture. 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 provided.

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 for 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 and if corrective action is instituted by the Agency within such thirty (30)-day period the Agency, with the prior written consent of the Insurer may diligently pursue such corrective action until such failure is corrected, but in no event more than 90 days following the receipt by the Agency of such notice; 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 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 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 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 (b) 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 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.

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 under the Indenture, 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 under the Indenture 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 provided for in the Indenture, 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 provided for in the Indenture 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 for 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 of the Indenture.

DISCHARGE OF INDENTURE

To the extent that the Indenture confers upon or gives or grants to the Insurer any right, remedy or claim under or by reason of the Indenture, the Insurer is thereby explicitly recognized as being a third-party beneficiary thereunder and may enforce any such right, remedy or claim conferred, given or granted thereunder, including the right to (i) notify the Trustee of an Event of Default and (ii) request the Trustee to intervene in judicial proceedings that affect the 2004 Bonds or the security therefore.

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, nonredeemable Defeasance Obligations (or cash held in certificates of deposit, savings accounts, deposit accounts or money market accounts that are fully insured by FDIC) 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 indebtedness 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. No forward delivery agreements, hedge, investment agreement, purchase and resale agreements or par-put agreements may be used with respect to the investment of any funds or securities defeasing the 2004 Bonds without the prior written consent of the Insurer.

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 2004 Bonds shall be paid by the Insurer pursuant to the Policy, the obligations of the Trustee and the Agency shall continue in full force and effect and the Insurer shall be fully subrogated to the rights of all Owners of the 2004 Bonds so paid. In addition, the obligations of the Trustee and the Agency thereunder 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 Insurer under the 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 Insurer under the 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
Arlington Redevelopment
Project Area

Fiscal Consultant Report

March 18, 2004

Prepared By:

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3621 California Avenue
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Redevelopment Agency of the City of Riverside Arlington Redevelopment Project Area Fiscal Consultant Report

Section A - Introduction

The Redevelopment Agency of the City of Riverside is proposing to issue tax allocation bonds to be secured by tax increment revenues from the Arlington Redevelopment Project Area (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 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 (County).

This report is organized into the following sections:

A. Introduction
B. The 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 Project Area

The Redevelopment Plan for the Arlington Redevelopment Project was originally adopted by the Riverside City Council on November 28, 1978. The original Project Area encompassed approximately 40 acres centered on the intersection of Magnolia Avenue and Van Buren Boulevard. In April 1999, the Project Area was amended to add 998 acres to the original Project Area. The Project was again amended to add 235 acres in 2003. The Project Area

is located in the northwestern portion of the City. Its irregular shaped boundaries are north of Lincoln Avenue, east of Tyler Street, west of Monroe Street and south of Arlington Avenue.

This report makes reference to the various subareas based on the reporting categories used by the County. A summary of the references used in this report is included below:

Report Reference	Description
Original Area -	1978 adoption
1999 Amendment -	Area added in 1999
Existing Project/Project Area -	Original Area and 1999 Amendment
2003 Amendment -	New Area added in 2003

The Existing Project Area consists of the Original Area and the 1999 Amendment. While area was added in 2003, the 2003 Amendment is not scheduled to generate tax increment revenues until 2004-05 and such revenues, if any, are not pledged to the proposed bonds. As such, information for the 2003 Amendment Area is not presented in this report. For the purpose of this analysis, the information presented for the Project Area is for the Arlington Existing Project only.

Plan Limitations

Redevelopment Plans are required to contain certain time and revenue limits. The current time limits for each of the applicable components of the Arlington Project Area are as shown in the following table:

PROJECT/AMENDMENT	INCUR DEBT	PLAN TERM	RECEIVE TAX INCR.	TAX INCR. LIMIT	BONDED DEBT LIMIT
Original Area	1/01/2014	11/28/2018	11/28/2028	$50 Million	See below (1)
1999 Amendment	4/13/2019	4/13/2029	4/13/2044	None	$75 Million

1. The bond debt limits for the Original Area and the 1999 Amendment were combined during the 1999 Amendment into a single limit of $75 million.

As shown above, the Agency is eligible to receive up to $50 million in tax increment revenue for the Original Area: the later amendment does not have limitations on the amount of tax increment that can be received. Through August 2003, the Agency has received approximately $1.5 million in tax increment revenues for the Original Area.

Legislation enacted in 2003, SB 1045, allows redevelopment agencies that make certain required payments to the state to extend by one year both the term of the redevelopment plan and the length of time for which it is eligible to receive tax increment. As a result, the Agency is eligible to extend the deadlines shown above for its plan term and receipt of tax increment revenue by one year, but had not done so as of March 18, 2004. See "Section G - Agency Obligations/ERAF" for additional information on this legislation.

Land Use

The Project Area consists of approximately 1,040 acres and contains commercial and residential land uses. A summary of the distribution of the taxable value among the various types of land uses is included as Table 1.

Major Taxpayers

The Major Taxpayers in the Project Area are summarized on Table 2. The total taxable value for the major assessees equals $90.2 million, or 22 percent of the total value for the entire Project Area. For 2003-04, there are four assessees with taxable values over $10 million. The largest assessee is Lowe's HIW Inc., which is a home improvement retail center that was constructed in the 1999 Amendment Area in 2000 through 2002. The second major assessee is Fleetwood Enterprises, an industrial user that manufactures modular equipment and has both its corporate offices and a manufacturing facility in the 1999 Amendment Area. Wal Mart, a discount retailer, is the third largest assessee with a taxable value of $13.8 million. The last assessee with value over $10 million is Aanenson Stonewood Apartments, a residential project located on Van Buren Boulevard that transferred ownership for $11.85 million in September of 2001.

The totals for the assessees shown on Table 2 do not include the value for one assessment, Helicon Inc. which is actually a tax exempt property, but was erroneously included as taxable in the amount of $11.2 million for the 2003-04 fiscal year. (See "Project Area Value Trends" below for additional information on tax exempt properties.)

Section C – Taxable Values and Historical Revenues

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 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 3 shows the historical taxable values reported by the County for the Project Area since 1998-99, the base year for the 1999 Amendment Area. 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. As is typical with new redevelopment areas, taxable value information is not available for the year following the base year of the 1999 Amendment Area, or 1999-00. This is because the 1999 Amendment Area was not eligible to receive tax increment revenues until 2000-01 and the County was still processing the paperwork for the area in 1999-00.

As shown on Table 3, value for the Original Area is relatively small, comprising less than 4 percent of the value for the entire Project Area. The 1999 Amendment Area comprises more than 96 percent o the total value for the Project. Adopted in 1999, the 1998-99 base year value reported for the Project Area is $302.2 million. Since the Project was adopted, taxable values for the Project Area have increased to $395.2 million in 2003-04, an increase of $92.9 million, or approximately 30.7 percent. This represents an annual growth rate of about 6.2 percent. The increases in value for the 1999 Amendment Area in the earlier years was largely the result of the conversion of a tax exempt county hospital facility to private use and the subsequent development of a home improvement retail center on the site. Commencing with the 2002-03 fiscal year, increases in value are largely the result of a numerous smaller increases ranging from $100,000 to $1.5 million. These increases are the result of property transfers, new construction and the restoration of certain values that were reduced temporarily through Proposition 8 assessment appeals. (Assessment appeals are discussed in greater detail in the Section D below.)

An additional factor affecting the year to year changes in the net taxable value numbers reported by the County for the 1999 Amendment Area is changes in the value of exemptions. In 2001-02 and again in 2003-04 total secured exemptions dropped from over $20 million to about $11 million, a decrease of over 50 percent in each year.

Helicon operates several tax exempt social service facilities on County-owned land in the 1999 Amendment Area. The $11+/- million in value assigned to the Helicon property was reported as taxable property in 2001-02 and 2003-04 and as tax exempt in 2000-01 and 2002-03. The inconsistency in the classification of this property has caused taxable values for the Project to vary from year to year by a higher amount than would otherwise be the

case. Representative of the County Assessor's office indicated that the property is tax exempt and shows as taxable when the applicant files for a tax exemption late. The projections of future tax increment revenues, discussed in greater detail in Section E below, are based on the assumption that the values for the Helicon property are reported as 100 percent exempt from taxation in 2004-05 and thereafter.

Section D – Assessment Appeals

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.) When an appeal is successfully resolved after the disputed taxes have already been paid, a refund with interest is subsequently issued to the taxpayer by the county. Because assessment appeals can have an impact on the taxable values and tax increment revenues of a redevelopment project area, a review of appeal activity was conducted. A summary of the findings from that review is included below.

Appeals filed for the 2003-04 fiscal year were reported in the County's January 2004 database. Generally, the deadline for the filing an appeal for 2003-04 was December 2003. While the County reports that the January 2004 database included most, if not all, of the 2003-04 appeals that were filed through December 2003, additional appeals may be filed or otherwise identified in the future.

Appeals have not been a major issue for the Project Area since 1999-00, the first year that appeals were reported for the Project Area as a whole. This is because, in part, the tax base for the Project Area is fairly diversified. Table 4 shows details on all currently outstanding appeals and on resolved appeals which are anticipated to have an impact on future revenues in the Project Area. As shown on Table 4, only one resolved appeal is anticipated to have a negative financial impact to future revenues in the Project Area. While a number of appeals were filed and resolved for prior fiscal years, the remaining resolved appeals were either resolved without reduction or the reduction was already included in the 2003-04 reported assessed values. As a result, the impact from resolved appeals is anticipated to be relatively minor, a reduction of assessed value of $176,000, or $1,760.00 in revenue.

As mentioned above, Table 4 also provides details on outstanding appeals. According to the County's appeal database, a total of 7 appeals, totaling $18.4 million in assessed value, were outstanding as of January 2004 for the 2001-02, 2002-03 and 2003-04 fiscal years. With two exceptions, all of the appeals represent disputes over assessed values that are significantly less than $5 million. The exceptions include Food 4 Less/Ralph's at $7.4 million and Union Development Company at $6.0 million. For the purpose of projecting future changes to assessed values, a 10 percent reduction in assessed value, on average, is assumed to be granted to outstanding appeals. This equates to a projected assessed value loss of $1.84 million.

The tax increment projections included as Table 6 are based on the assumption of a loss of $2.0 million in assessed value as a result of the resolution of identified resolved and 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

Tax Rates

Tax increment revenues included in this analysis are computed based upon incremental assessed value of the 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 2003-04 fiscal year, tax increment revenues allocated to the Project Area are based on a single tax rate: 1.0056 percent. 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.

Taxing Entity	2003-04 Rate
Metro Water West District	0.00560 %
General	1.00000 %
Total Tax Rate	**1.00560 %**

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. A description of some of Riverside County's procedures is included below.

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 Project Area 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 paid 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. The results of that comparison show that actual collections have met or exceeded the original tax increment levy in each year since 1999-00. Specifics on the year to year collections are as follows:

Description	1999-00	2000-01	2001-02	2002-03
Est. Levy	98,793	140,553	510,831	684,914
Tax Receipts (1)	100,351	185,674	612,625	825,423
% Receipts to Levy	102%	132%	120%	121%

(1) Includes all tax receipts including supplemental revenues.

In accordance with their stated policy, the County distributed 100 percent of the tax levy for the Project Area to the Agency. In addition, it also allocated to the Agency supplemental tax revenues. While supplemental revenue allocations can sometimes be negative, over the period analyzed such assessments have been positive in the Project Area and have increased overall tax receipts by 2 to 32 percent.

Section E – Tax Increment Projections

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. Applicable tax rates are then applied to the incremental taxable value in order to determine tax increment revenues.

Unitary revenues are allocated by the County based on a formula, as specified by AB 454. Because the majority of the Project Area was adopted after the establishment of the formula, the amount of unitary revenues allocated to the Project Area are minimal: $3,252 for fiscal year 2003-04.

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, although negative supplemental assessments can occur.

Current and Projected Revenues

Current year (2003-04) assessed values and current year projections of tax increment revenues are detailed by subarea on Table 5. Current year estimates of revenues are based on current year information, as reported by Riverside County. The only exception is the use of an artificially low 1.0 percent tax rate. The actual 2003-04 tax rate is 1.005

The estimates of future tax increment revenues are shown on Table 6. As stated earlier, revenue estimates do not include projected revenues for the 2003 Amendment Area. Unitary revenue and other property are assumed to remain at their 2003-04 levels for 2004-05 and thereafter. Other categories of assessed values reported for 2003-04 are assumed to change in future fiscal years. Elements which are projected to modify future assessed values and/or revenues are as follows:

Impacts to Future Values	Assumption
Positive Impacts	
Trended Taxable Value	2.0 Percent/Real
New Development	Developments Completed or Under Construction
Negative Impacts	
Appeals	10 percent reduction

Trended Taxable Value: In California, real property values (land and improvements) are subject to an annual inflationary increase, as allowed under Proposition 13. The maximum inflation factor that county assessors can use to increase assessed values is two percent. Since Proposition 13 was enacted, the inflation factor has equaled the 2.0 percent maximum in most, but not all fiscal years. Since 1990, the inflation factor has been under 2.0 percent for three fiscal years: 1.19 percent for 1995-96, 1.10% for 1996-97 and 1.85 percent for

1998-99. In addition, the state reports that the inflation factor for 2004-05 will be 1.87 percent. The projections included in Table 6 are based on the assumption of a 1.87 percent inflation factor for 2004-05 and a 2.0 percent factor thereafter. Should the inflation factor in future fiscal years be less than the 2.0 percent assumed, or the County Assessor not apply the inflation factor to property in the Project Area, tax increment could be lower than that shown on Table 6 in future fiscal years.

New Development: Future year tax increment revenue estimates have been increased for new developments that have been recently completed or that are currently under construction. Development activity was obtained from Agency staff and confirmed through secondary sources. Amounts estimated as added are summarized on Table 7.

Appeals: Assumptions regarding the resolution of appeals that are utilized in the enclosed projections are as shown in Table 4 and presented in the above "Assessment Appeals" section. Valuation reductions resulting from the resolution of appeals are assumed to occur in 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 Table 6 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 included in the projection have been estimated based on Riverside County's actual charges for 2003-04.

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. The revenue projections show the full housing set-aside as a deduction to tax increment revenue.

AB 1290 Tax Sharing Payments/1999 Amendment

Legislation adopted in 1994, AB 1290, requires that redevelopment agencies make certain payments to affected taxing entities (pass-through payments) under certain circumstances. The payments are due if the agency either: 1) adds territory to an existing Project Area after 1993; or 2) amends the financial limitations for a pre-1994 Project Area. The Agency added territory to the Arlington Project in 1999 and thus has owed pass-through payments on the 1999 Amended Area each year the Agency has received tax increment from the 1999 Amendment Area. At the time of the 1999 Amendment Area was being added, the Agency

also extended the deadline for incurring debt in the Original Area from January 1, 2004 until January 1, 2014. As required by AB 1290, the Agency will need to begin making pass-through payments for revenues received from the Original Area for the first time in 2004-05.

All tax sharing payments required by AB 1290 are based on a three tier formula, as shown below. Payments are made after the Agency's deposit to its housing set-aside fund.

Tier	Payment Required
Tier 1	25% of tax increment after deduction the housing set-aside (net tax increment) during the entire term the Agency receives tax increment.
Tier 2	Beginning in the 11th year that the Agency receives tax increment, an additional payment equal to 21% of the net tax increment attributable to growth above year 10 levels.
Tier 3	Beginning in the 31st year that the Agency receives tax increment, an additional payment equal to 14% of the net tax increment attributable to growth above year 30 levels.

The required Tier 1 payments for the 1999 Amendment Area are based on total tax increment. For the Original Area, pass-through payments will first be due in 2004-05, but only on the increased revenue above the prior year. In other words, commencing in 2004-05, the Agency will owe pass through payments for the Original Area in an amount equal to 25 percent of net tax increment above 2003-04 levels. If 2004-05 revenues from the Original Area are not higher than 2003-04 levels, no payment would be due.

Tier 1 payments are currently being paid by the Agency for the 1999 Amendment Area, and will be due for the Original Area commencing in 2004-05. Tier 2 payments will also be required in 2009-10 for the 1999 Amendment Area and in 2015-16 for the Original Area.

ERAF

Current Legislative Requirements: Due to a shortfall in the state budget, legislation was approved (SB 1045) that requires redevelopment agencies to shift $135 million of tax increment revenues to the Educational Revenue Augmentation Fund (ERAF). The shift to ERAF will offset the need for a similar amount of state aid to education. SB 1045 requires that the shift be made for the 2003-04 fiscal year only. The legislation requires that half of the shift be calculated on the basis of the 2001-02 gross tax increment of a project area and the other half on net revenues after tax sharing payments. As reported by the state, the amount of the 2003-04 ERAF payment equals $775,864 for all seven of the City's redevelopment project areas. The Agency intends to make the 2003-04 payment from tax

increment revenues from each of its seven Project Areas, on a proportionate basis. The portion of the ERAF payment that is attributable to the Project Area equals $33,623.

SB 1045 also allows redevelopment agencies that make the specified ERAF payments to the state to extend the length of time in which they can receive tax increment by one year. Although, the Agency intends on taking advantage of this provision by adopting an ordinance that will extend the length of time each subarea can receive tax increment by one year, it had not done so as of March 18, 2004. The revenue projections included in this report are based on the assumption that the Agency does not take advantage of this legislative authorization.

2004-05 Proposals: On January 9, 2004, Governor Schwarzenegger released his proposed budget for Fiscal Year 2004-05 (the "Proposed 2004-05 State Budget"). The Proposed 2004-05 State Budget includes another ERAF shift to be imposed on redevelopment agencies in the amount of $135 million statewide. As proposed, the ERAF shift may extend beyond fiscal year 2004-05. No legislative language for the proposed redevelopment ERAF shift has been written and, thus, no specifics of the shift are known. There is no indication, for example, as to whether the redevelopment ERAF shift would exclude Housing Set-Aside Amounts as has been done in past years.

As is common practice in California, in February, 2004, the state Legislative Analyst commented on the Governor's proposed budget. In those comments, the Analyst recommended that the Legislature reject those aspects of the proposed budget that involve revenue shifts from local governments, including redevelopment agencies. The Analyst went on to recommend, however, that if a local revenue shift is to be part of the state budget, the shift amount for redevelopment should increase from $135 million to $320 million to allow for a corresponding decrease in the shift other local taxing entities. In addition, the Analyst's recommendation suggests that the formula for allocating the $320 million shift would vary from previous ERAF shift formulas, and that the shift amount would be permanent. Specific language on how this shift would be allocated amongst agencies for 2004-05 or future fiscal years was not provided.

Projected Impact: It is uncertain at the present time whether the state Senate and the state Assembly will enact either of the current proposals or other legislation requiring ERAF payments for 2004-05 or future years. Because of the lack of specific language, the impact to the Project Area from either the Governor's or Legislative Analyst's proposals cannot currently be estimated. The revenue projections included in Table 6 include a deduction for the $33,623 payment required for 2003-04 under SB 1045. Additional deductions to tax increment revenues to reflect the Governor's or the legislative analyst's current proposal have not been deducted.

Special Redevelopment Plan Provisions

The 2003 Amendment Area was adopted with certain restrictions as to where the tax increment revenues are spent. The 2003 Amendment Area is bifurcated into two separate areas: the Primary Area and Auto Center Area. According to the 2003 Redevelopment Plan, tax Increment revenues generated by each of these subareas are to be accounted for separately. Taxes generated by the Auto Center subarea are to be spent only in the Auto Center subarea, at least for the first 15 years. Conversely, taxes generated by the Existing Project Area and that portion of the 2003 Amendment that does not include the Auto Center cannot be spent in the Auto Center subarea, at least for the first 15 years. After 15 years,

somewhat lessened restrictions come into effect. Because of these restrictions, among other factors, the Agency has determined to not include revenues from any portion of the 2003 Amendment Area in the revenues pledged to the repayment of the bonds.

Section H – Other Issues

Litigation Regarding 2% Limitation

County of Orange v. Orange County Assessment Appeals Board: This case was decided by Orange County Superior Court 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 Orange County 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.

The Superior Court's ruling is now on appeal: the County of Orange filed a notice of appeal on June 12, 2003. A similar suit was filed as a class action in Los Angeles County (Bezaire, et. al. v. County of Los Angeles) but was dismissed by the Los Angeles County Superior Court in April 2002, and no appeal was taken from the case. Were the Orange County case to become precedent in the future, Project Area values and resulting revenues could potentially be negatively impacted.

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
Arlington Redevelopment Project Area
Land Use Category Summary

Category	# of Assessments	2003-04 Value	Percentage
Residential	866	132,640,598	32.33%
Commercial	187	132,135,753	32.21%
Industrial	14	33,806,471	8.24%
Recreational	1	-	0.00%
Institutional	11	3,097,755	0.76%
Vacant Land	137	23,941,018	5.84%
Exempt	94	-	0.00%
SBE Non-Unitary (1)	6	436,198	0.11%
Posessory Interest (1)	3	12,382,777	3.02%
Unsecured (1)	520	36,493,826	8.90%
Unknown	372	35,287,890	8.60%
Total	**1,682**	**410,222,286**	**100.00%**

(1) Indicates the number of assessments in this category but actually represent a duplicate parcel count, and so are not included in the total parcel count.

Source: Riverside County Tax Records

Table 2
Redevelopment Agency of the City of Riverside
Arlington Redevelopment Project Area
Major Assessees/ Secured and Unsecured

No.	Assessee (1)	Use	No. of Parcels	2003-04 Value Secured	2003-04 Value Unsecured	2003-04 Value Total	Percentage Project Value
1	Lowes HIW Inc.	Home Imp Store/Center	3	17,638,660		17,638,660	4.3%
2	Fleetwood Enterprises Inc.	Industrial mfg.	5	13,888,849		13,888,849	3.4%
3	Wal Mart Real Estate Business Trust	Discount Store/Center	3	12,358,090	1,460,487	13,818,577	3.4%
4	Aanenson Stonewood Apartments	Multi-family residential	2	12,087,000		12,087,000	2.9%
5	Food 4 Less of California inc.	Grocer store/Center	1	7,437,000		7,437,000	1.8%
6	Clementina W. Hawksley Trust	Retail Center	6	6,307,766		6,307,766	1.5%
7	Union Development Company Inc.	Industrial mfg.	2	6,050,000	4,000	6,054,000	1.5%
8	Frome Realty Fund Alpha	Multi-family residential	1	4,841,026		4,841,026	1.2%
9	REA Riverside General	Lowes Shopping Center	4	4,398,336		4,398,336	1.1%
10	99 Cent Only Stores	Retail Store	2	3,455,627	287,693	3,743,320	0.9%
	Helicon Inc. (2)	Exempt		-		-	0.0%
		TOTAL MAJORS	**29**	**88,462,354**	**1,752,180**	**90,214,534**	**22.0%**
		TOTAL PROJECT VALUE				**410,222,286**	

(1) All of the major assessees in the Existing Project are located in the 1999 Amendment Area.
(2) The $11.2 million in value for this assessee should be tax exempt, but is included as taxable property for 2003-04.

Source: Riverside County Tax Records.

Table 3
Redevelopment Agency of the City of Riverside
Arlington Redevelopment Project Area
Historical Taxable Values

Category	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Existing Project Summary (1)						
Secured	11,874,642	11,426,834	312,196,940	336,099,744	359,965,333	384,748,298
Utility	-	-	520,276	529,811	481,672	436,198
Unsecured	1,192,286	1,993,841	27,988,156	30,366,581	35,441,009	36,493,826
Exemptions	(383,460)	(120,730)	(20,982,730)	(10,491,014)	(22,011,139)	(11,456,036)
TOTAL	**12,683,468**	**13,299,945**	**319,722,642**	**356,505,122**	**373,876,875**	**410,222,286**
Existing Project Detail						
Original						
Secured	11,874,642	11,426,834	11,671,735	12,289,541	12,665,755	13,094,897
Utility	-	-	-	-	-	-
Unsecured	1,192,286	1,993,841	1,248,523	2,508,467	2,157,844	2,367,517
Exemptions	(383,460)	(120,730)	(397,446)	(329,011)	(412,537)	(420,309)
TOTAL	**12,683,468**	**13,299,945**	**12,522,812**	**14,468,997**	**14,411,062**	**15,042,105**
Annual % Change		4.9%	-5.8%	15.5%	-0.4%	4.4%
Total % Change						18.6%
1999 Amendment (2)						
Secured	297,838,259		300,525,205	323,810,203	347,299,578	371,653,401
Utility	529,848		520,276	529,811	481,672	436,198
Unsecured	24,304,226		26,739,633	27,858,114	33,283,165	34,126,309
Exemptions	(20,397,974)		(20,585,284)	(10,162,003)	(21,598,602)	(11,035,727)
TOTAL	**302,274,359**	**Not Available**	**307,199,830**	**342,036,125**	**359,465,813**	**395,180,181**
Annual % Change			0.8%	11.3%	5.1%	9.9%
Total % Change						30.7%

(1) Values for the 2003 Amendment area are not included in the Existing Project Summary.

(2) The Base Year for the 1999 Amendment is 1998-99. Comprehensive information on the values for the amendment area were not available until 2000-01 when the area was first entitled to receive tax increment revenue.

(3) The 2003 Amendment Area was not adopted until 2003 and is not eligible to receive tax increment until 2004-05. Values represent aggregations of parcel level details and should be considered approximations only.

Table 4
Redevelopment Agency of the City of Riverside
Arlington Redevelopment Project Area
Appeals of Valuation

EXISTING PROJECT AREA

APPLICANT	Years Outstanding	No. of Assmts.	Applicants Opinion	2003-04 Roll Value	Appeal Value	Reduction Assumed (1)	Resolved Value	Future Value Change	--- Value Reduction By Fiscal Year --- 2004-05	2005-06	2006-07
RESOLVED APPEALS (2)											
Lee, Ellen A	2002	1			376,846		200,000	176,846	176,846		
TOTAL RESOLVED		**1**			**376,846**	**-**	**200,000**	**176,846**	**176,846**		
OUTSTANDING APPEALS											
Kmart Corp #106	2001 &2002	1	406,000		819,327						
Nations Rent to Own	2003	1	121,867		335,806						
Ralphs (3)	2001 &2002	1	743,169	1,878,669	1,486,337						
Ralphs/Food 4 Less (3)	2001	1	3,700,000	7,437,000	7,437,000						
Smith Foods/Ralphs (3)	2001	2	1,050,000	2,242,433	2,155,358						
Ultramare Inc	2003	1			177,800						
Union Development Co	2002	1	2,420,000	6,054,000	6,054,000						
TOTAL OUTSTANDING		**8**	**9,602,963**		**18,465,628**	**10%**	**16,619,065**	**1,846,563**	**1,846,563**		
GRAND TOTAL AV REDUCTION		**N/A**			**N/A**	**N/A**	**16,819,065**	**2,023,409**	**2,023,409**	**-**	**-**
ESTIMATED TAX REFUNDS (4)								**N/A**	**N/A**		

(1) For outstanding appeals, the reduction amount shown is estimated. The estimated reduction is based on recent appeal resolution history for the Project Area and other areas in the City of Riverside.
(2) Includes only resolved appeals that are anticipated to negatively impact future assessed values.
(3) Ralph's is the appeal applicant for assessments along with other assessees: Food 4 Less and Smith Foods.
(4) Because of the way in which Riverside County allocates taxes to redevelopment agencies, the Agency will not be impacted by any refunds paid to taxpayers because of valuation reductions resulting from appeals.

Table 5
Redevelopment Agency of the City of Riverside
Arlington Redevelopment Project Area
2003-04 Assessed Values and Revenues

Description	Original Area	1998 Annex	2003 Annex (1)	Merged All Areas
ASSESSED VALUES				
Secured				
Land	6,018,197	135,739,571		141,757,768
Improvements	7,061,200	229,818,190		236,879,390
Personal Property	15,500	6,095,640		6,111,140
Subtotal	13,094,897	371,653,401		384,748,298
Other Exemptions	(420,309)	(11,035,727)		(11,456,036)
Locally Assessed Secured	12,674,588	360,617,674		373,292,262
SBE Values	-	436,198		436,198
Secured Total	12,674,588	361,053,872	-	373,728,460
Unsecured				
Land	-	46,472		46,472
Improvements	693,727	14,176,620		14,870,347
Personal Property	1,673,790	19,903,217		21,577,007
Subtotal	2,367,517	34,126,309	-	36,493,826
Other Exemptions	-	-		-
Unsecured Total	2,367,517	34,126,309	-	36,493,826
TOTAL VALUE	**15,042,105**	**395,180,181**	**-**	**410,222,286**
TAX REVENUE				
Total Value (from above)	15,042,105	395,180,181		410,222,286
Less: Base Year	3,769,104	302,274,359		306,043,463
Incremental Value	11,273,001	92,905,822		104,178,823
Tax Increment @ 1.0%	112,730	929,058		1,041,788
Estimated Unitary	3,140	112	-	3,252
GROSS TAX INCREMENT (1)	**115,870**	**929,170**		**1,045,040**
OFFSETS TO TAX INCREMENT				
Housing Set-Aside	23,174	185,834		209,008
Admin Charge	1,663	13,341		15,004
Tax Sharing Payments	-	185,834		185,834
Other Obligations	-	-		-
ERAF	8,406	25,217		33,623
NET TAX INCREMENT	**82,627**	**518,944**	**-**	**601,571**

(1) Revenues from the 2003 Amendment are not pledged to the proposed bonds.

Table 6
Redevelopment Agency of the City of Riverside
Arlington Redevelopment Project Area
Tax Increment Revenue Projection

Original and 1999 Amendment

Fiscal Year	Prior (1) Year Value	Tax Value (2) Adjustments	Total Value	Value above Base Year	Gross Tax Revenue (3)	County Admin Chg	Housing Set-Aside	AB 1290 (4) Pass Thru	ERAF (5) 2003-04	Net Tax Revenue
2003-04	410,222,286	-	410,222,286	104,178,823	1,045,040	15,004	209,008	185,834	33,623	601,571
2004-05	417,088,573	5,840,147	422,928,720	116,885,257	1,172,104	15,304	234,421	211,247	-	711,132
2005-06	430,526,471	18,231,250	448,757,721	142,714,258	1,430,394	15,610	286,079	262,905	-	865,800
2006-07	456,872,052	-	456,872,052	150,828,589	1,511,538	15,922	302,308	279,134	-	914,174
2007-08	465,148,670	-	465,148,670	159,105,207	1,594,304	16,241	318,861	295,687	-	963,515
2008-09	473,590,820	-	473,590,820	167,547,357	1,678,725	16,566	335,745	312,571	-	1,013,844
2009-10	482,201,813	-	482,201,813	176,158,350	1,764,835	16,897	352,967	329,793	-	1,065,178
2010-11	490,985,026	-	490,985,026	184,941,563	1,852,667	17,235	370,533	361,637	-	1,103,262
2011-12	499,943,904	-	499,943,904	193,900,441	1,942,256	17,580	388,451	394,118	-	1,142,108
2012-13	509,081,959	-	509,081,959	203,038,496	2,033,637	17,931	406,727	427,248	-	1,181,730
2013-14	518,402,774	-	518,402,774	212,359,311	2,126,845	18,290	425,369	461,041	-	1,222,145
2014-15	527,910,007	-	527,910,007	221,866,544	2,221,917	18,656	444,383	496,027	-	1,262,851
2015-16	537,607,383	-	537,607,383	231,563,920	2,318,891	19,029	463,778	531,714	-	1,304,370
2016-17	547,498,708	-	547,498,708	241,455,245	2,417,804	19,409	483,561	568,114	-	1,346,720
2017-18	557,587,859	-	557,587,859	251,544,396	2,518,696	19,797	503,739	605,242	-	1,389,917
2018-19	567,878,793	-	567,878,793	261,835,330	2,621,605	20,193	524,321	643,113	-	1,433,978
2019-20	578,375,545	-	578,375,545	272,332,082	2,726,573	20,597	545,315	681,741	-	1,478,920
2020-21	589,082,233	-	589,082,233	283,038,770	2,833,639	21,009	566,728	721,141	-	1,524,761
2021-22	600,003,054	-	600,003,054	293,959,591	2,942,848	21,429	588,570	761,330	-	1,571,519
2022-23	611,142,292	-	611,142,292	305,098,829	3,054,240	21,858	610,848	802,322	-	1,619,212
2023-24	622,504,315	-	622,504,315	316,460,852	3,167,860	22,295	633,572	844,134	-	1,667,859
2024-25	634,093,578	-	634,093,578	328,050,115	3,283,753	22,741	656,751	886,783	-	1,717,478
2025-26	645,914,626	-	645,914,626	339,871,163	3,401,963	23,196	680,393	930,284	-	1,768,090
2026-27	657,972,095	-	657,972,095	351,928,632	3,522,538	23,660	704,508	974,656	-	1,819,715
2027-28 (6)	670,270,714	-	670,270,714	364,227,251	3,645,524	24,133	729,105	1,019,915	-	1,872,372
2028-29	659,690,182	-	659,690,182	357,415,823	3,574,270	21,887	714,854	1,040,958	-	1,796,571
2029-30	672,070,822	-	672,070,822	369,796,463	3,698,076	22,325	739,615	1,086,519	-	1,849,617
2030-31	684,699,076	-	684,699,076	382,424,717	3,824,359	22,772	764,872	1,147,260	-	1,889,455
2031-32	697,579,895	-	697,579,895	395,305,536	3,953,167	23,227	790,633	1,209,217	-	1,930,089
2032-33	710,718,330	-	710,718,330	408,443,971	4,084,551	23,692	816,910	1,272,413	-	1,971,537
2033-34	724,119,533	-	724,119,533	421,845,174	4,218,563	24,165	843,713	1,336,873	-	2,013,813

(1) Includes real (land and improvements) and personal property. The value for land and improvements is assumed to increase by 1.87% for 2004-05 and by 2.0% thereafter.
(2) Includes new development and appeals. See Tables 4 and 7 for details.
(3) Tax increment revenue is computed based on a 1.0% tax rate. The Project Area is projected to receive $3,252 in unitary revenue.
(4) Amount the Agency is required to share with base year taxing entities pursuant to 1994 legislative requirements, AB 1290.
(5) The Project Area's proportionate share of the Agency's total required ERAF payment, the total of which is estimated to equal $775,864.
(6) Portions of the Project Area will become ineligible to receive tax increment revenue after 2027-28.

Table 7
Redevelopment Agency of the City of Riverside
Arlington Redevelopment Project Area
New Development Schedule

Description	Sq. Ft/Units	Net Added	Start	Complete
ORIGINAL AREA				
No New Development Identified				
TOTAL ORIGINAL AREA				
1999 AMENDMENT AREA				
		-		
Helicon (Tax Exemption Restoration)		(11,240,194)		Jan-04
Lowe's Development				
Ancilary Retail	37,000	2,775,000	Oct-01	Oct-03
Fixtures/Personal Property	37,000	925,000	May-01	Jan-04
Total Lowe's Value Added	-	3,700,000		
Fairfield Multi-family Housing	-	-		
Land	-	3,500,000		Feb-03
Upscale Apartments	256	30,000,000	Mar-03	Jul-05
El Tapatio/Rest Addition	23,000	2,875,000	Aug-02	Aug-03
Norm's Restaurant	7,300	1,095,000	Apr-02	Apr-03
TOTAL 1999 AMENDMENT AREA	-	**33,629,806**	-	
GRAND TOTAL	**N/A**	**33,629,806**	**N/A**	**N/A**

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 Gorgonio 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 tilled 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.

Services and Facilities

Public Safety and Welfare. The City provides law enforcement and fire protection services. The Police Department currently employs 356 sworn officers and the Fire Department employs 201 sworn fire fighters operating out of 13 fire stations. Other services provided by the

City include emergency medical aid, traffic safety maintenance, and building safety regulation and inspection.

Public Services. The City provides electric, water and sewer service to the City residents through municipal enterprises. The City also owns and operates a general aviation airport.

Public Works. Additional services include parkway and median maintenance improvements, refuse management, sewer and storm drain maintenance, zoning and development administration, environmental review, code enforcement and street tree maintenance.

Educational Facilities. The City is included within the boundaries of the Riverside Unified School District and the Alvord Unified School District, which also serves the County area southwest of the City. These two districts include 57 elementary and middle schools and high schools. There are also about 46 private or parochial schools for kindergarten through twelfth grade. Higher education is available at four institutions: Riverside Community College, University of California at Riverside, California Baptist University and La Sierra University at Riverside. Also located in the City are the California School for the Deaf and the Sherman Institute, a federally-run school for Indians.

Leisure and Community Services. Among the City's cultural institutions and activities are a convention center, the Riverside Art Museum, a municipal museum, a number of libraries, an auditorium, the opera society and the symphony society. There are three major hospitals in the City: Parkview Community; Riverside Community; and Kaiser Permanente.

Employee Relations

City employees are represented by five labor unions associations, the principal one being the Service Employees International Union, which represents approximately 42% of City full-time employees. Currently 80% all City employees are covered by negotiated agreements. Since 1979 the City has not had an employee work stoppage.

Population

As of January 1, 2003 the population of the City was approximately 274,100, an increase of approximately 21% percent over the census population of the City in 1990. The following table presents population data for both the City and County.

POPULATION

Year	City of Riverside	Riverside County
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	269,600	1,645,300
2003	274,100	1,705,500

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.

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 2002.

PERSONAL INCOME
For Calendar Years 1995 Through 2001

Year and Area	Total Effective Buying Income ($ in thousands)	Median Household Effective Buying Income
1995		
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
1996		
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
1997		
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
1998		
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
1999		
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
2000		
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
2001		
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
2002		
City of Riverside	3,874,905	37,406
County of Riverside	25,180,040	38,691
State of California	647,879,427	42,861
United States	5,340,682,818	38,035

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

A comparison of effective buying income groupings per household for 2002 is shown in the following table:

INCOME GROUPINGS FOR 2002

Percent of Households by EBI Group	City of Riverside	Riverside County	State of California
$ 20,000-34,999.....	24.3%	23.6%	21.1%
$ 35,000-49,999.....	19.7	20.0	18.9
$ 50,000 and over.....	33.5	34.8	40.5

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 Alvord 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
1997-98 through 2002-03

Grades	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
K-8	205,572	211,973	219,433	228,348	237,880	247,845
9-12.....	79,944	83,256	87,622	91,562	95,450	101,762
Total.....	285,516	295,229	307,055	319,910	333,330	349,607

Source: State Department of Education.

Locally, higher education is available at four institutions: Riverside City College, which had an enrollment of approximately 26,191 in the Fall of 2003; University of California at Riverside, which had a graduate and undergraduate enrollment of approximately 15,934 in the Fall of 2003; California Baptist University, which had an enrollment of 2,359 in the Fall of 2003; and La Sierra University at Riverside, which had an enrollment of approximately 1,946 in the Fall of 2003. Also located in the City are the California School for the Deaf, which had an enrollment of 505 during the Fall of 2003, and the Sherman Institute, a federally-run school for Indians, which had an enrollment of 373 during the Fall of 2003.

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

Year and Area	Civilian Labor Force	Employed	Unemployed	Unemployment Rate
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

Industry	1999	2000	2001	2002	2003*
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	95,800	100,800	104,400	106,100	105,900
Other Services	13,900	15,300	15,700	16,200	15,900
Government	183,100	192,100	200,200	212,400	217,300

Source: California Employment Development Department.

The ten largest employers in the County are shown below.

COUNTY OF RIVERSIDE
LARGEST EMPLOYERS
(As of October, 2003)

Company	Employees in County	Total Employees
County of Riverside	16,726	16,726
Univ. of California, Riverside	9,822	9,822
Riverside Unified School District	3,906	3,906
Riverside Community College	3,350	3,350
Kaiser Permanente Medical Center	2,886	101,345
City of Riverside	2,600	2,600
Jurupa Unified School District	1,792	2,109
Riverside County Office of Education	1,600	1,600
Alvord Unified School District	1,590	1,590
Fleetwood Enterprises	1,550	13,800

Source: Riverside Press-Enterprise.

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

	1999	2000	2001	2002	2003*
Residential					
Single Family.....	$133,165,770	$189,1500,864	$254,494,169	$218,696,092	$89,169,259
Multi-Family.....	49,402,436	54,910,880	2,718,970	0	93,711,012
Alter & Additions.....	11,100,435	10,607,768	11,064,,171	12,584,670	12,511,540
Total Residential:.....	$193,668,641	$254,669,512	$268,277,310	$231,288,762	$213,345,131
Nonresidential					
New Commercial.....	$9,567,531	$12,403,972	$41,60,469	$53,790,774	$65,583,506[1]
New Industrial	14,967,430	3,191,916	13,086,404	6,190,790	--
Other New Nonres.	7,308,,670	5,697,892	9,976,964	17,948,322	0
Alter & Additions	31,559,551	21,943,481	31,886,172	32,820,556	36,506,438
Total Nonresidential..	$63,403,182	$43,237,261	$96,552,009	$110,750,442	$107,886,560
Total All Building Permit Valuations.....	$257,071,823	$297,906,,773	$364,829,319	$342,031,204	$321,231,691

* February 2003
Source: Construction Industry Research Board

Retail Sales

The following table indicates growth of taxable transactions for the period 1997 through the third quarter of 2002 in the City by type of business:

CITY OF RIVERSIDE TAXABLE TRANSACTIONS
For Calendar Years 1997 Through 2002
($ in thousands of dollars)

	1997	1998	1999	2000	2001	2002*
Apparel stores	$ 67,783	$ 68,851	$ 78,605	$ 92,241	$ 98,859	$71,475
General merchandise stores	392,005	411,743	438,137	465,490	485,571	342,769
Food stores	124,750	121,359	125,986	133,363	134,502	102,246
Eating & drinking places	183,560	196,734	209,049	223,253	239,811	192,808
Home furnishings & appliances	66,256	65,720	74,817	77,552	75,754	55,813
Building materials & farm implements	201,844	253,925	275,433	290,734	326,627	262,325
Auto dealers and auto supplies	428,380	505,421	580,804	698,147	780,641	647,434
Service stations	139,748	129,197	151,413	200,155	199,159	143,823
Other retail stores	269,798	285,618	313,917	341,252	351,055	277,236
Retail Stores Totals	1,874,394	2,038,568	2,248,161	2,522,187	2,691,979	2,095,929
All other outlets	497,539	563,407	661,371	697,707	715,273	572,682
Total all outlets	$2,371,933	$2,601,975	$2,909,532	$3,219,894	$3,407,252	$2,668,611

Source: California State Board of Equalization.
* Through 3rd Quarter.

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 Metropolitan Transportation Authority 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. In 1990, voters of the adjacent San Bernardino County approved a similar program.

Future development within Western Riverside County is expected to create traffic volume exceeding the capacity of the regional arterial highway system. The City, along with the County and thirteen other cities in the western portion of the County, have developed the Transportation Uniform Mitigation Fee ("TUMF") Program to provide funds to improve the system. The TUMF Program would place a uniform fee on new development to fund regional highway improvements necessitated by such development. The proposed fees are: new residential - $6,650 per unit; multi-family housing - $4,607 per unit; industrial development - $1.45 per square foot; retail/commercial development - $7.81 per square foot; and service/commercial projects - $4.84 per square foot. Certain exemptions are provided in the ordinance.

APPENDIX D

AGENCY'S AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR 2002/03

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McGladrey & Pullen
Certified Public Accountants

Independent Auditor's Report on the Financial Statements and Supplementary Information

To the Board of Directors
Redevelopment Agency of the City of Riverside
Riverside, California

We have audited the accompanying 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 blended component unit of the City of Riverside, California, as of and for the year ended June 30, 2003, 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 an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Redevelopment Agency of the City of Riverside, as of June 30, 2003, and the respective changes in financial position thereof 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, 2003 on our consideration of the Agency's internal control over financial reporting and 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.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The accompanying combining and individual nonmajor fund financial statements and computations of excess/surplus funds are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and computations of excess/surplus funds have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

McGladrey & Pullen, LLP

Riverside, California
September 30, 2003

McGladrey & Pullen, LLP is a member firm of RSM International,
an affiliation of separate and independent legal entities.

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, 2003. 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 9-10 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 11 and 13 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 15-27 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 29-32 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 $56,464 at June 30, 2003.

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, 2003 compared to June 30, 2002 is as follows:

	Governmental Activities 2003	Governmental Activities 2002
Non-capital assets	$ 79,815	$88,027
Capital assets	3,707	1,898
Total assets	83,522	89,925
Long-term liabilities outstanding	130,933	165,540
Other liabilities	9,053	6,077
Total liabilities	139,986	171,617
Net assets:		
Invested in capital assets, net of related debt	3,707	1,898
Restricted	11,940	14,602
Unrestricted	(72,111)	(98,192)
Total net assets	$(56,464)	$(81,692)

Governmental activities. Governmental activities decreased the Agency's net assets by $11,720. Key elements of this decrease are as follows:

	Governmental Activities 2003	Governmental Activities 2002
Revenues:		
Program revenues:		
Charges for services	$ 3,730	$ 3,562
Capital grants and contributions	0	1,837
General revenues:		
Property tax increment	16,180	14,859
Other	2,787	3,565
Total revenues	22,697	23,823
Expenses:		
Redevelopment activities	27,062	17,957
Interest on long-term debt	7,355	7,289
Total expenses	34,417	25,246
Decrease in net assets	(11,720)	(1,423)
Net assets (deficit), as restated – July 1	(44,744)	(80,269)
Net assets (deficit) – June 30	$(56,464)	$(81,692)

- Capital grants for governmental activities decreased by $1,837. 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 $1,321 (8.9%) 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 $778. This decrease reflects lower interest earnings on cash and investments.
- Redevelopment activity expenses increased $9,105 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 $44,158, a decrease of $7,407 in comparison with the prior year. Approximately half of this total amount ($24,245) 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 ($2,928), 2) to pay debt service ($8,430), and 3) for a variety of other restricted purposes ($8,555).

Capital Asset and Debt Administration

Capital assets. The Agency's investment in capital assets for its governmental activities as of June 30, 2003 amounts to $3,707 (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:

	Capital Assets 2003	Capital Assets 2002
Land	$1,289	$1,289
Buildings	2,000	0
Improvements other than buildings	370	370
Machinery and equipment	275	689
Subtotal	3,934	2,348
Less accumulated depreciation	(227)	(450)
Total	$3,707	$1,898

Additional information on the Agency's capital assets can be found in note 6 on page 21 of this report.

Long-term debt. At the end of the current fiscal year, the Agency had total bonded debt outstanding of $109,615. The bonds are secured solely by specified revenue sources (i.e., tax allocation bonds).

The Agency's total debt increased by $1,478 offset by retirements of $4,308 during the current fiscal year. Increases were due to advances from the City to provide interim financing for Downtown Restaurant Assistance Program and a loan from California Housing Finance Agency to purchase and rehabilitate four-plexes at Topaz and Turquoise Streets..

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

Project Area	Time limitations to incur debt	Bonded Debt Limit (in millions)
Arlington	2014-2023	$125
Casa Blanca	2014	80
Downtown/Airport	2011-2014	149
Magnolia Center	2018	55
University Corridor/Sycamore Canyon	2014-2017	187
Hunter Park/Northside	2023	115

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 22-25 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 14 on page 27.

Court rulings on an Orange County property tax case could have an effect on future tax increment revenues. In November 2001, an Orange County Superior Court Judge ruled that the Orange County Assessor's Office violated Proposition 13 by increasing the taxable value of a Seal Beach residence by 4% in a single year. County attorneys argued that the assessment was legal because it made up for years in which the property value did not increase. The County maintains it was merely "recapturing" the full tax value of the property, charging 2% for each of the

years the property values did not rise. On December 12, 2002, the Superior Court certified class action status for this case and the Court and Tax Collector are currently addressing when and if notification to the taxpayers should be executed.
In 2002, two other local courts (Los Angeles and San Diego) ruled differently on the same issue and both affirmed the current statewide practice of property assessment restoration (i.e., the local courts differ on this issue). The property tax laws are applied on a statewide basis and the contradicting ruling with two other local courts on the same legal issue require a uniformity review at the appellate level. With this notice, the Court of Appeal will establish a briefing and hearing schedule and that process may take several months to complete. Based on the Court of Appeal's briefing schedule, the respondent is required to submit a reply brief by October 17, 2003. Then, the appellants will answer the respondent's reply brief by November 7, 2003. The Court of Appeal has scheduled a hearing on December 16, 2003. If the Judge's decision is upheld on appeal, it could have financial ramifications throughout the State of California. The Agency's management is unable to reasonably estimate the financial effect if the Orange County Superior Court's decision is upheld because it would be dependent upon how the court decides to apply its ruling.

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.

CITY OF

RIVERSIDE

BE A PART OF IT

REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE
STATEMENT OF NET ASSETS
June 30, 2003
(amounts expressed in thousands)

Assets:	
Cash and investments	$21,464
Cash and investments at fiscal agent	17,049
Receivables (net of allowances for uncollectibles)	737
Rehabilitation loans receivable	4,529
Capital lease receivable	27,925
Advances to the City	229
Land and improvements held for resale	7,882
Capital assets (net of accumulated depreciation)	3,707
Total assets	83,522
Liabilities	
Accounts payable and other accrued liabilities	3,326
Accrued interest payable	1,892
Deferred revenue	0
Deposits	169
Noncurrent liabilities:	
Due within one year	2,992
Due in more than one year	118,276
Advances from the City:	
Due within one year	620
Due in more than one year	12,711
Total liabities	139,986
Net Assets	
Invested in capital assets, net of related debt	3,707
Restricted for:	
Housing projects	3,510
Debt service	8,430
Unrestricted	(72,111)
Total net assets	($56,464)

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

REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE
STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES
For the year ended June 30, 2003
(amounts expressed in thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Total
Governmental activities:				
Redevelopment activities	$27,062	$3,730	$0	($23,332)
Interest on lont-term debt	7,355			(7,355)
Total governmental activities	$34,417	$3,730	$0	(30,687)
General revenues:				
Property taxes				16,180
Investment earnings				1,150
Miscellaneous				1,791
Total general revenues				19,121
Contributions				(154)
Change in net assets				(11,720)
Net assets - beginning, as restated				(44,744)
Net assets - ending				($56,464)

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

REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE
(a component unit ot the City of Riverside, California)
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2003
(amounts expressed in thousands)

	Debt Service		Capital Projects Funds				
Assets	Downtown/ Airport	University Corridor/ Sycamore Canyon	Casa Blanca	Downtown/ Airport	University Corridor/ Sycamore Canyon	Other Funds	Total Funds
Cash and investments	$486	$1,046	$574	$9,481	$4,511	$5,366	$21,464
Cash and investments at fiscal agent	3,630	1,876	5,348	1,970	2,274	1,951	17,049
Interest receivable	32	29	7	84	36	54	242
Accounts receivable, net	95	106	0	5	0	34	240
Intergovernmental receivables	0	0	0	255	0	0	255
Rehabilitation loans receivable	0	0	433	763	84	3,249	4,529
Capital lease receivable	27,925	0	0	0	0	0	27,925
Due from other funds	0	0	0	930	0	0	930
Advances to the City	0	229	0	0	0	0	229
Land and improvements held for resale	0	0	238	6,596	400	648	7,882
Total Assets	32,168	3,286	6,600	20,084	7,305	11,302	80,745
Liabilities and Fund Balances							
Liabilities:							
Account payable	516	14	143	687	1,595	326	3,281
Accrued liabilities	0	0	0	47	0	0	47
Compensated absences	0	0	0	8	0	0	8
Deferred revenue	27,925	69	25	1,064	0	3,069	32,152
Deposits	0	0	0	159	0	10	169
Due to other funds	0	0	0	0	0	930	930
Total Liabilities	28,441	83	168	1,965	1,595	4,335	36,587
Fund Balances:							
Reserved for:							
Encumbrances	0	0	202	2,528	91	107	2,928
Debt service	3,727	3,203	0	0	0	1,500	8,430
Non-current loans receivable	0	0	408	0	84	181	673
Land and improvements held for resale	0	0	238	6,596	400	648	7,882
Unreserved, designated for future operations	0	0	3,720	4,581	2,895	0	11,196
Unreserved, undesignated:							
Capital projects funds	0	0	1,864	4,414	2,240	1,543	10,061
Special revenue funds	0	0	0	0	0	2,988	2,988
Total Fund Balances	3,727	3,203	6,432	18,119	5,710	6,967	44,158
Total Liabilities and Fund Balances	$32,168	$3,286	$6,600	$20,084	$7,305	$11,302	$80,745

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, 2003
(amounts expressed in thousands)

Total fund balances - governmental funds		$44,158
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		3,707
Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the funds.		32,154
Long-term liabilities, as listed below, are not due and payable in the current period and therefore are not reported in the funds.		
Bonds Payable	$ (109,616)	
Interest Payable	(1,892)	
Notes Payable	(11,447)	
Advances Payable	(13,331)	
Compensated Absences	(197)	(136,483)
Net assets of governmental activities		($56,464)

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, 2003
(amounts expressed in thousands)

	Debt Service		Capital Projects Funds				
	Downtown/ Airport	University Corridor/ Sycamore Canyon	Casa Blanca	Downtown Airport	University Corridor/ Sycamore Canyon	Other Funds	Total Funds
Revenues:							
Tax increment	$6,761	$3,407	$0	$0	$0	$6,012	$16,180
Interest	71	174	179	356	185	185	1,150
Intergovernmental	200	0	0	0	0	200	400
Miscellaneous	1,943	583	0	1,176	422	997	5,121
Total Revenues	8,975	4,164	179	1,532	607	7,394	22,851
Expenditures:							
Current:							
Salaries and administrative	8	59	525	1,593	93	594	2,872
Professional services	114	57	19	850	29	366	1,435
Property acquisitions	0	0	0	345	115	63	523
Project improvement	0	0	2,987	646	4,898	2,033	10,564
Pass-through agreement	0	0	394	2,200	1,116	319	4,029
Debt service:							
Principal	1,549	636	0	0	0	509	2,694
Interest	4,621	1,807	0	0	0	943	7,371
Repayment of advances	598	0	0	1,003	0	42	1,643
Total Expenditures	6,890	2,559	3,925	6,637	6,251	4,869	31,131
Excess(Deficiency) of Revenues Over(Under) Expenditures	2,085	1,605	(3,746)	(5,105)	(5,644)	2,525	(8,280)
Other Financing Sources(Uses):							
Transfers in	1,842	459	649	5,667	2,336	1,458	12,411
Transfers out	(5,667)	(2,336)	0	(27)	(28)	(4,353)	(12,411)
Proceeds from issuance of long-term debt	0	0	0	0	0	750	750
Advances from the City	92	296	0	340	0	0	728
Gain (loss) on sale of assets	0	0	0	0	0	(605)	(605)
Total Other Financing Sources(Uses)	(3,733)	(1,581)	649	5,980	2,308	(2,750)	873
Excess(Deficiency) of Revenues and Other Financing Sources Over(Under) Expenditures and Other Financing Uses	(1,648)	24	(3,097)	875	(3,336)	(225)	(7,407)
Fund Balances, July 1	5,375	3,179	9,529	17,244	9,046	7,192	51,565
Fund Balances, June 30	$3,727	$3,203	$6,432	$18,119	$5,710	$6,967	$44,158

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, 2003
(amounts expressed in thousands)

Net change in fund balances-total governmental funds		($7,407)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays 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 capital outlays exceeded depreciation in the current period, as listed below:		
Capital Outlay, including Impairment	$ (7,177)	
Depreciation Expense	(37)	(7,214)
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. The net effect of these differences in the treatment of long-term debt and related items is listed below:		
Principal payments	$ 2,694	
Interest payments	16	
Loan Proceeds	(750)	
Repayments of Advances	941	2,901
Change in net assets of governmental activities		($11,720)

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

(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 six 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 1969, 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, 2003, are advances from the City and accumulated interest totaling $13,331.

(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 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.

(amounts expressed in thousands)

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.

Citywide information concerning cash and investments for the year ended June 30, 2003, including authorized investments, credit risk, carrying amount and market value of deposits and investments may be found in the notes of the City's "Comprehensive Annual Financial Report."

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 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 $197 have been recorded in the statement of net assets.

(amounts expressed in thousands)

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 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.

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.

(amounts expressed in thousands)

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

O. Tax Increment Revenues

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

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.)

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.

Q. Implementation of New Accounting Principles

Government Accounting Standards Board (GASB) issued Statement No. 40, Deposit and Investment Risk Disclosures. The Statement amends GASB Statement No. 3, Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements to address common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, the Statement requires certain disclosures of investments that have fair market values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this Statement also should be disclosed. The Agency will be required to implement this Statement for the fiscal year ending June 30, 2005.

(amounts expressed in thousands)

Note 2: Rehabilitation Loans Receivable and Capital Lease Receivable

Rehabilitation Loans Receivable

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.

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, 2003, loans receivable by project area are as follows:

Special Revenue Funds:	
Arlington	$ 12
Casa Blanca	2,455
Downtown/Airport	353
University Corridor/Sycamore Canyon	323
Rehabilitation	106
	3,249
Capital Projects Funds:	
Casa Blanca	433
Downtown/Airport	763
University Corridor/Sycamore Canyon	84
	1,280
Total	**$4,529**

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:

2004	$2,199
2005	2,221
2006	2,249
2007	2,273
2008	2,298
Thereafter	43,669
Total Capital Lease Receivable	54,909
Less: Unearned Interest	(26,984)
Net Capital Lease Receivable	**$27,925**

(amounts expressed in thousands)

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, 2003, is as follows:

Special Revenue Funds:	
Casa Blanca	$ 57
University Corridor/Sycamore Canyon	591
	648
Capital Projects Funds:	
Casa Blanca	238
Downtown/Airport	6,596
University Corridor/Sycamore Canyon	400
	7,234
Total	**$ 7,882**

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, 2003, is as follows:

Receivable Fund	Payable Fund	Amount
Redevelopment Agency – Capital Projects	Redevelopment Agency – Special Revenue	$ 930
	Total	**$ 930**

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, 2003, is as follows:

Transfer In Fund	Transfer Out Fund	Amount
Special Revenue	Capital Projects	$ 27
Debt Service	Special Revenue	2,697
	Capital Projects	28
Capital Projects	Debt Service	9,659
	Total	**$12,411**

Note 6. Capital Assets

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

	Beginning Balance	Additions	Sales or Dispositions	Ending Balance
Land	**$1,289**	**$ 0**	**$ 0**	**$1,289**
Buildings	9,599	0	(7,599)	2,000
Improvements	370	0	0	370
Equipment	689	0	(414)	275
Depreciable Assets	10,658	0	(8,013)	2,645
Less accumulated depreciation for:				
Buildings	576	0	(576)	0
Improvements	19	19	0	380
Equipment	431	18	(260)	189
Depreciation	1,026	37	(836)	227
Depreciable Assets, Net	**$9,632**	**$(37)**	**$(7,177)**	**$2,418**

(amounts expressed in thousands)

Sale or dispositions of assets includes $7,023 to reflect the impaired value of a parking structure.

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:

	Balance, Beginning Of Year	Additions	Reductions	Balance, End Of Year	Due within One Year
Lease Revenue Bonds	$28,240	$0	$315	$27,925	$365
Notes Payable	11,097	750	399	11,448	441
Tax Allocation Bonds	83,025	0	1,930	81,095	2,010
Revenue Bonds	615	0	20	595	25
Compensated Absences	212	137	144	205	151
Sub-total	123,189	887	2,808	121,268	2,992
Advances from the City	14,246	728	1,643	13,331	620
Total	**$137,435**	**$1,615**	**$4,451**	**$134,599**	**$3,612**

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, 2003:

	Principal Outstanding
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.	$3,385
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.	4,286
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.	2,987
Note Payable to California Housing Finance Agency, interest at 3%, payable in annual installments of $88 through 2013, for housing projects.	750
Note payable to the City of Riverside at no interest, payable in annual installments of $20 through 2005, for Magnolia Center Project Area formation costs.	40
Total Notes Payable	**$ 11,448**

(amounts expressed in thousands)

The following is a schedule of annual debt service requirements to maturity as of June 30, 2003:

Fiscal Year	Principal	Interest	Total
2004	$ 419	$ 843	$1,262
2005	443	819	1,262
2006	463	791	1,254
2007	496	762	1,258
2008	531	730	1,261
2009-2013	3,298	3,064	6,362
2014-2018	3,321	1,809	5,130
2019-2023	1,197	947	2,144
2023-2026	1,280	430	1,710
Totals	**$11,448**	**$10,195**	**$21,643**

Bonds Payable

Bonds Payable at June 30, 2003, consisted of the following:

	Principal Outstanding
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	$29,575
$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.	10,435
$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	16,290
$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	5,810
$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 $4,870 term bonds at 5.0% due August 1, 2025.	18,985
Total	**$ 81,095**

(amounts expressed in thousands)

	Principal Outstanding
Revenue Bonds	
$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).	$ 595
Lease Revenue Bonds	
$24,810 1994 Downtown/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.	$23,815
$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.	4,110
Total	$ 27,925
Total Bonds Payable	$ 109,615

Annual debt service requirements to maturity for Bonds Payable, as of June 30, 2003, are as follows:

Fiscal Year	Principal	Interest	Total
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	3,015	5,556	8,571
2009-2013	18,160	25,064	43,224
2014-2018	24,700	19,125	43,825
2019-2023	33,330	10,813	44,143
2024-2028	19,960	1,791	21,751
Total	**$109,615**	**$85,953**	**$195,568**

(amounts expressed in thousands)

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 4.21% at June 30, 2003

.

A schedule of the Agency's advances and related accrued but unpaid interest from the City at June 30, 2003, follows:

	Principal	Accrued Interest	Total
Downtown/Airport Project - $2,500 advance of December 3, 1985, due July 1, 2013.	$2,500	$ 828	$3,328
Downtown/Airport Project - $340 advance of October 1, 2002, due October 1, 2009.	340	11	351
Magnolia Center Project – $91 advance of April 18, 2000, due April 18, 2005	35	1	36
Downtown/Airport Project – $2,503 advance of March 12, 2002, due March 12, 2007	2,193	92	2,285
Central Industrial Project – $7,000 advance of May 24, 2002, due upon obtaining permanent financing	7,000	331	7,331
Total	**$12,068**	**$1,263**	**$13,331**

Note 8. Risk Management 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, 2003, 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, 2003, were $55 and were allocated to the project areas.

Citywide information concerning risks, insurance policy limits and deductibles and designation of general fund balance for risks for the year ended June 30, 2003, may be found in the notes of the City's "Comprehensive Annual Financial Report."

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

(amounts expressed in thousands)

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 $102 for the year ended June 30, 2003.

Citywide information concerning elements of unfunded pension benefit obligation, contributions to CalPERS for the year ended June 30, 2003, and recent trend information may be found in the notes of the City's "Comprehensive Annual Financial Report".

Note 10. Deficit Fund Balances

A deficit fund balances of $938 exists in the Special Revenue Fund Downtown/Airport Project Area. Property tax appeals have reduced the amount of property tax increment revenues received in this fund. 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 $10,028 in the Fiscal Year 2003/2004 Budget relating to these commitments.

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: Restatement of Net Assets/Fund Balance:

The Agency's Net Assets for Governmental Activities and Fund Balance at June 30, 2002 have been restated to record the elimination of deferred revenue associated with a capital lease receivable and to correct a capital assets entry.

The restatements had the following effect on the Net Assets for Governmental Activities:

Beginning, as previously reported	$(81,692)
Elimination of deferred revenue associated with a capital lease receivable	27,925
Capital assets restatement entry	9,023
Beginning, as restated	**$(44,744)**

(amounts expressed in thousands)

Note 13: Subsequent Events

Redevelopment agencies in the State of California are required to transfer a total of $135,000 (unaudited) in property tax revenues to the Education Revenue Augmentation Fund (ERAF) in fiscal year 2004 to help balance the state's budget. The Agency share of ERAF for fiscal year 2004 is $776.

Subsequent to June 30, 2003, two bond issues were completed to take advantage of improved interest rates and/or realize debt service savings.
The bond issues were as follows:

On July 8, 2003, the Agency issued the Lease Revenue Refunding Bonds 2003 Series A for $26,255 and 2003 Series B for $4,810 to advance refund $27,925 of the 1994 Downtown/Airport Project Area, Series A and B Bonds;

On July 29, 2003, the Agency issued the Series 2003 Merged Project Area Tax Allocation and Refunding Bonds totaling $40,435 to advance refund $29,575 of the 1993 Tax Allocation Refunding Bonds and provide $10,805 for new projects in the Downtown/Airport Project Area.

CITY OF

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REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE
(a component unit of the City of Riverside, California)
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2003
(amounts expressed in thousands)

	Special Revenue								Debt Service
Assets	Arlington	Casa Blanca	Eastside	Magnolia Center	Downtown/ Airport	University Corridor/ Sycamore Canyon	Rehabil-itation	Totals	Arlington
Cash and investments	$533	$262	$3	$249	$0	$1,237	$315	$2,599	$52
Cash and investments at fiscal agent	0	0	0	0	0	1,510	0	1,510	60
Interest receivable	5	3	0	3	0	10	2	23	5
Accounts receivable, net	0	0	0	0	0	2	0	2	0
Rehabilitation loans receivable	12	2,455	0	0	353	323	106	3,249	0
Land and improvements held for resale	0	57	0	0	0	591	0	648	0
Total Assets	550	2,777	3	252	353	3,673	423	8,031	117
Liabilities and Fund Balances (Accumulated Deficit)									
Liabilities:									
Accounts payable	0	0	0	0	10	80	15	105	0
Deferred revenues	0	2,455	0	0	351	263	0	3,069	0
Deposits	0	0	0	0	0	10	0	10	0
Due to other funds	0	0	0	0	930	0	0	930	0
Total Liabilities	0	2,455	0	0	1,291	353	15	4,114	0
Fund Balances (Accumulated Deficit):									
Reserved for encumbrances	0	0	0	0	12	88	0	100	0
Reserved for loans receivable	12	0	0	0	2	61	106	181	0
Reserved for land and improvements held for resale	0	57	0	0	0	591	0	648	0
Reserved for debt service	0	0	0	0	0	0	0	0	117
Unreserved, designated for future operations	0	40	0	0	22	1,440	0	1,502	0
Unreserved, undesignated	538	225	3	252	(974)	1,140	302	1,486	0
Total Fund Balances (Accumulated Deficit)	550	322	3	252	(938)	3,320	408	3,917	117
Total Liabilities and Fund Balances	$550	$2,777	$3	$252	$353	$3,673	$423	$8,031	$117

See accompanying independent auditors' report.

REDEVELOPMENT AGENCY OF THE CITY OF RIVERSIDE
(a component unit of the City of Riverside, California)
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2003
(amounts expressed in thousands)

	Debt Service				Capital Projects Funds				
Assets	Casa Blanca	Eastside	Magnolia Center	Totals	Arlington	Eastside	Magnolia Center	Totals	Total Nonmajor Funds
Cash and investments	$928	$59	$1	$1,040	$1,070	$0	$657	$ 1,727	$5,366
Cash and investments at fiscal agent	349	32	0	441	0	0	0	0	1,951
Interest receivable	11	1	2	19	6	0	6	12	54
Accounts receivable, net	0	0	0	0	0	0	32	32	34
Rehabilitation loans receivable	0	0	0	0	0	0	0	0	3,249
Land and improvements held for resale	0	0	0	0	0	0	0	0	648
Total Assets	1,288	92	3	1,500	1,076	0	695	1,771	11,302
Liabilities and Fund Balances (Accumulated Deficit)									
Liabilities:									
Accounts payable	0	0	0	0	124	0	97	221	326
Deferred revenues	0	0	0	0	0	0	0	0	3,069
Deposits	0	0	0	0	0	0	0	0	10
Due to other funds	0	0	0	0	0	0	0	0	930
Total Liabilities	0	0	0	0	124	0	97	221	4,335
Fund Balances (Accumulated Deficit):									
Reserved for encumbrances	0	0	0	0	4	0	3	7	107
Reserved for loans receivable	0	0	0	0	0	0	0	0	181
Reserved for land and improvements held for resale	0	0	0	0	0	0	0	0	648
Reserved for debt service	1,288	92	3	1,500	0	0	0	0	1,500
Unreserved, designated for future operations	0	0	0	0	463	0	218	681	2,183
Unreserved, undesignated	0	0	0	0	485	0	377	862	2,348
Total Fund Balances (Accumulated Deficit)	1,288	92	3	1,500	952	0	598	1,550	6,967
Total Liabilities and Fund Balances	$1,288	$92	$3	$1,500	$1,076	$0	$695	$1,771	$11,302

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, 2003
(amount expressed in thousands)

	Special Revenue								Debt Service
	Arlington	Casa Blanca	Eastside	Magnolia Center	Downtown/ Airport	University Corridor/ Sycamore Canyon	Rehabil-itation	Totals	Arlington
Revenues:									
Tax increment	$165	$406	$12	$111	$1,690	$852	$0	$3,236	$660
Interest	11	8	0	7	5	72	1	104	8
Intergovernmental	0	0	0	0	200	0	0	200	0
Miscellaneous	250	2	0	0	52	404	0	708	0
Total Revenues	426	416	12	118	1,947	1,328	1	4,248	668
Expenditures:									
Current:									
Salaries and administrative	36	1	0	35	69	250	0	391	0
Professional services	10	7	0	4	33	113	0	167	9
Property acquisitions	0	63	0	0	0	0	0	63	0
Project improvement	0	0	0	0	0	1,772	0	1,772	0
Pass-through agreement	0	0	0	0	0	0	0	0	0
Debt service:									
Principal	0	0	0	0	0	0	0	0	18
Interest	0	0	0	0	0	0	0	0	39
Repayment of advances	0	0	0	0	0	0	0	0	0
Total Expenditures	46	71	0	39	102	2,135	0	2,393	66
Excess(Deficiency) of Revenues Over(Under) Expenditures	380	345	12	79	1,845	(807)	1	1,855	602
Other Financing Sources(Uses):									
Transfers in	0	0	0	0	27	0	0	27	13
Transfers out	(13)	(404)	(7)	0	(1,843)	(430)	0	(2,697)	(610)
Proceeds from issuance of long-term debt	0	0	0	0	0	750	0	750	0
Loss on sale of assets held for resale	0	(5)	0	0	(336)	(264)	0	(605)	0
Total Other Financing Sources(Uses)	(13)	(409)	(7)	0	(2,152)	56	0	(2,525)	(597)
Excess(Deficiency) of Revenues and Other Financing Sources Over(Under) Expenditures and Other Financing Uses	367	(64)	5	79	(307)	(751)	1	(670)	5
Fund Balances (Accumulated Deficit), July 1	183	386	(2)	173	(631)	4,071	407	4,587	112
Fund Balances (Accumulated Deficit), June 30	$550	$322	$3	$252	($938)	$3,320	$408	$3,917	$117

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, 2003
(amount expressed in thousands)

	Debt Service				Capital Projects Funds				
	Casa Blanca	Eastside	Magnolia Center	Totals	Arlington	Eastside	Magnolia Center	Totals	Total Nonmajor Funds
Revenues:									
Tax Increment	$1,623	$48	$445	$2,776	$0	$0	$0	$0	$6,012
Interest	22	2	2	34	27	0	20	47	185
Intergovernmental	0	0	0	0	0	0	0	0	200
Miscellaneous	0	0	0	0	0	0	289	289	997
Total Revenues	1,645	50	447	2,810	27	0	309	336	7,394
Expenditures:									
Current:									
Salaries and administrative	2	0	0	2	88	0	113	201	594
Professional services	26	1	7	43	155	0	1	156	366
Property acquisitions		0	0	0	0	0	0	0	63
Project improvement	0	0	0	0	0	0	261	261	2,033
Pass-through agreement	0	0	0	0	174	0	145	319	319
Debt service:									
Principal	485	6	0	509	0	0	0	0	509
Interest	881	23	0	943	0	0	0	0	943
Repayment of advances	0	0	42	42	0	0	0	0	42
Total Expenditures	1,394	30	49	1,539	417	0	520	937	4,869
Excess(Deficiency) of Revenues Over(Under) Expenditures	251	20	398	1,271	(390)	0	(211)	(601)	2,525
Other Financing Sources(Uses):									
Transfers in	404	7	0	424	610	0	397	1,007	1,458
Transfers out	(649)	0	(397)	(1,656)	0	0	0	0	(4,353)
Advances from the City	0	0	0	0	0	0	0	0	750
Loss on sale of assets held for resale	0	0	0	0	0	0	0	0	(605)
Total Other Financing Sources(Uses)	(245)	7	(397)	(1,232)	610	0	397	1,007	(2,750)
Excess(Deficiency) of Revenues and Other Financing Sources Over(Under) Expenditures and Other Financing Uses	6	27	1	39	220	0	186	406	(225)
Fund Balances (Accumulated Deficit), July 1	1,282	65	2	1,461	732	0	412	1,144	7,192
Fund Balances (Accumulated Deficit), June 30	$1,288	$92	$3	$1,500	$952	$0	$598	$1,550	$6,967

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, 2003

		(in thousands)
Fund Balance, June 30, 2003		$3,917
Less Unavailable Amounts:		
Encumbrances	$100	
Rehabilitation loans	181	
Land and improvements held for resale	648	
Unspent debt proceeds	1,510	(2,439)
Available Low and Moderate Income Housing Funds		1,478
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)
		($9,083)
Computed Excess Surplus, June 30, 2003		$0

McGladrey & Pullen
Certified Public Accountants

Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in accordance with Government Auditing Standards

To the Honorable Mayor
and Members of the City Council
Redevelopment Agency of the City of Riverside
Riverside, California

We have audited the financial statements of the Redevelopment Agency of the City of Riverside (the Agency) as of and for the year ended June 30, 2003, and have issued our report thereon dated September 30, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

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

Internal Control over Financial Reporting

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

This report is intended for the information of City Council, management and the State Controller. However, this report is a matter of public record and its distribution is not limited.

McGladrey & Pullen, LLP

Riverside, California
September 30, 2003

McGladrey & Pullen, LLP is a member firm of RSM International,
an affiliation of separate and independent legal entities.

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APPENDIX E

FORM OF OPINIONS OF BOND COUNSEL

(SERIES A – TAX-EXEMPT)

Redevelopment Agency of the City of Riverside
Riverside, California

Re: $4,550,000 Redevelopment Agency of the City of Riverside
Arlington Redevelopment Project
2004 Tax Allocation Bonds Series A (Tax-Exempt)

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 $4,550,000 aggregate principal amount Redevelopment Agency of the City of Riverside Arlington Redevelopment Project 2004 Tax Allocation Bonds Series A (Tax-Exempt) (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 April 1, 2004 (the "Trust Indenture"), by and between the Agency and U.S. Bank National Association, as Trustee. In connection with the issuance of the Bonds, 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, being comprised of Tax Revenues (as defined in the Trust Indenture) and certain amounts in the funds and accounts 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.

5. 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,

(SERIES B - TAXABLE)

[Closing Date]

Redevelopment Agency of the City of Riverside
Riverside, California

Re: $2,975,000 Redevelopment Agency of the City of Riverside
Arlington Redevelopment Project
2004 Tax Allocation Bonds Series B (Taxable)

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 $2,975,000 aggregate principal amount Redevelopment Agency of the City of Riverside Arlington Redevelopment Project 2004 Tax Allocation Bonds Series B (Taxable) (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 April 1, 2004 (the "Trust Indenture"), by and between the Agency and U.S. Bank National Association, as 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 for the Bonds.

4. The interest on the Bonds is exempt from personal income taxation imposed by the State of California.

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.

The opinions expressed herein are based on an analysis of existing statutes, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur.

Respectfully submitted

APPENDIX F

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement"), dated as of April 1, 2004, 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 April 1, 2004 (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 _____, 2004, 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, each State Repository and the Participating Underwriter.

"*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, upon written direction to the Dissemination Agent, 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 2003/04 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. The Dissemination Agent shall be paid compensation by the Agency for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

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: _____
Agency Treasurer

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 Arlington Redevelopment Project 2004 Tax Allocation Bonds, Series A (Tax Exempt) and Redevelopment Agency of the City of Riverside Arlington Redevelopment Project 2004 Tax Allocation Bonds, Series B (Taxable)

Date of Issuance: _____, 2004

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 March 1, 2004 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

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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.

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 15th day after the Trustee's receipt of such request.

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APPENDIX H

SPECIMEN MUNICIPAL FINANCIAL GUARANTY INSURANCE POLICY

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FINANCIAL GUARANTY INSURANCE POLICY

SPECIMEN

Obligor:

Bonds:

Bond Trustee:

Insurance Trustee:

Policy Number:

Premium:

Radian Asset Assurance Inc. ("Insurer"), a corporation organized under the laws of the State of New York, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably guarantees the payment of the Obligation (hereinafter defined) to the Insurance Trustee for the benefit of the Holders (hereinafter defined) from time to time of the Bonds. This Policy does not insure against any risk other than nonpayment of the Obligation by or on behalf of the Obligor or any other obligor to the Bond Trustee. Nonpayment includes recovery from a Holder of Bonds or the Bond Trustee of any portion of the Obligation pursuant to a final judgment by any court of competent jurisdiction holding that such payment constituted a voidable preference within the meaning of any applicable bankruptcy law.

Upon receipt by the Insurer of telephonic or telegraphic notice, such notice subsequently confirmed to the Insurer in writing by registered or certified mail, from the Insurance Trustee that the Obligor (or other obligor responsible for payment of the Obligation) has failed to provide the Bond Trustee with sufficient funds for payment of the Obligation on the Due Date (hereinafter defined), the Insurer shall, not later than such Due Date or the first business day after receipt of such notice, whichever is later, pay to the Insurance Trustee for the benefit of the Holders of the Bonds an amount which shall be sufficient to pay the Obligation, but only upon receipt by the Insurer, in a form reasonably satisfactory to it, of (a) evidence of the Holder's right to receive such payment and (b) evidence, including any appropriate instruments of assignment, that all the Holder's rights with respect to such payment shall thereupon vest in the Insurer. "Due Date" means, when referring to the principal of the Obligation, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund prepayment and does not refer to any earlier date on which payment is due by reason of any other call for redemption, acceleration or other advancement of maturity unless the Insurer shall elect, in its sole discretion, to pay such principal due upon such redemption, acceleration or other advancement of maturity together with any accrued interest to the date of redemption, acceleration or other advancement of maturity. Tendering of payment, to the Bond Trustee, of such principal due upon such redemption, acceleration or other advancement of maturity, together with any accrued interest to the date of such redemption, acceleration or other advancement of maturity, shall satisfy the Insurer's obligations under this Policy, in full. When referring to interest on the Obligation, "Due Date" means the stated date for payment of interest.

The Insurer shall, to the extent of any payment made by it pursuant to this Policy, be deemed to have acquired and become the Holder of the Bonds or portions thereof or interest thereon paid from such payment and shall be fully subrogated to all rights to payment thereof.

As used herein, the term "Holder" or "Holders" means the registered owners of the Bonds as indicated in the registration books maintained by the Bond Trustee for such purpose at the time of nonpayment of the Obligation. The terms "Holder" or "Holders" shall not include the Obligor or any person or entity whose direct or indirect obligation constitutes the underlying security for the Obligation. As used herein, the term "Bond Trustee" means the Bond Trustee above named and any successor trustee duly appointed. As used herein, the term "Insurance Trustee" means the Insurance Trustee above named and any successor insurance trustee duly appointed. As used herein, the term "Obligation" means the payment of principal and interest regularly scheduled to be paid on the Bonds, which shall have become due for payment but shall be unpaid on the Due Date, but does not include any premium payable with respect to the Bonds, nor any redemption (except mandatory sinking fund redemption), acceleration or other advancement of maturity.

This Policy is non-cancelable for any reason. Premiums paid on this Policy are not refundable for any reason including without limitation the payment prior to maturity of the Bonds.

IN WITNESS WHEREOF, the Insurer has caused this Policy to be issued to the Insurance Trustee for the benefit of the Holders from time to time of the Bonds and to be executed and delivered by its duly authorized officer to become effective and binding upon the Insurer by virtue of the execution and delivery thereof on this ____ day of _____, 20___.

RADIAN ASSET ASSURANCE INC.

By: _____
Name: [ANALYST]
Title: [TITLE]

SPECIMEN

In the event the insurer becomes insolvent, any claims arising under this policy are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 15.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

This policy is not covered by the Property/Casualty Insurance Security Fund established by Article 76 of the New York Insurance Law.