

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

## PRELIMINARY OFFICIAL STATEMENT DATED OCTOBER 18, 2010

NEW ISSUE - BOOK-ENTRY ONLY

RATINGS: STANDARD & POOR'S "A-"  
(See "RATINGS" herein.)

*In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the 2010 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the 2010 Bonds is exempt from State of California personal income tax. See the caption "TAX MATTERS" herein with respect to other tax consequences with respect to the 2010 Bonds. The Agency has designated the 2010 Bonds as "bank qualified" under the provisions of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.*

**\$5,890,000\***

### **Yucaipa Redevelopment Agency Yucaipa Redevelopment Project 2010 Tax Allocation Bonds (Bank Qualified)**

Dated: Date of Delivery

Due: September 1 as on the inside cover

Interest on the 2010 Bonds will be payable on March 1 and September 1 of each year, commencing March 1, 2011. The 2010 Bonds will be issued as fully registered bonds in the denomination of \$5,000 each or any integral multiple thereof. Principal of the 2010 Bonds will be payable at the corporate trust office in Los Angeles, California, of Union Bank, N.A., as trustee. When issued, the 2010 Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. DTC will act as securities depository of the 2010 Bonds. Individual purchases may be made in book-entry form only. Principal, premium, if any, and interest on the 2010 Bonds will be paid to DTC, which in turn is required to remit such principal and interest to its participants for subsequent dispersal to the beneficial owners of the 2010 Bonds as described herein.

The 2010 Bonds are special obligations of the Yucaipa Redevelopment Agency and are secured pursuant to an Indenture of Trust, dated as of June 1, 1998, by and between the Agency and the Trustee, as supplemented by the First Supplemental Indenture of Trust, dated as of October 1, 2004, and a Second Supplemental Indenture of Trust dated as of November 1, 2010, by and between the Agency and the Trustee, and by Tax Revenues (as defined herein) on a parity with the \$500,000 outstanding aggregate principal amount of the Yucaipa Redevelopment Agency, Yucaipa Redevelopment Project 1998 Tax Allocation Bonds and the \$1,935,000 outstanding aggregate principal amount Yucaipa Redevelopment Agency Yucaipa Redevelopment Project 2004 Tax Allocation Bonds. Proceeds of the 2010 Bonds will be applied to (i) financing redevelopment projects of the Agency in the Project Area, (ii) fund the Reserve Requirement with respect to the 2010 Bonds and (iii) pay costs of issuance of the 2010 Bonds.

*The 2010 Bonds are subject to optional and mandatory redemption prior to maturity as more fully described herein.*

Except for obligations under certain agreements with taxing entities and statutory housing obligations, the Agency has no bonds or other obligations outstanding with a pledge on tax increment revenues for the Project Area senior to the pledge securing the 2010 Bonds; however, the Agency has incurred and may incur other obligations having a lien on Tax Revenues on a parity with or subordinate in right of payment to the 2010 Bonds.

**THE 2010 BONDS ARE SPECIAL OBLIGATIONS OF THE AGENCY AND, AS SUCH, ARE NOT A DEBT OF THE CITY OF YUCAIPA, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS AND NEITHER THE CITY, THE STATE NOR ANY OF ITS POLITICAL SUBDIVISIONS OTHER THAN THE AGENCY TO THE LIMITED EXTENT DESCRIBED HEREIN IS LIABLE FOR THE PAYMENT THEREOF. IN NO EVENT SHALL THE 2010 BONDS BE PAYABLE OUT OF ANY FUNDS OR PROPERTIES OTHER THAN THOSE OF THE AGENCY AS SET FORTH IN THE INDENTURE. THE 2010 BONDS DO NOT CONSTITUTE AN INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION. THE AGENCY HAS NO TAXING POWER.**

**THIS COVER PAGE CONTAINS INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. POTENTIAL PURCHASERS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.**

*The 2010 Bonds are offered when, as and if issued, subject to the approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel. Certain legal matters will be passed on for the Agency by its General Counsel, Richards Watson & Gershon, a Professional Corporation and by Best Best & Krieger LLP, as Disclosure Counsel. It is anticipated that the 2010 Bonds will be available for delivery in book-entry form through the facilities of DTC or its agent on or about November 16, 2010.*

SEE MATURITY SCHEDULE ON INSIDE FRONT COVER

Dated: \_\_\_\_\_, 2010

\* Preliminary, subject to change.

**\$5,890,000\***  
**Yucaipa Redevelopment Agency**  
**Yucaipa Redevelopment Project**  
**2010 Tax Allocation Bonds**  
**(Bank Qualified)**

**MATURITY SCHEDULE**

**(Base CUSIP \_\_\_\_\_)**

\$\_\_\_\_\_ Serial Bonds

\$\_\_\_\_\_ – \_\_\_\_\_% Term Bonds due \_\_\_\_\_, 20\_\_\_\_, Yield – \_\_\_\_\_%; CUSIP<sup>†</sup> \_\_\_\_\_

\$\_\_\_\_\_ – \_\_\_\_\_% Term Bonds due \_\_\_\_\_, 20\_\_\_\_, Yield – \_\_\_\_\_%; CUSIP<sup>†</sup> \_\_\_\_\_

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\* Preliminary, subject to change.

<sup>†</sup> CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the Agency nor the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

**YUCAIPA REDEVELOPMENT AGENCY  
YUCAIPA, CALIFORNIA**

**AGENCY MEMBERS**

*Denise Hoyt, Chairperson  
Tom Masner, Vice-Chairperson  
Richard Riddell, Member  
Allan Drusys, DVM, Member  
Diane Smith, Member*

**CITY COUNCIL**

*Richard Riddell, Mayor  
Allan Drusys, DVM, Mayor Pro Tem  
Denise Hoyt, Councilmember  
Tom Masner, Councilmember  
Diane Smith, Councilmember*

**CITY AND AGENCY STAFF**

*Ray Casey, City Manager and Executive Director of the Agency  
John McMains, Director of Community Development  
Bill Hemsley, Director of Public Works/City Engineer  
Gregory A. Franklin, Director of Administrative Services  
Richards Watson & Gershon, City Attorney and Agency Counsel  
Jennifer Shankland, Director of General Services, City Clerk and Agency Secretary*

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a Professional Corporation  
Newport Beach, California

**Disclosure Counsel**

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Riverside, California

**Financial Advisor**

C.M. de Crinis & Co., Inc.  
Sherman Oaks, California

**Trustee**

Union Bank, N.A.  
Los Angeles, California

**Fiscal Consultant**

HdL Coren & Cone  
Diamond Bar, California

No dealer, broker, salesperson or other person has been authorized by the Yucaipa Redevelopment Agency or the City of Yucaipa 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 any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy any 2010 Bonds by any person in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom 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 2010 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of fact.

The Underwriter has provided the following sentence for inclusion in this Official Statement:

The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the 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.

This Official Statement is submitted in connection with the sale of the 2010 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

**IN CONNECTION WITH THE OFFERING OF THE 2010 BONDS, THE UNDERWRITER MAY OVER ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SECURITIES OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology such as “plan,” “expect,” “estimate,” “project,” “budget” or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the caption “TAX REVENUES AND ANNUAL DEBT SERVICE — Projected Tax Revenues and Debt Service Coverage.”

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE AGENCY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

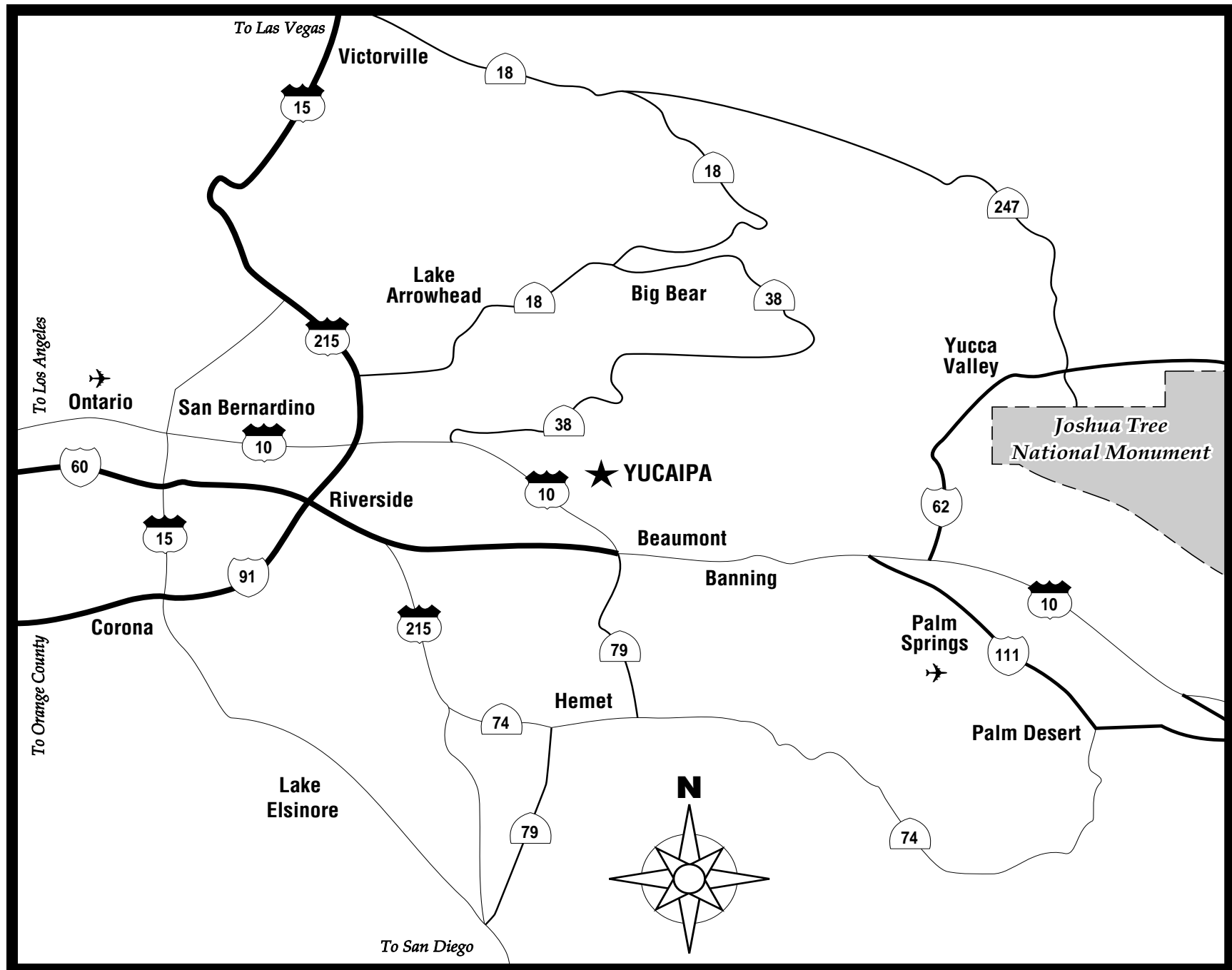
THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT AND HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

**THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS AND OTHERS AT A PRICE LOWER THAN THE OFFERING PRICE. THE OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.**

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# Yucaipa Vicinity Map



**\$5,890,000\***  
**Yucaipa Redevelopment Agency**  
**Yucaipa Redevelopment Project**  
**2010 Tax Allocation Bonds**  
**(Bank Qualified)**

**INTRODUCTION**

This Introduction is subject in all respects to the more complete information contained elsewhere in this Official Statement and the offering of the 2010 Bonds (as defined below) to potential investors is made only by means of the entire Official Statement. Potential investors are encouraged to read the entire Official Statement. Capitalized terms used and not defined in this Introduction shall have the meanings assigned to them elsewhere in this Official Statement.

**General**

The purpose of this Official Statement of the Yucaipa Redevelopment Agency (the “Agency”) is to set forth information in connection with the sale of its \$5,890,000\* principal amount of Yucaipa Redevelopment Agency, Yucaipa Redevelopment Project 2010 Tax Allocation Bonds (the “2010 Bonds”). The 2010 Bonds are being issued pursuant to the Community Redevelopment Law constituting Part 1 of Division 24, of the Health and Safety Code of the State of California (the “Redevelopment Law”), a resolution adopted by the Agency on October 11, 2010, and in accordance with the terms and conditions of an Indenture of Trust, dated as of June 1, 1998, by and between the Agency and Union Bank, N.A., as trustee (the “Trustee”), as supplemented by the First Supplemental Indenture of Trust, dated as of October 1, 2004 and a Second Supplemental Indenture of Trust dated as of November 1, 2010 (as supplemented, the “Indenture”), each by and between the Agency and the Trustee.

The 2010 Bonds are special obligations of the Agency and are secured by a pledge of Tax Revenues generated within the Yucaipa Redevelopment Project Area (the “Project Area”) and allocated to the Agency pursuant to the Redevelopment Law and the Redevelopment Plan for the Project Area (as more particularly described below, the “Redevelopment Plan”). Proceeds of the 2010 Bonds will be applied to finance redevelopment activities of the Agency in the Project, to fund the reserve requirement with respect to the 2010 Bonds and to pay costs of issuance of the 2010 Bonds. See “THE FINANCING PROJECT.”

The 2010 Bonds are being issued on a parity with the Agency’s Yucaipa Redevelopment Project 1998 Tax Allocation Bonds (the “1998 Bonds”) outstanding in the principal amount of \$500,000 and the Agency’s Yucaipa Redevelopment Project 2004 Tax Allocation Bonds outstanding in the principal amount of \$1,935,000 (the “2004 Bonds”), and with any future Parity Debt, as permitted by and in accordance with the Indenture. See “SECURITY FOR THE 2010 BONDS” herein. The 2010 Bonds, the 2004 Bonds, the 1998 Bonds and any additional Parity Debt issued by the Agency in accordance with the Indenture are referred to herein collectively as the “Bonds.”

**The City, the Agency and the Redevelopment Project**

The City of Yucaipa (the “City”) is located in San Bernardino County (the “County”), approximately 80 miles east of Los Angeles and 17 miles southeast of the City of San Bernardino. The City was incorporated as a general law city on November 27, 1989 and functions under a Council/Manager form of government. The City encompasses an area of approximately 27.66 square miles with an elevation ranging from 2,000 to 4,000 feet above sea level. The 2010 population of the City is estimated to be approximately 51,476.

The Agency was established by the City Council on December 10, 1990 by the adoption of Ordinance No. 090-58. The five members of the City Council serve as the governing body of the Agency and exercise all rights, powers, duties and privileges of the Agency.

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\* Preliminary, subject to change.

The Redevelopment Plan for the Yucaipa Redevelopment Project (the “Redevelopment Plan”) was approved by Ordinance No. 109, adopted by the City Council on June 22, 1992. The Yucaipa Redevelopment Project (the “Project Area”) encompasses about 1,407 acres located generally along the Yucaipa Boulevard corridor, the original downtown area and the Interstate 10 corridor.

The Law authorizes the financing of redevelopment projects through the use of tax increment revenues. This method provides that the taxable valuation of the property within a project area on the property tax roll last equalized prior to the effective date of the ordinance which adopts the redevelopment plan becomes the “base year” valuation. Assuming the taxable valuation never drops below the base year level, the taxing agencies thereafter receive that portion of the taxes produced by applying then current tax rates to the base year valuation, and the redevelopment agency is allocated the remaining portion produced by applying then current tax rates to the increase in valuation over the base year. Such incremental tax revenues allocated to a redevelopment agency may be pledged to the payment of agency obligations. Generally, tax increment revenues from one project area may not be used to repay indebtedness incurred for another project area. Redevelopment agencies have no power to levy property taxes and must look specifically to the allocation of taxes as described above. See generally “LIMITATIONS ON TAX REVENUES” herein.

The Agency’s receipt of Tax Revenues is subject to certain statutory housing obligations and obligations under certain agreements with taxing agencies relating to sharing of tax increment (as more particularly described under the caption “THE YUCAIPA REDEVELOPMENT AGENCY — Tax Sharing Agreements” (the “Tax Sharing Agreements”). Payment by the Agency under one of the Tax Sharing Agreements has been subordinated to payments on the 2010 Bonds. See the caption “THE YUCAIPA REDEVELOPMENT AGENCY — Tax Sharing Agreements” herein. The Redevelopment Plan provides that the Agency is authorized to receive incremental tax revenues described at subsection (b) of Section 33670 of the Redevelopment Law; such revenues constitute “Tax Increment Revenues.” Under the Indenture, Tax Revenues are those Tax Increment Revenues available within certain limitations and after certain exclusions. See the caption “SECURITY FOR THE 2010 BONDS — Allocation of Taxes; Tax Revenues” herein. Pursuant to certain limitations set forth in the Redevelopment Plan as provided under the Redevelopment Law (the “Plan Limitations”), the Agency will not receive Tax Increment Revenues after June 22, 2043. See the caption “THE YUCAIPA REDEVELOPMENT AGENCY — Plan Limitations” herein.

## **Security for the Bonds**

The 2010 Bonds are special obligations of the Agency payable on a parity with the 1998 Bonds and the 2004 Bonds solely from Tax Revenues and other funds and amounts pledged therefor pursuant to the Indenture. Tax Revenues are defined in the Indenture generally as all taxes annually allocated to the Agency with respect to the Project Area following June 16, 1998, 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 other 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. Tax Revenues shall include all amounts of such taxes required to be deposited into the Low and Moderate Income Housing Fund of the Agency in any Fiscal Year pursuant to section 33334.3 of the Redevelopment Law, to the extent permitted under the Redevelopment Law to be applied to the payment of the principal of and interest and premium (if any) on the Bonds and any Parity Debt. Tax Revenues shall not include (a) amounts payable to the Agency by the State of California pursuant to Section 16112.7 of the California Government Code, and (b) amounts payable by the Agency under the Tax Sharing Agreements, to the extent not subordinated to the payment of principal of and interest on the Bonds. See the caption “SECURITY FOR THE 2010 BONDS — Allocation of Taxes” “— Pledge of Tax Revenues and Other Moneys” and “— Prior Liens” herein.

The 2010 Bonds are further secured by the Reserve Account held by the Trustee to be funded in an amount equal to the Reserve Requirement. See the caption “SECURITY FOR THE 2010 Bonds — Reserve Account” herein.

With the exception of certain statutory housing obligations, and payments under the Tax Sharing Agreements, the Agency has no bonds or other obligations outstanding with a pledge on tax increment revenues



for the Project Area senior to the pledge of Tax Revenues securing 2010 Bonds. Payment by the Agency under one of the Tax Sharing Agreements has been subordinated to payments on the 2010 Bonds. See the caption “THE YUCAIPA REDEVELOPMENT AGENCY — Tax Sharing Agreements” herein. See also the caption “SECURITY FOR THE 2010 BONDS” and “LIMITATIONS ON TAX REVENUES” herein. In addition, the Agency may issue additional obligations on a parity with the 1998 Bonds, the 2004 Bonds and the 2010 Bonds. See the caption “SECURITY FOR THE 2010 BONDS — Issuance of Additional Debt” herein.

### **Parity Bonds**

The Indenture provides that in addition to the 1998 Bonds, the 2004 Bonds and the 2010 Bonds, the Agency may issue or incur bonds, notes, loans, allowances or other indebtedness (“Parity Debt”) secured by a lien on Tax Revenues on a parity with the 1998 Bonds, the 2004 Bonds and the 2010 Bonds in such principal amount as shall be determined by the Agency. The Agency may issue or incur Parity Debt subject to certain specific conditions set forth in the Indenture. See “SECURITY FOR THE 2010 BONDS -- Issuance of Additional Debt” herein.

### **Forward Looking Statements**

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “project,” “budget” or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the caption “TAX REVENUES AND ANNUAL DEBT SERVICE — Projected Tax Revenues and Debt Service Coverage.”

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. NEITHER THE AGENCY NOR THE CITY PLANS TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

### **Summaries of Documents**

This Official Statement contains descriptions of the 2010 Bonds, the Indenture, the Agency, the Project Area, the Redevelopment Law and the Tax Sharing Agreements. The descriptions and summaries of documents herein do not purport to be comprehensive or definitive, and reference is made to each such document for the complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each such document and, with respect to certain rights and remedies, to laws and principles of equity relating to or affecting creditors’ rights generally. Capitalized terms not defined herein shall have the meanings set forth in the Indenture. Copies of the Indenture are available for inspection during business hours at the offices of the Agency, 34272 Yucaipa Boulevard, Yucaipa, California 92399.

## **THE FINANCING PROJECT**

A portion of the proceeds of the 2010 Bonds are expected to be used to finance various public capital improvements within that portion of the Project Area which constitutes the City’s Uptown Business District. The improvements include curb, gutter, sidewalk, street lighting, streetscape, alley improvements and off-street public parking. These improvements are designed to implement the Redevelopment Plan and the second phase of the City’s Uptown Business District Specific Plan. A portion of the proceeds of the 2010 Bonds may also be used to acquire, demolish, and rehabilitate public and private property, provide resources for site development

and to fund other capital improvements within the entire Project Area, including drainage and traffic improvements and other public and private infrastructure rehabilitation and improvements necessary to correct deficiencies. Proceeds of the 2010 Bonds may also be used by the Agency for other redevelopment purposes in accordance with the Redevelopment Law.

**SOURCES AND USES OF BOND PROCEEDS**

The following table sets forth the use of proceeds of the 2010 Bonds (exclusive of accrued interest).

Sources of Funds:	\$
Par Amount of Bonds	
Net Original Issue Premium/Discount	_____
Total Sources	\$
Uses of Funds:	
Deposit to 2010 Redevelopment Fund	\$
Deposit to Reserve Account	
Deposit to 2010 Costs of Issuance Fund <sup>(1)</sup>	
Underwriter's Discount	_____
Total Uses	\$

<sup>(1)</sup> Includes legal fees, rating agency fees, printing fees and consultant fees.

**TABLE 1**  
**YUCAIPA REDEVELOPMENT AGENCY**  
**ANNUAL DEBT SERVICE**

Set forth below is the annual debt service for the 2010 Bonds, the 2004 Bonds and the 1998 Bonds.

<b>Bond Year Ending September 1</b>	<b>Principal on the 2010 Bonds</b>	<b>Interest on the 2010 Bonds</b>	<b>Total for the 2010 Bonds</b>	<b>Principal and Interest on the 2004 Bonds</b>	<b>Principal and Interest on the 1998 Bonds</b>	<b>Total for the 2010, the 2004 and the 1998 Bonds</b>
2011				\$130,120	\$42,313	
2012				128,800	41,517	
2013				127,400	45,715	
2014				125,960	44,645	
2015				129,460	43,565	
2016				127,728	42,485	
2017				130,927	41,405	
2018				123,878	45,325	
2019				127,032	43,975	
2020				124,908	42,600	
2021				122,733	46,225	
2022				120,532	44,575	
2023				123,282	42,925	
2024				125,739	41,275	
2025				147,919	44,625	
2026				143,881	52,700	
2027				144,843	50,225	
2028				140,456	52,750	
2029				191,068	---	
2030				189,000	---	
2031				186,500	---	
2032				183,750	---	
2033				185,750	---	
2034				152,250	---	
2035				---	---	
2036				---	---	
2037				---	---	
2038				---	---	
2039				---	---	
2040				---	---	
<b>TOTALS</b>				<b>\$3,433,916</b>	<b>\$808,845</b>	

Source: Agency

**THE 2010 BONDS**

**Authority for Issuance**

The 2010 Bonds are issued pursuant to the Constitution and laws of the State of California and under authority granted to the Agency by the Redevelopment Law, the Agency's Resolution No. 2010-54 adopted on October 11, 2010, and the Indenture.

**THE 2010 BONDS ARE SPECIAL OBLIGATIONS OF THE AGENCY AND, AS SUCH, ARE NOT A DEBT OF THE CITY, THE STATE OF CALIFORNIA, OR ANY OF ITS POLITICAL SUBDIVISIONS AND NEITHER THE CITY, THE STATE, NOR ANY OF ITS POLITICAL SUBDIVISIONS OTHER THAN THE AGENCY, TO THE LIMITED EXTENT DESCRIBED HEREIN, IS LIABLE FOR THE PAYMENT THEREOF. IN NO EVENT SHALL THE 2010 BONDS BE PAYABLE OUT OF ANY FUNDS OR PROPERTIES OTHER THAN THOSE OF THE AGENCY AS SET FORTH IN THE INDENTURE. THE 2010 BONDS DO NOT CONSTITUTE AN INDEBTEDNESS**

**WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION. THE AGENCY HAS NO TAXING POWERS.**

**Description of the 2010 Bonds**

The 2010 Bonds will be issued in authorized denominations of \$5,000 each or integral multiples thereof and are dated their date of delivery. The 2010 Bonds mature on the respective dates and bear interest (calculated on the basis of a 360-day year comprised of twelve 30-day months) in the respective amounts set forth on the inside cover page hereof. Interest on the 2010 Bonds is payable on March 1 and September 1 of each year (collectively, the “Interest Payment Dates”) commencing March 1, 2011.

The 2010 Bonds will be issued as one fully registered bond without coupons for each maturity and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository of the 2010 Bonds. Individual purchases may be made in book-entry form only, in the principal amount of \$5,000 and integral multiples thereof for each maturity. Purchasers will not receive certificates representing their interest in the 2010 Bonds purchased. Principal and interest will be paid to DTC, which will in turn remit such principal and interest to its participants for subsequent dispersal to the beneficial owners of the 2010 Bonds as described herein. See the caption APPENDIX G — “BOOK ENTRY ONLY SYSTEM” herein.

**Redemption\***

***Optional Redemption***

The 2010 Bonds maturing on or before September 1, 2020 are not subject to redemption prior to their respective stated maturities. The 2010 Bonds maturing on or after September 1, 2021 shall be subject to redemption in whole, or in part among such maturities, as shall be determined by the Agency, and in any case by lot within a maturity, at the option of the Agency, on any date on or after September 1, 2020, from any available source of funds, at a redemption price equal to the principal amount of the 2010 Bonds to be redeemed, plus accrued interest thereon to the redemption date, without premium.

***Mandatory Sinking Account Redemption***

The 2010 Bonds maturing on September 1, 20\_\_ and September 1, 20\_\_, respectively, are also subject to redemption in whole, or in part by lot, on September 1, 20\_\_ and September 1, 20\_\_, respectively, as set forth in the following tables, from Sinking Account payments made by the Agency pursuant to the Indenture, at a redemption price equal to the principal amount thereof to be redeemed together with accrued interest thereon to the redemption date, without premium, or in lieu thereof shall be purchased pursuant to the succeeding paragraph of the following tables, in the aggregate principal amounts and on the dates as set forth in the following tables (provided, however, that if some but not all of such 2010 Bonds have been redeemed, the total amount of all future Sinking Account payments attributable to such 2010 Bonds shall be reduced by the aggregate principal amount of such 2010 Bonds so redeemed, to be allocated among such Sinking Account payments on a pro rata basis in integral multiples of \$5,000 as determined by the Agency (written notice of which determination shall be given by the Agency to the Trustee)):

Sinking Account Redemption of 2010 Bonds Maturing on September 1, 20\_\_

**Redemption Date  
(September 1)**

**Principal Amount Redeemed**

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\* Preliminary, subject to change.

**Redemption Date**  
**(September 1)**

**Principal Amount Redeemed**

***Selection of Bonds for Redemption.*** Whenever provision is made in the Indenture for less than all of the Bonds of any series or maturity thereof to be redeemed, the Trustee will select the Bonds to be redeemed from all Bonds not previously called for redemption, by lot in any manner which the Trustee in its sole discretion shall deem appropriate. For purposes of such selection, all Bonds will be deemed to be comprised of separate \$5,000 portions and such portions will be treated as separate bonds which may be separately redeemed.

***Notice of Redemption.*** As provided in the Indenture, notice of redemption will be mailed by first class mail, postage prepaid, not less than thirty (30) nor more than sixty (60) days prior to the redemption date, to each of the registered owners of the Bonds designated for redemption at their addresses appearing on the Bond registration books of the Trustee. Such notice shall also be given by first class mail, postage prepaid, confirmed facsimile transmission, or overnight delivery service, to each of the Securities Depositories named in the Indenture and to one or more of the Information Services named in the Indenture. Neither failure by an Owner to receive such notice or any defect in the notice so mailed will affect the sufficiency of the proceedings for the redemption of any Bonds or the cessation of interest thereon on the redemption date.

In lieu of redemption or otherwise, the Agency is authorized to purchase Bonds at public or private sale at any time at such price (inclusive of brokerage fees) as the Agency in its discretion may determine.

While the 2010 Bonds are registered with DTC in the book-entry only system, such notices will be given to DTC, as registered owner, and notices to Beneficial Owners and procedures for partial redemption of 2010 Bonds will be governed by DTC's procedures. See the caption APPENDIX G — "BOOK-ENTRY ONLY SYSTEM"

***Rescission.*** The Agency shall have the right to rescind any optional redemption by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of optional redemption shall be cancelled and annulled if for any reason funds will not or are not available on the date fixed for redemption for the payment in full of the 2010 Bonds then called for redemption, and such cancellation shall not constitute an Event of Default under the Indenture. The Agency and the Trustee shall have no liability to the Owners or any other party related to or arising from such rescission of redemption. The Trustee shall mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent.

**SECURITY FOR THE 2010 BONDS**

**Allocation of Taxes**

As provided in the Redevelopment Plan and pursuant to Article 6 of Chapter 6 of the Redevelopment Law 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, any city, county, city and county, district, or other public corporation (herein sometimes collectively called "taxing agencies") after the effective date of the Ordinance approving the Redevelopment Plan (being Ordinance No. 109 of the City of Yucaipa, which became effective on July 22, 1992), shall be divided as follows:

(a) *To Taxing Agencies:* That portion of the taxes which would be produced by the rate upon which the tax is levied each year by or for each of the taxing agencies upon the total sum of the assessed value of the

taxable property in the Project Area as shown upon the assessment roll used in connection with the taxation of such property by such taxing agency last equalized prior to July 22, 1992 (being the effective date of Ordinance No. 109, referred to above), shall be allocated to and when collected shall be paid into the funds of the respective taxing agencies as taxes by or for the taxing agencies on all other property are paid; and

(b) *To the Agency:* Except for taxes which are attributable to a tax rate levied by a taxing agency for the purpose of producing revenues to repay bonded indebtedness approved by the voters of the taxing agency on or after January 1, 1989, which shall be allocated to and when collected shall be paid into the fund of such taxing agency, that portion of said levied taxes each year in excess of the amounts provided for in (a) above shall be allocated to and when collected shall be paid into a special fund of the Agency to pay the principal of and interest on bonds, loans, moneys advanced to, or indebtedness (whether funded, refunded, assumed, or otherwise) incurred by the Agency to finance or refinance, in whole or in part, the Project Area. Unless and until the total assessed valuation of the taxable property in the Project Area exceeds the total assessed value of the taxable property in the Project Area as shown by the last equalized assessment roll referred to in paragraph (a) above, all of the taxes levied and collected upon the taxable property in the Project Area shall be paid into the funds of the respective taxing agencies. When said bonds, loans, advances, and indebtedness, if any, and interest thereon, have been paid, all moneys thereafter received from taxes upon the taxable property in the Project Area shall be paid into the funds of the respective taxing agencies as taxes on all other property are paid.

The Agency is authorized to make pledges of the portion of taxes allocated to it as described in paragraph (b) above to repay specific advances, loans and indebtedness as appropriate in carrying out the Redevelopment Plan.

#### **Pledge of Tax Revenues and Other Moneys**

The 2010 Bonds are payable on a parity with the 2004 Bonds and the 1998 Bonds from and secured by a pledge of and lien on all of the Tax Revenues and all moneys held by the Agency in the Special Fund and by the Trustee in the Debt Service Fund and the accounts thereof. See APPENDIX D — “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.” The “Tax Revenues” which the Agency has pledged to the payment of the Bonds are defined in the Indenture as all taxes annually allocated to the Agency with respect to the Project Area following the closing date for the 1998 Bonds, 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 other 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. Tax Revenues shall include all amounts of such taxes required to be deposited into the Housing Fund of the Agency in any Fiscal Year pursuant to section 33334.3 of the Redevelopment Law, to the extent permitted under the Redevelopment Law to be applied to the payment of the principal of and interest and premium (if any) on the Bonds and any Parity Debt. Tax Revenues shall not include (a) amounts payable to the Agency by the State of California pursuant to Section 16112.7 of the California Government Code, and (b) amounts payable by the Agency under the Tax Sharing Agreements, to the extent not subordinated to the payment of principal of and interest on the Bonds. See “SECURITY FOR THE 2010 BONDS — Prior Liens” and “THE YUCAIPA REDEVELOPMENT AGENCY — Pass-Through Agreements.”

All Tax Revenues received by the Agency shall be deposited in the Special Fund established pursuant to the Indenture, shall be transferred to the Trustee in the amounts required pursuant to the Indenture and shall be allocated and applied by the Trustee in accordance with the Indenture. Amounts of Tax Revenues received in any Bond Year in excess of amounts required for deposit to the Special Fund in such year are released to the Agency free of the lien of the Indenture. See APPENDIX D — “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

The Agency may, pursuant to the Indenture, issue additional obligations secured by Tax Revenues on a parity with the Bonds. See “SECURITY FOR THE 2010 BONDS — Issuance of Additional Debt.”

The Agency has no power to levy and collect taxes, and various factors beyond its control could affect the amount of Tax Revenues available in any year to pay the principal of and interest on the Bonds. See “LIMITATIONS ON TAX REVENUES.”

**The 2010 Bonds are not a debt of the City of Yucaipa, the State of California or any of its political subdivisions, and neither said City, said State or any of its political subdivisions other than the Agency to the limited extent described herein, is liable therefor, nor in any event shall the Bonds be payable out of any funds or properties other than those of the Agency. The 2010 Bonds do not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction.**

## **Prior Liens**

***Pass-Through Agreements.*** The Agency has entered into several agreements (the “Pass-Through Agreements”) in connection with the Project Area, whereby portions of the tax increment revenues which would otherwise be received by the Agency are paid to certain other entities. Except to the extent expressly made subordinate to the Bonds, amounts payable under the Pass-Through Agreements are excluded from Tax Revenues and, therefore, are not pledged to secure the Bonds. See “THE YUCAIPA REDEVELOPMENT AGENCY — Tax Sharing Agreements.” For a description of the amount of projected Tax Revenues and the relationship between such Tax Revenues and debt service requirements of the Bonds, see “TAX REVENUES AND ANNUAL DEBT SERVICE COVERAGE.” Under current law, the Agency is precluded from entering into any new tax-sharing agreements with taxing agencies.

***Housing Set-Aside.*** For a discussion of housing set-aside requirements, see “THE YUCAIPA REDEVELOPMENT AGENCY — Housing Set-Aside.” The Agency is permitted under the Indenture to issue Parity Debt in which a portion of debt service is permitted to be paid from amounts to be deposited in the Agency’s Low and Moderate Income Housing Fund. No portion of the proceeds of the 2010 Bonds are expected to be applied to housing purposes and no portion of the 2004 Bonds or the 1998 Bonds were used for housing purposes. Accordingly, Housing Set-Aside amounts are not available to pay debt service on the Bonds.

## **Other Agency Obligations**

***City Loans.*** The City has made loans to the Agency from time to time to cover operating costs of the Agency. At June 30, 2010, such loans totaled \$1,092,744 including accrued interest. The loans bear interest at various rates and are payable from available Agency revenues, but are subordinate to the pledge of Tax Revenues securing the Bonds.

***Parity Debt.*** In 1998, the Agency caused to be issued the 1998 Bonds in the initial aggregate principal amount of \$720,000 pursuant to the Indenture to finance certain redevelopment activities in the Project Area. In 2004, the Agency issued the 2004 Bonds in the initial aggregate principal amount of \$2,500,000. The obligation to pay debt service on the 1998 Bonds and the 2004 Bonds is secured by a lien on Tax Revenues on a parity with the 2010 Bonds. See “ANNUAL DEBT SERVICE” for the scheduled annual debt service on the 1998 Bonds and the 2004 Bonds.

***Other Bonded Indebtedness.*** The Agency currently has outstanding several revenue bond issues which are special obligations payable and secured by specific revenue sources described in the bond resolutions and official statements of the respective issues described below. Neither tax increment revenues, nor the faith, credit or taxing power of the City, Agency, State, or any political subdivision thereof, are pledged for the repayments of these revenue bonds.

In 2000, the Agency issued its Mobile Home Park Revenue Bonds (Valley View) Series 2000 A and B in the amounts of \$1,000,000 and \$505,000, respectively. In 2001, the Agency issued its Mobile Home Park Revenue Bonds (Rancho Del Sol and Grandview East) Series 2001 A and B in the amounts of \$6,130,00 and \$245,000, respectively. These series of mobile home park revenue bonds are not secured by Tax Revenues, but rather solely from rental income derived from the respective mobile home park.

## Issuance of Additional Debt

The Agency has covenanted in the Indenture that except for Parity Debt issued or incurred subject to the restrictions described below, it will not issue or incur 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.

The Agency may, by a Supplemental Indenture, issue or incur Parity Debt, but only upon compliance by the Agency with the provisions of the Indenture and any additional requirements set forth in such Supplemental Indenture and subject to the following specific conditions:

- (a) No Event of Default shall have occurred and then be continuing.
- (b) A certificate of the Agency 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 evidenced in a written document from an appropriate official of the County, plus, at the option of the Agency, the Additional Revenues if any Additional Revenues are identified in a report of an Independent Financial Consultant delivered to the Trustee, are at least equal to one hundred thirty-five percent (135%) of Maximum Annual Debt Service on all Bonds and Parity Debt which will be outstanding following the issuance of such Parity Debt. "Additional Revenues" are defined in the Indenture as the amount of Tax Revenues that, as shown in a report of an Independent Financial Consultant, are estimated to be receivable by the Agency within the Fiscal Year following the Fiscal Year in which such calculation is made as a result of an increase in the assessed valuation of taxable property in the Project Area due to either (i) construction which is completed but which is not yet reflected on the property tax rolls or (ii) transfer of ownership or of any other interest in real property which has occurred but which is not yet reflected on the property tax rolls.
- (c) The aggregate amount of the principal of and interest on all outstanding Bonds, Parity Debt and Subordinate Debt coming due and payable following the issuance of such Parity Debt shall not exceed the maximum amount of Tax Revenues permitted under the Redevelopment Plan to be allocated and paid to the Agency following the issuance of such Parity Debt.
- (d) The Supplemental Indenture or other document authorizing the issuance of Parity Debt shall provide that (i) interest on such Parity Debt shall be payable on March 1 and September 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 March 1 or September 1, and (ii) the principal of such Parity Debt shall be payable on September 1 in any year in which principal is payable.
- (e) Money shall be deposited in the Reserve Account or a subaccount thereof (or a Qualified Reserve Account Credit Instrument, as described below under "Reserve Account" shall be provided) equal to the Reserve Requirement for such Parity Debt.
- (f) The Agency shall deliver to the Trustee a certificate of the Agency certifying that the foregoing conditions precedent to the issuance or incurring of such Parity Debt have been satisfied.

For purposes of calculating the coverage requirements set forth in paragraph (b) above, there shall be excluded a pro rata portion of each installment of principal of any Parity Debt, together with the interest to accrue thereon, in the event and to the extent that the proceeds of such Parity Debt are deposited in an escrow fund from which amounts may not be released to the Agency unless the Tax Revenues for the current Fiscal Year (as evidenced in the written records of the County), plus at the option of the Agency the Additional Revenues, at least equal one hundred thirty-five percent (135%) of the amount of Maximum Annual Debt Service.

The Agency may not issue any Parity Debt bearing interest at a variable rate.



## **Reserve Account**

In order to provide further security for the Bonds, the Indenture creates a Reserve Account within the Debt Service Fund, to be held by the Trustee and maintained in the full amount of the Reserve Requirement. "Reserve Requirement" means, as of the date of calculation, an amount equal to Maximum Annual Debt Service on all Bonds and Parity Debt, the 1998 Bonds and the 2004 Bonds, or such lesser amount as shall constitute the maximum amount permitted under the Internal Revenue Code to be invested without yield limitations.

All money in the Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of replenishing the Interest Account, the Principal Account, the Sinking Account and the Redemption 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 Bonds in the event that no other money of the Agency is lawfully available therefor, or for the retirement of all the Bonds then Outstanding, except that so long as the Agency is not in default, any amount in the Reserve Account in excess of the amount required to be on deposit therein shall be transferred to the Interest Account.

The Reserve Requirement may be satisfied by crediting to the Reserve Account moneys or one or more letters of credit, surety bonds or other comparable credit facilities which qualify as Qualified Reserve Account Credit Instruments, or any combination thereof, which in the aggregate makes funds available in the Reserve Account in an amount equal to the Reserve Requirement. See APPENDIX E — "SUMMARY OF CERTAIN TERMS OF THE INDENTURE." Upon the deposit with the Trustee of any such Qualified Reserve Account Credit Instrument, the Trustee shall transfer any excess moneys then on hand in the Reserve Account to the Agency to be applied for lawful redevelopment purposes.

The current amount on deposit in the Reserve Account with respect to the 1998 Bonds is \$54,077 and the current amount on deposit with respect to the 2004 Bonds is \$191,069. The Reserve Accounts for the 1998 Bonds and 2004 Bonds are invested in the Local Agency Investment Fund managed by the California State Treasurer's Office. A deposit to the Reserve Account in the initial amount of \$\_\_\_\_\_ will be made with respect to the 2010 Bonds to meet the Reserve Requirement.

## **Issuance of Subordinate Debt**

The Agency may incur certain obligations secured by a lien on Tax Revenues subordinate to the lien thereon of the Bonds in such principal amount as shall be determined by the Agency provided that the issuance of such Subordinate Debt shall not cause the Agency to exceed any applicable Plan Limitations.

See "THE YUCAIPA REDEVELOPMENT AGENCY — Plan Limitations" and APPENDIX D — "SUMMARY OF CERTAIN TERMS OF THE INDENTURE" contained herein.

## **LIMITATIONS ON RECEIPT OF TAX INCREMENT**

### **Introduction**

The Redevelopment Law and the California Constitution provide a method for financing and refinancing 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 related redevelopment plan is established and 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 the 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 paragraph, 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 above indicated.

The California Legislature placed on the ballot for the November 1988, general election Proposition No. 87 (Assembly Constitutional Amendment No. 56) pertaining to allocation of tax increment revenues. This measure, which was approved by the electorate, authorized the Legislature to cause tax increment revenues attributable to certain increases in tax rates occurring after January 1, 1989 to be allocated to the entities on whose behalf such increased tax rates are levied rather than to the applicable redevelopment agency, as would have been the case under prior law. The measure applies to tax rates levied to pay principal of and interest on general obligation bonds approved by the voters on or after January 1, 1989. Assembly Bill 89 (Statutes of 1989, Chapter 250), which implements this Constitutional Amendment, became effective on January 1, 1990. The projection of Tax Increment Revenues to be allocated to the Agency assumes a 1% property tax rate as set forth in "APPENDIX B - FISCAL CONSULTANT REPORT."

### **Property Tax Limitations – Proposition 13**

**General.** On June 6, 1978, California voters approved Proposition 13, which added Article XIII A to the California Constitution ("Article XIII A"). Article XIII A limits the amount of any ad valorem tax on real property to 1% of the full cash value thereof, except that additional ad valorem taxes may be levied to pay debt service on indebtedness approved by the voters prior to October 1, 1978 and (as a result of an amendment to Article XIII A approved by California voters on June 3, 1986) on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after October 1, 1978 by the voters voting on such indebtedness. Article XIII A defines full cash value to mean "the county assessor's valuation of real property as shown on the 1975/76 tax bill under 'full cash value,' or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." This full cash value may be increased from year to year by the lesser of the inflationary rate and two percent.

Article XIII A also permits the reduction of the "full cash value" base in the event of declining property values caused by reduction in the consumer price index, damage, destruction or other factors, to provide that there would be no increase in the "full cash value" base in the event of reconstruction of property damaged or destroyed in a disaster and in various other minor or technical ways.

The Agency has no power to levy and collect taxes. Any further reduction in the tax rate or the implementation of any constitutional or legislative property tax de-emphasis will reduce Tax Revenues, and, accordingly, would have an adverse impact on the ability of the Agency to pay debt service on the 2010 Bonds.

**Implementing Legislation.** Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The 1% property tax is automatically levied by the county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1978.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the 2% annual adjustment are allocated among the various jurisdictions in the "taxing area" based upon their respective "situation." Any such allocation made to a local agency continues as part of its allocation in future years.

Beginning in the 1981/82 fiscal year, assessors in California no longer record property values on tax rolls at the assessed value of 25% of market value, which was expressed as \$4.00 per \$100 of assessed value. All taxable property is now shown at full market value on the tax rolls. Consequently, the tax rate is expressed as \$1.00 per \$100 of taxable value. All taxable property value included in this Official Statement is shown at 100% of market value (unless noted differently) and all tax rates reflect the \$1 per \$100 of taxable value.

### **Appropriations Limitations – Gann Initiative**

On November 6, 1979, California voters approved Proposition 4, the so-called Gann Initiative, which added Article XIII B to the California Constitution. The principal effect of Article XIII B is to limit the annual appropriations of the State and any city, county, school district, authority or other political subdivision of the

State to the level of appropriations for the prior fiscal year, as adjusted for changes in the cost of living, population and services rendered by the government entity.

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

### **Proposition 218**

On November 5, 1996, California voters approved Proposition 218—Voter Approval for Local Government Taxes—Limitation on Fees, Assessments, and Charges—Initiative Constitutional Amendment. Proposition 218 added Articles XIII C and XIII D to the California Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges. Tax Revenues securing the Series 2010 Bonds are derived from property taxes which are outside the scope of taxes, assessments and property-related fees and charges which were limited by Proposition 218.

### **SB211**

The California Legislature enacted SB211, Chapter 741, Statutes 2001, effective January 1, 2002 (“SB211”). SB211 provides, among other things, that at anytime after January 1, 2002 the time limitation on incurring indebtedness contained in a redevelopment plan adopted prior to January 1, 1994 may be deleted by ordinance of the legislative body. However, such deletion will trigger statutory tax sharing with those taxing entities that do not have tax sharing, or pass-through, agreements. Tax sharing will be calculated based on the increase in assessed valuation after the year in which the limitation would otherwise have become effective.

SB211 also authorizes the amendment of a redevelopment plan adopted prior to January 1, 1994, in order to extend for not more than 10 years the effectiveness of the redevelopment plan and the time to receive tax increment revenues and to pay indebtedness. Any such extension must meet certain specified requirements, including the requirement that the redevelopment agency establish the existence of both physical and economic blight within a specified geographical area of the redevelopment project and that any additional tax increment revenues received by the redevelopment agency because of the extension be used solely within the designated blighted area. SB211 authorizes any affected taxing entity, the State Department of Finance, or the State Department of Housing and Community Development to request the Attorney General to participate in the proceedings to effect such extensions. It also would authorize the Attorney General to bring a civil action to challenge the validity of the proposed extensions.

SB211 also prescribes additional requirements that a redevelopment agency would have to meet upon extending the time limit on the effectiveness of a redevelopment plan, including requiring an increased percentage of new and substantially rehabilitated dwelling units to be available at affordable housing cost to persons and families of low or moderate income prior to the termination of the effectiveness of the plan.

The City has not adopted any ordinances pursuant to SB211 eliminating the time limit on incurring indebtedness from the Redevelopment Plans, but may do so in the future.

### **AB 1389 Payments**

On September 24, 2008, the State enacted a budget for Fiscal Year 2008-09 that includes, among other things, the provisions of a bill known as AB 1389. AB 1389 requires redevelopment agencies, under certain circumstances, to submit reports to the office of the county auditor in the county in which they are located. These reports are required to include calculations of the tax increment revenues that redevelopment agencies

have received and payments that redevelopment agencies have made pursuant to pass-through agreements with taxing entities and statutory pass-through requirements. County auditors are required to review the reports and, if they concur, issue a finding of concurrence. The State Controller is required to review such reports and submit a report to the Legislative Analyst's office and the Department of Finance identifying redevelopment agencies for which county auditors had not issued a finding of concurrence or are otherwise not in compliance with provisions of AB 1389. AB 1389 includes penalties for any redevelopment agency listed on the most recent State Controller's report, including a prohibition on issuing bonds or other obligations until the listed agency is removed from the State Controller's report.

The Agency filed the required reports with the County Auditor-Controller, and the Agency received notification from the Auditor-Controller at the County to the effect that it concurs with the information contained in the Agency's calculation. The 2008 Report of the State Controller concurred with the Agency's report. As of May 2010, the State Controller's office had not issued the 2009 report and the Agency does not know when such report or the 2010 report will be issued.

### **Unitary Property**

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

### **Special Subventions**

Annual subventions from the State, commonly referred to as Special Subventions, have been a source of revenues for redevelopment projects or many redevelopment agencies. However, to qualify for these Special Subventions the project area must have been in existence prior to the 1980/81 fiscal year. The Project Area was formed after the 1980/81 fiscal year and have therefore never received Special Subventions from the State.

### **Property Tax Collection Procedures**

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

**Collections.** The method of collecting delinquent taxes is substantially different for the two classifications of property. The taxing authority has four ways of collecting unsecured property taxes in the absence of timely payment by the taxpayer: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the county recorder's office, in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of the personal property, improvements or possessory interests belonging or assessed to the assessee. The exclusive means of enforcing the payment of delinquent taxes with respect to property on the secured roll is the sale of property securing the taxes to the State for the amount of taxes which are delinquent. A 10% penalty is added to delinquent taxes which have been

levied with respect to property on the secured roll. In addition, property on the secured roll on which taxes are delinquent is declared in default on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of the delinquent taxes and a delinquency penalty, plus a redemption penalty of 1.5% per month to the time of redemption and a \$15 Redemption Fee. If taxes are unpaid for a period of five years or more, the property is recorded in a "Power to Sell" status and is subject to sale by the county tax collector. A 10% penalty also applies to the delinquent taxes on property on the unsecured roll, and further, an additional penalty of 1-1/2% per month accrues with respect to such taxes beginning the first day of the third month following the delinquency date.

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

***Supplemental Assessments.*** A bill enacted in 1983, SB 813 (Statutes of 1983, Chapter 498), provides for the supplemental assessment and taxation of property as of the occurrence of a change in ownership or completion of new construction. Previously, statutes enabled the assessment of such changes only as of the next tax lien date following the change and thus delayed the realization of increased property taxes from the new assessments for up to 14 months. As enacted, Chapter 498 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 tax lien date. To the extent such supplemental assessments occur within the Project Area, 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. It has been the practice of most California counties, including San Diego County, to reduce an agency's tax increments or bill an agency for their pro rata share of property tax administration costs. The amount charged by the County for fiscal year 2009-10 was \$16,939 and the anticipated amount to be charged by the County for fiscal year 2010-11 is \$18,412.

### **Certification of Agency Indebtedness**

Section 33675 of the Redevelopment Law provides for the filing by redevelopment agencies not later than the first day of October 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 any bonds were delivered, the principal amount, term, purpose, interest rate and total interest payable on such bonds, the principal and interest due in the fiscal year on such bonds and the outstanding balance and amount due on such bonds. Similar information must be given for each loan, advance or indebtedness that the agency has incurred or entered into to be payable from tax increment.

Section 33675 also provides that the county auditor is limited in payment of tax increment to the agency to the amounts shown on the agency's statement of indebtedness less the "available revenues" as of the end of the previous fiscal year. The section further provides that the statement of indebtedness is prima facie evidence of the indebtedness of the agency, but that the county auditor may dispute the amount of indebtedness shown on the statement in certain cases. Provision is made for time limits under which the dispute can be made by the county auditor as well as provisions for determination by the Superior Court in a declaratory relief action of the proper disposition of the matter. The issue in any such action 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 the section. The Series 2010 Bonds should be entitled to the protection of that portion of the statute so that they cannot be disputed by the county auditor.

## Future Initiatives

Proposition 13, Proposition 4 (Gann Initiative) and certain other propositions affecting property tax levies were each adopted as measures which qualified for the ballot pursuant to California's initiative process. From time to time other initiative measures could be adopted, further affecting Agency revenues or the Agency's ability to expend revenues.

## Tax Allocation Procedures of the County

### *Tax Increment Revenue*

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 make debt service payments on the 2010 Bonds.

The Agency receives tax increment in monthly payments made November through July, with approximately 40 percent of annual revenue paid by the end of December and 85 percent by the end of May. See APPENDIX B — "FISCAL CONSULTANTS REPORT — Section IV — Tax Allocation and Disbursement."

### *Tax Revenue Collection Rates*

Tax Revenues received by the Agency for the Project Area in fiscal years 2005-06 through 2009-10 were compared by the Fiscal Consultant to the collection rates for other taxing entities within the County for each of these years and are comparable. The Table below shows the collection rates for fiscal years 2005-06 through 2009-10.

**TABLE 2**  
**YUCAIPA REDEVELOPMENT AGENCY**  
**YUCAIPA REDEVELOPMENT PROJECT**  
**HISTORICAL COLLECTION RATES**  
**FISCAL YEARS 2005-06 THROUGH 2009-10**

<b>Fiscal Year</b>	<b>Original Tax Levy</b>	<b>Current Year Apportioned</b>	<b>Prior Year Collections</b>	<b>Total Apportioned</b>	<b>Current Year Collection %</b>	<b>Total Collection %<sup>(1)</sup></b>
2005-06	713,036	723,815	162,262	886,078	101.51%	124.27%
2006-07	957,179	1,004,347	294,830	1,299,177	104.93%	135.73%
2007-08	1,398,134	1,330,869	357,901	1,688,771	95.19%	120.79%
2008-09	1,748,911	1,641,908	146,170	1,788,078	93.88%	102.24%
2009-10 <sup>(2)</sup>	1,902,609	1,765,722	200,599	1,966,322	92.81%	103.35%

(1) Percentage of Original Tax Levy represented by Total Apportioned amount.

Source: HdL Coren & Cone.

### *Assessment Appeals*

Taxable property values determined by the County Assessor may be subject to an appeal by the property owner. Assessment appeals are annually filed with the County Assessment Appeals Board for a hearing and resolution. At the time of filing, applicants are required to estimate an opinion of value. The resolution of an appeal may result in a reduction to the Assessor's original taxable value and a tax refund to the applicant/property owner. The reduction in future project area taxable values and the refund of taxes affect all taxing entities, including the Agency. Within the Project Area there have been 36 assessment appeals filed since 2006-07. There are appeals pending for three of the fiscal years examined by the Fiscal Consultant. Of the 36 total appeals filed, none have been allowed with a reduction in value and five have been denied. There are 31 appeals currently pending on properties within the Project Area. Because the period examined was

characterized by significant value increases there were very few assessment appeals filed prior to 2009-10. Of the 31 pending appeals, all but one was filed on values for 2009-10. The taxpayers that have currently pending assessment appeals are seeking reductions in value totaling \$18.55 million based on their opinions of value. Because there is insufficient data with which to estimate the potential for value reductions from the pending appeals, the Fiscal Consultant has assumed that the loss from these pending assessment appeals will be 50% of the value reductions indicated by the owners opinion of value. A reduction of \$9.3 million in the projected assessed value for 2010-11 has been factored into the projections of revenue contained elsewhere in this Official Statement. Reductions in revenue for refunds resulting from these successful appeals have not been estimated. Four of the top ten taxpayers within the Project Area have filed assessment appeals that are currently pending. 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 “APPENDIX B – Fiscal Consultant’s Report” hereto for a detailed discussion of the Fiscal Consultant’s conclusions regarding assessment appeals and “RISK FACTORS – Appeals to Assessed Values”.

### ***Base Year Valuation Adjustments***

The Redevelopment Law provides that the base assessment roll utilized for the allocation of Tax Increment Revenues may be reduced by the taxable value, as shown on the base roll, of those properties acquired for public use of tax exempt public entities. The precedent for this action stems from the 1963 case of *Redevelopment Agency of the City of Sacramento vs. Malaki*, 216 Cal. App. 2d 480, and subsequent, related cases.

The projecting of Tax Revenues by the Fiscal Consultant as shown in Appendix C incorporates the base year value as reported by the County. Future estimates are based on the assumption by the Fiscal Consultant that the base year value for the Project Area remains at the level reported by the County for the 2010-11 fiscal year.

## **BONDOWNERS’ RISKS**

The following section describes certain specific risk factors affecting the payment and security of the 2010 Bonds. The following discussion of risks is not meant to be an exhaustive list of the risks associated with the purchase of the 2010 Bonds and does not necessarily reflect the relative importance of the various risks. Potential investors are advised to consider the following factors along with all other information in this Official Statement in evaluating the 2010 Bonds. There can be no assurance that other risk factors will not become material in the future.

### **General**

Tax Increment Revenues allocated to the Agency by the County are determined in part by the amount by which the assessed valuation of property in the Project Area exceeds the base year assessed valuation for such property, as well as by the current rate at which property in the Project Area is taxed. The Agency itself has no taxing power with respect to property, nor does it have the authority to affect the rate at which property is taxed. Assessed valuation of taxable property within the Project Area may be reduced by economic factors beyond the control of the Agency (see “Appeals to Assessed Value” herein) or by substantial damage, destruction or condemnation of such property. Further, assessed valuation can be reduced as a result of actions of the California Legislature or electorate. Such a reduction of assessed valuations or tax rates could result in a reduction of the Tax Revenues that secure the Series 2010 Bonds, which in turn could impair the ability of the Agency to make payments of principal and/or interest on the Series 2010 Bonds when due.

In such event, substantial delinquencies in the payment of property taxes to the County or assessment appeals of such property taxes by the owners of taxable property within the Project Area could have an adverse effect on the ability of the Agency to make payments of principal and/or interest on the Series 2010 Bonds when due. See “—Appeals to Assessed Values” and “—Blanket Reductions to Assessed Values” below.

Both Article XIII A and Article XIII B of the California Constitution, which significantly affected the rate of property taxation and the expenditure of tax proceeds, were adopted pursuant to California's constitutional initiative process. From time to time, other initiative measures could be adopted by California voters. The adoption of any such initiative might place limitations on the ability of public entities to increase revenues or to increase appropriations. For a further description of Article XIII A and Article XIII B of the California Constitution, see "LIMITATIONS ON RECEIPT OF TAX INCREMENT—Property Tax Limitations — Proposition 13" and "—Appropriation Limitations — Gann Initiative."

To estimate the total revenues available to pay debt service on the 2010 Bonds, the Agency has made certain assumptions with regard to the availability of Tax Revenues. The Agency believes these assumptions to be reasonable, but to the extent Tax Revenues are less than anticipated, the total revenues available to pay debt service on the 2010 Bonds may be less than those projected herein. See AGGREGATE PROJECTED TAX REVENUES AND ESTIMATED DEBT SERVICE COVERAGE and "APPENDIX A—FISCAL CONSULTANT REPORT."

### **Appeals to Assessed Values**

There are two basic types of property tax 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 an instance of a change in ownership or completion of new construction. If a property owner believes that the valuation determined by the County Assessor is in error, an appeal may be filed with the County Assessment Appeals Board during a period between July and November of each fiscal year. 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 (escalated base year value). Proposition 8 allows property owners to apply for a temporary reduction in assessed value to match the current market value. As market values increase, the assessed property values will also increase up to the original assess value (plus the annual CPI increase, not to exceed 2%, as required by Proposition 13). In addition, the County Assessor's office allows property owners to file a Proposition 8 reduction request to their area appraiser between January and May of each fiscal year in order to reduce the assessed value of their property without having to file an assessment appeal with the County Assessment Appeals Board, otherwise known as an informal review. The County Assessor's office provides this option to property owners in order to limit the number of assessment appeals requiring hearing dates with the County Assessment Appeals Board. Following a review of the application by the County Assessor's Office (the "Assessor"), the Assessor may offer to the property owner the opportunity to stipulate to a reduced assessment, or may confirm the assessment. If no stipulation is agreed to, and the applicant elects to pursue the appeal, the matter is brought before the Appeals Board (or, in some cases, a hearing examiner) for a hearing and decision. The Appeals Board generally is required to determine the outcome of appeals within two years of each appeal's filing date. Any reduction in the assessment ultimately granted applies only to the year for which application is made and during which the written application is filed. The assessed value increases to its pre-reduction level (escalated to the inflation rate of no more than two percent) following the year for which the reduction application is filed. However, the Assessor has the power to grant a reduction not only for the year for which application was originally made, but also for the then current year and any intervening years as well. In practice, such a reduced assessment may and often does remain in effect beyond the year in which it is granted.

It is the current practice of the County to distribute Tax Increment Revenues to the Agency as received based upon real property taxes levied on the annual tax roll during the then current fiscal year. The County does not reduce the Agency's receipts of such Tax Increment Revenues on account of amounts refunded to a taxpayer as the result of a successful appeal. Instead, the County applies any tax refunds paid to property owners in the Project Area against the Agency's allocation of supplemental assessment revenue. While it is the County's current practice not to apply refunds in excess of the supplemental revenue, there can be no assurance that such practice will not be discontinued by the County in the future.



Further significant appeals to assessed values in the Project Area may be filed from time to time in the future. The Agency cannot predict the extent of these appeals or their likelihood of success.

For more information concerning appeals to assessed values in the Project Area, see “APPENDIX B—FISCAL CONSULTANT REPORT” attached hereto.

A review of residential values over the past five years shows that in the Project Area residential values increased in each fiscal year except for 2009-10. For this year residential property values declined by \$1,167,406 (-2.77%). The decline in residential property values within the entire City of Yucaipa was -9.19%. There are a total of 48 residential parcels within the Project Area that have experienced assessed value reductions pursuant to Prop 8. This is 18.5% of all residential parcels in the Project Area. From 2009-10 to 2010-11 the value of these parcels were reduced by the County Assessor by \$3,601,973 (-28.96%). Growth in value among residential parcels not subject to Prop 8 reductions was sufficient to mitigate the value reductions under Proposition 8 and to reflect an increase in residential property values of \$2,027,708 (4.96%) over the values of 2009-10.

The Proposition 8 reductions are reviewed annually and may, as market conditions improve, restore assessed values to their factored base year value. It is not known whether the County Assessor will continue to grant Proposition 8 reductions to properties in the Project Area.

### **Reduction in Inflationary Rate**

As described in greater detail herein, Article XIII A of the California Constitution provides that the full cash value basis of real property used in determining taxable value may be adjusted from year to year to reflect the inflationary rate, not to exceed a 2% increase for any given year, or may be reduced to reflect a reduction in the consumer price index or comparable local data. This measure is computed on a calendar year basis. The State Board of Equalization has notified assessors that the California Consumer Price Index to be applied to the fiscal year 2010-11 assessment roll is 0.99736, representing a decrease of 0.237%. Properties whose 2010-11 assessed valuation is determined by a Proposition 8 assessment adjustment would not be subject to the Proposition 13 annual adjustment until the County Assessor restored their valuation to the factored base year valuation, which would then reflect all annual inflation adjustments from the time the property was originally sold or constructed. The Fiscal Consultant has projected Tax Revenues to be received by the Agency based, among other things, upon a 0.237% decrease for Fiscal Year 2010-11, a 0.5% increase for Fiscal Year 2011-12 and has assumed resumption of the 2% annual growth thereafter.

### **Levy and Collection**

The Agency does not have any independent power to levy and collect property taxes. Any reduction in the tax rate or the implementation of any constitutional or legislative property tax decrease could reduce the Tax Revenues, and accordingly, could have an adverse impact on the ability of the Agency to repay the Series 2010 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.

### **Parity Debt**

As described in “SECURITY FOR THE 2010 BONDS — Issuance of Parity Obligations,” the Agency may issue or incur obligations payable from Tax Revenues on a parity with its pledge of Tax Revenues to payment of debt service on the 2010 Bonds, the 2004 Bonds and the 1998 Bonds. The existence of and the potential for such obligations increases the risks associated with the Agency's payment of debt service on the 2010 Bonds in the event of a decrease in the Agency's collection of Tax Revenues.

### **The California State Budget and the Educational Revenue Augmentation Fund**

Since Fiscal Year 1992/93, the State Legislature has authorized the reallocation of property tax revenues from redevelopment agencies multiple times in an effort to assist the State in balancing its General Fund budget.

Each time the State reallocates property tax revenues from redevelopment agencies, it reduces the amount of revenues that the Agency can use in the payment of debt service on the 2010 Bonds. Further, Proposition 1A, which was approved by the California electorate in November 2004 and which placed restrictions in the State Constitution on the ability of the State Legislature to reallocate property tax revenues from local agencies, does not restrict or prevent the State Legislature from reallocating property tax revenues from redevelopment agencies, including the Agency. As such, no assurances can be made that the State will not make further reallocations in property tax revenues that would reduce the amount of property tax revenues to which the Agency is entitled. The following is a list of recent actions taken by the State Legislature which reallocated property tax revenues from redevelopment agencies:

In connection with its approval of the budget for the State for the 1992-93, 1993-94, 1994-95, 2002-03, 2003-04, and 2004-05 Fiscal Years, the State Legislature enacted legislation which, among other things, reallocated funds from redevelopment agencies to school districts by shifting a portion of each agency's tax increment, net of amounts due to other taxing agencies, to school districts for such fiscal years for deposit in the Education Revenue Augmentation Fund ("ERAF"). The amount required to be paid by a redevelopment agency under such legislation was apportioned among all of its redevelopment project areas on a collective basis, and was not allocated separately to individual project areas. The Agency has made all previous ERAF payments as required by applicable law.

The State budgets for 2005-06, 2006-07 and 2007-08 had no new ERAF payment requirements. However, in connection with the State budget for Fiscal Year 2008-09, on September 30, 2008, the California Legislature enacted AB 1389. AB 1389 required a one-time shift of \$350 million from redevelopment agencies to their respective ERAF of which the Agency would be responsible for \$439,683.

The validity of AB 1389 was challenged in litigation in the Superior Court for Sacramento County, *California Redevelopment Association et al. v. Genest et al.*, Case No. 34-2008-00028334-CUWM-GDS ("CRA v. Genest"). This case alleged, among other things, that the duties of county auditors to deposit funds received from redevelopment agencies in County ERAFs are inconsistent with various state and federal constitutional provisions and are therefore unlawful and unenforceable. The lawsuit argued that the State raids of redevelopment funds to balance the State budget are unconstitutional, violating Article XVI, Section 16 of the California Constitution, which states that redevelopment funds can only be used to finance redevelopment projects. The lawsuit contended that taking redevelopment funds to balance the State's budget does not qualify as a constitutionally permitted use of tax increment. On April 30, 2009, the Sacramento Superior Court ruled in favor of the petitioners, holding that petitioners are entitled to declaratory and injunctive relief invalidating and enjoining Health and Safety Code Section 33685 as provided for in AB 1389. The court stated that the "distribution of contributions by RDAs to their county ERAFs ... can be expected to regularly result in the use of RDA's tax increment revenues by schools and education programs unrelated to the RDA's redevelopment projects." A judgment was signed by the Sacramento Superior Court on May 7, 2009, forbidding any of the defendants from taking any actions to carry out or enforce any of the payment requirements in AB 1389. The State appealed the decision; however, on September 23, 2009, the State filed a notice of abandonment of its appeal with the Court, so that the Superior Court judgment became final and no longer subject to appeal on that date.

In connection with legislation related to the budget for the State for Fiscal Year 2009-10, on July 24, 2009 the State Legislature adopted AB 26, which was signed by the Governor and became law on July 28, 2009. AB 26 requires a \$1.7 billion one-year transfer, in the aggregate, from redevelopment agencies to their respective County Supplemental Educational Revenue Augmentation Fund ("SERAF") in 2009-10, plus another \$350 million aggregate transfer in 2010-11. A SERAF is similar to an ERAF, except that there is an additional requirement for the SERAF (in response, in part, to the CRA v. Genest litigation) that moneys in the SERAFs must be used by school districts and county offices of education to serve pupils living in redevelopment areas or in housing supported by redevelopment agency funds. In October 2009, the California Redevelopment Association (the "CRA") filed a lawsuit in the Superior Court for Sacramento County, *California Redevelopment Association et al. v. Genest et al.*, Case No. 34-2009-8000359 challenging the validity of AB 26. On March 2, 2010, the matter was taken into submission with the Court, which must issue a ruling within 90 days of such date. The method for calculating each redevelopment agency's payment and respective share of

the 2009-10 and 2010-11 transfers is similar to that in prior ERAF legislation, except that instead of using the prior year's tax increment figures for the basis of calculation, AB 26 requires the calculation to use the tax increment figures from fiscal year 2006-07 with respect to the SERAF payment required for both 2009-10 and 2010-11. The Agency's 2009-10 SERAF payment is \$439,683, and was paid by May 10, 2010. The Agency's 2010-11 SERAF payment is estimated by the CRA to be \$90,523, and is due by May 10, 2011.

AB 26 provides that the Agency may suspend Housing Set-Aside contributions to its Low and Moderate Income Housing Fund for 2009-10 or borrow Housing Set-Aside funds in the Agency's Low and Moderate Income Housing Fund, in order to make the SERAF payments – provided the funds are repaid by June 30 of the Fiscal Year occurring 5 years after the Fiscal Year of the commencement of suspension or borrowing. Agencies that do not repay their Low and Moderate Income Housing Funds within such timeframe are required to increase their contribution to such Funds by an additional five percent (5%) for each unmet repayment date. If an Agency failed to repay both SERAF amounts borrowed from the Low and Moderate Income Housing Fund by the specified dates, the Agency's contribution to its Low and Moderate Income Housing Fund would increase to 30% of gross tax increment from the current 20%. The Agency funded the entire amount of its 2009-10 SERAF payment from existing redevelopment moneys by May 10, 2010 and expects to fully fund the entire amount of its 2010-11 SERAF payment by the May 10, 2011 deadline, without borrowing from the Low and Moderate Income Housing Fund.

AB 26 expressly provides that the obligation of any redevelopment agency to make the SERAF payments for fiscal years 2009-10 and 2010-11 shall be subordinate to the lien of any pledge of collateral securing, directly or indirectly, the payment of the principal or interest on any bonds of the agency including, without limitation, bonds secured by a pledge of taxes allocated to the agency pursuant to Section 33670 of the California Health and Safety Code. Pursuant to AB 26, under a number of circumstances (e.g., failure to pay, or have paid on its behalf, any SERAF payment; failure to repay when due housing set-aside amounts borrowed or suspended, etc.), a sanction will be imposed on a redevelopment agency which would require the agency's annual housing set-aside amount to be increased from 20% of its gross tax increment to 25% of its gross tax increment, for the balance of the time the sanctioned redevelopment agency receives tax increment. The CRA recently has filed a lawsuit to challenge AB 26 in the California Superior Court in the County of Sacramento. On May 4, 2010, a ruling was delivered denying relief to the petitioners and denying a stay on the transfer of funds from Redevelopment Agencies to the Counties. On May 5, 2010, the CRA determined that it would appeal the ruling. The Agency cannot determine whether the appeal will be successful. The method for calculating each redevelopment agency's payment and respective share of the 2009-10 and 2010-11 transfers is similar to that in prior ERAF legislation, except that instead of using the prior year's tax increment figures for the basis of calculation, AB 26 requires the calculation to use the tax increment figures from fiscal year 2006-07 with respect to the SERAF payment required for both 2009-10 and 2010-11. The Agency covenants in the Indenture that it will take no action with respect to loans from the Agency's Low and Moderate Income Housing Fund in connection with the Agency's SERAF payment pursuant to Section 33690 or 33690.5 of the Law which will cause a reduction of the Tax Revenues available to pay debt service on the Bonds, or any Series thereof.

There can be no assurance that the State Legislature will not require similar or other diversion of tax increment funds in future years to deal with its budget deficits, nor can there be any assurance that any obligation to make any future payments from tax increment funds will be made subordinate to a pledge of taxes to pay Series 2010 Bond debt service.

The potential impact of future legislation could be material to the Agency and its ability to repay existing and future obligations and conduct its redevelopment activities. The Agency cannot predict whether the State Legislature will enact additional legislation which shifts tax increment revenues away from redevelopment agencies to the State or to schools (whether through an arrangement similar to ERAF, SERAF or by any other arrangement), whether any future shifts in tax increment revenue would be limited or affected (such as by an offset of amounts required to be shifted) by pre-existing agreements between redevelopment agencies and school districts, community college districts and county superintendents of schools, or what impact such legislation may have on the Tax Revenues pledged to pay debt service on the 2010 Bonds. Accordingly, the Agency is not able to predict the effect, if any, such a shift, if enacted, would have on future Tax Revenues.

Information about the State budget and State spending is available at various State-maintained websites. None of such websites are in any way incorporated into this Official Statement, and the Agency makes no representation whatsoever as to the accuracy or completeness of any of the information on such websites.

### **Investment Risk**

All funds held under the Agreement are required to be invested in Investment Securities as provided under the Agreement. See Appendix D attached hereto for a summary of the definition of Investment Securities. The Special Fund, into which all Tax Revenues are initially deposited, may be invested by the Agency in Investment Securities. All investments, including the Investment Securities and those authorized by law from time to time for investments by municipalities, contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected and loss or delayed receipt of principal. The occurrence of these events with respect to amounts held under the Agreement or the Special Fund could have a material adverse affect on the security for the 2010 Bonds.

Further, the Agency cannot predict the effects on the receipt of Tax Increment Revenue if the County or the City were to suffer significant losses in their portfolio of investments or if the County or the City were to become insolvent or declare bankruptcy.

### **Development and Economic Risks**

Project development within the Project Area may be subject to unexpected delays, disruptions and changes. Real estate development operations may be adversely affected by changes in general economic conditions, fluctuations in the real estate market and interest rates, unexpected increases in development costs and by other similar factors. Further, real estate development operations within the Project Areas could be adversely affected by future governmental policies, including policies that restrict or control development. If projected development in the Project Areas is delayed or halted, the economy of the Project Areas could be affected, potentially causing a reduction of the Tax Revenues available to repay the 2010 Bonds. In addition, if there is a general decline in the economy of the Project Areas, the owners of property in the Project Areas may be less able or willing to make timely payments of property taxes, causing a delay or stoppage of Tax Revenues received by the Agency.

### **Hazardous Substances**

An additional environmental condition that may result in the reduction in the assessed value of property would be the discovery of a hazardous substance that would limit the beneficial use of taxable property within the Project Areas. 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 owner or operator may be required to remedy a hazardous substance condition of property whether or not the owner or operator has anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the property within the Project Areas be affected by a hazardous substance, could be to reduce the marketability and value of the property by the costs of remedying the condition and/or other amounts.

### **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.

Land within the Project Area is indirectly affected by parts of the San Andreas, San Jacinto and Banning Faults as well as several onsite faults, including the Chicken Hills Fault, which have been collectively designated as the Crafton Hills Complex. Due to the presence of these on-site faults, the State of California has placed small portions (i.e., less than twenty acres) of the Project Area within Earthquake Fault Zones pursuant to the Alquist-Priolo Earthquake Fault Zoning Act. The purpose of this act is to regulate the location of developments and structures for human occupancy across the trace of active faults. The nearest strand of the San

Andreas Fault zone is located approximately 10,000 feet from the northeastern corner of the Project Area. If an earthquake were to substantially damage or destroy taxable property within the 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 2010 Bonds.

### **Federal Tax-Exempt Status of the Bonds**

The Internal Revenue Code of 1986, as amended (the “Code”) imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the 2010 Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of 2010 Bond proceeds, limitations on the investment earnings on 2010 Bonds proceeds prior to expenditure, a requirement that certain investment earnings on the 2010 Bond proceeds be paid periodically to the United States and a requirement that issuers file an information report with the Internal Revenue Service (the “IRS”). The Agency has covenanted in certain of the documents referred to herein that they will comply with such requirements. Failure to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of interest on the 2010 Bonds as taxable, retroactively to the date of issuance of such 2010 Bonds.

As part of a larger reorganization of the IRS, the IRS commenced operation of its Tax Exempt and Government Entities Division (the “TE/GE Division”), as the successor to its Employee Plans and Exempt Organizations division. The TE/GE Division has a subdivision that is specifically devoted to tax-exempt bond compliance. Public statements by IRS officials indicate that the number of tax-exempt bond examinations is expected to increase significantly under the TE/GE Division. There is no assurance that an IRS examination of the 2010 Bonds, if one is undertaken, will not adversely affect the tax-exempt status or market value of such 2010 Bonds.

### **Bankruptcy Risks**

The enforceability of the rights and remedies of the Owners of the 2010 Bonds and the obligations of the Agency may become subject to the following: the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors’ rights generally, now or hereafter in effect; equitable principles which may limit the specific enforcement under state law of certain remedies: the exercise by the United States of America of the powers delegated to it by the federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of servicing a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the owners of the 2010 Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights.

### **Secondary Market**

There can be no guarantee that there will be a secondary market for the 2010 Bonds or, if a secondary market exists, that such 2010 Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

### **Loss of Tax Exemption**

As discussed under the caption “Tax Matters” herein, interest on the 2010 Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the 2010 Bonds were issued as a result of future acts or omissions of the Agency in violation of its covenants contained in the

Indenture. Should such an event of taxability occur, the 2010 Bonds are not subject to special redemption or any increase in interest rate and will remain outstanding until maturity.

## **THE YUCAIPA REDEVELOPMENT AGENCY**

### **Members and Staff**

The Agency was established on December 10, 1990, by the City Council of the City with the adoption of Ordinance No. 090-58 pursuant to the Redevelopment Law. Members of the City Council serve as board members to the Agency. The five members of the City Council serve as the governing body of the Agency, and exercise all the rights, powers, duties and privileges of the Agency.

<b><u>Name of Member</u></b>	<b><u>Expiration of Term</u></b>
Denise Hoyt, Chairperson	November 2012
Tom Masner, Vice-Chairperson	November 2010
Allan Drusys, DVM, Member	November 2010
Diane Smith, Member	November 2012
Richard Riddell, Member	November 2012

The Redevelopment Project for the Project Area is the Agency's only redevelopment project area.

### **Agency Staff**

Ray Casey, Executive Director of the Agency and City Manager of the City. Mr. Casey has been employed in the public sector for 18 years and the private sector as a project manager for both civil engineering and real estate development companies for an additional eight years. Prior to becoming City Manager in 2008, Mr. Casey served as the City's Director of Public Works/City Engineering for six years. He has substantial experience in managing land development projects as well as a wide variety of public infrastructure improvement projects including bridges, highways, detention basins, parks, drainage facilities, right-of-way acquisitions and much more. He is an active member of the American Public Works Association, American Society of Civil Engineers, International City/County Management Association and Inland Empire Chapter of the California League of Cities, City Manager's Division.

Gregory A. Franklin, Director of Administrative Services of the Agency. Mr. Franklin has 23 years of experience in the public sector, including 19 with the City of Yucaipa, and has managed all of the Agency's prior debt transactions. Mr. Franklin is an active member of California Society of Municipal Finance Officers and Association of Government Accountants and is presently the President of the Public Agency Risk Sharing Authority of California.

### **Agency Powers and Duties**

All powers of the Agency are vested in its five members. The Agency exercises all the governmental functions as authorized under the Redevelopment Law and has among other powers the authority to acquire, administer, develop, lease or sell property, including the right of eminent domain and the right to issue bonds. The Agency can clear buildings and other improvements and can develop as a building site any real property owned or acquired and in connection with such development can cause streets, highways, and sidewalks to be constructed or reconstructed and public utilities to be installed.

The Agency may, out of funds available for such purposes, pay for all or part of the value of land and the cost of building facilities, structures or other improvements of benefit to a redevelopment project area and when no other reasonable means of financing are available. The Agency must sell or lease any property within the Project Area for the redevelopment by others in strict conformity with a redevelopment plan and may specify a period within which such redevelopment must begin or be completed.

## **Factors Affecting Redevelopment Agencies Generally**

Other features of California Redevelopment Law which bear on redevelopment agencies include general provisions which require public agencies to award contracts for construction only after competitive bidding. The Redevelopment Law provides that construction in excess of a minimum amount undertaken by the Agency shall be done only after competitive bidding. California statutes also provide for offenses punishable as felonies which involve direct or indirect interest of a public official in a contract made by such official in his official capacity. In addition, the Community Redevelopment Law prohibits any Agency or City official or employee who, in the course of his duties, is required to participate in the formulation or approval of plans or policies, from acquiring any interest in property in the Project Area.

Under a State initiative enacted in 1974, public officials are required to make extensive disclosures regarding their financial interests by filing such disclosures as public records. As of the date of this Official Statement, the members of the City Council and the Agency, and other City and Agency officials have made the required filings. California also has strict laws regarding public meetings (known as the Ralph M. Brown Act) which makes all Agency and City meetings open to the public, with certain exceptions not applicable here.

Redevelopment agencies are required to file a statement of indebtedness with the County Auditor-Controller not later than the first day of October, stating the amount of indebtedness of the Agency as of the close of its fiscal year, June 30. The Agency has made such a filing for fiscal year 2009-10.

## **Plan Limitations**

In 1976, the Legislature enacted AB 3674 (Statutes of 1976, Chapter 1337) which added Section 33333.2, 33334.1 and 33354.6 to the Redevelopment Law. Section 33333.2 requires redevelopment plans adopted on or after October 1, 1976, to contain a limit on the number of tax dollars which may be divided and allocated to a redevelopment agency pursuant to its redevelopment plan, a time limit on the establishing of loans, advances and indebtedness to finance, in whole or in part, the redevelopment project and a time limit not to exceed twelve years for the commencement of eminent domain proceedings to acquire property within the project area.

Section 33334.1 requires a redevelopment plan adopted on or after October 1, 1976, to contain a limit on the amount of bonded indebtedness which can be outstanding at one time. Section 33354.6 provides that with respect to any amendment of a redevelopment plan (which provides for the allocation of taxes) to add new territory to a project area, the agency must follow the procedures and be subject to the same restriction as provided in the adoption of a new redevelopment plan.

Pursuant to the Redevelopment Plan, as amended, the total tax increment revenues received by the Agency over the life of the Redevelopment Project cannot exceed \$1,050,000,000. The total amount of bonded indebtedness incurred by the Agency, payable from tax increment revenues, which can be outstanding at any one time cannot exceed \$330,000,000.

In accordance with the Redevelopment Law not less than twenty percent (20%) of tax increment revenues allocated to the Agency from the Project Area shall be used for the purpose of increasing and improving the supply of housing for families of low and moderate income.

On December 12, 1994, the City Council adopted Ordinance No. 135 establishing Section 33333.2 ("AB 1290") Plan Limits for the Project Area, as follows:

- a. A time limit to issue or incur debt of June 22, 2012, except that this limit does not apply to the Agency's ability to incur or issue debt for housing purposes payable from housing set-aside funds, or refinancing existing debt issued prior to January 1, 1994 as long as the amount of debt is not increased and the repayment of such debt does not extend beyond the date the original debt would have been repaid;
- b. A term of the effectiveness of the Redevelopment Plan of June 22, 2032; and

c. A time limit to receive tax increment of June 22, 2042, except that the Agency may continue to receive such necessary tax increment to pay indebtedness or other obligations issued or incurred prior to January 1, 1994 and for the financing of required housing and the elimination of deficits created pursuant to Section 33334.6 of the Redevelopment Law.

On May 10, 2004, the City Council adopted Ordinance No. 230 extending the time limit to receive tax increment to June 22, 2043 and the term of the effectiveness of the Redevelopment Plan to June 22, 2033, pursuant to Senate Bill 1045.

The Agency is of the opinion that the limitations described above will not impair its ability in the future to repay any obligation or indebtedness, including the 2010 Bonds, incurred by the Agency in connection with the development of the Project Area in accordance with the Redevelopment Plan. The projection of Tax Revenues herein and in the APPENDIX B — “FISCAL CONSULTANT’S REPORT” take these expiration dates into account.

The Agency has covenanted under the Indenture to take no action, including but not limited to, the issuance of its bonds, notes or other obligations, which causes or which, with the passage of time would cause, any of the Plan Limitations to be exceeded or violated. The Agency has agreed in the Indenture that the aggregate amount of Tax Revenues which it remains entitled to receive under the Plan Limitations for the Redevelopment Project shall at all times be at least equal to one hundred and five percent (105%) of the aggregate amount of annual debt service remaining to be paid on all outstanding Bonds. In the event that the Agency fails to comply with the requirements of the foregoing sentence, the Agency shall either (a) deposit with the Trustee an amount of Tax Revenues sufficient to redeem Bonds in such aggregate principal amount as shall be required to cause the Agency to meet such requirements, or (b) if the Bonds are not then subject to redemption, deposit with the Trustee an amount of Tax Revenues in excess of the amounts necessary to pay debt service on the Bonds in the current bond year into an escrow account to be held by the Trustee and used to defease Bonds in such aggregate principal amount sufficient to enable the Agency to meet such requirements.

### **Housing Set-Aside**

Chapter 1337, Statutes of 1976, added Sections 33334.2 and 33334.3 to the Redevelopment Law requiring redevelopment agencies to set aside at least 20 percent of all tax increment revenues allocated and paid to redevelopment agencies from redevelopment project areas adopted after December 31, 1976 in the Agency’s Low and Moderate Income Housing Fund to be expended for authorized low and moderate income housing purposes (the “Housing Set-Aside Payments”). Tax Revenues exclude amounts payable to such fund pursuant to these provisions except to the extent the use of bond proceeds or Parity Debt is attributable to permissible uses of the Agency’s Low and Moderate Income Housing Fund. None of the debt service on the 1998 Bonds, the 2004 Bonds or the 2010 Bonds will be paid from the Low and Moderate Income Housing Fund. The projections of Tax Revenues set forth under the caption “TAX REVENUES AND ANNUAL DEBT SERVICE — Projected Tax Revenues and Debt Service Coverage” reflect the deposit of twenty percent (20%) of all tax increment revenues to the Low and Moderate Income Housing Fund.

The provisions of the Redevelopment Law regarding the funding of low and moderate income housing funds have been frequently amended since their original adoption. In addition, the interpretations of these laws by the California Attorney General and redevelopment agency counsels throughout the State have at times been subject to variation and change.

### **Tax Sharing Agreements**

Pursuant to Section 33401 of the Redevelopment Law as in effect at the time of adoption of the Project Area, a redevelopment agency was authorized to enter into an agreement to pay tax increment revenues to any taxing agency that has territory located within a redevelopment project area in an amount which in the agency’s determination is appropriate to alleviate any financial burden or detriment caused by the redevelopment project. These agreements normally provide for a pass-through of tax increment revenue directly to the affected taxing agency, and, are called “Tax Sharing Agreements.”



So long as any Bonds are Outstanding, the Agency covenants to not enter into any new agreement or amend any existing agreement with any other taxing agency entered into pursuant to Section 33401 of the Redevelopment Law which would have the effect of reducing the amount of Tax Revenues unless the Agency shall first obtain the report of an Independent Financial Consultant stating that the Tax Revenues remaining after the entering into of such agreement, estimated to be received in each of the three (3) succeeding bond years, plus the Additional Revenues, are at least equal to one hundred thirty-five percent (135%) of maximum annual debt service on the Bonds during such three bond years, unless the Agency's obligations under such agreements are made expressly subordinate to the Agency's obligations under the Indenture and the Bonds.

The Project Area is subject to provisions of various agreements between the Agency and affected taxing agencies. These agreements were executed under the then-existing provisions of Section 33401 of the Redevelopment Law to alleviate financial burden or detriment which the affected taxing agencies may suffer by reason of implementation of the redevelopment plan.

The terms of the Tax Sharing Agreements and, in the case of the San Bernardino Valley Municipal Water District, Resolution No. 788, as summarized below, do not purport to be comprehensive and reference is made to the complete text of such agreements on file with the Agency Secretary.

***San Bernardino Valley Municipal Water District.*** Under an Agreement entered into on August 10, 1992, the Agency shall pay to the District an amount equal to that portion of tax increment revenues which are attributable to a portion of tax overrides levied by the District to pay interest and redemption charges on District indebtedness. The Water District, by its Resolution No. 788, also claimed the right to receive tax revenues attributable to increases in the District's rate of tax and permitted inflationary increases in assessed value in the Project Area.

***Yucaipa-Calimesa Joint Unified School District.*** Pursuant to a Tax Sharing Agreement entered into on December 8, 1992, the Agency agrees to pay into a separate account (the "Special Account") an amount of tax increment equal to 40% of the amount attributable to the District's share of the general \$1.00 property tax levy, to be used for activities and improvements mutually beneficial to the Yucaipa-Calimesa Joint Unified School District and the Agency. In calculating the pass-through amount, the Agency may not deduct the amount of any housing set-aside. The Agency's pass-through obligation may be subordinated to Agency bonded indebtedness, but only with the consent of the Yucaipa-Calimesa Joint Unified School District. Such Tax Sharing Agreement also provides that Agency payments may be deferred until (a) annual tax increment revenues, net of all pass-through obligations, exceed \$500,000 or (b) fiscal year 2009-2010, whichever is earlier. The Yucaipa Calimesa Joint Unified School District has agreed to subordinate its rights under the Tax- Sharing Agreement to the payment of debt service on the 2010 Bonds.

***Redlands Unified School District.*** The Agency entered into a Tax Sharing Agreement with the Redlands Unified School District on July 12, 1993. The payment terms are identical to those contained in the Yucaipa-Calimesa Joint Unified School District agreement described above, but no similar subordination agreement has been entered into. While the Agency is entitled to the same deferral provisions referred to above for the Yucaipa-Calimesa Joint Unified School District, the Fiscal Consultant reports that no amounts are expected to be payable to Redlands Unified School District, based on the absence of expected Tax Increment Revenues from Project Area land within the Redlands Unified School District boundaries. See APPENDIX B — "FISCAL CONSULTANT'S REPORT."

***San Bernardino County Superintendent of Schools.*** Under an Agreement entered into on July 12, 1993, the Agency is obligated to pay, in semiannual installments, an amount equal to 30% of the annual tax increment attributable to the Superintendent's share of the general tax levy, plus an amount equal to .893% of the tax revenues attributable to permitted inflationary increases in assessed value in the Project Area.

***San Bernardino Community College District.*** The terms of this Agreement, also entered into on July 12, 1993, provide that the Agency shall pay, in semiannual installments, an amount equal to 30% of the annual tax increment attributable to the District's share of the general tax levy, plus an amount equal to 5.0949% of the tax revenues attributable to permitted inflationary increases in assessed value in the Project Area. The

Agreement also acknowledges the District's right to receive tax revenues attributable to increases in the District's rate of tax.

***San Bernardino County et al.*** On October 26, 1993, the Agency entered into an Agreement with the County of San Bernardino (the "County"), the San Bernardino County Flood Control District (the "District") and the San Bernardino County Free Library System (the "Library"). Under this agreement, the Agency agrees to make the following payments to the County for each Fiscal Year:

(1) With respect to that portion of the tax increment received by the Agency during a particular Fiscal Year which exceeds \$0.00 but is less than or equal to \$1,000,000, an amount equal to one cent (\$0.01) for each dollar (\$1.00) of tax increment.

(2) With respect to that portion of the tax increment received by the Agency during a particular Fiscal Year which exceeds \$1,000,000 but is less than or equal to \$5,000,000, an amount equal to five cents (\$0.05) for each dollar (\$1.00) of tax increment.

(3) With respect to that portion of the tax increment received by the Agency during a particular Fiscal Year which exceeds \$5,000,000 but is less than or equal to \$10,000,000, an amount equal to ten cents (\$0.10) for each dollar (\$1.00) of tax increment.

(4) With respect to that portion of the tax increment received by the Agency during a particular Fiscal Year which exceeds \$10,000,000 but is less than or equal to \$15,000,000, an amount equal to fifteen cents (\$0.15) for each dollar (\$1.00) of tax increment.

(5) With respect to that portion of the tax increment received by the Agency during a particular Fiscal Year which exceeds \$15,000,000 but is less than or equal to \$20,000,000, an amount equal to twenty cents (\$0.20) for each dollar (\$1.00) of tax increment.

(6) With respect to that portion of the tax increment received by the Agency during a particular Fiscal Year which exceeds \$20,000,000, an amount equal to twenty-five cents (\$0.25) for each dollar (\$1.00) of tax increment.

In each Fiscal Year that the District provides services to the Project Area, the Agency shall pay to the District an amount equal to eighty percent (80%) of the District Share (the "District Share" is 2.5% of the general tax levy).

In each Fiscal Year that the Library provides services to the Project Area, the Agency shall pay to the Library an amount equal to eighty percent (80%) of the Library Share (the "Library Share" is 1.4% of the general tax levy).

In addition to the foregoing, in each Fiscal Year the Agency shall pay to the County, for disbursement among the County, the District and the Library, tax increment which is attributable to increases in the rate of tax imposed for the benefit of the County, the District or the Library applicable to the Project Area.

Table 1 contained in APPENDIX B — "FISCAL CONSULTANT'S REPORT" herein shows the amount of projected Tax Revenues. The Table set forth herein under "TAX REVENUES AND ANNUAL DEBT SERVICE — Projected Tax Revenues and Debt Service Coverage" shows the relationship between such Tax Revenues and debt service requirements of the 2010 Bonds.

### **Tax Sharing Statutes**

Tax Increment revenues received by the Agency are in some cases reduced pursuant to certain statutory pass-through payments, consisting of payments to taxing entities of a portion of Tax Increment Revenues as a result of plan adoptions or amendments to redevelopment plans occurring after 1993 ("AB 1290 payments"). AB 1290 sets forth a requirement for payments of tax increment revenues to be made in prescribed amounts to

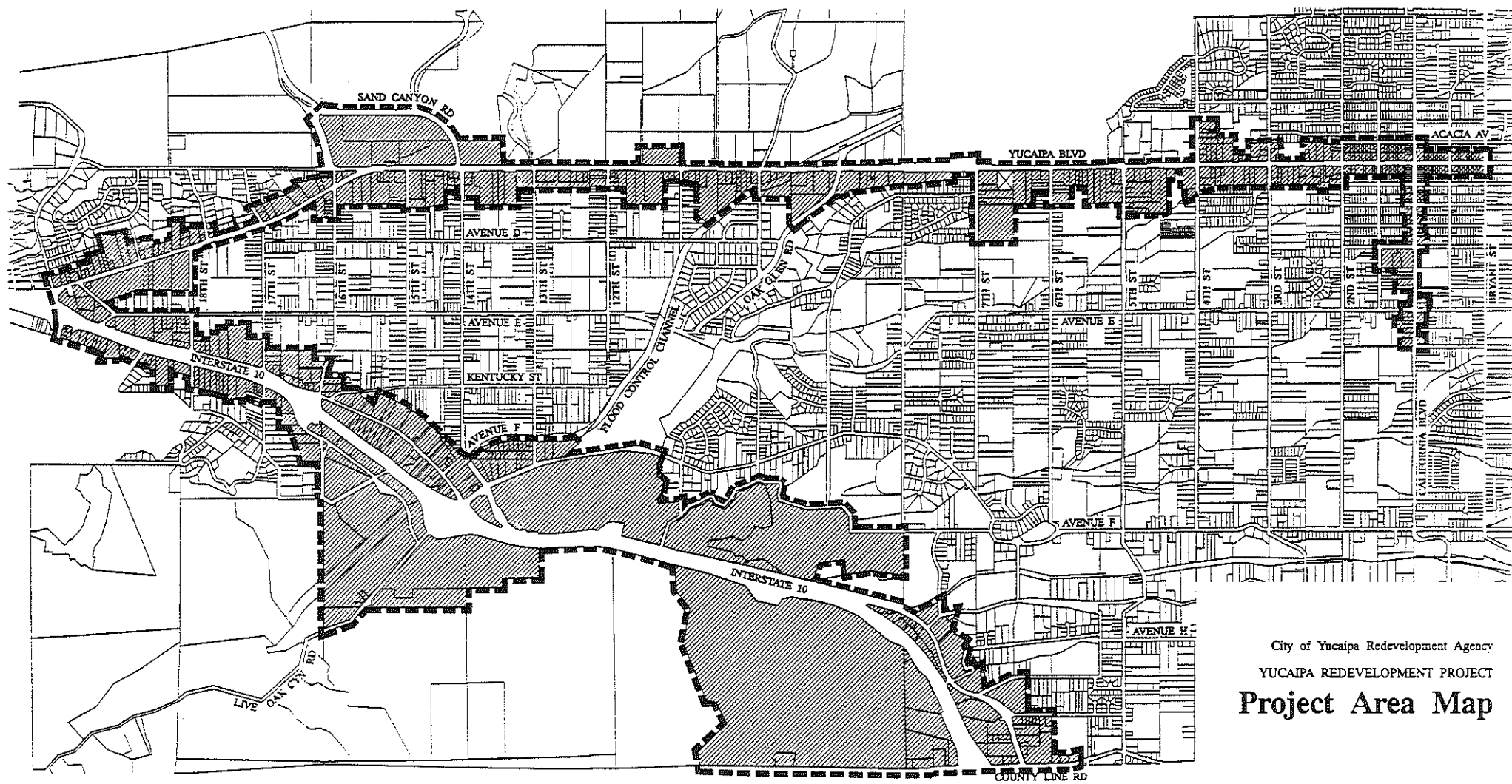
taxing entities in the event a new plan is adopted or certain amendments are made to an older project area. Similar provisions apply to amendments which extend the time during which a redevelopment agency may incur debt with respect to a project area, amendments to increase the number of dollars which may be allocated to a redevelopment agency, or amendments which extend the time during which a redevelopment plan is effective where the redevelopment plan being amended contains the provisions required by subdivision (b) of Section 33670 of the California Health and Safety Code. Payments pursuant to the Tax Sharing Statutes upon amendment of the redevelopment plan are inapplicable if the Agency and an affected taxing entity have a tax sharing agreement which requires payments to the taxing agency. In general, the amounts to be paid pursuant to AB 1290 are as follows:

- (a) commencing in the first fiscal year after territory is added or one or more of the limitations has been reached, as applicable, an amount equal to 25% of tax increment revenues generated by the incremental increase of the current year assessed valuation over the assessed valuation in the fiscal year that the limitation had been reached or territory added, after the amount required to be deposited in the Low and Moderate Income Housing Fund has been deducted;
- (b) in addition to amounts payable as described in (a) above, commencing in the 11th fiscal year after territory is added or the limitation has been reached, as applicable, an amount equal to 21 % of tax increment revenues generated by the incremental increase of the current year assessed valuation over the assessed valuation in the preceding (10th) fiscal year that the limitation had been reached, after the amount required to be deposited in the Low and Moderate Income Housing Fund has been deducted; and
- (c) in addition to amounts payable as described in (a) and (b) above, commencing in the 31st fiscal year after territory is added or the limitation has been reached, as applicable, an amount equal to 14% of tax increment revenues generated by the incremental increase of the current year assessed valuation over the assessed valuation in the preceding (30th) fiscal year that the limitation had been reached, after the amount required to be deposited in the Low and Moderate Income Housing Fund has been deducted.
- (d) The County or City, as applicable, may elect to receive a portion of the tax increment generated in (a) above, after the amount required to be deposited in the Low and Moderate Income Housing Fund has been deducted.
- (e) The Agency may subordinate the amount required to be paid to an affected taxing entity to any indebtedness after receiving the consent of the respective taxing entity.

The Tax Sharing Statutes further provide that prior to incurring any loans, bonds, or other indebtedness, except loans or advances from the County or City, as applicable, the respective Agency may subordinate to the loans, bonds or other indebtedness the amount required to be paid to an affected taxing entity by this section, provided that the affected taxing entity has approved these subordinations. The Agency currently has no obligations to make AB 1290 payments. Although the Agency has amended the Redevelopment Plan once to extend the life of the plan and the time to receive tax increment by one year, the statutory authority for this amendment did not require AB 1290 payments. See “THE YUCAIPA REDEVELOPMENT AGENCY — Plan Limitations” herein.

## **Financial Statements**

Included in this Official Statement as Appendix A are the audited financial statements of the Agency for the year ended June 30, 2009 reproduced from the report thereon rendered by Teaman, Ramirez & Smith, Inc, Certified Public Accountants (the “Auditor”). The Auditor’s letter concludes that the audited financial statements present fairly, in all material respects, the financial position of the Agency, as of June 30, 2009, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.



City of Yucaipa Redevelopment Agency  
YUCAIPA REDEVELOPMENT PROJECT  
**Project Area Map**

## THE YUCAIPA REDEVELOPMENT PROJECT

### General

The Agency adopted the redevelopment plan for the Yucaipa Redevelopment Project and the project area designated thereunder (the "Project Area") by Ordinance No. 109 on June 22, 1992. On December 12, 1994, the City Council adopted Ordinance No. 135, amending the Redevelopment Plan to conform with AB 1290. On May 10, 2004, the City Council adopted Ordinance No. 230, amending the Redevelopment Plan in connection with Senate Bill 1045. As defined under the Indenture, "Redevelopment Plan" means the Redevelopment Plan for the Yucaipa Redevelopment Project as adopted by Ordinance No. 109, together with any amendments thereof at any time duly authorized pursuant to the Redevelopment Law. The Project Area consists of approximately 1,407 acres located generally along the Yucaipa Boulevard corridor, the original downtown area and the Interstate 10 corridor. The Project Area is largely developed and built out; however, vacant land is scattered throughout the Project Area.

The purposes and objectives of the Redevelopment Plan are to eliminate the conditions of blight existing in the Project Area and to prevent the recurrence of blighting conditions in the Project Area. The Agency proposes to eliminate such conditions and prevent their recurrence by providing, pursuant to the Redevelopment Plan, for the planning, development, replanning, redesign, redevelopment, reconstruction and rehabilitation of the Project Area and by providing for such facilities as may be appropriate or necessary in the interest of the general welfare, in accord with the City's General Plan as may be adopted or amended from time to time. The Agency proposes to: (a) implement the land uses and concepts of the General Plan and the Zoning Ordinance, as may be amended from time to time; (b) eliminate blighting influences, including deteriorating buildings, incompatible and uneconomic land uses, obsolete structures, and other environmental, economic and social deficiencies; improve the overall appearance of existing buildings, streets, parking areas and other facilities, public and private; and assure that all buildings, new and old, are safe for persons and businesses to occupy; (c) implement an economic development tool to respond to the recommendations of the Local Agency Formation Commission (LAFCO) in a May 9, 1989 incorporation report that the City's "sales tax base is relatively weak, and it should exert every possible effort to attract commercial uses to the area"; (d) encourage cooperation and participation of residents, business persons, public agencies and community organizations in revitalizing the Project Area particularly in the "downtown area"; (e) promote conformity with state standards for hazardous materials, underground tanks and seismic safety; (f) encourage private sector investment in development of the area; (g) promote the economic well being of the area by encouraging diversification of its commercial base; (h) promote development of diverse local job opportunities; (i) provide adequate public improvements, public facilities, open spaces, and utilities, the lack of which cannot be remedied by private or governmental action without redevelopment; (j) implement the construction or reconstruction of adequate streets and transportation facilities, curbs, gutters, street lights, storm drains, and other improvements as necessary to correct existing deficiencies; (k) provide for relocation assistance and benefits to area businesses and residences which may be displaced, in accordance with the provisions of Redevelopment Law and the Government Code of the State of California; (l) make provision for affordable housing inside and outside the area as is required to satisfy the needs and desires of various age, income, and ethnic groups of the community, maximizing opportunity for individual choice; (m) achieve a physical environment reflecting a high level of concern for architectural and urban design principles deemed important by the community; and (n) provide a procedural and financial mechanism by which the Agency can assist, complement and coordinate public and private development, redevelopment, revitalization and enhancement of the community.

At the time the Redevelopment Plan was adopted, the City Council recognized that there were detrimental physical, social and economic conditions that were negatively impacting the Project Area. The Agency has proposed to alleviate these conditions by undertaking a comprehensive program of public improvements and by providing a variety of development incentives intended to stimulate new development and rehabilitation activities in the Project Area.

Since plan adoption, a number of capital improvement projects in the Project Area have been initiated, using a mix of funds from the Agency as well as other sources. The purpose of these projects is to achieve the goals stated above, and to facilitate the elimination of blight. Projects initiated since plan adoption include

water and sewer improvements, street widening and extension, new traffic signals, a business assistance program and a low and moderate income housing rehabilitation assistance program.

The Agency's recent activities in the Project Area have focused primarily on the construction or rehabilitation of public infrastructure. The Agency's strategy in redeveloping the area consists of using the completion of public improvement construction as an incentive to investors to develop currently vacant land, or rehabilitate existing structures. More specifically, the Agency's principal programs in the Project Area have centered on the area in the City's old uptown district and Dunlap Acres area. The Agency has directed most of its resources to implementing the Uptown Specific Plan revitalization program, making this in effect the Agency's first priority. The second priority is the Dunlap Acres area. Here, Agency activities will continue to emphasize infrastructure upgrades. The Agency believes that full implementation of public improvements proposed for the Project Area will renew interest in the development of vacant, or underutilized parcels with uses that are permitted in the Yucaipa General Plan.

### **Current Building Activity**

The City is actively pursuing the expansion of existing light industrial/manufacturing businesses and/or opening of new such enterprises in the community, some of which are in the City's Redevelopment Project area.

The City has recently completed many infrastructure improvements in pursuit of its goals utilizing various funding sources: \$40 million in State/Federal Grant funds, \$19 million in Development Impact Fee funds, \$8 million from agency partnerships and \$23 million from various other sources, a total of approximately \$90 million, have been used for infrastructure improvements. These include a freeway interchange reconstruction, transportation infrastructure improvements, a new public transportation Transit Center, regional drainage improvements intended to create more developable property by reducing flood plain areas, park and public facility improvements, construction of new parks, sidewalk improvements, installation of bicycle paths and construction of new multi-purpose trails throughout the community.

### **Implementation of Agency Agreements Concerning Redevelopment in the Project Area**

The Agency does not currently have any outstanding agreements with developers or other third parties related to redevelopment in the Project Area. The Agency expects to expend proceeds of the 2010 Bonds to acquire or construct public improvements to benefit the Project Area. Such improvements may include projects related to continued implementation of the Uptown Specific Plan parking and other public improvements, master-planned drainage improvements, Dunlap Boulevard improvements or Gateway-area improvements. The Agency has entered into loan agreements with the City which provide for the Agency to make payments to the City. The Agency has made certain payments to the City under those agreements from tax increment revenues from the Project Area. All of the Agency's obligations to make payments to the City under such agreements are subordinated to such bonds and notes as the Agency may issue from time to time, including without limitation, the 2010 Bonds. Such agreements do not, therefore, affect Tax Revenues.

## **TAX REVENUES AND ANNUAL DEBT SERVICE**

### **Historical Valuations and Tax Increment Revenues**

#### ***Historical Tax Revenues***

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

**TABLE 3**  
**YUCAIPA REDEVELOPMENT AGENCY**  
**REDEVELOPMENT PROJECT**  
**HISTORICAL TAX REVENUES**  
**(FISCAL YEARS 2000-01 THROUGH 2009-10)**

<b>Fiscal Year</b>	<b><u>Assessed Value</u><sup>(1)</sup></b>	<b><u>Incremental Value Year</u></b>	<b><u>Tax Increment Revenue</u><sup>(2)</sup></b>	<b><u>Housing Set Aside</u></b>	<b><u>County Administrative Charge</u><sup>(3)</sup></b>	<b><u>Tax Sharing Agreements</u></b>	<b><u>Tax Revenues</u></b>
2003-04	\$137,100,800	\$ 35,440,188	\$441,650	\$88,330	\$6,702	\$76,622.90	\$269,996
2004-05	151,827,901	50,167,289	705,414	141,083	10,106	136,230.30	417,995
2005-06	163,953,785	62,293,173	870,837	174,167	14,492	168,793.59	513,385
2006-07	185,293,580	83,632,968	1,282,154	256,431	15,599	218,416.12	791,708
2007-08	221,431,493	119,770,881	1,669,674	333,935	17,033	332,631.46	986,075
2008-09	252,075,886	150,415,274	1,757,777	351,555	28,440	355,883.35	1,021,899
2009-10	265,512,289	163,851,677	1,910,669	382,134	21,252	397,237.04	1,110,046

(1) Actual assessed value amount as reported by San Bernardino County Auditor-Controller.

(2) Tax increment revenue is actual for Fiscal Years 2003-04 through 2009-10. Revenue amounts for 2010-11 are estimated using current year incremental value, reported tax rate and unitary revenue as reported by the Auditor-Controller.

(3) County Administrative charges are for Fiscal Years 2003-04 through 2010-11 and include both SB 2557 administrative charges and SB 813 supplemental revenue administrative charges.

Source: HdL Coren & Cone and the Agency.

The Project Area is subject to various limitations upon the receipt of Tax Revenues by the Agency. See the caption “THE YUCAIPA REDEVELOPMENT AGENCY - Plan Limitations.” The Fiscal Consultant’s Report includes tax collections for fiscal years 2000-01 through 2009-10 and projections of Tax Increment Revenues for the Project Area. See APPENDIX B “FISCAL CONSULTANT’S REPORT.”

The Redevelopment Plan is a general plan for redevelopment and, therefore, does not specifically define what activities or development projects will eventually occur in the Project Area.

The Project Area consists of 779 parcels owned by a diverse mix of taxpayers. The Project Area is primarily designated for commercial and residential uses, with some industrial uses. Additionally, the Project Area contains 157 parcels of vacant land, indicating a significant amount of land available for ongoing development. Land uses within the Project Area are shown below.

**TABLE 4**  
**YUCAIPA REDEVELOPMENT AGENCY**  
**YUCAIPA REDEVELOPMENT PROJECT**  
**LAND USE SUMMARY**  
**FOR FISCAL YEAR 2009-10**

<b>Land Use Category</b>	<b>Number of Parcels</b>	<b>Net Taxable Value</b>	<b>% of Total</b>
Residential	260	\$ 42,917,133	16.11%
Commercial	290	143,240,084	53.77%
Industrial	21	15,621,445	5.86%
Irrigated/Dry Farm	2	175,753	0.07%
Recreational	2	614,543	0.23%
Institutional	2	0	0.00%
Miscellaneous	23	2,243,685	0.84%
Exempt	22	0	0.00%
Vacant	<u>157</u>	31,440,644	11.80%
Unsecured		<u>30,149,970</u>	<u>11.32%</u>
<b>Totals:</b>	<b>779</b>	<b>\$266,403,257</b>	<b>100.00%</b>

Source: HdL Coren & Cone.

#### Base Year Valuation

The 1991/92 base year valuation for the Project Area as reported by the County Auditor-Controller and set forth by the Fiscal Consultant is as follows:

**TABLE 5**  
**YUCAIPA REDEVELOPMENT AGENCY**  
**YUCAIPA REDEVELOPMENT PROJECT**  
**BASE YEAR VALUATION**  
**FISCAL YEAR 1991-92**

<b>Base Year Valuation</b>	<b>Taxable Value</b>
Local Secured Valuation	\$ 89,732,116
Unsecured Valuation	<u>11,928,496</u>
Total Base Year Valuation	<u>\$101,660,612</u>

Source: County of San Bernardino Auditor-Controller.

Ten major property owners in the Project Area were identified by the Fiscal Consultant based upon a review of the 2010-11 locally assessed secured and unsecured taxable valuations reported by the County Assessor. The aggregated total assessed value of the identified ten tax payers amounted to \$44,731,998, or 16.79% of the total taxable value of the Project Area or 27.15% of the incremental value within the Project Area. See the caption "THE YUCAIPA REDEVELOPMENT AGENCY — Reduction In Taxable Value" herein. See also APPENDIX B hereto for a detailed description of the top ten property owners in the Project Area.



**TABLE 6**  
**YUCAIPA REDEVELOPMENT AGENCY**  
**YUCAIPA REDEVELOPMENT PROJECT**  
**TOP TEN TAXABLE PROPERTY OWNERS**  
**FOR FISCAL YEAR 2010-11**

		<u>Assessed Value</u>	<u>% Total Value</u>	<u>% Inc. Value</u>	<u>Land Use</u>
1	Gerald S. Rubin <sup>(1)</sup>	\$7,100,000	2.67%	4.31%	Vacant Land
2	Pacific Crest Holdings <sup>(2)</sup>	5,966,263	2.24%	3.62%	Commercial
3	Sorenson Engineering <sup>(3)</sup>	5,164,785	1.94%	3.14%	Industrial
4	Rago Domenick <sup>(4)</sup>	4,535,440	1.70%	2.75%	Commercial
5	MDN Group <sup>(5)</sup>	4,470,903	1.68%	2.71%	Commercial
6	RFA Yucaipa LP <sup>(5)</sup>	4,367,627	1.64%	2.65%	Commercial
7	Yucaipa Oak Glenn <sup>(5)</sup>	3,895,471	1.46%	2.36%	Commercial
8	ESS Prisa <sup>(5)</sup>	3,592,944	1.35%	2.18%	Commercial
9	Center Point Plaza	2,948,686	1.11%	1.79%	Commercial
10	Alpine Storage	<u>2,689,829</u>	<u>1.01%</u>	<u>1.63%</u>	Commercial
<b>Totals</b>		<b>\$44,731,948</b>	<b>16.79%</b>	<b>27.15%</b>	

(1) Vacant land currently zoned for general commercial.

(2) Commercial center in which major tenants include Carl's Jr. and Jose's restaurants.

(3) Light manufacturing facility currently being expanded.

(4) Multi-tenant commercial building with an auto parts store as its major tenant.

(5) Pending appeals.

Source: HdL Coren & Cone.

### **Projected Tax Revenues and Debt Service Coverage**

The Fiscal Consultant currently projects that Tax Revenues produced in the Project Area will be approximately \$1,129,000 in fiscal year 2010-11. These actual and projected revenues are net of projected appeal refunds, pass-through payments, County administrative charges and the housing set-aside amount. No reduction in Tax Revenues is made from amounts payable as a result of statutorily required ERAF payments. See "THE YUCAIPA REDEVELOPMENT AGENCY — Education Revenue Augmentation Fund; State Budget." See APPENDIX B hereto and "Assessment Appeals" above for a discussion of the Fiscal Consultant's assumptions regarding assessment appeals. The following table illustrates projected Tax Revenues through fiscal year 2019-20. Such projections are estimates only and no assurance can be given that such projections can be achieved.

**TABLE 7**  
**YUCAIPA REDEVELOPMENT AGENCY**  
**YUCAIPA REDEVELOPMENT PROJECT**  
**PROJECTED TAX REVENUES**  
(Dollars in the Thousands)

<b>Taxable Values<sup>(1)</sup></b>	<b><u>2010-11</u></b>	<b><u>2011-12</u></b>	<b><u>2012-13</u></b>	<b><u>2013-14</u></b>	<b><u>2014-15</u></b>	<b><u>2015-16</u></b>	<b><u>2016-17</u></b>	<b><u>2017-18</u></b>	<b><u>2018-19</u></b>	<b><u>2019-20</u></b>
Real Property <sup>(2)</sup>	\$250,214	\$240,948	\$245,767	\$250,682	\$255,696	\$260,810	\$266,026	\$271,347	\$276,774	\$282,309
Personal Property <sup>(3)</sup>	<u>16,189</u>	<u>16,189</u>	<u>16,189</u>	<u>16,189</u>	<u>16,189</u>	<u>16,189</u>	<u>16,189</u>	<u>16,189</u>	<u>16,189</u>	<u>16,189</u>
<b>Total Projected Value</b>	<b>\$266,403</b>	<b>\$257,137</b>	<b>\$261,956</b>	<b>\$266,872</b>	<b>\$271,885</b>	<b>\$276,999</b>	<b>\$282,215</b>	<b>\$287,536</b>	<b>\$292,963</b>	<b>\$298,498</b>
 <b>Taxable Value over Base (\$101,661)</b>	 <b>\$164,743</b>	 <b>\$155,477</b>	 <b>\$160,296</b>	 <b>\$165,211</b>	 <b>\$170,225</b>	 <b>\$175,339</b>	 <b>\$180,555</b>	 <b>\$185,875</b>	 <b>\$191,302</b>	 <b>\$196,838</b>
 Gross Tax Increment Revenue <sup>(4)</sup>	 \$1,919	 \$1,811	 \$1,867	 \$1,925	 \$1,983	 \$2,043	 \$2,103	 \$2,165	 \$2,229	 \$2,293
Unitary Tax Revenue	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>
<b>Gross Revenues</b>	<b>\$1,921</b>	<b>\$1,813</b>	<b>\$1,869</b>	<b>\$1,927</b>	<b>\$1,985</b>	<b>\$2,044</b>	<b>\$2,105</b>	<b>\$2,167</b>	<b>\$2,230</b>	<b>\$2,295</b>
 <b>LESS:</b>										
County Admin. And Collection Charges <sup>(5)</sup>	(30)	(29)	(30)	(30)	(31)	(32)	(33)	(34)	(35)	(36)
Housing Set Aside Requirement <sup>(6)</sup>	(384)	(363)	(374)	(385)	(397)	(409)	(421)	(433)	(446)	(459)
 <b><u>Tax Sharing</u></b>										
San Bernardino County <sup>(7)</sup>	(56)	(51)	(53)	(56)	(59)	(62)	(65)	(68)	(72)	(75)
County Library <sup>(8)</sup>	(18)	(17)	(18)	(19)	(19)	(20)	(20)	(21)	(21)	(22)
County Flood Control <sup>(8)</sup>	(33)	(31)	(32)	(33)	(34)	(35)	(36)	(37)	(38)	(39)
Superintendent of Schools <sup>(9)</sup>	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(7)	(7)	(7)
San Bernardino Community College <sup>(9)</sup>	(34)	(32)	(33)	(34)	(35)	(36)	(37)	(38)	(39)	(40)
San Bernardino Valley MWD <sup>(10)</sup>	(224)	(212)	(219)	(226)	(233)	(241)	(248)	(256)	(263)	(271)
Redlands Unified School District <sup>(11)</sup>	<u>(6)</u>	<u>(5)</u>	<u>(6)</u>	<u>(6)</u>	<u>(6)</u>	<u>(6)</u>	<u>(6)</u>	<u>(6)</u>	<u>(7)</u>	<u>(7)</u>
 <b>Tax Revenues</b>	 <b>\$1,129</b>	 <b>\$1,068</b>	 <b>\$1,099</b>	 <b>\$1,131</b>	 <b>\$1,164</b>	 <b>\$1,198</b>	 <b>\$1,232</b>	 <b>\$1,267</b>	 <b>\$1,302</b>	 <b>\$1,338</b>
 <b><u>Subordinate Tax Sharing</u></b>										
Yucaipa-Calimesa Joint USD Current Year Payment <sup>(11)</sup>	(174)	(164)	(170)	(175)	(180)	(185)	(191)	(197)	(202)	(208)
Yucaipa-Calimesa Joint USD Deferral Repayment <sup>(11)</sup>	<u>(18)</u>	<u>(18)</u>	<u>(18)</u>	<u>(18)</u>	<u>(18)</u>	<u>(18)</u>	<u>(18)</u>	<u>(18)</u>	<u>(18)</u>	<u>(18)</u>
 <b>Net Tax Revenues</b>	 <b>\$938</b>	 <b>\$886</b>	 <b>\$912</b>	 <b>\$939</b>	 <b>\$967</b>	 <b>\$995</b>	 <b>\$1,023</b>	 <b>\$1,053</b>	 <b>\$1,082</b>	 <b>\$1,113</b>

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

(2) Real property consists of land and improvements. Projected values adjusted for transfers of ownership (see Table 4). Increased for inflation at 0.5% for Fiscal Year 2011-12 and at 2% annually thereafter. Values for Fiscal Year 2011-12 have been reduced by \$9,272,743 for estimated value reductions from pending appeals.

(3) Personal property is held constant at Fiscal Year 2010-11 level.

- (4) Projected Gross Tax Increment is based upon incremental taxable values factored against an assumed Project tax rate and adjusted to remove tax rates for any indebtedness approved by voters after 1988. There are presently debt service overrides for the Redlands Unified School District and the San Bernardino Community College District that are levied within the Project Area but are not applicable to Agency Revenues. The debt service override tax rate for the San Bernardino Valley Municipal Water District (0.165%) is levied in all Project Area tax rate areas and is applicable to Agency revenues. Future tax rates are assumed to remain at \$1.165 per \$100 of taxable value.
- (5) County Administration fee and Collection Charge are estimated at 1.33% of Gross Revenue.
- (6) Housing Set Aside calculated at 20% of Gross Revenue.
- (7) San Bernardino County received its share of inflationary growth on base year real property value through Fiscal Year 1996-97. Beginning with 1997-98 the County receives a sliding percentage of annual Gross Revenue. The County receives 1% of annual revenue up to \$1 million; 5% of revenue from \$1 million to \$5 million; 10% of revenue from \$5 million to \$10 million; 15% of revenue from \$10 million to \$15 million; 20% of revenue from \$15 million to \$20 million; and 25% of all revenue over \$20 million.
- (8) The County Library (1.4%) and the County Flood Control District (2.5%) receive 80% of their shares of general levy tax increment revenue.
- (9) The San Bernardino County Superintendent of Schools (0.89%) and the San Bernardino Community College District (5.095%) receive their full shares of general levy revenue on inflationary growth of base year real property growth and 30% of their shares of general levy tax increment revenue. The total amount received by the districts shall not, however, exceed an amount that is 40% of the District's full share of general levy tax increment revenue.
- (10) San Bernardino Valley Municipal Water District receives its full share (0.14%) of debt service override tax revenue and its share (3.031%) of general levy revenue derived from inflationary growth of base year real property value. Based on Agency reading of the agreement, all payments are to be made net of Housing Set-Aside.
- (11) An amount equal to 40% of the Redlands Unified School District (30.05%) and the Yucaipa-Calimesa Joint Unified School District (27.24%) shares of general levy tax increment revenue are held by the Agency for use on mutually agreed upon capital improvement projects. These amounts were deferred through Fiscal Year 2004-05 when annual total revenues net of pass through amounts exceeded \$500,000. Beginning in Fiscal Year 2005-06 the amounts available for mutually agreed upon projects is 40% of the District's annual share of general levy tax increment revenue plus the amounts that were deferred. The deferred amounts may be made available over a period not to exceed 15 years beginning with Fiscal Year 2005-06. Redlands Unified School District occupies a single tax rate area within the Project Area. This tax rate has had positive incremental value in only a few fiscal years prior to Fiscal Year 2004-05 and, therefore, the cumulative deferral of payments to Redlands Unified School District was very small. The Yucaipa-Calimesa Joint Unified School District occupies all other tax rate areas. Tax sharing payments to the Yucaipa-Calimesa Joint Unified School District are assumed to have received approval for subordination to payment of debt service on the Bonds from the District. All payment amounts are to be held by the Agency for District use on mutually approved projects. Through Fiscal Year 2009-10 no projects have been approved.

Debt service coverage for the 2010 Bonds, the 2004 Bonds and the 1998 Bonds for fiscal year 2010-11 is projected to be approximately 251%\*. The table below sets forth the projected debt service coverage for the 2010 Bonds, the 2004 Bonds and the 1998 Bonds based on debt service on the 1998 Bonds, debt service on the 2004 Bonds and estimated debt service on the 2010 Bonds and projected Tax Revenues.

**TABLE 8**  
**YUCAIPA REDEVELOPMENT AGENCY**  
**YUCAIPA REDEVELOPMENT PROJECT**  
**PROJECTED DEBT SERVICE COVERAGE**  
**(Dollars in the Thousands)**

Fiscal Year	Debt Service							Surplus Revenue*
	Series 1998	Series 2004	Series 2010	Combined Debt Service*	Debt Service Coverage <sup>(2)*</sup>	Subordinate Pass-Thru		
	Tax	Tax	Tax					
	Allocation Bonds	Allocation Bonds	Allocation Bonds*					
Tax Revenues <sup>(1)</sup>								
2010-11	\$1,129	\$42	\$130	\$278	\$450	251%	(\$192)	\$488
2011-12	1,068	42	129	383	554	193%	(182)	332
2012-13	1,099	46	127	381	555	198%	(187)	358
2013-14	1,131	45	126	384	554	204%	(192)	385
2014-15	1,164	44	129	386	559	208%	(198)	408
2015-16	1,198	42	128	388	558	215%	(203)	437
2016-17	1,232	41	131	385	557	221%	(208)	466
2017-18	1,267	45	124	386	556	228%	(214)	497
2018-19	1,302	44	127	388	559	233%	(220)	524
2019-20	1,338	43	125	388	556	241%	(226)	557
2020-21	1,376	46	123	388	557	247%	(232)	586
2021-22	1,413	45	121	393	558	253%	(220)	635
2022-23	1,452	43	123	392	558	260%	(226)	667
2023-24	1,491	41	126	391	558	267%	(233)	700
2024-25	1,531	45	148	364	557	275%	(239)	735
2025-26	1,572	53	144	358	555	283%	(246)	771
2026-27	1,613	50	145	362	557	290%	(252)	804
2027-28	1,656	53	140	365	558	297%	(259)	838
2028-29	1,699	---	191	363	554	307%	(266)	879
2029-30	1,743	---	189	365	554	314%	(273)	916
2030-31	1,788	---	187	367	554	323%	(281)	954
2031-32	1,834	---	184	373	557	329%	(288)	989
2032-33	1,881	---	186	369	554	339%	(296)	1,031
2033-34	1,929	---	152	404	556	347%	(303)	1,070
2034-35	1,978	---	---	556	556	355%	(311)	1,110
2035-36	2,028	---	---	555	555	365%	(319)	1,153
2036-37	2,078	---	---	556	556	374%	(327)	1,195
2037-38	2,130	---	---	556	556	383%	(336)	1,239
2038-39	2,183	---	---	554	554	394%	(344)	1,285
2039-40	2,237	---	---	555	555	403%	(353)	1,328

(1) Tax Revenue based upon projections as provided by HdL Coren & Cone in the Fiscal Consultants Report. No assurance can be given that such projections can be achieved.

(2) Represents the ratio of Tax Revenues to total debt service on the 2010 Bonds, the 2004 Bonds and the 1998 Bonds.

\* Preliminary, subject to change.

Source: HdL Coren & Cone.

## **RATINGS**

Standard & Poor's Ratings Group ("S&P") has assigned a rating of "A-" to the 2010 Bonds. Such rating reflects only the views of S&P and any desired explanation of the significance of such rating should be obtained from S&P at the following address: Standard & Poor's Corporation, 55 Water Street, New York, New York 10041. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by S&P, if in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the 2010 Bonds.

## **TAX MATTERS**

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California ("Bond Counsel"), under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest on the 2010 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the 2010 Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest on the 2010 Bonds may be included as an adjustment in the calculation of alternative minimum taxable income.

The difference between the issue price of a 2010 Bond (the first price at which a substantial amount of the 2010 Bonds of the same series and maturity is to be sold to the public) and the stated redemption price at maturity with respect to such 2010 Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a 2010 Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the 2010 Bond Owner will increase the 2010 Bond Owner's basis in the 2010 Bond. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the owner of the 2010 Bond is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

Bond Counsel's opinion as to the exclusion from gross income of interest (and original issue discount) on the 2010 Bonds is based upon certain representations of fact and certifications made by the Agency and others and is subject to the condition that the Agency complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the 2010 Bonds to assure that interest (and original issue discount) on the 2010 Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the interest (and original issue discount) on the 2010 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2010 Bonds. The Agency has covenanted to comply with all such requirements.

The amount by which a 2010 Bond Owner's original basis for determining loss on sale or exchange in the applicable 2010 Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Code; such amortizable bond premium reduces the 2010 Bond Owner's basis in the applicable 2010 Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a 2010 Bond Owner realizing a taxable gain when a 2010 Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2010 Bond to the Owner. Purchasers of the 2010 Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the 2010 Bonds will be

selected for audit by the IRS. It is also possible that the market value of the 2010 Bonds might be affected as a result of such an audit of the 2010 Bonds (or by an audit of similar bonds). It is possible that subsequent to the issuance of the Bonds, there might be federal, state, or local statutory changes (or judicial or regulatory interpretations of federal, state, or local law) that affect the federal, state, or local tax treatment of the Bonds or the market value of the Bonds. No assurance can be given that subsequent to the issuance of the Bonds, such changes or interpretations will not occur.

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Indenture and the Tax Certificate relating to the 2010 Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the exclusion from gross income of interest (and original issue discount) on the 2010 Bonds for federal income tax purposes with respect to any 2010 Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Although Bond Counsel has rendered an opinion that interest (and original issue discount) on the 2010 Bonds is excluded from gross income for federal income tax purposes provided that the Agency continues to comply with certain requirements of the Code, the ownership of the 2010 Bonds and the accrual or receipt of interest (and original issue discount) with respect to the 2010 Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the 2010 Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2010 Bonds.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as Appendix E.

#### **FISCAL CONSULTANT**

The Agency has retained the firm of HdL Coren & Cone to act as fiscal consultant (the "Fiscal Consultant") for the Agency with respect to the Project Area. As part of the duties of Fiscal Consultant, the Fiscal Consultant has prepared a Fiscal Consultant's Report concerning to Agency, the Project Area and current and expected development activity therein. The full text of the Fiscal Consultant's Report is attached hereto as Appendix B.

#### **FINANCIAL ADVISOR**

C.M. de Crinis & Co., Inc. (the "Financial Advisor") has served as financial advisor to the Agency with respect to the issuance of the 2010 Bonds. The fees being paid to the Financial Advisor are contingent upon the successful issuance and delivery of the 2010 Bonds.

#### **UNDERWRITING**

After competitive bids were received on \_\_\_\_\_, 2010, the 2010 Bonds were awarded by the Agency to \_\_\_\_\_ (the "Underwriter") at an aggregate purchase price of \$\_\_\_\_\_ (representing the principal amount of the 2010 Bonds, less original issue discount of \$\_\_\_\_\_ and less an underwriter's discount of \$\_\_\_\_\_). The Underwriter reports the 2010 Bonds were initially offered to the public at a price resulting in a reoffering yield of \_\_\_\_%. The public offering price may be changed from time to time by the Underwriter. The Underwriter may offer and sell the 2010 Bonds to certain dealers and others at prices lower than the offering prices indicated herein.

#### **CONTINUING DISCLOSURE**

The Agency will covenant in a Continuing Disclosure Certificate to provide certain financial information and operating data relating to the Agency by not later than 270 days following the end of its fiscal year commencing with Fiscal Year 2010-11 (the "Annual Report"), and to provide notices of the occurrence of

certain enumerated events, if material. The Annual Report will be filed with each Nationally Recognized Municipal Securities Information Repository and with any then existing State Repository (collectively, the “Repositories”). Currently, there is no State Repository. The notices of material events will be filed with the Repositories. The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth in APPENDIX F — “FORM OF CONTINUING DISCLOSURE CERTIFICATE” attached hereto. These covenants will be made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). As of the date hereof, the Agency has filed all Annual Reports required under previous undertakings.

### **NO LITIGATION**

There is no litigation pending or, to the Agency’s knowledge, threatened to restrain or enjoin the issuance, execution or delivery of the 2010 Bonds, to contest the validity of the 2010 Bonds, the Indenture, or any proceedings of the Agency with respect thereto. In the opinion of the Agency and its counsel, there are no lawsuits or claims pending against the Agency which will materially affect the Agency’s finances as to impair the ability to pay principal of and interest on the 2010 Bonds when due.

### **LEGAL MATTERS**

The legality of the issuance of the 2010 Bonds is subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel. Bond Counsel and Disclosure Counsel fees for services rendered with respect to the issuance and sale of the Bonds are contingent upon the issuance and sale of the Bonds. A copy of its opinion will be substantially in the form set forth in Appendix E herein. Certain legal matters will be passed upon for the Agency by its General Counsel, Michael Estrada, Shareholder, Richards Watson & Gershon, a Professional Corporation.

### **BANK QUALIFIED OBLIGATIONS**

The Agency has designated the 2010 Bonds as “qualified tax-exempt obligations,” thereby allowing certain financial institutions that are holders of such qualified tax-exempt obligations to deduct a portion of such institution’s interest expense allocable to such qualified tax-exempt obligations, all as determined in accordance with Section 265 of the Code.

### **MISCELLANEOUS**

All of the preceding summaries of the Indenture, the Redevelopment Law, other applicable legislation, the Redevelopment Plan for the Project Area, agreements and other documents are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the Agency for further information in connection therewith.

Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

The execution and delivery of this Official Statement by its Executive Director have been duly authorized the Agency.

**YUCAIPA REDEVELOPMENT AGENCY**

By: \_\_\_\_\_  
Executive Director

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**APPENDIX A**

**AUDITED FINANCIAL STATEMENTS OF THE YUCAIPA REDEVELOPMENT AGENCY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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**YUCAIPA REDEVELOPMENT AGENCY**

**FINANCIAL STATEMENTS**

Year Ended June 30, 2009

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**Yucaipa Redevelopment Agency  
Financial Statements  
Year Ended June 30, 2009**

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Independent Auditors' Report

Board Members  
Yucaipa Redevelopment Agency  
Yucaipa, California

We have audited the accompanying financial statements of the governmental activities and each major fund, of the Yucaipa Redevelopment Agency (the Agency), a component unit of the City of Yucaipa, California, as of and for the year ended June 30, 2009, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Agency, as of June 30, 2009, 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.

As described more fully in Note 1, the financial statements present only the Agency and are not intended to present fairly the financial position and results of operations of the City of Yucaipa, California 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 December 10, 2009, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The required supplementary information, such as the major fund budgetary comparison schedules, is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Agency has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Teaman Ramirez & Smith*

December 10, 2009

## **BASIC FINANCIAL STATEMENTS**

**Yucaipa Redevelopment Agency**  
**Statement of Net Assets**  
**June 30, 2009**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and Investments	\$ 6,339,398
Cash and Investments with Fiscal Agents	259,253
Accounts Receivable	<u>77,374</u>
Total Assets	<u>6,676,025</u>
<b>LIABILITIES</b>	
Payables:	
Accounts	371,294
Interest	41,293
Due to City of Yucaipa	843,371
Long-term Liabilities:	
Due Within One Year	130,000
Due in More Than One Year	<u>3,864,811</u>
Total Liabilities	<u>5,250,769</u>
<b>NET ASSETS</b>	
Restricted for:	
Low Moderate Income Housing	1,269,060
Specific Projects	746,079
Unrestricted	<u>(589,883)</u>
Total Net Assets	<u><u>\$ 1,425,256</u></u>

The accompanying notes are an integral part of this statement.



**Yucaipa Redevelopment Agency**  
**Statement of Activities**  
**Year Ended June 30, 2009**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Community Development	\$ 502,906	\$	\$ 68,500	\$	\$ (434,406)
Public Works	779,922				(779,922)
Interest on Long-Term Debt	188,446				(188,446)
Total Governmental Activities	<u>\$ 1,471,274</u>	<u>\$ -</u>	<u>\$ 68,500</u>	<u>\$ -</u>	<u>(1,402,774)</u>
General Revenues:					
Tax Increment					1,753,306
Investment Income					122,877
Other					2,596
Transfers to the City of Yucaipa					<u>(1,169,077)</u>
Total General Revenues and Transfers					<u>709,702</u>
Change in Net Assets					(693,072)
Total Net Assets - Beginning					<u>2,118,328</u>
Total Net Assets - Ending					<u>\$ 1,425,256</u>

The accompanying notes are an integral part of this statement.

**Yucaipa Redevelopment Agency**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2009**

	Special Revenue	Capital Projects	
	Low Income Housing	RDA	2004 TAB
<b>ASSETS</b>			
Cash and Investments	\$ 1,260,881	\$ 3,267,589	\$ 1,785,552
Cash and Investments with Fiscal Agents			
Accounts Receivable	16,277	4,881	
Due From Other Funds		842,265	
Total Assets	<u>\$ 1,277,158</u>	<u>\$ 4,114,735</u>	<u>\$ 1,785,552</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts Payable	\$ 8,098	\$ 358,066	\$ 5,130
Due to Other Funds			842,265
Due to City of Yucaipa		769,392	
Total Liabilities	<u>8,098</u>	<u>1,127,458</u>	<u>847,395</u>
<b>Fund Balances:</b>			
Reserved for:			
Debt Service			
Specific Projects		746,079	
Undesignated	1,269,060	2,241,198	938,157
Total Fund Balances	<u>1,269,060</u>	<u>2,987,277</u>	<u>938,157</u>
Total Liabilities and Fund Balances	<u>\$ 1,277,158</u>	<u>\$ 4,114,735</u>	<u>\$ 1,785,552</u>

The accompanying notes are an integral part of this statement.

<u>Debt Service</u>	<u>Nonmajor Capital Projects</u>	
<u>RDA</u>	<u>1998 TAB</u>	<u>Total</u>
\$	\$	\$
259,253	25,376	6,339,398
56,163	53	259,253
		77,374
		842,265
<u>\$ 315,416</u>	<u>\$ 25,429</u>	<u>\$ 7,518,290</u>
\$	\$	\$
		371,294
		842,265
73,979		843,371
<u>73,979</u>	<u>-</u>	<u>2,056,930</u>
241,437		241,437
		746,079
	25,429	4,473,844
<u>241,437</u>	<u>25,429</u>	<u>5,461,360</u>
<u>\$ 315,416</u>	<u>\$ 25,429</u>	<u>\$ 7,518,290</u>

The accompanying notes are an integral part of this statement.

**Yucaipa Redevelopment Agency**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**to the Statement of Net Assets**  
**June 30, 2009**

Fund balances of governmental funds	\$ 5,461,360
-------------------------------------	--------------

Amounts reported for governmental activities in the Statement of Net Assets  
are different because:

Long-term liabilities applicable to the Agency's governmental activities are not due  
and payable in the current period and, accordingly, are not reported as  
governmental fund liabilities. All liabilities (both current and long-term) are  
reported in the Statement of Net Assets.

Bonds Payable	(2,620,000)
Advances from City of Yucaipa	(1,374,811)

Accrued interest payable for the current portion of interest due on long-term liabilities has not been reported in the governmental funds.	<u>(41,293)</u>
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Net assets of governmental activities	<u><u>\$ 1,425,256</u></u>
---------------------------------------	----------------------------

The accompanying notes are an integral part of this statement.

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**Yucaipa Redevelopment Agency**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**Year Ended June 30, 2009**

	<u>Special Revenue</u> Low Income Housing	<u>Capital Projects</u> RDA	<u>2004</u> TAB
<b>Revenues</b>			
Tax Increment	\$ 351,556	\$	\$
Investment Income	22,229	34,138	40,205
Other Income		2,596	68,500
Total Revenues	<u>373,785</u>	<u>36,734</u>	<u>108,705</u>
<b>Expenditures</b>			
Current:			
Community Development	70,728	432,178	
Public Works			779,922
Debt Service:			
Principal			
Interest and Fiscal Charges		63,545	
Total Expenditures	<u>70,728</u>	<u>495,723</u>	<u>779,922</u>
Excess (Deficiency) of Revenues over Expenditures	<u>303,057</u>	<u>(458,989)</u>	<u>(671,217)</u>
<b>Other Financing Sources (Uses)</b>			
Transfers In		2,227,570	119,859
Transfers Out		(119,859)	(842,265)
Transfers from(to) the City of Yucaipa	(33,543)	(1,135,534)	
Proceeds of Advance From the City of Yucaipa		63,546	
Total Other Financing Sources (Uses)	<u>(33,543)</u>	<u>1,035,723</u>	<u>(722,406)</u>
Net Change in Fund Balances	269,514	576,734	(1,393,623)
Fund Balances, Beginning of Year	999,546	2,410,543	2,331,780
Fund Balances, End of Year	<u>\$ 1,269,060</u>	<u>\$ 2,987,277</u>	<u>\$ 938,157</u>

The accompanying notes are an integral part of this statement.

Debt Service	Nonmajor Capital Projects	
RDA	1998 TAB	Total
\$ 1,401,750	\$	\$ 1,753,306
25,808	497	122,877
		71,096
1,427,558	497	1,947,279
		502,906
		779,922
125,000		125,000
126,179		189,724
251,179	-	1,597,552
1,176,379	497	349,727
(1,385,305)		2,347,429
		(2,347,429)
		(1,169,077)
		63,546
(1,385,305)	-	(1,105,531)
(208,926)	497	(755,804)
450,363	24,932	6,217,164
\$ 241,437	\$ 25,429	\$ 5,461,360

The accompanying notes are an integral part of this statement.

**Yucaipa Redevelopment Agency**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances**  
**of Governmental Funds to the Statement of Activities**  
**Year Ended June 30, 2009**

Net change in fund balances - total governmental funds	\$	(755,804)
--------------------------------------------------------	----	-----------

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

Repayment of bond principal is an expenditure in the governmental funds and, thus, has the effect of reducing the fund balance because current financial resources have been used. For the Agency as a whole, however, the principal payments reduce the liabilities in the Statement of Net Assets and do not result in an expense in the Statement of Activities.

Principal - Tax Allocation Bonds		125,000
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When long-term debt is issued, the proceeds of the new debt issuance are reported as other financing sources and uses in the governmental funds. However, in the governmental-wide financial statements, the new debt is reported directly on the Statement of Net Assets and there is no effect on the change in net assets reported on the Statement of Activities.

Proceeds of Advances from City of Yucaipa		(63,546)
-------------------------------------------	--	----------

Accrued interest expense related to long-term liabilities. This amount is the difference between the amount of interest paid and the amount of interest incurred on long-term liabilities.

		1,278
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Change in net assets of governmental activities	\$	(693,072)
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**Yucaipa Redevelopment Agency**  
**Notes to Financial Statements**  
**Year Ended June 30, 2009**

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**Yucaipa Redevelopment Agency**  
**Notes to Financial Statements**  
**Year Ended June 30, 2009**

**1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Accounting policies of the Yucaipa Redevelopment Agency (the Agency) conform to accounting principles generally accepted in the United States of America as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for governmental accounting and financial reporting principles. The following is a summary of significant policies.

**A) Reporting Entity**

The Agency was created on December 17, 1990, pursuant to the State of California Health and Safety Code, Section 33000 entitled Community Redevelopment Law. The specific goal of the Agency is to eliminate the many instances of visual, economic, physical and social blight within the project area. City Council members serve as the Agency's Board of Directors, designate management, and have full accountability for fiscal matters. The Agency is a blended component unit of the City and accordingly, is included in the City's basic financial statements.

**B) Basis of Accounting and Measurement Focus**

Government-Wide Financial Statements

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

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

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

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

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

**Yucaipa Redevelopment Agency**  
**Notes to Financial Statements**  
**Year Ended June 30, 2009**

**1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**B) Basis of Accounting and Measurement Focus - Continued**

Fund Financial Statements

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

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

Governmental Funds

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

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

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

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

**Yucaipa Redevelopment Agency  
Notes to Financial Statements  
Year Ended June 30, 2009**

**1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**B) Basis of Accounting and Measurement Focus - Continued**

Non-current portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered "available spendable resources," since they do not represent the net current assets.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

When both restricted and unrestricted resources are combined in a fund, expenses are considered to be paid first from restricted resources, and they from unrestricted resources.

Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as *other financing sources* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

**C) Major Funds/Non-Major Funds**

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

Special Revenue Fund

The *Low Income Housing Fund* accounts for the required 20 percent set aside of property tax increments that is legally restricted for increasing or improving housing for low and moderate income households, and to account for other specific revenue sources that are legally restricted to expenditures for specified purposes.

Capital Projects Fund

The *Redevelopment Agency (RDA)* accounts for the financial resources used in developing the project area as well as the capital expenditures incurred in sustaining Agency activities.

*2004 TAB* accounts for transactions related to the bond proceeds and capital expenditures associated with the issuance of 2004 Tax Allocation Bonds.

Debt Service Funds

The *Redevelopment Agency (RDA)* accounts for the accumulation of resources for the payment of debt service for bond principal, interest and trustee fees.

The following fund is presented as a non-major fund in the accompanying basic financial statements:

*1998 TAB* accounts for resources used in funding community revitalization with defined project areas.

**Yucaipa Redevelopment Agency**  
**Notes to Financial Statements**  
**Year Ended June 30, 2009**

**1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**D) Relationship to the City of Yucaipa**

The Yucaipa Redevelopment Agency is an integral part of the reporting entity of the City of Yucaipa. The funds of the Agency have been included within the scope of the basic financial statements and supplementary information of the City because the City is financially accountable. Only the funds of the Agency are included herein and these financial statements, therefore, do not purport to represent the financial position or results of operations of the City of Yucaipa, California.

**E) Tax Increment Revenue**

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

**F) Cash and Investments**

Investments are reported in the accompanying balance sheet at fair value, except for certain certificates of deposit and investment contracts that are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates.

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

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

**G) Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Yucaipa Redevelopment Agency**  
**Notes to Financial Statements**  
**Year Ended June 30, 2009**

**2) CASH AND INVESTMENTS**

Cash and investments as of June 30, 2009, are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and Investments	\$ 6,339,398
Cash and Investments with Fiscal Agents	<u>259,253</u>
Total Cash and Investments	<u>\$ 6,598,651</u>

Cash and investments held by the Agency consist of the following:

Equity in City Investment Pool	\$ 6,339,398
Investment Held By Bond Trustee:	
Money Market Funds	<u>259,253</u>
Total Cash and Investments	<u>\$ 6,598,651</u>

**Equity in the Cash and Investment Pool of the City of Yucaipa**

The Treasurer for the City of Yucaipa maintains a cash and investment pool used by all funds of the City and by certain component units of the City, which includes the Agency funds. The Agency has no separate bank accounts or investments other than investments held by bond trustee. This pool is governed by and under the regulatory oversight of the Investment Policy adopted by the City Council of the City of Yucaipa. The fair value of the Agency's investment in the pool is reported in the accompanying financial statements at amounts based upon the Agency's pro-rata share of the fair value calculated by the City for the entire City portfolio. The balance available for withdrawal is based on the accompanying records maintained by the City, which are recorded on an original cost basis.

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

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

**Yucaipa Redevelopment Agency**  
**Notes to Financial Statements**  
**Year Ended June 30, 2009**

**2) CASH AND INVESTMENTS - Continued**

**Disclosures Relating to Interest Rate Risk**

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

Information about the Agency's exposure to interest rate risk as a result of its equity in the cash and investment pool of the City of Yucaipa is provided by disclosure in the notes to the basic financial statements of the City of Yucaipa that shows the distribution of the City's investments by maturity.

Information about the sensitivity of the fair values of the Agency's investments to market interest rate fluctuations is provided by the following table that shows the maturity date of each investment.

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturity 12 Months or Less</u>
Held by Bond Trustee:		
Mutual Funds	<u>\$ 259,253</u>	<u>\$ 259,253</u>

**Disclosures Relating to Credit Risk**

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

<u>Investment Type</u>	<u>Total</u>	<u>Minimum Legal Rating</u>	<u>Rating as of Year End</u>		
			<u>AAA</u>	<u>AA</u>	<u>Not Rated</u>
Held by Bond Trustee:					
Mutual Funds	<u>\$ 259,253</u>	A	<u>\$ 259,253</u>	<u>-</u>	<u>-</u>

**Custodial Credit Risk**

The Agency does not have significant separate certificates of deposit or demand accounts held by bond trustee that are subject to disclosable custodial credit risk (as defined by GASB Statement No. 40). The Agency does not have direct investments in securities subject to disclosable custodial risk (as defined by GASB Statement No. 40).

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

**Yucaipa Redevelopment Agency  
Notes to Financial Statements  
Year Ended June 30, 2009**

**3) LONG-TERM LIABILITIES**

A summary of changes in long-term debt for the year ended June 30, 2009, is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Amount Due Within One Year	Amount Due Beyond One Year
<b>Bonds Payable:</b>						
1998 Tax Allocation Bonds	\$ 565,000	\$ -	\$ (20,000)	\$ 545,000	\$ 25,000	\$ 520,000
2004 Tax Allocation Bonds	2,180,000	-	(105,000)	2,075,000	105,000	1,970,000
Subtotal	2,745,000	-	(125,000)	2,620,000	130,000	2,490,000
<b>Capital Projects Fund</b>						
Loans:						
1990-91 Operating Loan	100,000	-	-	100,000	-	100,000
1992-93 Operating Loan	100,000	-	-	100,000	-	100,000
1992-93 Business Assistance Program	10,000	-	-	10,000	-	10,000
1994-95 Operating Loan	125,000	-	-	125,000	-	125,000
1994-95 Uptown Specific Plan Sewer Main Extension	28,000	-	-	28,000	-	28,000
2006-07 Uptown Specific Plan Improvements	350,000	-	-	350,000	-	350,000
Matured Interest Added to Principal	598,265	63,546	-	661,811	-	661,811
Subtotal	1,311,265	63,546	-	1,374,811	-	1,374,811
<b>Total Long-Term Liabilities</b>	<b>\$ 4,056,265</b>	<b>\$ 63,546</b>	<b>\$ (125,000)</b>	<b>\$ 3,994,811</b>	<b>\$ 130,000</b>	<b>3,864,811</b>

**Tax Allocation Bonds**

**1998 Tax Allocation Bonds**

On June 2, 1998, the Yucaipa Redevelopment Agency issued \$720,000 of 1998 Tax Allocation Bonds. The proceeds were used to finance various capital improvement projects throughout the project area.

The 1998 Tax Allocation Bonds consisted of \$720,000 of term bonds. The bonds accrue interest at rates between 4.00% and 5.60% and are payable semiannually on March 1 and September 1 of each year commencing September 1, 1998. Principal on the bonds is payable in annual installments commencing on March 1, 1998 and ending September 1, 2028. The outstanding balance as of June 30, 2009 was \$545,000.

Per the bond covenants, the Agency is required to maintain a reserve account in an amount equal to \$53,638. At June 30, 2009, the amount held in the reserve account was \$55,004.



**Yucaipa Redevelopment Agency**  
**Notes to Financial Statements**  
**Year Ended June 30, 2009**

**3) LONG-TERM LIABILITIES - Continued**

2004 Tax Allocation Bonds

On October 12, 2004, the Yucaipa Redevelopment Agency issued \$2,500,000 of 2004 Tax Allocation Bonds. The proceeds were used to finance various capital improvement projects throughout the project area. The 2004 Tax Allocation Bonds consisted of \$2,500,000 of term bonds. The bonds accrue interest at rates between 2.10% and 5.00% and are payable semiannually on March 1 and September 1 of each year commencing March 1, 2005. Principal on the bonds is in amounts ranging from \$30,000 to \$170,000 and is payable in semi-annual installments commencing on March 1, 2005 and ending September 1, 2034. The outstanding balance at June 30, 2009 was \$2,075,000.

Per the bond covenants, the Agency is required to maintain a reserve account in an amount equal to \$204,193. At June 30, 2009, the amount held in the reserve account was \$204,205.

Debt Service Requirements to Maturity

The annual requirements to amortize certain outstanding long-term liabilities of the Agency as of June 30, 2009 are as follows:

Year Ended June 30,	1998 & 2004 Tax Allocation Bonds	
	Principal	Interest
2010	130,000	123,879
2011	55,000	119,696
2012	55,000	117,432
2013	55,000	115,318
2014	60,000	113,115
2015	60,000	110,605
2016	65,000	108,025
2017	65,000	105,212
2018	70,000	102,333
2019	70,000	99,202
2020	75,000	96,008
2021	75,000	92,507
2022	80,000	88,958
2023	80,000	85,107
2024	85,000	81,208
2025	90,000	77,014
2026	120,000	72,544
2027	130,000	66,581
2028	135,000	60,069
2029	140,000	53,206
2030	145,000	46,069
2031	150,000	39,000
2032	155,000	31,500
2033	160,000	23,750
2034	170,000	15,750
2035	145,000	7,250
	<u>\$ 2,620,000</u>	<u>\$ 2,051,338</u>

**Yucaipa Redevelopment Agency  
Notes to Financial Statements  
Year Ended June 30, 2009**

**3) LONG-TERM LIABILITIES - Continued**

Tax Sharing Agreement - Yucaipa - Calimesa Joint Unified School District

This agreement requires the Agency to pay into a Special Account of the Agency for the benefit of the School District, all of the School District's share of the base year inflation and 40% of the School District's share of the annual tax increment. The Agency may defer the payment to the Special Fund until the Agency receives \$500,000 per year net of all other pass through payments or the 17<sup>th</sup> year of the Redevelopment Plan, whichever is earlier. As of June 30, 2009, there is \$746,079 in accumulated deferred amounts, which will ultimately be utilized for mutually agreed-upon projects. There is no long-term debt reported in these financial statements for this agreement. However, fund balance has been reserved for the accumulated deferred amounts.

**4) ADVANCES FROM THE CITY OF YUCAIPA FOR REDEVELOPMENT AGENCY LOANS**

The City of Yucaipa's General Fund has advanced funds to the Agency (RDA Capital Projects Fund) for current operations. The advances bear interest at 8.27% for the year ended 1990-91 advance, and a rate equivalent to the Local Agency Investment Fund (LAIF) rate for all other advances. At June 30, 2009, the balance including accrued interest is:

Fiscal Year	Advances and Accrued Interest	Purpose
1990-91	\$ 100,000	Current Operations
1992-93	100,000	Current Operations
	10,000	Business Assistance Program
1994-95	125,000	Uptown Specific Plan/Sewer Main Extension
	28,000	Sewer main Extension
1991-2008	598,265	Interest Charges for the Fiscal Years 1991-2008
2006-07	350,000	Uptown Specific Plan Improvements
2008-09	63,546	Interest Charges for the 2008-09 Fiscal Year
	<u>\$ 1,374,811</u>	

These balances are included as part of note 3.

**5) DUE FROM AND TO OTHER FUNDS**

Interfund receivable and payable balances at June 30, 2009 were as follows:

Receivable Fund	Payable Fund	Amount
RDA Capital Projects Fund	RDA 2004 TAB Fund	<u>\$ 842,265<sup>(a)</sup></u>

<sup>(a)</sup>The interfund balance was the result of a budget approved transfer from the RDA 2004 TAB Fund to the RDA Capital Projects fund that was not yet completed at year end.

**Yucaipa Redevelopment Agency  
Notes to Financial Statements  
Year Ended June 30, 2009**

**6) DUE TO THE CITY OF YUCAIPA**

Amounts payable to the City of Yucaipa at June 30, 2009 were as follows:

Receivable Fund	Payable Fund	Amount
CDBG Fund	RDA Capital Projects Fund	\$ 769,392 <sup>(a)</sup>
General Fund	RDA Debt Services Fund	73,979 <sup>(a)</sup>
		<u>\$ 843,371</u>

<sup>(a)</sup> This intergovernmental balance was the result of transfer that was not yet completed at year end.

**7) TRANSFERS IN AND OUT**

Transfers From	Transfers To	Amount
RDA Debt Service Fund	RDA Capital Projects Fund	\$ 1,385,305 <sup>(a)</sup>
RDA Capital Projects Fund	RDA 2004 TAB Fund	119,859 <sup>(b)</sup>
RDA 2004 TAB Fund	RDA Capital Projects Fund	842,265 <sup>(c)</sup>
		<u>\$ 2,347,429</u>

<sup>(a)</sup> \$1,385,305 was transferred from the RDA Debt Service Fund to the RDA Capital Projects fund for administrative expenses and payments relative to tax sharing agreements.

<sup>(b)</sup> \$119,859 was transferred from the RDA Capital Projects fund to the RDA 2004 TAB Fund for capital project expenditures.

<sup>(c)</sup> \$842,265 was transferred from the RDA 2004 TAB Fund to the RDA Capital Projects fund for capital project expenditures.

**8) DEBT WITHOUT GOVERNMENT COMMITMENT**

The following issues of the Yucaipa Redevelopment Agency Mobile Home Park Revenue Bonds are not reflected in the long-term liabilities because these bonds are special obligations payable solely from and secured by specific revenue sources described in the bond resolutions and official statements of the respective issue. Neither the faith and credit nor the taxing power of the City of Yucaipa, the Agency, the State of California or any political subdivision thereof, is pledged for the payment of these bonds.

The Agency issued Mobile Home Park Revenue Bonds (Eldorado Palms) Series A and B in the amounts of \$6,995,000 and \$225,000, respectively. The bonds are dated May 26, 1998, with interest ranging from 4.90% to 7.7%. These bonds mature on May 1, 2030. The principal balance of the Series A bonds outstanding at June 30, 2009 is \$6,000,000. The principal balance of the Series B bonds was repaid in full in 2002.

On October 9, 2000 the Agency issued Mobile Home Park Revenue Bonds (Valley View) Series 2000 A and B in the amounts of \$1,100,000 and \$505,000, respectively. These bonds have interest rates of 5.0% and 7.5%, respectively, and mature on November 15, 2030. The principal balance of outstanding bonds at June 30, 2009 is \$929,294 and \$460,000, respectively.

On May 15, 2001 the Agency issued Mobile Home Park Revenue Bonds (Rancho Del Sol and Grandview East) Series 2001 A and B in the amounts of \$6,130,000 and \$245,000, respectively. These bonds have interest rates ranging from 5.0% to 6.9% and have maturity dates in increments from May 2002 through May 2036. The principal balance of outstanding bonds at June 30, 2009 is \$5,660,000 and \$95,000, respectively.

**Yucaipa Redevelopment Agency  
Notes to Financial Statements  
Year Ended June 30, 2009**

**9) EXPENDITURES IN EXCESS OF APPROPRIATIONS**

The following funds had an excess of actual expenditures over budgeted expenditures for the year ended June 30, 2009:

	<u>Final Budget</u>	<u>Actual</u>	<u>Excess</u>
RDA 2004 TAB Fund	\$ 779,387	\$ 779,922	\$ (535)

**10) CONTINGENCIES/SUBSEQUENT EVENTS**

Subsequent to June 30, 2009, the State of California passed legislation to divert approximately \$2.05 billion of local redevelopment funds to use for State purposes, as part of the 2009-10 State budget. This includes \$1.7 billion in fiscal year 2009-10 and another \$350 million in fiscal year 2010-11. The California Redevelopment Association (CRA) has filed a lawsuit in Sacramento Superior Court to challenge the constitutionality of this legislation. Currently, the effect that this legislation and resulting lawsuit will have on the Agency's future revenues is unknown.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**Yucaipa Redevelopment Agency**  
**Notes to Required Supplementary Information**  
**Year Ended June 30, 2009**

**1) BUDGETS AND BUDGETARY ACCOUNTING**

The City Council approves each year's budget submitted by the City Manager and Director of Administrative Services prior to the beginning of the new fiscal year. Public hearings are conducted prior to its adoption by Council. All supplemental appropriations, where required during the period, are also approved by Council. Intradepartmental budget transfers are approved by the City Manager. In most cases, expenditures may not exceed appropriations at the departmental level within Agency funds. At fiscal year-end, all operating budget appropriations, lapse.

Budgets for agency funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

**Yucaipa Redevelopment Agency**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - RDA Low Income Housing Special Revenue Fund**  
**Year Ended June 30, 2009**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
<b>REVENUES</b>				
Property Taxes	\$ 300,000	\$ 300,000	\$ 351,556	\$ 51,556
Investment Income	600	600	22,229	21,629
Total Revenues	300,600	300,600	373,785	73,185
<b>EXPENDITURES</b>				
Current:				
Community Development	57,239	79,306	70,728	8,578
Total Expenditures	57,239	79,306	70,728	8,578
Excess (Deficiency) of Revenues over Expenditures	243,361	221,294	303,057	81,763
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers from(to) the City of Yucaipa	(22,411)	(22,411)	(33,543)	(11,132)
Total Other Financing Sources (Uses)	(22,411)	(22,411)	(33,543)	(11,132)
Net Change in Fund Balance	220,950	198,883	269,514	70,631
Fund Balance, Beginning of Year	999,546	999,546	999,546	-
Fund Balance (Deficit), End of Year	<u>\$ 1,220,496</u>	<u>\$ 1,198,429</u>	<u>\$ 1,269,060</u>	<u>\$ 70,631</u>

## **SUPPLEMENTARY INFORMATION**



**Yucaipa Redevelopment Agency**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - RDA Capital Projects Fund**  
**Year Ended June 30, 2009**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
<b>REVENUES</b>				
Investment Income	\$	\$	\$ 34,138	\$ 34,138
Other			2,596	2,596
Total Revenues	-	-	36,734	36,734
<b>EXPENDITURES</b>				
Current:				
Community Development	400,359	950,438	432,178	518,260
Debt Service:				
Interest and Fiscal Charges			63,545	(63,545)
Total Expenditures	400,359	950,438	495,723	454,715
Excess (Deficiency) of Revenues over Expenditures	(400,359)	(950,438)	(458,989)	491,449
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In			2,227,570	2,227,570
Transfers Out			(119,859)	(119,859)
Transfers to the City of Yucaipa	(89,644)	(89,644)	(1,135,534)	(1,045,890)
Proceeds of Advance from the City of Yucaipa			63,546	63,546
Total Other Financing Sources (Uses)	(89,644)	(89,644)	1,035,723	1,125,367
Net Change in Fund Balances	(490,003)	(1,040,082)	576,734	1,616,816
Fund Balance (Deficit), Beginning of Year	2,410,543	2,410,543	2,410,543	-
Fund Balance (Deficit), End of Year	<u>\$ 1,920,540</u>	<u>\$ 1,370,461</u>	<u>\$ 2,987,277</u>	<u>\$ 1,616,816</u>

**Yucaipa Redevelopment Agency**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - RDA 2004 TAB Capital Projects Fund**  
**Year Ended June 30, 2009**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
<b>REVENUES</b>				
Investment Income	\$	\$	\$ 40,205	\$ 40,205
Other Income		68,500	68,500	-
Total Revenues	-	68,500	108,705	40,205
<b>EXPENDITURES</b>				
Public Works		779,387	779,922	(535)
Total Expenditures	-	779,387	779,922	(535)
Excess (Deficiency) of Revenues over Expenditures	-	(710,887)	(671,217)	39,670
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer In			119,859	119,859
Transfers Out			(842,265)	(842,265)
Total Other Financing Sources (Uses)	-	-	(722,406)	(722,406)
Net Change in Fund Balances	-	(710,887)	(1,393,623)	(682,736)
Fund Balance, Beginning of Year	2,331,780	2,331,780	2,331,780	-
Fund Balance, End of Year	\$ 2,331,780	\$ 1,620,893	\$ 938,157	\$ (682,736)

**Yucaipa Redevelopment Agency**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - RDA Debt Service Fund**  
**Year Ended June 30, 2009**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
<b>REVENUES</b>				
Property Taxes	\$ 1,200,000	\$ 1,200,000	\$ 1,401,750	\$ 201,750
Investment Income	2,400	2,400	25,808	23,408
Total Revenues	1,202,400	1,202,400	1,427,558	225,158
<b>EXPENDITURES</b>				
Debt Service:				
Interest and Fiscal Charges	123,881	123,881	126,179	(2,298)
Principal Payments	130,000	130,000	125,000	5,000
Total Expenditures	253,881	253,881	251,179	2,702
Excess (Deficiency) of Revenues over Expenditures	948,519	948,519	1,176,379	227,860
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers Out			(1,385,305)	(1,385,305)
Total Other Financing Sources (Uses)	-	-	(1,385,305)	(1,385,305)
Net Change in Fund Balances	948,519	948,519	(208,926)	(1,157,445)
Fund Balance, Beginning of Year	450,363	450,363	450,363	-
Fund Balance, End of Year	\$ 1,398,882	\$ 1,398,882	\$ 241,437	\$ (1,157,445)

**Yucaipa Redevelopment Agency**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - RDA 1998 TAB**  
**Year Ended June 30, 2009**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
<b>REVENUES</b>				
Investment Income	\$	\$	\$ 497	\$ 497
Total Revenues	-	-	497	497
Excess (Deficiency) of Revenues over Expenditures	-	-	497	497
Fund Balance, Beginning of Year	24,932	24,932	24,932	-
Fund Balance, End of Year	\$ 24,932	\$ 24,932	\$ 25,429	\$ 497

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

Board Members  
Redevelopment Agency of the City Yucaipa  
Yucaipa, California

We have audited the financial statements of the Redevelopment Agency of the City of Yucaipa (the Agency) as of and for the year ended June 30, 2009, and have issued our report thereon dated December 10, 2009. 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.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

This report is intended solely for the information and use of the management and Board Members of the Redevelopment Agency of the City of Yucaipa, and the State Controller's Office, Division of Accounting and Reporting and is not intended to be and should not be used by anyone other than these specified parties.

*Teaman Ramirez & Smith*

December 10, 2009

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## **Appendix B**

### **YUCAIPA REDEVELOPMENT AGENCY YUCAIPA REDEVELOPMENT PROJECT AREA**

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

**October 6, 2010**

#### **I. Introduction**

The Yucaipa Redevelopment Agency (the Agency) is proposing to issue its Yucaipa Redevelopment Project 2010 Tax Allocation Bonds (the Bonds). The Bonds are being issued by the Agency to finance redevelopment projects of the Agency in the Project Area, to fund the Reserve Requirement with respect to the Bonds and to pay costs of issuance. The Yucaipa Redevelopment Project (the Project Area) is the redevelopment project of the Agency.

The California Community Redevelopment Law (the Law) provides for the creation of redevelopment agencies by cities and counties for the purpose of the elimination of blight. The Law, together with Article 16, Section 16 of the California Constitution, authorizes the Agency to receive that portion of property tax revenue produced by such taxable value that is in excess of the taxable value within the project area at the time of the project area's adoption. The tax revenues so derived are generally referred to as Tax Increment Revenues. The Law provides that the Tax Increment Revenues may be pledged by the Agency to the repayment of agency indebtedness.

The purpose of this Report is to examine the assessed values for the current fiscal year and project for the current and nine subsequent fiscal years the amount of Tax Revenues to be received by the Agency from the Project Area. For purposes of this report, Adjusted Gross Revenues include all Tax Increment Revenue and Unitary Revenues (see Section IV H, below) less Base Year Adjustments (see Section VII, below). Housing Tax Revenue (see Section V, below) is calculated as 20% of Adjusted Gross Revenue. If one or more of the Constituent Project Areas exceeds its limit on receipt of tax increment revenue, all revenue allocable to that Constituent Project Area will be available in addition to Housing Tax Revenues for payment of debt service on the Bonds (see Section V below).

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

**Table A**  
**Project Area Projected Tax Revenues**

<b>Fiscal Year</b>	<b>Gross Revenues</b>	<b>Housing Set-Aside</b>	<b>SB 2557 Admin. Charge</b>	<b>Senior Tax Sharing</b>	<b>Tax Revenues</b>	<b>Subordinate Yucaipa-Calimesa JUSD Tax Sharing</b>	<b>Net Tax Revenue</b>
<b>2010-11</b>	\$1,921	\$ 384	\$30	\$377	<b>\$1,129</b>	\$192	<b>\$ 938</b>
<b>2011-12</b>	1,813	363	29	354	<b>1,068</b>	182	<b>886</b>
<b>2012-13</b>	1,869	374	30	367	<b>1,099</b>	187	<b>912</b>
<b>2013-14</b>	1,927	385	30	379	<b>1,131</b>	192	<b>939</b>
<b>2014-15</b>	1,985	397	31	392	<b>1,164</b>	198	<b>967</b>
<b>2015-16</b>	2,044	409	32	406	<b>1,198</b>	203	<b>995</b>
<b>2016-17</b>	2,105	421	33	419	<b>1,232</b>	208	<b>1,023</b>
<b>2017-18</b>	2,167	433	34	433	<b>1,267</b>	214	<b>1,053</b>
<b>2018-19</b>	2,230	446	35	447	<b>1,302</b>	220	<b>1,082</b>
<b>2019-20</b>	2,295	459	36	461	<b>1,338</b>	226	<b>1,113</b>

The assumptions used to project taxable values of property and the resulting Tax Revenues for the Project Area summarized above are reflected on Tables 1 and 2 of the projections (attached) and discussed in this Report. These projections are based on assumptions determined by our review of the taxable value history of the Project Area and the property tax assessment and property tax apportionment procedures of the San Bernardino County Auditor-Controller.

The projection illustrates the entire amount of Tax Revenues projected as being available from the Project Area. It is assumed that the Agency will continue to have sufficient debt to capture all of the available Tax Revenues. Future year assessed values and Tax Revenues are projections based on the assumptions described in this Report and are not guaranteed as to accuracy. This Report is not to be construed as a representation of such by HdL Coren & Cone.

## **II. Description of The Project Area**

### **A. Redevelopment Plan General Description**

On June 22, 1992 the City Council of the City of Yucaipa adopted Ordinance No. 109 which established the redevelopment plan for the Yucaipa Redevelopment Project. The Project Area consists of a single contiguous area that is 1,407 acres in size. The Project Area is generally located along the Yucaipa Boulevard corridor and encompasses the City's original downtown area and a portion of the frontage along Interstate Highway 10.

### **B. Redevelopment Plan Limits**

The Redevelopment Plan for the Project Area was originally adopted with certain limitations. These limitations were in accordance with the Law as it existed when the Project Area's Redevelopment Plan was adopted. In 1993 Assembly Bill 1290 was enacted (Chapter 942, Statutes of 1993). Chapter 942 required redevelopment plans adopted prior to 1994 to incorporate a number of limits not previously required. Pursuant to Chapter 942 the time for establishing indebtedness was not to exceed the later of 20 years from the adoption of the redevelopment plan or January 1, 2004. Further, Chapter 942 limited the effective life of a project area adopted prior to 1994 to 40 years from the time of adoption. Chapter 942 also limited the receipt of tax increment for repayment of indebtedness to ten years after the termination of redevelopment plan effectiveness except for specific low and moderate-income housing obligations and any bond, indebtedness or other obligation authorized prior to January 1, 1994. Pursuant to Chapter 942, the City Council adopted Ordinance No. 135 on December 12, 1994



that amended the Project Area Redevelopment Plan and incorporated time limits consistent with the provisions of Chapter 942.

On May 10, 2004, the City Council adopted Ordinance No. 230 amending the Redevelopment Plan in accordance with the Law as amended by Senate Bill 1045 (see Section VI, Legislation), to extend by one year the termination date of the Redevelopment Plan and by extension the last date to repay indebtedness. Legislation adopted by Senate Bill 1096 in connection with the State's budget provided that the termination dates of redevelopment plans with less than 20 years remaining may be extended by one year for each of the two ERAF payments that redevelopment agencies are obligated to make under other provisions of the budget legislation. The Agency made the ERAF payments in May, 2005 and May, 2006 as required by Senate Bill 1096 but the termination date of the Redevelopment Plan was beyond the limits allowed under the legislation. No extension of the Redevelopment Plan's termination date or its last date to repay debt with tax increment is allowed.

According to County records, through Fiscal Year 2009-10, the Agency has been allocated \$10,289,631 of Gross Revenues. Based on the projection of revenues that generally assumes growth of 2% annually on real property values only, the Project Area is not projected to reach its tax increment limit before reaching the Redevelopment Plan time limit on repayment of indebtedness. No annual growth of assessed values within the Project Area that could reasonably be expected would exceed its tax increment limit prior to reaching the Redevelopment Plan's time limit on repayment of indebtedness. The currently applicable Redevelopment Plan limits for the Project Area are summarized below in Table B.

<b>Table B</b> <b>Project Area Redevelopment Plan Limits</b>				
<b><u>Plan Expiration</u></b>	<b><u>Last Date to Incur New Debt</u></b>	<b><u>Last Date to Repay Indebtedness</u></b>	<b><u>Cumulative Tax Increment Limit</u></b>	<b><u>Bonded Indebtedness Limit</u></b>
June 22, 2033	June 22, 2012	June 22, 2043	\$1.05 billion	\$330 million

### **C. Project Area Land Use**

Represented in Table C is the breakdown of land use in the Project Area by the number of parcels and by their taxable value for fiscal year 2010-11. This information is based on County land use designations as provided by San Bernardino County through tax roll data. It should be noted that the County land use designations do not necessarily parallel City land use and zoning designations. Unsecured values are connected with parcels that are already accounted for in other categories. There are 157 privately owned vacant parcels within the Project Area.

**Table C**  
**Project Area Land Use Summary**

Category	No. Parcels	Net Taxable Value	% of Total
Residential	260	\$ 42,917,133	16.11%
Commercial	290	143,240,084	53.77%
Industrial	21	15,621,445	5.86%
Irrigated/Dry Farm	2	175,753	0.07%
Recreational	2	614,543	0.23%
Institutional	2	0	0.00%
Miscellaneous	23	2,243,685	0.84%
Exempt	22	0	0.00%
Vacant	<u>157</u>	31,440,644	11.80%
Unsecured		<u>30,149,970</u>	<u>11.32%</u>
<b>Total:</b>	<b>779</b>	<b>\$266,403,257</b>	<b>100.00%</b>

### III. Redevelopment Project Assessed Values

#### A. Assessed Values

Taxable values for all parcels are prepared by the County Assessor and reported to the Agency by the County Auditor-Controller each fiscal year and represent the aggregation of all locally assessed properties that are within the Project Area. The assessments are assigned to Tax Rate Areas (TRAs) that are coterminous to the boundaries of the Project Area. The historic reported taxable values for the Project Area were reviewed in order to ascertain the rate of taxable property valuation growth over the ten most recent fiscal years beginning with 2001-02. Detailed historical assessed values for the Project Area are shown on the attached Table 3.

Between 2001-02 and 2010-11, the taxable value within the Project Area increased by \$139,898,320 (110.59%). The secured assessed value increased in each year during this period. Secured values rose by a total of \$124.4 million (111.3%). Unsecured values increased by \$15.45 million (105.16%) over this same ten year period. Unsecured values increased in each year except for 2003-04, 2004-05 and 2010-11. The 2003-04 unsecured tax roll values decreased by \$538,356 (-3.33%) in relation to the 2002-03 unsecured roll. The 2004-05 unsecured tax roll values decreased by \$66,939 (-0.43%). The 2010-11 unsecured tax roll values decreased by \$4,953,722 (-14.11%). The Project has incremental value of \$164,742,645 for 2010-11. Over the ten year period examined, annual growth in assessed value averaged 11.06%. Growth within the Project Area has been very strong in most years with the smallest annual growth in assessed value coming in 2009-10 at 8.93% and 2010-11 at 0.54% as a result of the general economic conditions in Southern California. Annual incremental value growth in the period from 2001-02 to 2010-11 has been as high as 79.75% (fiscal year 2001-02).

#### Residential Real Estate Values

In response to the down-turn in real estate values state-wide, the San Bernardino County Assessor reviewed the values of residential parcels within the County. In 1978, California voters passed Proposition 8. This constitutional amendment allows a temporary reduction in assessed value when a property suffers a "decline in value." A decline in value occurs when the current market value of a property is less than the current assessed value as of the lien date. Under the terms of Proposition 8, it is the Assessor's obligation to assess all properties at the lesser of current market value or at the

property's base value as adjusted for inflation and for any changes that have occurred to the property since it was last purchased.

Properties that have their values reduced to the current market value are annually reviewed by the Assessor to determine the new market value of the property. The value that is enrolled each year is the lesser of the current market value or the property's base adjusted base value. Adjusting the property's value to the current market value may entail a further decrease in value or an increase in value that is not limited by constitutional restriction on annual value increases. Once the property has once again reached its adjusted base value, it may be increased in value only by the rate of inflation to a maximum annual rate of two percent as required by the constitution. Residential properties make up 15.4% of the value of all properties within the Project Area. A review of residential values over the past five years shows that in the Project Area residential values increased in each fiscal year except for 2009-10. For that year residential property values declined by \$1,167,406 (-2.77%). The decline in residential property values within the entire City of Yucaipa was -9.19%. For fiscal year 2010-11 there are a total of 48 residential parcels within the Project Area that have experienced assessed value reductions pursuant to Prop 8. This is 18.5% of all residential parcels in the Project Area. From 2009-10 to 2010-11 the value of these parcels was reduced by the County Assessor by \$3,601,973 (-28.96%). Growth in value among residential parcels not subject to Prop 8 reductions was sufficient to fully mitigate the value reductions under Prop 8 and to reflect an increase in residential property values of \$2,027,708 (4.96%) over the values of 2009-10. This was to some extent the result of the addition of 33 new residential properties within the Project Area.

### **B. Top Ten Taxable Property Owners**

A review of the top ten taxpayers in the Project Area for fiscal year 2010-11 was conducted. The assessed values of those properties controlled by the top ten taxpayers in the Project Area were compared to the total assessed value and incremental value of the entire Project Area. A more detailed listing of the top ten taxpayers in the Project Area is shown on Table 5 of the projections. Table D below lists the top ten taxpayers within the Project Area.

**Table D**  
**Project Area Top Ten Property Owners**

		<u>Assessed Value</u>	<u>% Total Value</u>	<u>% Inc. Value</u>
1	Gerald S. Rubin	\$7,100,000	2.67%	4.31%
2	Pacific Crest Holdings	5,966,263	2.24%	3.62%
3	Sorenson Engineering	5,164,785	1.94%	3.14%
4	Rago Domenick	4,535,440	1.70%	2.75%
5	MDN Group (1)	4,470,903	1.68%	2.71%
6	RFA Yucaipa LP (1)	4,367,627	1.64%	2.65%
7	Yucaipa Oak Glenn (1)	3,895,471	1.46%	2.36%
8	ESS Prisa (1)	3,592,944	1.35%	2.18%
9	Center Point Plaza	2,948,686	1.11%	1.79%
10	Alpine Storage	<u>2,689,8291</u>	<u>1.01%</u>	<u>1.63%</u>
	<b>Totals</b>	<b>\$44,731,948</b>	<b>16.79%</b>	<b>27.15%</b>

Total & Incremental Values

\$266,403,257

\$164,742,645

(1) Pending appeals.

The top taxpayer, Gerald S. Rubin, owns a vacant 27.28 acre parcel located on the north side of Yucaipa Boulevard between Sand Canyon Road and 16<sup>th</sup> Street. This parcel is zoned for General Commercial use. Taxpayer numbers two, four through seven and nine own properties in use as small commercial centers. These are mainly located on or near the main commercial corridor along Yucaipa Boulevard and range in size from three to five acres. Taxpayer number 3, Sorenson Engineering owns a light manufacturing facility near Instate 10. At this facility they manufacture machine parts. Sorenson Engineering has recently purchased a vacant parcel adjacent to their existing facility for expansion of their operation. The number eight taxpayer, ESS Prisa and the number ten taxpayer, Alpine Storage, operate self-storage properties. None of the property tax records of the top ten taxpayers reflect any delinquent taxes.

#### **IV. San Bernardino County Tax Allocation and Disbursement Methodology**

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

The taxable values of property are established each year on the January 1 property tax lien date. Real Property reflects the reported assessed values for secured and unsecured land and improvements. Article XIII A of the California Constitution (Proposition 13) provides that a base year value is established when locally assessed real property undergoes a change in ownership or when new construction occurs. Following the year a base year value is first enrolled, the value is factored annually for inflation. Pursuant to Article XIII A, section 2(b), and Revenue and Taxation Code Section 51, the percentage increase cannot exceed two percent of the prior year's value.

To interpret section 51, the State Board of Equalization (Board) promulgated Property Tax Rule 460, General Application. Subdivision (a) of Rule 460 provides the general interpretation of Proposition 13 as follows:

*(a) Sections 1 and 2 of Article XIII A of the Constitution provide for a limitation on property taxes and a procedure for establishing the current taxable value of locally assessed real property by reference to a base year full cash value which is then modified annually to reflect increase in the inflation rate not to exceed two percent per year or declines in value from whatever cause.*

Specifically, with respect to the applicable inflation rate, Rule 460, subdivision (b)(5) states that:

*(b)(5) INFLATION RATE. For each lien date after the lien date in which the base year value is determined, the full value of real property shall be modified to reflect the percentage change in cost of living, as defined in Section 51 of the Revenue and Taxation Code; provided that such value shall not reflect an increase in excess of two percent of the taxable value of the preceding lien date.*

Each year the Board announces the applicable adjustment factor. Since in most years inflation has exceeded two percent, the announced factor has usually reflected the two percent cap. On five occasions, inflation has been less than two percent. In those years, the announced factor resulted in an inflation adjustment of less than 2 percent. In the more than 30 years since the passage of proposition 13, the annual adjustment has resulted in a reduction to base year values only once. The final factor is based on price level changes that occur from October through October of the following year.

Because Section 51 does not distinguish between positive and negative changes in the CCPI, and because Article XIII A, section 2(b) of the California Constitution specifically provides adjustments based upon reductions in the CCPI, it is the opinion of the Board that Section 51 requires inflation factor adjustments that may be positive or negative. If positive, the increase is limited to two percent, however, there is no such limitation to downward adjustments, including instances in which the net change to the CCPI is zero or less than zero percent. The adjustment factor for the January 1, 2010 assessment date was -0.237%. Given the data available at this time we have predicated our projections on 0.5% inflation growth for fiscal year 2011-12 and assumed resumption of two percent annual growth thereafter.

Utility property assessed by the Board may be revalued annually and such assessments are not subject to the inflation limitations of Article XIII A. The taxable value of Personal Property is also established on the lien dates and is not subject to the annual two percent limit of locally assessed Real Property.

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

#### **B. Supplemental Assessments and Prior Year Collection Revenue**

Chapter 498 of the Statutes of 1983 provides for the reassessment of property upon a change of ownership or completion of new construction. Such reassessment is referred to as the Supplemental Assessment and is determined by applying the current year's tax rate to the amount of increase in a property's value and prorating the resulting property taxes to reflect the portion of the tax year remaining as determined by the date of the change in ownership or completion of new construction.

If taxpayers do not pay property taxes by certain deadlines, the property tax obligation is deemed delinquent. The taxpayer is then subject to penalties, interest and fees in addition to the original property tax obligation. The Tax Collector will seek to collect these delinquent property taxes, penalties and fees and, once collected, will allocate these amounts to the Agency from a countywide pool of redeemed taxes. These Redemption Revenues are allocated to all taxing entities, including the Agency, based on their pro-rata share of the countywide total amount of delinquent taxes. All delinquent taxes are eventually redeemed and are allocated along with the appropriate fees, interest and penalties.

Since 1984-85 revenues derived from Supplemental Assessments have been allocated to redevelopment agencies and taxing entities in the same manner as regularly collected property taxes. The receipt of Supplemental Tax Revenues by taxing entities typically follows the change of ownership by a year or more. We have **not** included revenues resulting from Supplemental Assessments in the projections. Table E below reflects the amount of Supplemental Tax Revenues and Prior Year Collections allocated to the Agency for 2005-06 through 2009-10.

**Table E**  
**Supplemental and Prior Year Tax Revenue Allocations**

<u>Fiscal Year</u>	<u>Prior Yr. Revenue</u>	<u>Supplemental Revenue</u>	<u>Total</u>
2005-06	\$ 92,351	\$ 69,911	\$162,262
2006-07	156,030	138,800	294,830
2007-08	158,004	199,897	357,901
2008-09	143,459	2,711	146,170
2009-10	<u>199,784</u>	<u>815</u>	<u>200,599</u>
<b>Totals</b>	<b>\$ 749,628</b>	<b>\$412,134</b>	<b>\$1,161,762</b>

### C. Tax Rates

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

The Project Area contains a total of five Tax Rate Areas. A Tax Rate Area is a geographic area within which the taxes on all property are levied by a certain set of taxing entities. These taxing entities each receive a prorated share of the general levy and those taxing entities with voter approved over-ride tax rates receive the revenue resulting from that tax rate. The tax increment projections are based on the 1% general levy tax rate and on those over-ride tax rates that were approved by voters prior to January 1, 1989. There is only one debt service over-ride tax rate levied within the Project Areas that received voter approval prior to January 1, 1989. The pre-1989 tax rate levied by the San Bernardino Valley Municipal Water District is present in all TRAs. The secured tax rates for 2010-11 are not yet available and so the projections are based on the secured tax rates for 2009-10. This 2009-10 tax rate is the correct unsecured tax rate for 2010-11.

Within the TRAs in the Project Area, there is a single tax rate that is applied that received voter approval after January 1, 1989 and that it present in all TRAS and a single post-1989 tax rate that is applied in one of the Project Area TRAs. The San Bernardino Community College District levies an override tax rate within all Project Area TRAs in support of the debt service on District bonds. The Redlands Unified School District levies an override tax rate within one of the Project Area TRAs. These over-ride tax rates do not accrue any benefit to the Agency. Table F below illustrates the components that make up the tax rate that is applicable within the Project Area and that has been used in the projections.

**Table F**  
**Project Area Tax Rate**

	No. of TRAs	4	1
2010-11 Incremental Value		\$160,153,403	\$4,589,242
General Levy		1.0000	1.0000
San Bernardino Valley MWD		<u>.1650</u>	<u>.1650</u>
<b>Total RDA Tax Rate:</b>		<b>1.1650</b>	<b>1.1650</b>
San Bernardino Community College District		.0280	.0280
Redlands Unified School District		<u>.0000</u>	<u>.0541</u>
<b>Total Tax Rate:</b>		<b>1.1930</b>	<b>1.2471</b>

#### **D. Allocation of Taxes**

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

#### **E. Annual Tax Receipts to Tax Levy**

A review was made of the receivable and allocated tax revenues for the Project Area for fiscal years 2005-06 through 2009-10. The collection rate for the Project Area has been comparable to the collection rates for other taxing entities within the County for each year. Table G below shows the collection rates for the Project Area during these fiscal years. Collection rates are a comparison of current year revenues to the adjusted tax roll assessed values at the end of each fiscal year. Prior year collections include supplemental revenues, escaped assessment revenues from prior years and penalties. Collection rates have not been factored into the projection.

**Table G**  
**Project Area Collection Rates**

	Original Tax Levy	Current Year Apportioned	Prior Year Collections	Total Apportioned	Current Year Collection %	Total Collection %
2005-06	713,036	723,815	162,262	886,078	101.51%	124.27%
2006-07	957,179	1,004,347	294,830	1,299,177	104.93%	135.73%
2007-08	1,398,134	1,330,869	357,901	1,688,771	95.19%	120.79%
2008-09	1,748,911	1,641,908	146,170	1,788,078	93.88%	102.24%
2009-10	1,902,609	1,765,722	200,599	1,966,322	92.81%	103.35%



### F. Assessment Appeals

Within the Project Area there have been 36 assessment appeals filed since 2006-07. There are appeals pending for three of the fiscal years examined. Of the 36 total appeals filed, none have been allowed with a reduction in value and five have been denied. There are 31 appeals currently pending on properties within the Project Area. Because the period examined was characterized by significant value increases there were very few assessment appeals filed prior to 2009-10. Of the 31 pending appeals, all but one was filed on values for 2009-10. The taxpayers that have currently pending assessment appeals are seeking reductions in value totaling \$18.55 million based on their opinions of value. Because there is insufficient data with which to estimate the potential for value reductions from the pending appeals, we have assumed that the loss from these pending assessment appeals will be 50% of the value reductions indicated by the owners opinion of value. A reduction of \$9.3 million in the projected assessed value for 2011-10 has been factored into the projections of revenue. Reductions in revenue for refunds resulting from these successful appeals have not been estimated. Four of the top ten taxpayers within the Project Area have filed assessment appeals that are currently pending. Table 5 of the projection tables (attached) lists all of the top ten taxpayers and identifies those that have currently pending assessment appeals.

Our estimates are based only upon what is believed to be a conservative assumption of value reduction using owner's opinion of value. Actual appeals, reductions and refunds may vary from these estimates. Our estimated reductions in values are reflected on Tables 1 and 2 of the Project Area projections. The appeals data discussed above are summarized in Table H below.

**Table H**  
**Historical Assessment Appeal Summary**  
**Fiscal Years 2005-06 through 2009-10**

<u>Total Appeals Filed</u>	<u>No. of Resolved Appeals</u>	<u>No. of Appeals Allowed</u>	<u>Average Reduction</u>	<u>No. of Appeals Pending (Appealed Value)</u>	<u>Est. Appeals to be Allowed</u>	<u>Est. AV Loss on Pending Appeals Allowed (2011-12 AV Adjustment)</u>
36	5	0	0.00%	31 (\$35,135,065)	31	\$9,272,746 <sup>1</sup>

### G. County Property Tax Collection Reimbursement

Chapter 466, adopted by Senate Bill 2557, allows counties to recover charges for property tax administration in an amount equal to their 1989-90 property tax administration costs, as adjusted annually. The amounts that are reimbursed are the costs connected with the collection and distribution of property taxes for the Tax Collector, the Auditor Controller and the Assessor. The portions of the reimbursement amount that are allocated to each taxing entity within the County are based on the percentage of the total assessed value in the County that each taxing entity's assessed value represents. In addition to the reimbursement of these collection costs as allowed by SB 2557, the Auditor-Controller is authorized to assess a collection charge that is 0.25% of all amounts allocated. For purposes of the projections we have combined the SB 2557 reimbursement and the collection charge into a single, Tax Collection Reimbursement amount.

<sup>1</sup> This estimated loss is 50% of the loss of value indicated by the owner's opinion of value on pending appeals. Owner's opinion of value, if fully allowed, would reduce assessed values by a total of \$18,545,491.



The projections assume that the percentage the 2009-10 Tax Collection Reimbursement represented relative to the amount of Gross Revenues projected to be allocated to the Project Area (1.33%) for this fiscal year will continue for future years. The Property Tax Reimbursement, Gross Revenues and percentage of Gross Revenues for 2005-06 through 2009-10 is shown in Table I below.

<b>Table I</b>			
<b>Property Tax Collection Reimbursement</b>			
	<u><b>Gross Revenues</b></u>	<u><b>Collection Charge</b></u>	<u><b>% of Gross Revenue</b></u>
2005-06	\$ 870,837	\$9,460	1.08%
2006-07	1,282,154	6,431	0.50%
2007-08	1,669,674	4,011	0.24%
2008-09	1,757,777	16,939	0.96%
2009-10	1,966,322	21,985	1.12%

#### **H. Allocation of State Assessed Unitary Taxes**

Legislation enacted in 1986 (Chapter 1457) and 1987 (Chapter (921) provided for a modification of the distribution of tax revenues derived from utility property assessed by the State Board of Equalization, other than railroads. Prior to the 1988-89 fiscal year, property assessed by the SBE was assessed statewide and was allocated according to the location of individual components of a utility in a tax rate area.

Commencing in 1988-89, tax revenues derived from unitary property assessed by the SBE are accumulated in a single Tax Rate Area for the County. It is then distributed to each taxing entity in the County in the following manner: (1) each taxing entity will receive the same amount as in the previous year plus an increase for inflation of up to two percent; (2) if utility tax revenues are insufficient to provide the same amount as in the previous year, each taxing entity's share would be reduced pro-rata county wide; and (3) any increase in revenue above two percent would be allocated in the same proportion as the taxing entity's local secured taxable values are to the local secured taxable values of the County.

To administer the allocation of unitary tax revenues to redevelopment agencies, the County no longer includes the taxable value of utilities as part of the reported taxable values of the project area, therefore, the base year of project areas have been reduced by the amount of utility value that existed originally in the base year. Within the Project Area, the Auditor Controller has reported that \$1,797 in unitary tax revenue was allocated to the Agency for 2009-10. These revenue amounts tend to remain fairly constant but are subject to adjustments by the SBE for inflation growth, declines in value due to assessment appeals by utility companies and others taxed under this system and increases in value resulting from development of new facilities. Because we cannot reasonably project changes in this revenue stream, we have assumed that the unitary tax revenue will remain constant in future years.

## **V. Low and Moderate Income Housing Set-Aside**

Sections 33334.2 and 33334.3 of the Law require redevelopment agencies to set aside not less than 20 percent of all tax increment revenues from project areas adopted after December 31, 1976 into a low and moderate income housing fund (the Housing Set-Aside Requirement). Sections 33334.3, 33334.6 and 33334.7 of the Law extend this requirement to redevelopment projects adopted prior to January 1, 1977. An agency can reduce the Housing Set-Aside Requirement if the agency annually makes certain findings, consistent with the General Plan Housing Element. These findings are that: (1) no need exists in the community to improve or increase the supply of low and moderate income housing; or, (2) some stated percentage less than 20 percent of the tax increment is sufficient to meet the housing need. In order to make findings (1) or (2), the Agency's finding must be consistent with the Housing Element of the community's General Plan, including its share of the regional housing needs of very low income households and persons and families of low or moderate income. The Agency has not made such findings in the past. We have assumed in the projection that the Agency will continue to meet the Housing Set-Aside Requirement.

## **VI. Legislation**

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

In order to address State Budget deficits, the Legislature enacted SB 614, SB 844 and SB 1135 that required payments from redevelopment agencies for the 1992-93, 1993-94 and 1994-95 fiscal years into a countywide Education Revenue Augmentation Fund (the ERAF). The Agency could have used any funds legally available and not legally obligated for other uses, including reserve funds, bond proceeds, earned income, and proceeds of land sales, but not moneys in the Low and Moderate Income Housing Fund (the Housing Fund) to satisfy this obligation. An agency could have reduced its payment due to existing indebtedness, contractual obligations and 90 percent of 1991-92 administrative costs (collectively, Existing Obligations). If an agency could not make the required payment due to Existing Obligations, it could, after making certain findings, borrow up to 50 percent of its 1992-93 ERAF obligation from the Housing Fund and repay the borrowed amount by June 2003, or the agency was required to obtain a loan from the city/county in order to pay the difference between what the agency paid and the total amount due. For agencies that did not borrow to meet any shortfall of the required payment, the county auditor-controller was required to deduct any amount due from the city/county's allocation of property taxes. The obligation applied to the agency and not to specific project areas. The Agency made the required payments for these fiscal years.

From 1994-95 through 2001-02, state budgets were adopted with no additional shifting of tax increment from redevelopment agencies. The State Budget for 2002-03 required a shift of \$75 million of tax increment statewide from redevelopment agencies to ERAF to meet the state budget shortfall.

AB 1768 (Chapter 1127, Statutes of 2002) was enacted by the Legislature and signed by the Governor. Based upon the methodology provided in the 2002-03 budget, the shift requirement for the Agency was \$7,387 for fiscal year 2002-03 only. This amount did not impact the Agency's ability to fulfill its payment obligations. This shift of revenue is an obligation of the Agency and not of any particular project area. The Agency was permitted to satisfy this obligation with any legally available funds. The Agency made the required payment to the County by the deadline of May 10, 2003.

As part of the State's 2003-04 budget legislation, SB 1045 (Chapter 260, Statutes of 2003) required redevelopment agencies statewide to contribute \$135 million to local County Education Revenue Augmentation Funds (ERAF) which reduced the amount of State funding for schools. This transfer of funds was limited to Fiscal Year 2003-04. The amount of revenue that was transferred by the Agency to the County for 2003-04 was \$19,034. The Agency made this payment to the County by the May 10, 2004 deadline.

Under the Law as amended by SB 1045, the Agency was authorized to use a simplified methodology to amend the Constituent Project Area Redevelopment Plans to extend by one year the effectiveness of the plan and the time during which the Agency may repay debt with tax increment revenues. In addition, the amount of this payment and the ERAF payments made in prior years are not counted towards the limit on the amount of cumulative tax increment revenues to be received by the Agency. The City Council adopted an ordinance so amending the Redevelopment Plan (Ordinance No. 230) on May 10, 2004. By its approval of this ordinance, the City Council extended by one year the effective life of the Redevelopment Plan to June 22, 2033 and similarly extended the period within which the Agency may repay indebtedness from tax increment revenues to July 22, 2043.

The State's budget for 2004-05 was approved by the legislature and signed by the Governor. Senate Bill 1096 was a trailer bill that dealt with local government. Pursuant to SB 1096, redevelopment agencies in the State lost \$250 million to ERAF in each of the fiscal years 2004-05 and 2005-06. The amounts that were paid by each Agency were calculated by using the same formula as was used for 2003-04. Annual payments continued to be due on May 10 of each fiscal year. As in previous years, payments could be made from any available funds other than the Housing Fund. If an agency was unable to make a payment, it could have borrowed up to 50 percent of that years housing set-aside amount, however, the borrowed amount had to be repaid to the Housing Fund within 10 years of the last ERAF payment (May 10, 2006). The Agency made ERAF payments of \$34,999 for 2004-05 and \$41,705 for 2005-06.

For redevelopment plans with less than ten years of effectiveness remaining from June 30, 2005, SB 1096 provided that redevelopment plans were allowed to be extended by one year for each year that an ERAF payment was made per SB 1096. For redevelopment plans with 10 to 20 years of effectiveness remaining after June 30, 2005, the plans could be extended by one year for each year that an ERAF payment is made if the City Council made findings that the Agency was in compliance with specified state housing requirements. These requirements were: 1) that the Agency was setting aside 20 percent of gross tax increment revenue; 2) housing implementation plans were in place; 3) replacement housing and inclusionary housing requirements were being met; and, 4) no excess surplus existed. If a redevelopment plan had more than 20 years of effectiveness remaining after June 30, 2005, it could not be extended. The Redevelopment Plan was not eligible to have its termination dates extended under this legislation.

The Legislature enacted AB 1389 to require a \$350 million shift for 2008-09 from redevelopment agencies to ERAF. There was to be no repayment of this amount, nor any extensions of redevelopment plan limits. The Low and Moderate Housing Requirement was not to apply to the amount paid for the ERAF. The payment may have come from any available Agency revenues. The Agency could have borrowed up to 50 percent from its current year Housing Set-Aside Requirement for purposes of making the ERAF payment. The ERAF payment was to have been subordinate to debt existing at the date of enactment of AB 1389. An agency that could not make the payment due to existing indebtedness would have been allowed to borrow from their legislative body. Failure to make the ERAF payment would have resulted in penalties that would have effectively stopped new activities of the agency. This legislation mandated this ERAF shift only for fiscal year 2008-09.

The California Redevelopment Association (the CRA), the Executive Director of the CRA, the Madera Redevelopment Agency and the Moreno Valley Redevelopment Agency filed a lawsuit in the Sacramento Superior Court challenging the constitutionality of the AB 1389 provisions requiring the \$350 million shift of tax increment revenues from redevelopment agencies to ERAF. The lawsuit sought to invalidate the provisions of AB 1389 requiring the tax increment transfer to ERAF and to prohibit the State from forcing county auditors to divert these redevelopment funds to ERAF. A ruling on this suit by the Sacramento County Superior Court was filed on April 30, 2009. The Court found in favor of the plaintiffs, ruling that the requirement that these funds be taken from redevelopment agency revenues and paid into county ERAF accounts was unconstitutional in that this use of redevelopment tax increment revenues conflicts with and violates the Law requiring that tax increment revenues be used to finance redevelopment activities. This ruling eliminated the requirement to make the ERAF payment described in the previous paragraph. The State filed an appeal of this the ruling but it subsequently withdrew this appeal.

AB 1389 also contained provisions requiring redevelopment agencies to report all amounts of statutory tax sharing payments owed for fiscal years 2003-04 through 2007-08, the amounts paid, and if any amounts were not paid, to pay the amounts due or incur penalties effectively stopping new activities of the Agency. The Agency has been found to be in compliance by the State Controller's Office in that it has no statutory tax sharing obligations.

In July, 2009 the Legislature adopted AB 26 4x. This bill is implementing legislation to a package of 30 bills that were adopted in order to close the State's budget deficit. Under this legislation the redevelopment agencies statewide will be required to pay \$1.7 billion in fiscal year 2009-10 and another \$350 million in 2010-11 into their county's "Supplemental" ERAF (the SERAF). Funds deposited in the SERAF will be distributed in such a way as to try to avoid the issues that were named by the Sacramento Superior Court in its ruling on AB 1389's ERAF payment requirement. Under this legislation the Agency has been required to pay \$439,683 in May, 2010 and it will further be required to pay an amount estimated to be \$90,523 in May, 2011. The amount to be paid by the Agency in May, 2011 has not been finally determined by the State Department of Finance. If the Agency does not make the payment by the May 10 deadlines its ability to conduct redevelopment activities will be halted and it must increase the housing set aside to 25 percent.

Under this legislation, the Agency can use any available funds to make the SERAF payment. For 2009-10, the Agency may use all or part of the Housing Tax Revenues in order to make the payment. Any Housing Tax Revenues amount used to make the SERAF payment must be repaid to the Housing

Fund by June 30, 2015. If the Agency fails to repay the Housing Fund in a timely manner, the required allocation of tax increment to the Housing Fund is increased to 25% for the remainder of the time that debt may be repaid from the Project Area.

On November 12, 2009 the Governor signed SB 68 (Steinberg) into law which modifies AB 26 4x by allowing agencies to use the accumulated balances in their housing fund (and not just current year Housing Tax Revenues) to make their SERAF payments, should that become necessary. Funds used from the Housing Fund existing balance to make the 2009-10 payment to County SERAF would be considered a loan to be repaid within five years. Using funds from accumulated Housing Fund would not be allowed for making payments due for 2010-11. The legislation requires that the funds be deposited into a County SERAF and distributed to K-12 school districts located in any Project Area of the Agency in proportion to the average daily attendance of the district. The funds distributed to schools from the SERAF must be used to serve pupils living in the project area or in housing supported by redevelopment funds. The total amount of SERAF funds received by a school district is deemed to be local property taxes and will reduce dollar-for-dollar the State's Prop 98 obligations to fund education.

The City may lend to the Agency the amount that must be paid to SERAF and in that case, the Agency is authorized to repay the legislative body from tax increment. The City Council is also authorized to make the payment on behalf of the Agency. The provisions of existing law which permit a joint powers authority to sell bonds and loan the proceeds to redevelopment agencies in order to make ERAF payments are also available for the 2009-10 and 2010-11 payments. In addition, agencies are entitled to a one-year extension on their AB 1290 time limits if they make timely SERAF payments. This extension will not trigger pass-through payments under Health and Safety Code Section 33607.7.

As with the earlier ERAF obligations, the obligation to make the SERAF payment is subordinate to debt service on bonds and other indebtedness. An agency may pay less than the amount required if it finds that it is necessary to make payments on existing obligations required to be committed, set-aside or reserved by the agency during the applicable fiscal year. An agency that intends to pay less than the required amount in order to pay existing obligations must have adopted a resolution prior to December 31, 2009, listing the existing indebtedness and the payments required to be made during the applicable fiscal year.

An agency failing to timely make its SERAF payment, even if the delay is required in order to pay existing obligations, is subject to what has been referred to as the "death penalty." An agency subject to the death penalty may not adopt a new redevelopment plan, amend an existing plan to add territory, issue bonds, further encumber funds or expend any moneys derived from any source except to pay pre-existing indebtedness, contractual obligations and 75% of the amount expended on agency administration for the preceding fiscal year. This penalty would last until the required payments have been made.

On October 20, 2009 the CRA filed a lawsuit in Sacramento Superior Court challenging the constitutionality of ABX4-26. In addition to the CRA, two redevelopment agencies were named as plaintiffs in the lawsuit. These are the Union City Redevelopment Agency in Alameda County and the Fountain Valley Redevelopment Agency in Orange County. They serve as representatives of all redevelopment agencies in the state. The Court was asked to certify all redevelopment agencies as a class of plaintiffs in the lawsuit. With this suit, the CRA sought to invalidate the State's effort to

require the redevelopment agencies to shift \$2.05 billion in tax increment revenues to the SERAF. On May 4, 2010, Judge Lloyd Connelly of the Sacramento Superior Court ruled in favor of the State of California and effectively authorized the SERAF obligations. The Judge refused to issue an order delaying the requirement for making the SERAF payments. The CRA attempted to secure an injunction that would allow redevelopment agencies to delay payment of the SERAF obligations pending their appeal of Judge Connelly's ruling but was unsuccessful. According to the Agency, it made the necessary payment from available funds and submitted the required SERAF payment to the Auditor-Controller by the May 10, 2010 deadline. By making the required payment for 2010-11, the Agency will be authorized to extend the expiration date of the Redevelopment Plan by one year which will similarly extend the time limit on repaying indebtedness. Since there is a question as to whether an appeal of the Judge's ruling will be successful, the Agency has made no such amendment to the Redevelopment Plan and for purposes of this report we have not assumed any extension of these time limits.

Beyond the legislation described above, the Agency cannot predict whether the State Legislature will enact any other legislation requiring additional or increased future shifts of tax increment revenues to the State and/or to schools, whether through an arrangement similar to SERAF or by other arrangements, and, if so, the effect that there may be on future Gross Revenues and Housing Tax Revenues.

## **VII. Tax Sharing and Other Obligations**

### **A. Statutory Tax Sharing Payments**

The Agency has entered into several tax sharing agreements with affected taxing entities. In its agreement with the County of San Bernardino dated October 26, 1993, the County General Fund (the "County") received its share of general levy revenue derived from inflationary growth on base year real property value through fiscal year 1996-97. Beginning with fiscal year 1997-98 and continuing through the life of the Project Area the County receives a varying percentage depending on the amount of annual Gross Revenue. This scale is reflected below.

<u>Amount of Annual Gross Revenue</u>	<u>Percentage of Gross Revenue to County</u>
\$0 to \$1 million	1%
\$1 million to \$5 million	5%
\$5 million to \$10 million	10%
\$10 million to \$15 million	15%
\$15 million to \$20 million	20%
Revenue above \$20 million	25%

The percentages are applied to each level of the annual Gross Revenue amount and the resulting amounts are added to produce the payment amount.

Pursuant to the agreement with the County of San Bernardino, the County Library and the County Flood Control District receive 80 percent of their shares (1.4% and 2.5% respectively) of annual general levy tax increment revenue. The Library and Flood Control shares are specified in the agreement and are the share percentages as calculated at the time of the adoption of the Redevelopment Plan.

The San Bernardino County Superintendent of Schools and the San Bernardino Community College District have entered into agreements with the Agency that provides for the tax sharing payments from the Agency to these entities. In both agreements, the Districts annually receive their shares of general levy revenue derived from inflationary growth on base year real property value and 30 percent of their shares of general levy tax increment revenue. The Agreement stipulates that the combined payment amount is not to exceed 40 percent of the District's total share of annual general levy tax increment revenue. The Superintendent of Schools' share of general levy revenue is 0.89 percent and the Community College District's share of general levy revenue is 5.095 percent.

The Agency has also entered into an agreement with the San Bernardino Valley Municipal Water District that stipulates that the District will receive its full debt service over-ride revenue and its share of general levy revenue derived from inflationary growth of base year real property value. The District's debt service over-ride rate is 0.165 percent of incremental assessed value and its share of general levy revenue is 2.42 percent.

The Agency has entered into an agreement with the Yucaipa-Calimesa Joint Unified School District that provides for a deferral of payments to the District's until such time as the Agency's annual revenue, net of all tax sharing payments to other taxing entities, is greater than \$500,000 or until seventeen years after the adoption of the Redevelopment Plan. The seventeenth year is fiscal year 2008-09. The threshold amount was exceeded during fiscal year 2004-05 and until that time the District deferred an amount that is 40 percent of the District's annual share of general levy tax increment revenue. This deferred amount began to be repaid in fiscal year 2005-06 and will be repaid over a period not to exceed fifteen years. The District is now entitled to receive 40 percent of its annual share (27.2%) of general levy tax increment revenue. The agreement provides that the payments amounts may only be expended by the District on projects that have been mutually agreed upon by the Agency and the District. No such projects have been agreed upon to date. All revenues placed in the District's Special Account by the Agency pursuant to the agreement remain in the account.

The Agency has entered into an agreement with the Redlands Unified School District that is, in its terms, identical to the agreement with the Yucaipa-Calimesa Joint Unified School District. The Redlands Unified School District exists in only one of the Project Area's TRAs and this TRA has produced tax increment revenue only since fiscal year 2004-05. The District is now entitled to receive 40 percent of its annual share (30.05%) of general levy tax increment revenue. The agreement provides that the payments amounts may only be expended by the District on projects that have been mutually agreed upon by the Agency and the District. No such projects have been agreed upon to date. All revenues placed in the District's Special Account by the Agency pursuant to the agreement remain in the account.

## **B. Court Decisions**

The State Court of Appeals upheld a Superior Court decision which held the Santa Ana School District had the right to receive payments from the Orange County Redevelopment Commission pursuant to a resolution adopted by the School District in 1999 under former Section 33676(a) of the Law (Santa Ana Unified School District v. Orange County Redevelopment Commission; App. 4 Dist. 2001 108 Cal. Rptr.2d 770, 90 Cal. App 4th 404, review denied). Former Section 33676(a) (2) provided that, unless a negotiated tax sharing agreement had been entered into, upon passage of a resolution prior to adoption of a redevelopment plan, affected taxing agencies and every school and community college

district could elect to be allocated increases in the assessed value of taxable property in the project area based on inflation growth (the 2% Property Tax Increase). Former Section 33676(a)(2) was repealed as part of major revisions made to the Law pursuant to the Reform Act of 1993 (AB 1290). The changes to the Law contained in AB1290 were effective as of January 1, 1994.

The Court of Appeals affirmed the lower court ruling that due to an amendment to former Section 33676(a) that was adopted in 1984 and became effective on January 1, 1985, school and community college districts were to automatically receive the 2% Property Tax Increase even without adopting the appropriate resolution prior to the adoption of a redevelopment plan. The Redevelopment Plan was adopted during the period that Section 33676(a)(2) in the Law was effective and is, therefore, affected by it. No taxing entities adopted resolutions electing to receive their shares of revenue from inflationary adjustments to the base year value. In addition, since the Agency has entered into tax sharing agreements with all educational agencies, this decision has not caused any decrease in Agency revenues.

### **C. Owner Participation Agreements**

According to the Agency it has entered into no Owner Participation Agreements that constitute a pledge of Tax Revenue nor have they entered into any such agreements that would have a superior lien on Tax Revenues to the payment of debt service on the Bonds.

## **VIII. New Development**

Value will be removed from the Project Area for fiscal year 2011-12 as the result of 9 transfers of ownership that have occurred after the lien date for the 2010-11 tax roll. The combined reduction in value of these transfers of ownership is \$1,197,870 and this additional value has been reflected in our projected assessed values for 2011-12. These additional values are identified in Table 4 within the attached tax increment projections.

## **IX. Trended Taxable Value Growth**

In accordance with Article XIII A of the State Constitution, growth in real property land and improvement values may reflect the year to year inflationary rate not to exceed two percent for any given year or reduction as shown in the consumer price index. Except for 2010-11, a two percent growth rate has been used for the projections because it is the maximum inflationary growth rate permitted by law and this rate of growth has been realized in all but six years since 1981. The years in which less than two percent growth was realized were 1983-84 (1.0%), 1995-96 (1.19%), 1996-97 (1.11%), 1999-00 (1.85%) and 2004-05 (1.867%). As discussed in Section IV.A above, the inflationary growth rate for 2010-11 was -0.237%. Based on the inflation data for October, 2009 through June, 2010 it appears that the inflation adjustment factor for 2011-12 will be approximately 0.5%. For purposes of this projection, we have reflected this growth rate to derive our projected assessed values for 2011-12 and assumed resumption of inflationary growth at two percent per year thereafter. Should the growth of taxable value in the Project Area be less than two percent in other fiscal years, the resultant Tax Revenues would be reduced. Future values will also be impacted by changes of ownership and new construction not reflected in our projections. In addition, the values of property previously reduced in value due to Assessor's value Proposition 8 value adjustments based on



reduced market values could increase more than two percent when real estate values increase more than two percent (see Section III.F above). Seismic activity and environmental conditions such as hazardous substances that are not anticipated in this Report might also impact taxable assessed values and Tax Revenue. Future values will also be affected by changes of ownership and new construction not reflected in our projections. Seismic activity and environmental conditions such as hazardous substances that are not anticipated in this report might also impact property taxes and Tax Increment Revenue. HdL Coren & Cone makes no representation that taxable assessed values will actually grow at the rate projected.

As a result of the recent nationwide increase in defaults on residential mortgages there has been concern expressed in the financial market over the possible impact that these defaults may have on redevelopment agency revenues in general. Reliable information on foreclosure activity is difficult to find and what information that is available is not readily applicable to discrete areas within cities and redevelopment project areas. An examination of the property ownership within the Project Area shows three residential parcels as being owned by a bank or financial institution.

For reference, properties receiving a Notice of Default from a trustee are in the first phase of the foreclosure process. A Notice of Default is sent after the occurrence of a default under the terms of the deed of trust or mortgage. A Notice of Trustee's Sale is filed announcing a public auction of property that is in default under the terms of the deed of trust or mortgage. This is the second phase of the foreclosure process. Real Estate Owned by Lender reflects the final stage in the foreclosure process. These are properties that have been conveyed into the ownership of the lender. Generally the foreclosure process may be halted by the property owner or borrower paying the amount that is in default under the deed of trust and bringing the loan current.

Anticipated Project Area Tax Revenues could be adjusted as a result of unidentified assessment appeal refunds, other Assessor corrections discussed previously, or unanticipated increases or decreases in property tax values. Estimated valuations from developments included in this analysis are based upon our understanding of the general practices of the San Bernardino County Assessor and Auditor-Controller's Office. General assessment practices are subject to policy changes, legislative changes, and the judgment of individual appraisers. While we believe our estimates to be reasonable, taxable values resulting from actual appraisals may vary from the amounts assumed in the projections.

# Yucaipa Redevelopment Agency

## Yucaipa Redevelopment Project

### Projection of Incremental Taxable Value & Tax Increment Revenue

10/6/10

(000's Omitted)

**Table 1**

<b>Taxable Values (1)</b>	<b><u>2010-11</u></b>	<b><u>2011-12</u></b>	<b><u>2012-13</u></b>	<b><u>2013-14</u></b>	<b><u>2014-15</u></b>	<b><u>2015-16</u></b>	<b><u>2016-17</u></b>	<b><u>2017-18</u></b>	<b><u>2018-19</u></b>	<b><u>2019-20</u></b>
Real Property (2)	250,214	240,948	245,767	250,682	255,696	260,810	266,026	271,347	276,774	282,309
Personal Property (3)	<u>16,189</u>	<u>16,189</u>	<u>16,189</u>	<u>16,189</u>	<u>16,189</u>	<u>16,189</u>	<u>16,189</u>	<u>16,189</u>	<u>16,189</u>	<u>16,189</u>
<b>Total Projected Value</b>	<b>266,403</b>	<b>257,137</b>	<b>261,956</b>	<b>266,872</b>	<b>271,885</b>	<b>276,999</b>	<b>282,215</b>	<b>287,536</b>	<b>292,963</b>	<b>298,498</b>
<b>Taxable Value over Base</b>	<b>101,661</b>	<b>164,743</b>	<b>155,477</b>	<b>160,296</b>	<b>165,211</b>	<b>170,225</b>	<b>175,339</b>	<b>180,555</b>	<b>185,875</b>	<b>196,838</b>
Gross Tax Increment Revenue (4)	1,919	1,811	1,867	1,925	1,983	2,043	2,103	2,165	2,229	2,293
Unitary Tax Revenue	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>
<b>Gross Revenues</b>	<b>1,921</b>	<b>1,813</b>	<b>1,869</b>	<b>1,927</b>	<b>1,985</b>	<b>2,044</b>	<b>2,105</b>	<b>2,167</b>	<b>2,230</b>	<b>2,295</b>
<b><u>LESS:</u></b>										
County Admin. And Collection Charges (5)	(30)	(29)	(30)	(30)	(31)	(32)	(33)	(34)	(35)	(36)
Housing Set Aside Requirement (6)	(384)	(363)	(374)	(385)	(397)	(409)	(421)	(433)	(446)	(459)
<b><u>Tax Sharing</u></b>										
San Bernardino County (7)	(56)	(51)	(53)	(56)	(59)	(62)	(65)	(68)	(72)	(75)
County Library (8)	(18)	(17)	(18)	(19)	(19)	(20)	(20)	(21)	(21)	(22)
County Flood Control (8)	(33)	(31)	(32)	(33)	(34)	(35)	(36)	(37)	(38)	(39)
Superintendent of Schools (9)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(7)	(7)	(7)
San Bernardino Community College (9)	(34)	(32)	(33)	(34)	(35)	(36)	(37)	(38)	(39)	(40)
San Bernardino Valley MWD (10)	(224)	(212)	(219)	(226)	(233)	(241)	(248)	(256)	(263)	(271)
Redlands Unified School District (11)	<u>(6)</u>	<u>(5)</u>	<u>(6)</u>	<u>(6)</u>	<u>(6)</u>	<u>(6)</u>	<u>(6)</u>	<u>(6)</u>	<u>(7)</u>	<u>(7)</u>
<b>Tax Revenues</b>	<b>1,129</b>	<b>1,068</b>	<b>1,099</b>	<b>1,131</b>	<b>1,164</b>	<b>1,198</b>	<b>1,232</b>	<b>1,267</b>	<b>1,302</b>	<b>1,338</b>
<b><u>Subordinate Tax Sharing</u></b>										
Yucaipa-Calimesa Joint USD Current Year Payment (11)	(174)	(164)	(170)	(175)	(180)	(185)	(191)	(197)	(202)	(208)
Yucaipa-Calimesa Joint USD Deferral Repayment (11)	<u>(18)</u>	<u>(18)</u>	<u>(18)</u>	<u>(18)</u>	<u>(18)</u>	<u>(18)</u>	<u>(18)</u>	<u>(18)</u>	<u>(18)</u>	<u>(18)</u>
<b>Net Tax Revenues</b>	<b>938</b>	<b>886</b>	<b>912</b>	<b>939</b>	<b>967</b>	<b>995</b>	<b>1,023</b>	<b>1,053</b>	<b>1,082</b>	<b>1,113</b>

# Yucaipa Redevelopment Agency

## Yucaipa Redevelopment Project

Footnotes for Table 1

10/06/10

- (1) Taxable values as reported by San Bernardino County.
- (2) Real property consists of land and improvements. Projected values adjusted for transfers of ownership (see Table 4). Increased for inflation at 0.5% for 2011-12 and at 2% annually thereafter. Values for 2011-12 have been reduced by \$9,272,743 for estimated value reductions from pending appeals.
- (3) Personal property is held constant at 2010-11 level.
- (4) Projected Gross Tax Increment is based upon incremental taxable values factored against an assumed Project tax rate and adjusted to remove tax rates for any indebtedness approved by voters after 1988. There are presently debt service overrides for the Redlands Unified School District and the San Bernardino Community College District that are levied within the Project Area but are not applicable to Agency Revenues. The debt service override tax rate for the San Bernardino Valley Municipal Water District (0.165%) is levied in all Project Area tax rate areas and is applicable to Agency revenues. Future tax rates are assumed to remain at \$1.165 per \$100 of taxable value.
- (5) County Administration fee and Collection Charge are estimated at 1.33% of Gross Revenue.
- (6) Housing Set Aside calculated at 20% of Gross Revenue.
- (7) San Bernardino County received its share of inflationary growth on base year real property value through 1996-97. Beginning with 1997-98 the County receives a sliding percentage of annual Gross Revenue. The County receives 1% of annual revenue up to \$1 million; 5% of revenue from \$1 million to \$5 million; 10% of revenue from \$5 million to \$10 million; 15% of revenue from \$10 million to \$15 million; 20% of revenue from \$15 million to \$20 million; and 25% of all revenue over \$20 million.
- (8) The County Library (1.4%) and the County Flood Control District (2.5%) receive 80% of their shares of general levy tax increment revenue.
- (9) The San Bernardino County Superintendent of Schools (0.89%) and the San Bernardino Community College District (5.095%) receive their full shares of general levy revenue on inflationary growth of base year real property growth and 30% of their shares of general levy tax increment revenue. The total amount received by the districts shall not, however, exceed an amount that is 40% of the District's full share of general levy tax increment revenue.
- (10) San Bernardino Valley Municipal Water District receives its full share (0.14%) of debt service override tax revenue and its share (3.031%) of general levy revenue derived from inflationary growth of base year real property value. Based on Agency reading of the agreement, all payments are to be made net of Housing Set-Aside.
- (11) An amount equal to 40% of the Redlands Unified School District (30.05%) and the Yucaipa-Calimesa Joint Unified School District (27.24%) shares of general levy tax increment revenue are held by the Agency for use on mutually agreed upon capital improvement projects. These amounts were deferred through fiscal 2004-05 when annual total revenues net of pass through amounts exceeded \$500,000. Beginning in 2005-06 the amounts available for mutually agreed upon projects is 40% of the District's annual share of general levy tax increment revenue plus the amounts that were deferred. The deferred amounts may be made available over a period not to exceed 15 years beginning with 2005-06. Redlands Unified School District occupies a single tax rate area within the Project Area. This tax rate area had positive incremental value in only a few fiscal years prior to 2004-05 and, therefore, the cumulative deferral of payments to Redlands Unified School District was very small. The Yucaipa-Calimesa Joint Unified School District occupies all other tax rate areas. Tax sharing payments to the Yucaipa-Calimesa Joint Unified School District are assumed to have received approval for subordination to payment of debt service on the Bonds from the District. All payment amounts are to be held by the Agency for District use on mutually approved projects. Through 2009-10 no projects have been approved.

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

10/6/10

**Table 2**

		Total	Taxable Value Over Base	Gross Tax	Housing	SB 2557	Senior	Tax	Subordinate Payment	Net Tax
		<u>Taxable Value</u>	<u>101,661</u>	<u>Revenues</u>	<u>Set-Aside</u>	<u>Charge</u>	<u>Tax Sharing</u> <u>Payments</u>	<u>Revenues</u>	<u>Yucaipa-Calimesa JUSD</u> <u>Total Annual Payment</u>	<u>Revenue</u>
1	2010-11	266,403	164,743	<b>1,921</b>	(384)	(30)	(377)	<b>1,129</b>	(192)	<b>938</b>
2	2011-12	257,137	155,477	<b>1,813</b>	(363)	(29)	(354)	<b>1,068</b>	(182)	<b>886</b>
3	2012-13	261,956	160,296	<b>1,869</b>	(374)	(30)	(367)	<b>1,099</b>	(187)	<b>912</b>
4	2013-14	266,872	165,211	<b>1,927</b>	(385)	(30)	(379)	<b>1,131</b>	(192)	<b>939</b>
5	2014-15	271,885	170,225	<b>1,985</b>	(397)	(31)	(392)	<b>1,164</b>	(198)	<b>967</b>
6	2015-16	276,999	175,339	<b>2,044</b>	(409)	(32)	(406)	<b>1,198</b>	(203)	<b>995</b>
7	2016-17	282,215	180,555	<b>2,105</b>	(421)	(33)	(419)	<b>1,232</b>	(208)	<b>1,023</b>
8	2017-18	287,536	185,875	<b>2,167</b>	(433)	(34)	(433)	<b>1,267</b>	(214)	<b>1,053</b>
9	2018-19	292,963	191,302	<b>2,230</b>	(446)	(35)	(447)	<b>1,302</b>	(220)	<b>1,082</b>
10	2019-20	298,498	196,838	<b>2,295</b>	(459)	(36)	(461)	<b>1,338</b>	(226)	<b>1,113</b>
11	2020-21	304,145	202,484	<b>2,361</b>	(472)	(37)	(476)	<b>1,376</b>	(232)	<b>1,144</b>
12	2021-22	309,904	208,243	<b>2,428</b>	(486)	(38)	(491)	<b>1,413</b>	(220)	<b>1,193</b>
13	2022-23	315,778	214,117	<b>2,496</b>	(499)	(39)	(506)	<b>1,452</b>	(226)	<b>1,225</b>
14	2023-24	321,770	220,109	<b>2,566</b>	(513)	(41)	(521)	<b>1,491</b>	(233)	<b>1,258</b>
15	2024-25	327,881	226,221	<b>2,637</b>	(527)	(42)	(537)	<b>1,531</b>	(239)	<b>1,292</b>
16	2025-26	334,115	232,455	<b>2,710</b>	(542)	(43)	(553)	<b>1,572</b>	(246)	<b>1,326</b>
17	2026-27	340,474	238,813	<b>2,784</b>	(557)	(44)	(570)	<b>1,613</b>	(252)	<b>1,361</b>
18	2027-28	346,959	245,299	<b>2,860</b>	(572)	(45)	(587)	<b>1,656</b>	(259)	<b>1,397</b>
19	2028-29	353,575	251,914	<b>2,937</b>	(587)	(46)	(604)	<b>1,699</b>	(266)	<b>1,433</b>
20	2029-30	360,322	258,662	<b>3,015</b>	(603)	(48)	(621)	<b>1,743</b>	(273)	<b>1,470</b>
21	2030-31	367,205	265,545	<b>3,095</b>	(619)	(49)	(639)	<b>1,788</b>	(281)	<b>1,508</b>
22	2031-32	374,225	272,565	<b>3,177</b>	(635)	(50)	(657)	<b>1,834</b>	(288)	<b>1,546</b>
23	2032-33	381,386	279,726	<b>3,261</b>	(652)	(52)	(676)	<b>1,881</b>	(296)	<b>1,586</b>
24	2033-34	388,690	287,030	<b>3,346</b>	(669)	(53)	(695)	<b>1,929</b>	(303)	<b>1,626</b>
25	2034-35	396,140	294,480	<b>3,432</b>	(686)	(54)	(714)	<b>1,978</b>	(311)	<b>1,667</b>
26	2035-36	403,739	302,079	<b>3,521</b>	(704)	(56)	(734)	<b>2,028</b>	(319)	<b>1,708</b>
27	2036-37	411,490	309,830	<b>3,611</b>	(722)	(57)	(754)	<b>2,078</b>	(327)	<b>1,751</b>
28	2037-38	419,396	317,736	<b>3,703</b>	(741)	(59)	(774)	<b>2,130</b>	(336)	<b>1,794</b>
29	2038-39	427,460	325,800	<b>3,797</b>	(759)	(60)	(795)	<b>2,183</b>	(344)	<b>1,839</b>
30	2039-40	435,686	334,025	<b>3,893</b>	(779)	(62)	(816)	<b>2,237</b>	(353)	<b>1,884</b>
31	2040-41	444,076	342,415	<b>3,991</b>	(798)	(63)	(838)	<b>2,292</b>	(362)	<b>1,930</b>
32	2041-42	452,633	350,973	<b>4,091</b>	(818)	(65)	(860)	<b>2,348</b>	(371)	<b>1,977</b>
33	2042-43	461,362	359,702	<b><u>4,192</u></b>	<u>(838)</u>	<u>(66)</u>	<u>(883)</u>	<b><u>2,405</u></b>	<u>(380)</u>	<b><u>2,025</u></b>
				<b><u>94,262</u></b>	<u>(18,852)</u>	<u>(1,490)</u>	<u>(19,335)</u>	<b><u>54,585</u></b>	<u>(8,741)</u>	<b><u>45,844</u></b>

See Footnotes for Table 1

**Yucaipa Redevelopment Agency**  
**Yucaipa Redevelopment Project**

HISTORICAL VALUES (1)

10/6/10

Table 3

	<b>Base Year</b>	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>
<b><u>Secured (2)</u></b>	<b>1991-92</b>										
Land	89,732,116	48,092,720	48,349,920	50,355,469	55,350,196	61,600,554	68,298,980	79,828,989	89,758,683	97,144,321	98,451,331
Improvements	0	61,947,358	66,969,526	70,670,572	80,894,079	84,983,535	98,740,465	114,057,048	131,802,306	133,302,170	138,033,230
Personal Property	0	1,997,205	1,456,846	1,307,215	1,251,436	1,214,023	1,264,786	1,378,314	1,238,245	1,325,398	1,121,500
Exemptions	0	(227,873)	(168,759)	(866,362)	(1,234,777)	(1,913,326)	(1,353,558)	(1,240,150)	(1,336,562)	(1,363,292)	(1,352,774)
<b>Total Secured</b>	<b>89,732,116</b>	<b>111,809,410</b>	<b>116,607,533</b>	<b>121,466,894</b>	<b>136,260,934</b>	<b>145,884,786</b>	<b>166,950,673</b>	<b>194,024,201</b>	<b>221,462,672</b>	<b>230,408,597</b>	<b>236,253,287</b>
<b><u>Unsecured</u></b>											
Land	0	0	0	0	0	0	0	0	0	0	0
Improvements	0	7,117,408	7,484,392	7,265,038	6,818,774	8,903,548	8,133,872	14,222,956	16,279,026	20,040,362	15,082,282
Personal Property	11,928,496	7,590,979	8,687,870	8,417,891	8,748,193	9,237,851	10,216,938	13,184,336	14,373,461	15,068,879	15,067,688
Exemptions	0	(12,860)	0	(49,023)	0	(72,400)	(7,903)	0	(39,273)	(5,549)	0
<b>Total Unsecured</b>	<b>11,928,496</b>	<b>14,695,527</b>	<b>16,172,262</b>	<b>15,633,906</b>	<b>15,566,967</b>	<b>18,068,999</b>	<b>18,342,907</b>	<b>27,407,292</b>	<b>30,613,214</b>	<b>35,103,692</b>	<b>30,149,970</b>
<b>GRAND TOTAL</b>	<b>101,660,612</b>	<b>126,504,937</b>	<b>132,779,795</b>	<b>137,100,800</b>	<b>151,827,901</b>	<b>163,953,785</b>	<b>185,293,580</b>	<b>221,431,493</b>	<b>252,075,886</b>	<b>265,512,289</b>	<b>266,403,257</b>
Incremental Value:		24,844,325	31,119,183	35,440,188	50,167,289	62,293,173	83,632,968	119,770,881	150,415,274	163,851,677	164,742,645
Incremental Value Change		11,022,691	6,274,858	4,321,005	14,727,101	12,125,884	21,339,795	36,137,913	30,644,393	13,436,403	890,968
% Change:		79.75%	25.26%	13.89%	41.55%	24.17%	34.26%	43.21%	25.59%	8.93%	0.54%

(1) Source: County of San Bernardino.

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

						000's omitted						
REAL	SqFt/ Units	Value	Total Value	Less Existing	Total Value Added	Start	Complete	2010-11	2011-12	2012-13	2013-14	2014-15
	0	0	0	0	0			0	0	0	0	0
	0	0	0	0	0			0	0	0	0	0
	0	0	0	0	0			0	0	0	0	0
	0	0	0	0	0			0	0	0	0	0
	0	0	0	0	0			0	0	0	0	0
	0	0	0	0	0			0	0	0	0	0
Non-Residential Transfers of Ownership after 1/1/2010	3	Lump Sum	1,060,000	2,180,918	(1,121)			0	(1,121)	0	0	0
Residential Transfers of Ownership after 1/1/2010	6	Lump Sum	1,116,500	1,193,452	(77)			0	(77)	0	0	0
Total Value								0	(1,198)	0	0	0
Total Real Property inc. Inflation Adj. @ 2% per year										0	0	0

**Yucaipa Redevelopment Agency**  
**Yucaipa Redevelopment Project**  
**TOP TEN TAXABLE PROPERTY OWNERS**  
Fiscal Year 2010-11

10/6/10

**Table 5**

	Secured			Unsecured			Total			Use Code
	Value	Parcels	% of Sec. AV	Value	Parcels	% of Unsec. AV	Value	% of Total Value	% of Inc. Value	
1. Gerald S. Rubin	\$7,100,000	1	3.01%	\$0	0	0.00%	\$7,100,000	2.67%	4.31%	Vacant Land - Zoned General Commercial
2. Pacific Crest Holdings	\$5,966,263	1	2.53%	\$0	0	0.00%	\$5,966,263	2.24%	3.62%	Commercial Shopping Center
3. Sorenson Engineering	\$5,164,785	1	2.19%	\$0	0	0.00%	\$5,164,785	1.94%	3.14%	Light Manufacturing
4. Rago Domenick	\$4,535,440	2	1.92%	\$0	0	0.00%	\$4,535,440	1.70%	2.75%	Small Commercial Center
5. MDN Group	\$4,411,221	2	1.87%	\$59,682	1	0.20%	\$4,470,903	1.68%	2.71%	Small Commercial Center
6. RFA Yucaipa LP Appeals on Parcels	\$4,367,627	1	1.85%	\$0	0	0.00%	\$4,367,627	1.64%	2.65%	Commercial Shopping Center
7. Yucaipa Oak Glenn Appeals on Parcels	\$3,895,471	3	1.65%	\$0	0	0.00%	\$3,895,471	1.46%	2.36%	Commercial Shopping Center
8. ESS Prisa Appeals on Parcels	\$3,569,163	2	1.51%	\$23,781	1	0.08%	\$3,592,944	1.35%	2.18%	Self Storage Facility
9. Center Point Plaza	\$2,948,686	1	1.25%	\$0	0	0.00%	\$2,948,686	1.11%	1.79%	Small Commercial Center
10. Alpine Storage	<u>\$2,648,750</u>	<u>1</u>	1.12%	<u>\$41,079</u>	<u>1</u>	<u>0.14%</u>	<u>\$2,689,829</u>	1.01%	1.63%	Self Storage Facility
	\$44,607,406	15		\$124,542	3		\$44,731,948			
Project Area Assessed Values:	\$236,253,287		18.88%	\$30,149,970		0.41%	\$266,403,257	16.79%		
Project Area Incremental Values:	\$146,521,171		30.44%	\$18,221,474		0.68%	\$164,742,645	27.15%		

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## APPENDIX C

### SUPPLEMENTAL INFORMATION REGARDING THE CITY OF YUCAIPA

*The following information concerning the City of Yucaipa is presented as general background data. The Bonds are not an obligation of the City of Yucaipa, the County of San Bernardino, the State of California or any of its political subdivisions, and neither the City, the County, the State nor any of its political subdivisions is liable therefor.*

#### General

The City of Yucaipa (the “City”) is nestled in the foothills of the San Bernardino Mountains. Covering an area of 27.66 square miles, the City is situated at the eastern edge of the Inland Empire. The City is located along Interstate 10, 80 miles east of Los Angeles and 17 miles southeast of San Bernardino. The City is also centrally located 45 minutes from Palm Springs, one hour from mountain resorts and one and one-half hours from San Diego. The City is situated on hills ranging from 2,000 to 4,000 feet in elevation. Much of the northwest portion of the City above 2,400 feet has been designated by the City as an open space preserve.

The City was incorporated on November 27, 1989 and operates as a general law city. It has a council-manager form of municipal government. The City Council is composed of five members elected to four year overlapping terms. The City Councilmembers are elected at large. The City Council elects the Mayor from among the members of the Council.

#### Population

The following table shows the past population data for the City from 2001 to 2010.

2001	41,884	2006	49,775
2002	43,182	2007	50,919
2003	44,936	2008	51,113
2004	46,923	2009	51,223
2005	48,690	2010	51,476

Source: State of California, Department of Finance.

#### Taxable Transactions

The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions (in thousands of dollars) is presented in the following table.

<u>Year</u>	<b>Retail Stores</b>		<b>Total All Outlets</b>	
	<u>No. of Permits</u>	<u>Taxable Transactions</u>	<u>No. of Permits</u>	<u>Taxable Transactions</u>
2004	455	\$174,299	967	\$199,543
2005	493	203,198	960	231,080
2006	492	214,057	913	244,960
2007	462	217,308	914	246,805
2008	468	203,434	942	229,228
2009 <sup>(1)</sup>	588	411,812	832	47,494

(1) As of first quarter of 2009.

Source: California State Board of Equalization.

## Building Activity

The following table provides a summary of residential building permit valuation and the number of new dwelling units authorized in the City from Fiscal Years 2005-06 through 2009-10.

<b><u>Residential</u></b>	<b><u>2005-06</u></b>	<b><u>2006-07</u></b>	<b><u>2007-08</u></b>	<b><u>2008-09</u></b>	<b><u>2009-10</u></b>
New Single - Dwelling	\$76,062,993	\$20,665,577	\$8,967,168	\$824,858	\$1,534,597
New Multifamily - Dwelling	\$4,589,268	N/A	N/A	N/A	N/A
Additions, Alterations	\$4,746,116	\$3,309,863	\$2,844,210	\$581,412	\$1,693,040
Total Residential	\$85,398,377	\$23,975,440	\$11,811,378	\$1,406,270	\$3,227,637
No. of New Dwelling Units	559	133	66	6	10

Source: The Agency.

## Employment and Industry

The City is located in the Riverside-San Bernardino-Ontario Labor Market Area. The labor force employment and unemployment averages over the last four years for the Riverside-San Bernardino Labor Market Area are as follows as of January 1st of each year:

<b><u>Industry</u></b>	<b><u>2006</u></b>	<b><u>2007</u></b>	<b><u>2008</u></b>	<b><u>2009</u></b>	<b><u>2010</u></b>
Civilian Labor Force	N/A	N/A	1,789,300	1,797,400	1,771,000
Civilian Employment	N/A	N/A	1,670,000	1,590,900	1,504,500
Civilian Unemployment	N/A	N/A	119,400	206,500	266,500
Civilian Unemployment Rate	N/A	N/A	6.7%	11.5%	15.0%
<b>Total, All Industries</b>	1,263,900	1,279,300	1,263,300	1,184,800	1,112,300
Total Farm	17,400	16,600	15,800	15,400	15,000
Total Nonfarm	1,246,500	1,262,700	1,247,500	1,169,400	1,097,300
Total Private	1,025,500	1,038,000	1,016,700	938,000	872,100
Goods Producing	250,400	234,200	208,900	169,800	142,900
Mining and Logging	1,400	1,400	1,300	1,200	1,100
Construction	126,700	112,200	95,800	73,600	58,200
Manufacturing	122,300	120,600	111,800	95,000	83,600
Service Providing	996,100	1,028,500	1,038,600	999,600	954,400
Trade, Transportation and Utilities	284,100	299,100	302,100	280,300	263,700
Wholesale Trade	52,600	55,300	56,300	50,400	46,400
Retail Trade	169,400	176,700	175,200	161,100	151,200
Transportation, Warehousing and					
Utilities	62,100	67,100	70,600	68,800	66,100
Utilities	5,500	5,700	5,500	5,800	5,900
Information	14,600	15,700	15,300	14,500	14,500
Professional and Business					
Services	138,200	142,300	139,200	130,200	121,700
Educational and Health Services	120,500	123,400	129,200	131,400	132,300
Leisure and Hospitality	125,300	131,700	133,800	129,200	119,000
Other Services	41,200	40,200	40,700	37,200	35,400
Government	221,000	224,700	230,800	231,400	225,200

Source: State Employment Development Department, Labor Market Information Division.

## Community Services and Facilities

Police protection is provided by the San Bernardino County Sheriff with a substation located in the City. Fire protection is provided by CalFire, which has three fire stations located in the City. Water and sewer services are provided by the Yucaipa Valley Water District. Natural gas is provided by Southern California Gas

Company, electric power by Southern California Edison Company, telephone service by Verizon, cable television by Time Warner and waste disposal by Yucaipa Disposal Company.

Yucaipa is serviced by Redlands Community Hospital located in the City of Redlands approximately eight miles from the City. There are three medical centers in the community, one with urgent care facilities. Numerous doctors, dentists, optometrists and other medical professionals are located in the area. CalFire provides paramedic services to the community. Educational services are provided by the Yucaipa-Calimesa Joint Unified School District with eight elementary schools, two middle schools, one high school and one adult school. There are also two Christian private schools and a two year community college.

Cultural and recreational facilities include 40 churches, one library, three museums, a weekly newspaper and fourteen parks, including an equestrian arena and a municipal pool. The local area also provides two golf courses, local and regional parks, a state park, museums and 15 minute access to the Oak Glen Orchard attractions, a local apple growing tourist area which attracts more than one million visitors each year. One of the nation's largest Factory Outlet Malls is within 20 minutes of the City and a one hour driving distance includes the San Bernardino Mountain resorts, Palm Springs with numerous resort areas, Lake Perris State Recreational Area, the Beach Cities and numerous Southern California attractions.

### **Transportation**

Several main highways serve the City. These include U.S. Interstates 10, 60 and 215 and Highway 38 to the mountain resort areas.

Air transportation is currently available from Ontario International Airport, 34 miles to the west, the Palm Springs Airport, 40 miles to the east, and will soon be available from San Bernardino International Airport. Redlands Airport provides additional air transportation facilities.

Local and interurban bus transportation is provided through Omnitrans Bus Service which is linked to the Southern California Rapid Transit District. Connections are available to Greyhound Lines which provides service to other local areas and additional transcontinental service. Dial-a-Ride also provides local bus service.

### **Climate**

The climate of Yucaipa is characterized as Mediterranean. Summers are hot and dry with mean monthly temperatures in the mid-70s with the average monthly rainfall not exceeding one inch. Winters are cool and moist with mean monthly temperatures in the 50s with over 70% of the annual precipitation falling at that time. Compared to other parts of the San Bernardino Valley, the lower temperatures in Yucaipa are a result of the higher altitude and nighttime cool air from adjacent mountain slopes.

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## APPENDIX D

### SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a brief summary of the provisions of the Indenture of Trust, as supplemented by the First Supplemental Bond Indenture and Second Supplemental Indenture (together, the “Indenture”), which are not described elsewhere in the Official Statement. This Summary does not purport to be comprehensive and reference should be made to the Indenture for a full and complete statement of their provisions.

#### Definitions

As used in this summary, the following terms have the following meanings:

“Additional Revenues” means, as of the date of calculation, the amount of Tax Revenues which, as shown in the report of an independent financial consultant, are estimated to be receivable by the Agency within the Fiscal Year following the Fiscal Year in which such calculation is made as a result of increases in the assessed valuation of taxable property in the Project Area due to the completion of construction which is not reflected on the tax rolls, or due to transfer of ownership or any other interest in real property which has been recorded and which is not reflected on the tax rolls.

“Agency” means the Yucaipa Redevelopment Agency, a public body corporate and politic duly organized and existing under the Redevelopment Law.

“Annual Debt Service” means, for any Bond Year, the sum of (a) the interest payable on the Outstanding Bonds in such Bond Year, and (b) the principal amount of the Outstanding Bonds scheduled to be paid in such Bond Year upon the maturity or mandatory Sinking Account redemption thereof.

“Bond Counsel” means (a) Stradling Yocca Carlson & Rauth, A Professional Corporation, or (b) any other attorney or firm of attorneys appointed by or acceptable to the Agency of nationally-recognized experience in the issuance of obligations the interest on which is excludable from gross income for federal income tax purposes under the Tax Code.

“Bond Year” means any twelve-month period beginning on September 2 in any year and extending to the next succeeding September 1, both dates inclusive; except that the first Bond Year with respect to the 2010 Bonds shall begin on the 2010 Closing Date and end on September 1, 2011.

“Bonds” means, collectively, the 1998 Bonds, the 2004 Bonds, the 2010 Bonds and any Parity Debt.

“Business Day” means a day of the year (other than a Saturday or Sunday) on which banks in California are not required or permitted to be closed, and on which the New York Stock Exchange is open.

“City” means the City of Yucaipa, a municipal corporation organized and existing under the laws of the State.

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

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

“Event of Default” means any of the events described in the Indenture.

“Fair Market Value” means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm’s length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the

meaning of section 1273 of the Code) and, otherwise, the term “Fair Market Value” means the acquisition price in a bona fide arm’s length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Code, (iii) the investment is a United States Treasury Security — State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) the investment is the Local Agency Investment Fund of the State of California but only if at all times during which the investment is held its yield is reasonably expected to be equal to or greater than the yield on a reasonably comparable direct obligation of the United States.

“Federal Securities” means: (a) any direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), the payment of principal of and interest on which are unconditionally and fully guaranteed by the United States of America; (b) obligations of any agency or department of the United States of America which represent the full faith and credit of the United States of America or the timely payment of the principal of and interest on which are secured or guaranteed by the full faith and credit of the United States of America; and (c) any obligations issued by the State or any political subdivision thereof the payment of and interest and premium (if any) on which are fully secured by Federal Securities described in the preceding clauses (a) or (b), as verified by an independent accountant.

“Fiscal Year” means any twelve-month period beginning on July 1 in any year and extending to the next succeeding June 30, both dates inclusive, or any other twelve-month period selected and designated by the Agency as its official fiscal year period pursuant to a certificate of the agency filed with the Trustee.

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

“Interest Payment Date” means March 1, 2011, and each March 1 and September 1 thereafter so long as any of the Bonds remain unpaid.

“Maximum Annual Debt Service” means, as of the date of calculation, the largest amount of Annual Debt Service on all Outstanding Bonds for the current or any future Bond Year. For purposes of such calculation, there shall be excluded a pro rata portion of each installment of principal of any Parity Debt, together with the interest to accrue thereon, in the event and to the extent that the proceeds of such Parity Debt are deposited in an escrow fund from which amounts may not be released to the Agency unless the Tax Revenues for the current Fiscal Year (as evidenced in the written records of the County), plus at the option of the Agency the Additional Revenues, at least equal one hundred thirty-five percent (135%) of the amount of Maximum Annual Debt Service, determined in accordance with the provisions of the Indenture.

“1998 Bonds” means the Redevelopment Agency of the City of Yucaipa Redevelopment Project 1998 Tax Allocation Bonds issued by the Agency in the aggregate principal amount of \$720,000 pursuant to the Indenture.

“Original 2010 Purchaser” means the original purchaser of the 2010 Bonds upon their delivery by the Trustee on the 2010 Closing Date.

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

“Owner” means, with respect to any Bond, the person in whose name the ownership of such Bond shall be registered with the Trustee.

“Parity Debt” means any bonds, notes, loans, advances or other indebtedness issued or incurred by the Agency on a parity with the 1998 Bonds, the 2004 Bonds and the 2010 Bonds pursuant to the Indenture.

“Permitted Investments” means any of the following which at the time of investment are determined by the Agency to be legal investments under the laws of the State of California for the moneys proposed to be invested therein:

- (a) Federal Securities;
- (b) any of the following direct or indirect obligations of the following agencies of the United States of America: (i) direct obligations of the Export-Import Bank; (ii) certificates of beneficial ownership issued by the Farmers Home Administration; (iii) participation certificates issued by the General Services Administration; (iv) mortgage-backed bonds or pass-through obligations issued and guaranteed by the Government National Mortgage Association, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation or the Federal Housing Administration; (v) project notes issued by the United States Department of Housing and Urban Development; and (vi) public housing notes and bonds guaranteed by the United States of America;
- (c) interest-bearing demand or time deposits (including certificates of deposit) or deposit accounts in federal or state chartered savings and loan associations or in federal or State of California banks (including the Trustee, its parent, if any, and affiliates), provided that (i) the unsecured short-term obligations of such commercial bank or savings and loan association shall be rated in the highest short-term rating category by any Rating Agency, or (ii) such demand or time deposits shall be fully insured by the Federal Deposit Insurance Corporation;
- (d) commercial paper rated in the highest short-term rating category by any Rating Agency, issued by corporations which are organized and operating within the United States of America, and which matures not more than 180 days following the date of investment therein;
- (e) bankers acceptances, consisting of bills of exchange or time drafts drawn on and accepted by a commercial bank, including its parent (if any), affiliates and subsidiaries, whose short-term obligations are rated in the highest short-term rating category by any Rating Agency, or whose long-term obligations are rated A or better by any Rating Agency, which mature not more than 270 days following the date of investment therein;
- (f) obligations the interest on which is excludable from gross income pursuant to Section 103 of the Tax Code and which are either (a) rated A or better by any Rating Agency, or (b) fully secured as to the payment of principal and interest by Federal Securities;
- (g) obligations issued by any corporation organized and operating within the United States of America having assets in excess of Five Hundred Million (\$500,000,000), which obligations are rated A or better by any Rating Agency;
- (h) money market funds (including money market funds for which the Trustee, its affiliates or subsidiaries provide investment advisory or other management services) which invest in Federal Securities or which are rated in the highest short-term rating category by any Rating Agency; and
- (i) any investment agreement representing general unsecured obligations of a financial institution rated A or better by any Rating Agency, by the terms of which the Trustee is permitted to withdraw all amounts invested therein in the event any such rating falls below A.

(j) the Local Agency Investment Fund established pursuant to Section 16429.1 of the Government Code of the State of California, *provided, however*, that the Trustee shall be permitted to make investments and withdrawals in its own name and the Trustee may restrict investments in such fund if necessary to keep moneys available for the purposes of the Indenture.

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

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

“Project Area” means the project area described in the Redevelopment Plan.

“Qualified Reserve Account Credit Instrument” means an irrevocable standby or direct-pay letter of credit or surety bond issued by a commercial bank or insurance company and deposited with the Trustee pursuant to the Indenture, provided that all of the following requirements are met at the time of acceptance thereof by the Trustee: (a) the long-term credit rating of such bank or insurance company is A or better from each rating agency which then maintains a rating on the Bonds; (b) such letter of credit or surety bond has a term of at least twelve (12) months; (c) such letter of credit or surety bond has a stated amount at least equal to the portion of the Reserve Requirement with respect to which funds are proposed to be release pursuant to the Indenture; and (d) the Trustee is authorized pursuant to the terms of such letter of credit or surety bond to draw thereunder an amount equal to any deficiencies which may exist from time to time in the Interest Account, the Principal Account or the Sinking Account for the purpose of making payments required pursuant to the Indenture.

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

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

“Redevelopment Plan” means the Redevelopment Plan for the Yucaipa Redevelopment Project, approved by Ordinance No. 109 enacted by the City Council of the City on June 22, 1992, together with any amendments thereof at any time duly authorized pursuant to the Redevelopment Law.

“Redevelopment Project” means the undertaking of the Agency pursuant to the Redevelopment Plan and the Redevelopment Law for the redevelopment of the Project Area.

“Request of the Agency” means a request in writing signed by the Chairman, Executive Director, Treasurer or Secretary of the Agency, or any other officer of the Agency duly authorized by the Agency for that purpose.

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

“Reserve Requirement” means, as of any calculation date, an amount equal to Maximum Annual Debt Service on all Bonds and Parity Debt then Outstanding, or such lesser amount as shall constitute the maximum amount permitted under the Tax Code to be invested without yield limitations.

“Securities Depositories” means, The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax (516) 227-4039 or 4190; Midwest Securities Trust Company, Capital Structures Call



Notification, 440 South LaSalle Street, Chicago, Illinois 60605, Fax (312) 663-2343; Philadelphia Depository Trust Company, Reorganization Division, 1900 Market Street, Philadelphia, Pennsylvania 19103, Attention: Bond Department, Fax (215) 496-5058; or, in accordance with the then current guidelines of the Securities and Exchange Commission to such other addresses and/or such other securities depositories as the Agency may designate in a Request of the Agency delivered to the Trustee.

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

“Special Fund” means the account by that name established and held by the Agency pursuant to the Indenture.

“State” means the State of California.

“Subordinate Debt” means any bonds, notes, loans, advances or other indebtedness issued or incurred by the Agency in accordance with the requirements of the Indenture, which are either: (a) payable from, but not secured by a pledge of or lien upon, the Tax Revenues; or (b) secured by a pledge of or lien upon the Tax Revenues which is subordinate to the pledge of and lien upon the Tax Revenues under the Indenture for the security of the Bonds.

“Supplemental Indenture” means any indenture, agreement or other instrument which amends, supplements or modifies the Indenture and which has been duly entered into by and between the Agency and the Trustee; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

“Tax Code” means the Internal Revenue Code of 1986 as in effect on the Closing Date or (except as otherwise referenced in the Indenture) as it may be amended to apply to obligations issued on the Closing Date, together with applicable temporary and final regulations promulgated, and applicable official public guidance published, under said Code.

“Tax Revenues” means all taxes annually allocated to the Agency with respect to the Project Area following the Closing Date, pursuant to Article 6 of Chapter 6 (commencing with Section 33670) of the Redevelopment Law and Section 16 of Article XVI of the Constitution of the State and as provided in the Redevelopment Plan, including all other 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. Tax Revenues shall include all amounts of such taxes required to be deposited into the Housing Fund of the Agency in any Fiscal Year pursuant to Section 33334.3 of the Redevelopment Law, to the extent permitted under the Redevelopment Law to be applied to the payment of the principal of and interest and premium (if any) on the Bonds and any Parity Debt. Tax Revenues shall not include (a) amounts payable to the Agency by the State of California pursuant to Section 16112.7 of the California Government Code, and (b) amounts payable by the Agency under the Tax Sharing Agreements, to the extent not subordinated to the payment of principal of and interest on the Bonds.

“Tax Sharing Agreements” means, collectively, (a) the agreement dated July 12, 1993, by and between the Agency and Redlands Unified School District, (b) the agreement dated July 12, 1993, by and between the Agency and the San Bernardino County Superintendent of Schools, (c) the agreement dated October 26, 1993, by and among the Agency, the County of San Bernardino, the San Bernardino County Flood Control District and the San Bernardino County Free Library System, (d) the agreement dated July 12, 1993, by and between the Agency and the San Bernardino Community College District, (e) the agreement dated August 10, 1992, by and between the Agency and the San Bernardino Valley Municipal Water District, and (f) the agreement dated December 8, 1992, by and between the Agency and the Yucaipa-Calimesa Joint Unified School District.

“Term Bonds” means, collectively, (a) the 1998 Bonds maturing on September 1, 2018, September 1, 2023 and September 1, 2028, (b) the 2004 Bonds maturing on September 1, 2029 and September 1, 2034, (c) the

2010 Bonds maturing on \_\_\_\_\_, 20\_\_\_\_, and (d) any maturity of Parity Debt which is subject to mandatory Sinking Account redemption pursuant to a Supplemental Indenture authorizing the issuance thereof.

“Trust Office” means, with respect to the Trustee, the corporate trust office of the Trustee at 120 South San Pedro Street, Los Angeles, California, or at such other or additional offices as may be specified by the Trustee in writing to the Agency and the City.

“2004 Bonds” means the Yucaipa Redevelopment Agency Yucaipa Redevelopment Project 2004 Tax Allocation Bonds issued by the Agency in the aggregate principal amount of \$2,500,000 pursuant to the Indenture.

“2010 Bonds” means the Yucaipa Redevelopment Agency Yucaipa Redevelopment Project 2010 Tax Allocation Bonds issued by the Agency in the aggregate principal amount of \$\_\_\_\_\_ pursuant to the Indenture.

“2010 Closing Date” means the date upon which the 2010 Bonds are delivered by the Agency to the Original Purchaser.

“2010 Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Agency relating to the authorization, issuance, sale and delivery of the 2010 Bonds, including but not limited to: printing expenses; rating agency fees; filing and recording fees; initial fees, expenses and charges of the Trustee and its counsel, including the Trustee’s first annual administrative fee; fees, charges and disbursements of attorneys, financial advisors, accounting firms, consultants and other professionals; premium for municipal bond insurance, if applicable; fees and charges for preparation, execution and safekeeping of the 2010 Bonds; and any other cost, charge or fee in connection with the original issuance of the 2010 Bonds.

“2010 Costs of Issuance Fund” means the fund by that name established and held by the Trustee pursuant to the Indenture.

“2010 Redevelopment Fund” means the fund established and held by the Agency pursuant to the Indenture.

“Trustee” means Union Bank, N.A., as Trustee hereunder, or any successor thereto appointed as Trustee in accordance with the provisions of the Indenture.

### **Notice and Manner of Redemption; Book-Entry System**

Notice of Redemption. The Trustee on behalf and at the expense of the Agency shall mail (by first class mail) notice of any redemption to the respective Owners of any 2010 Bonds designated for redemption at their respective addresses appearing on the Registration Books, at least thirty (30) but not more than sixty (60) days prior to the date fixed for redemption; *provided, however*, that neither failure to receive any such notice so mailed nor any defect therein shall affect the validity of the proceedings for the redemption of such 2010 Bonds or the cessation of the accrual of interest thereon. Such notice shall state the date of the notice, the redemption date, the redemption place and the redemption price and shall designate the CUSIP numbers, the 2010 Bond numbers and the maturity or maturities (in the event of redemption of all of the 2010 Bonds of such maturity or maturities in whole) of the 2010 Bonds to be redeemed, and shall require that such 2010 Bonds be then surrendered at the office of the Trustee for redemption at the redemption price, giving notice also that further interest on such 2010 Bonds will not accrue from and after the redemption date. Additionally, on the date on which the notice of redemption is mailed to the Owners of the 2010 Bonds pursuant to the provisions above, such notice of redemption shall be given by (i) first class mail, postage prepaid, (ii) confirmed facsimile transmission, or (iii) overnight delivery service to the Agency, to each of the Securities Depositories and to one or more of the Information Services as shall be designated in writing by the Agency to the Trustee.

Manner of Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the 2010 Bonds of any maturity of any series, the Trustee shall select the 2010 Bonds of such maturity and

series to be redeemed by lot in any manner which the Trustee in its sole discretion shall deem appropriate. For purposes of such selection, all 2010 Bonds shall be deemed to be comprised of separate \$5,000 denominations and such separate denominations shall be treated as separate 2010 Bonds which may be separately redeemed.

Partial Redemption of 2010 Bonds. In the event only a portion of any 2010 Bond is called for redemption, then upon surrender of such 2010 Bond the Agency shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the Agency, a new 2010 Bond or 2010 Bonds of the same series and maturity date, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the 2010 Bond to be redeemed.

Effect of Redemption. From and after the date fixed for redemption, if notice of redemption shall have been duly mailed and funds available for the payment of the principal of and interest (and premium, if any) on the 2010 Bonds so called for redemption shall have been duly provided, such 2010 Bonds so called shall cease to be entitled to any benefit under the Indenture other than the right to receive payment of the redemption price, and no interest shall accrue thereon from and after the redemption date specified in such notice. All 2010 Bonds redeemed pursuant to the Indenture shall be canceled and destroyed.

Rescission. The Agency shall have the right to rescind any optional redemption by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of optional redemption shall be cancelled and annulled if for any reason funds will not or are not available on the date fixed for redemption for the payment in full of the 2010 Bonds then called for redemption, and such cancellation shall not constitute an Event of Default under the Indenture. The Agency and the Trustee shall have no liability to the Owners or any other party related to or arising from such rescission of redemption. The Trustee shall mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent.

Book-Entry System. It is intended that the 2010 Bonds be registered so as to participate in a securities depository system with a Securities Depository. The initial Securities Depository is DTC, and the initial securities depository system is the DTC system (the "DTC System"), as set forth in the Indenture. The Agency and the Trustee are authorized to execute and deliver such letters to or agreements with DTC as shall be necessary to effectuate the DTC System, including a letter of representations in the form required by DTC (the "Letter of Representations"). In the event of any conflict between the terms of any such letter or agreement, including the Letter of Representations, and the terms of the Indenture, the terms of the Indenture shall control. DTC may exercise the rights of an Owner only in accordance with the terms of the Indenture applicable to the exercise of such rights. The 2010 Bonds shall be initially issued in the form of a separate single fully registered Bond for each of the maturities of the 2010 Bonds. The 2010 Bonds shall be registered in the name of Cede & Co., as nominee of DTC.

With respect to 2010 Bonds registered in the Registration Books in the name of Cede & Co., as nominee of DTC, the Agency and the Trustee shall have no responsibility or obligation to any broker-dealer, bank or other financial institution for which DTC holds 2010 Bonds from time to time as securities depository (each such broker-dealer, bank or other financial institution being referred to in the Indenture as a "DTC Participant") or to any person on behalf of whom such a DTC Participant directly or indirectly holds an interest in the 2010 Bonds (each such person being referred to in the Indenture as an "Indirect Participant"). Without limiting the immediately preceding sentence, the Agency and the Trustee shall have no responsibility or obligation with respect to (a) the accuracy of the records of DTC, Cede & Co. or any DTC Participant with respect to any ownership interest in the 2010 Bonds, (b) the delivery to any DTC Participant or any Indirect Participant or any other person, other than Cede & Co., as nominee of DTC, as Owner on the Registration Books, of any notice with respect to the 2010 Bonds, including any notice of redemption, (c) the payment to any DTC Participant or Indirect Participant or any other Person, other than Cede & Co., as nominee of DTC, as Owner on the Registration Books, of any amount with respect to principal of, premium, if any, or interest on, the 2010 Bonds or (d) any consent given by Cede & Co., as nominee of DTC as registered owner. So long as the 2010 Bonds are registered to DTC, the Agency and the Trustee shall treat DTC or any successor securities depository as, and deem DTC or any successor securities depository to be, the absolute owner of the 2010 Bonds for all purposes whatsoever, including without limitation (i) the payment of principal and interest on the 2010 Bonds, (ii) giving notice of redemption and other matters with respect to the 2010 Bonds, (iii) registering transfers with respect to

the 2010 Bonds and (iv) the selection of 2010 Bonds for redemption. While in the DTC System, no person other than Cede & Co., or any successor to it, as nominee for DTC, shall receive a 2010 Bond certificate with respect to any 2010 Bond.

Notwithstanding any other provision of the Indenture to the contrary, so long as any of the 2010 Bonds are registered in the name of Cede & Co., as nominee of DTC, all payments with respect to principal of, premium, if any, and interest on such 2010 Bonds and all notices with respect to such 2010 Bonds shall be made and given, respectively, in the manner provided in the Letter of Representations.

Upon delivery by DTC to the Trustee of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., and subject to the provisions in the Indenture with respect to interest checks being mailed to the registered owner at the close of business on the Record Date applicable to any Interest Payment Date, the name "Cede & Co." in the Indenture shall refer to such new nominee of DTC.

DTC may determine to discontinue providing its services with respect to the 2010 Bonds at any time by giving written notice to the Agency and the Trustee and discharging its responsibilities with respect to the 2010 Bonds under applicable law. The Agency may determine that continuation of the DTC System is not in the best interests of the Owners. The Trustee, with the consent of the Agency, but without the consent of any other person, may terminate the services of DTC with respect to the 2010 Bonds. Upon the discontinuance or termination of the services of DTC with respect to the 2010 Bonds pursuant to the foregoing provisions, unless a substitute securities depository is appointed to undertake the functions of DTC under the Indenture, the Trustee is obligated to deliver 2010 Bond certificates to the Owners of the 2010 Bonds, as described in the Indenture, and the 2010 Bonds shall no longer be restricted to being registered in the Registration Books in the name of Cede & Co. as nominee of DTC, but may be registered in whatever name or names the registered owners transferring or exchanging 2010 Bonds shall designate to the Trustee in writing, in accordance with the provisions of the Indenture. The Trustee may determine that the 2010 Bonds shall be registered in the name of and deposited with a successor depository operating a securities depository system, qualified to act as such under Section 17(a) of the Securities Exchange Act of 1934, as amended, as may be acceptable to the Agency, or such depository's agent or designee.

Transfer and Exchange of 2010 Bonds. Any 2010 Bond may, in accordance with its terms, be transferred, upon the Registration Books, by the person in whose name it is registered, in person or by a duly authorized attorney of such person, upon surrender of such 2010 Bond to the Trustee at its Trust Office or such other place as designated by the Trustee for cancellation, accompanied by delivery of a written instrument of transfer in a form approved by the Trustee, duly executed. The Trustee shall collect any tax or other governmental charge on the transfer of any 2010 Bonds pursuant to the Indenture. Whenever any 2010 Bond or 2010 Bonds shall be surrendered for transfer, the Agency shall execute and the Trustee shall authenticate and deliver to the transferee a new 2010 Bond or 2010 Bonds of like maturity, interest rate and aggregate principal amount. The Trustee may refuse to transfer, under the provisions of the Indenture, during the period fifteen (15) days prior to the date established by the Trustee for the selection of 2010 Bonds for redemption, or as to 2010 Bonds the notice of redemption of which has been mailed pursuant to the provisions of the Indenture any 2010 Bonds selected by the Trustee for redemption pursuant to the Indenture.

2010 Bonds Mutilated, Lost, Destroyed or Stolen. If any 2010 Bond shall become mutilated, the Agency, at the expense of the Owner of such 2010 Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new 2010 Bond of like tenor in exchange and substitution for the 2010 Bond so mutilated, but only upon surrender to the Trustee of the 2010 Bond so mutilated. Every mutilated 2010 Bond so surrendered to the trustee shall be canceled by it and delivered to, or upon the order of, the Agency. If any 2010 Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence be satisfactory and indemnity satisfactory to the Trustee shall be given, the Agency, at the expense of the Owner, shall execute, and the Trustee shall thereupon authenticate the deliver, a new 2010 Bond of like tenor in lieu of and in substitution for the 2010 Bond so lost, destroyed or stolen. The Trustee may require payment of a sum not exceeding the actual cost of preparing each new 2010 Bond issued under this Section and of the expenses which may be incurred by the Trustee in connection therewith. Any 2010 Bond issued under the provisions of this Section in lieu of any 2010 Bond alleged to be lost, destroyed or stolen

shall constitute an original additional contractual obligation on the part of the Agency whether or not the 2010 Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be equally and proportionately entitled to the benefits of the Indenture with all other 2010 Bonds issued pursuant to the Indenture.

### **Establishment of Funds; Flow of Funds**

2010 Costs of Issuance Fund. A portion of the proceeds of the 2010 Bonds will be deposited by the Trustee in the 2010 Costs of Issuance Fund on the 2010 Closing Date. Amounts in the 2010 Costs of Issuance Fund will be disbursed to pay costs of issuing the 2010 Bonds and other related financing costs from time to time upon receipt of written requests of the Agency. Upon the earlier of three months after the 2010 Closing Date, or the date of receipt by the Trustee of a written request of the Agency, all amounts (if any) remaining in the 2010 Costs of Issuance Fund will be withdrawn therefrom by the Trustee and deposited into the Interest Account.

2010 Redevelopment Fund. A portion of the proceeds of the 2010 Bonds will be transferred to the Agency for deposit in the 2010 Redevelopment Fund on the 2010 Closing Date. Amounts in the 2010 Redevelopment Fund will be disbursed for the purpose of providing financing for the Redevelopment Project pursuant to the Redevelopment Plan and the Redevelopment Law, subject to the provisions of the Indenture.

Special Fund; Deposit of Tax Revenues. The Agency has established and will hold the Special Fund, and will deposit into it all of the Tax Revenues received in any Bond Year promptly upon receipt, until such time during such Bond Year as the amounts on deposit in the Special Fund equal the aggregate amounts required to be transferred to the Trustee for deposit into the Interest Account, the Principal Account, the Redemption Account and the Sinking Account in such Bond Year as described below. All Tax Revenues received by the Agency during any Bond Year in excess of the amount required to be deposited in the Special Fund during such Bond Year will be released from the pledge and lien of the Indenture for the security of the Bonds.

Debt Service Fund. The Trustee has established a Debt Service Fund, which is pledged to the security of the Bonds. The Agency will transfer moneys in the Special Fund to the Trustee in the following amounts at the following times, for deposit by the Trustee in the following respective special accounts within the Debt Service Fund, in the following order of priority:

(a) Interest Account. On or before the fifth (5th) Business Day preceding each date on which interest on the Bonds becomes due and payable, the Agency shall withdraw from the Special Fund and transfer to the Trustee for deposit in the Interest Account an amount which, when added to the amount then on deposit in the Interest Account, will be equal to the aggregate amount of the interest becoming due and payable on the Outstanding Bonds on such date. 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. On or before the fifth (5th) Business Day preceding each date on which principal of the Bonds becomes due and payable at maturity, the Agency shall withdraw from the Special Fund and transfer to the Trustee for deposit in the Principal Account an amount which, when added to the amount then on deposit in the Principal Account, will be equal to the amount of principal coming due and payable on such date on the Outstanding Bonds. All moneys in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds upon the maturity thereof.

(c) Sinking Account. On or before the fifth (5th) Business Day preceding each date on which any Outstanding Term Bonds become subject to mandatory Sinking Account redemption, the Agency shall withdraw from the Special Fund and transfer to the Trustee for deposit in the Sinking Account an amount which, when added to the amount then contained in the Sinking Account, will be equal to the aggregate principal amount of the Term Bonds required subject to mandatory Sinking Account redemption on such date. All moneys on deposit in the Sinking Account shall be used and withdrawn by the Trustee for the sole purpose

of paying the principal of the Term Bonds as it shall become due and payable upon the mandatory Sinking Account redemption thereof.

(d) Reserve Account. In the event that the Trustee has actual knowledge that the amount on deposit in the Reserve Account at any time becomes less than the Reserve Requirement, the Trustee shall promptly notify the Agency of such fact. Promptly upon receipt of any such notice, the Agency shall transfer to the Trustee an amount of available Tax Revenues sufficient to maintain the Reserve Requirement on deposit in the Reserve Account. Amounts in the Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of making transfers to the Interest Account, the Principal Account, the Sinking Account and the Redemption Account, in such order of priority, on any date which the principal of or interest on the Bonds becomes due and payable hereunder, in the event of any deficiency at any time in any of such accounts, or at any time for the retirement of all the Bonds then Outstanding. So long as no Event of Default shall have occurred and be continuing, any amount in the Reserve Account in excess of the Reserve Requirement on the Business Day preceding each Interest Payment Date shall be withdrawn from the Reserve Account by the Trustee and deposited in the Interest Account.

(e) Redemption Account. On or before the fifth (5th) Business Day preceding any date on which Bonds are subject to redemption, the Agency shall withdraw from the Special Fund and transfer to the Trustee for deposit in the Redemption Account an amount required to pay the principal of and premium, if any, on the Bonds to be so redeemed on such date other than the Term Bonds upon the Mandatory Sinking Account redemption thereof. All moneys in the Redemption Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of and premium, if any, on the Bonds upon the redemption thereof, on the date set for such redemption.

### **Investment of Funds**

Amounts held by the Trustee in the funds and accounts established under the Indenture will be invested by the Trustee in Permitted Investments specified in the written request of the Agency. In the absence of any such direction from the Agency, the Trustee will invest any such moneys solely in Permitted Investments described in clause (h) of the definition thereof. All moneys in the Redevelopment Fund and the Special Fund will be invested by the Agency in any investments authorized for the investment of Agency funds under the laws of the State of California. All interest or gain derived from the investment of amounts in any fund or account will be retained therein; provided, that so long as the amounts on deposit in the Special Fund in any Bond Year are sufficient to enable the Agency to make the deposits with the Trustee which are required to be made in such Bond Year pursuant to the Indenture, together with any delinquent amounts outstanding, all interest or gain thereafter received on the investment of amounts in the Special Fund shall be released from the pledge of the Indenture and will be applied by the Agency for any lawful purpose.

### **Issuance of Parity Debt**

In addition to the Bonds, the Agency may issue or incur Parity Debt in such principal amount as shall be determined by the Agency, pursuant to a Supplemental Indenture adopted or entered into by the Agency. The Agency may not issue any Parity Debt bearing interest at a variable rate. The Agency may issue or incur such Parity Debt subject to the following specific conditions precedent:

(a) No Event of Default (or no event with respect to which notice has been given and which, once all notice of grace periods have passed, would constitute an Event of Default) shall have occurred and then be continuing.

(b) The 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 an appropriate official of the County, plus at the option of the Agency the Additional Revenues, shall be at least equal to one hundred thirty-five percent (135%) of Maximum Annual Debt Service on all Bonds and Parity Debt which will be Outstanding following the issuance of such Parity Debt.

(c) The Supplemental Indenture or other document providing for the issuance of such Parity Debt shall provide that:

(i) Interest on said Parity Debt shall be payable on March 1 and September 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 March 1 or September 1;

(ii) The principal of such Parity Debt shall be payable on September 1 in any year in which principal is payable; and

(iii) Money shall be deposited in the Reserve Account (or a subaccount of the Reserve Account) from the proceeds of the sale of such Parity Debt in an amount equal to Maximum Annual Debt Service on such Parity Debt or such lesser amount as is permitted under the Tax Code.

(d) The Supplemental Indenture or other document providing for the issuance of such Parity Debt may provide for the establishment of separate funds, accounts or subaccounts.

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

(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.

### **Issuance of Subordinate Debt**

The Agency may from time to time issue or incur Subordinate Debt in such principal amount as shall be determined by the Agency, provided that the issuance of such Subordinate Debt shall not cause the Agency to exceed any applicable Plan Limitations.

### **Other Covenants of the Agency**

Punctual Payment. The Agency will punctually pay or cause to be paid the principal, premium (if any) and interest to become due in respect of all the Bonds in strict conformity with the terms of the Bonds and of the Indenture. The Agency will faithfully observe and perform all of the conditions, covenants and requirements of the Indenture and all Supplemental Indentures.

Limitation on Additional Indebtedness. The Agency will not issue any bonds, notes or other obligations which are otherwise secured on a basis which is senior to the pledge and lien which secures the Bonds. The Agency covenants that it shall not issue any bonds, notes or other obligations, enter into any agreement or otherwise incur any indebtedness, which is in any case payable from all or any part of the Tax Revenues, excepting only the Bonds, any Parity Debt, any Subordinate Debt and any obligations entered into pursuant to the Indenture.

Compliance with Plan Limitations. The Agency will annually calculate Tax Revenues with regard to Plan Limitations and will take no action, including but not limited to the issuance of its bonds, notes or other obligations, which causes or which, with the passage of time, would cause any of the Plan Limitations to be exceeded or violated. Without limiting the generality of the foregoing sentence, the Agency agrees in the Indenture that the aggregate amount of Tax Revenues which the Agency is permitted to receive under the Plan Limitations shall at all times be at least equal to one hundred and five percent (105%) of the aggregate amount of Annual Debt Service remaining to be paid on all Outstanding Bonds. In the event the Agency at any time fails to comply with such requirements, the Agency will either (a) deposit with the Trustee an amount of Tax Revenues sufficient to redeem Bonds in such aggregate principal amount as shall be required to cause the Agency to meet such requirements, or (b) if the Bonds are not then subject to redemption, deposit with the Trustee an amount of Tax Revenues in excess of the amounts necessary to pay debt service on the Bonds in the

current Bond Year into an escrow account to be held by the Trustee and used to defease Bonds in such aggregate principal amount as shall be required to cause the Agency to meet such requirements.

Extension of Payment of Bonds. The Agency will not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Outstanding Bonds and of all claims for interest thereon which shall not have been so extended.

Payment of Claims. The Agency shall pay and discharge, or cause to be paid and discharged, any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the properties owned by the Agency or upon the Tax Revenues or any part thereof, or upon any funds held by the Trustee pursuant the Indenture, or which might impair the security of the Bonds.

Books and Accounts: Financial Statements; Additional Information. The Agency will keep, or cause to be kept, proper books of record and accounts, separate from all other records and accounts of the Agency and the City, in which complete and correct entries shall be made of all transactions relating to the Redevelopment Project, the Tax Revenues, the Special Fund, and the 2010 Redevelopment Fund. Such books of record and accounts will at all times during business hours be subject, upon prior written request, to the reasonable inspection of the Trustee and the Owners of not less than ten percent (10%) in aggregate principal amount of the Bonds then Outstanding, or their representatives authorized in writing.

Protection of Security and Rights of Owners. The Agency will preserve and protect the security of the Bonds and the rights of the Owners. From and after the date of issuance of any Bonds, such Bonds shall be incontestable by the Agency.

Payments of Taxes and Other Charges. The Agency will pay and discharge, or cause to be paid and discharged, all taxes, service charges, assessments and other governmental charges which may hereafter be lawfully imposed upon the Agency or the properties then owned by the Agency in the Project Area, when the same shall become due.

Disposition of Property. The Agency 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) so that such disposition shall, when taken together with other such dispositions, cause the amount of Tax Revenues to be received in the succeeding fiscal year to fall below one hundred thirty-five percent (135%) of Maximum Annual Debt Service. If the Agency proposes to participate in such a disposition, it shall thereupon appoint an independent financial consultant to report on the effect of said proposed disposition. If the report of the independent financial consultant concludes that the amount of Tax Revenues following such disposition will be at least equal to one hundred thirty-five percent (135%) of Maximum Annual Debt Service, the Agency may thereafter make such disposition; otherwise, the Agency shall not approve the proposed disposition.

Maintenance of Tax Revenues. The Agency will comply with all requirements of the Redevelopment Law to insure the allocation and payment to it of the Tax Revenues, including without limitation the timely filing of any necessary statements of indebtedness with appropriate officials of the County and the State. The Agency will not enter into any amendment of any of the Tax Sharing Agreements, or any other agreement with the County or any other governmental unit pursuant to Section 33401 of the Redevelopment Law, which would have the effect of reducing the amount of Tax Revenues unless the Agency shall first obtain the report of an independent financial consultant stating that the Tax Revenues remaining after the entering into of such agreement, estimated to be received in each of the three (3) succeeding Bond Years, plus the Additional Revenues, are at least equal to one hundred thirty-five percent (135%) of Maximum Annual Debt Service on the Bonds during such three Bond Years. Notwithstanding the foregoing, however, the foregoing provisions will not apply to any amendment of any of the Tax Sharing Agreements, or any other agreement with the County or with



any other governmental or private entity, which by its terms is subordinate to the pledge of and lien on the Tax Revenues for the benefit of the Bond Owners or which does not obligate the Agency to pay any Tax Revenues except to the extent such Tax Revenues are released from the pledge thereof and lien thereon in accordance with the Indenture.

SERAF Loans. The Agency covenants that it will take no action with respect to loans from the Agency's Low and Moderate Income Housing Fund in connection with the Agency's SERAF payment pursuant to Section 33690 or 33690.5 of the Law which will cause a reduction of the Tax Revenues available to pay debt service on the Bonds, or any Series thereof.

### **Tax Covenants Relating to the Bonds**

(a) *Private Activity Bond Limitation.* The Agency will take no action or refrain from taking any action or make any use of the proceeds of the Bonds or of any other monies or property which would cause the Bonds to be "private activity bonds" within the meaning of Section 141 of the Code;

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

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

(d) *Information Reporting.* The Agency will take or cause to be taken all necessary action to comply with the informational reporting requirement of Section 149(e) of the Code;

(e) *No Arbitrage.* The Agency shall not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the 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 Bonds would have caused the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code.

(f) *Hedge Bonds.* The Agency will make no use of the proceeds of the Bonds or any other amounts or property, regardless of the source, or take any action or refrain from taking any action that would cause the Bonds to be considered "hedge bonds" within the meaning of Section 149(g) of the Code unless the Agency takes all necessary action to assure compliance with the requirements of Section 149(g) of the Code to maintain the exclusion from gross income of interest on the Bonds for federal income tax purposes;

(g) *Maintenance of Tax-Exemption.* The Agency shall take all actions necessary to assure the exclusion of interest on the Bonds from the gross income of the owners thereof 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 Bonds; and

(h) *Small Issuer Exemption From Bank Nondeductibility Restriction.* The Agency designates the 2010 Bonds for purposes of paragraph (3) of Section 265(b) of the Code and represents that not more than \$30,000,000 aggregate principal amount of obligations the interest on which is excludable (under Section 103(a) of the Code) from gross income for federal income tax purposes (excluding (i) private activity bonds, as defined in Section 141 of the Code, except qualified 501(c)(3) bonds as defined in Section 145 of the Code and (ii) current refunding obligations to the extent the amount of the refunding obligation does not exceed the outstanding amount of the refunded obligation), including the 2010 Bonds, has been or will be issued by the Agency, including all subordinate entities of the Agency, during the calendar year 2010.

## **Amendment of Indenture**

The Indenture may be amended at any time with the written consents of the Owners of a majority in aggregate principal amount of the outstanding Bonds. No such amendment may (a) extend the maturity of or reduce the interest rate on any Bond or otherwise alter or impair the obligation of the Agency to pay the principal or interest at the time and place and at the rate and in the currency provided therein of any Bond without the express written consent of the Owner of such Bond, (b) reduce the percentage of Bonds required for the written consent to any such amendment, or (c) without its written consent thereto, modify any of the rights or obligations of the Trustee.

The Indenture may also be amended at any time without the consent of any Bond Owners, to the extent permitted by law, but only for any one or more of the following purposes: (a) to add additional covenants and agreements of the Agency or to limit or surrender any rights or power reserved to or conferred upon the Agency; or (b) to cure any ambiguity, or to cure, correct or supplement any defective provision, or in any other respect as the Agency may deem necessary or desirable, provided under any circumstances that such modifications or amendments do not materially adversely affect the interests of the Owners in the opinion of Bond Counsel; (c) to provide for the issuance of Parity Debt and to provide the terms and conditions under which such Parity Debt may be issued; or (d) to amend any provision relating to the requirements of or compliance with applicable federal tax law, to comply with federal income tax law.

## **Events of Default and Remedies**

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

- (a) Failure to pay any installment of the principal of any Bonds or Parity Debt when due.
- (b) Failure to pay any installment of interest on any Bonds or Parity Debt when due.
- (c) Failure by the Agency to observe and perform any of the other covenants, agreements or conditions contained in the Indenture or in the Bonds, if such failure continues for a period of 60 days after written notice thereof has been given to the Agency by the Trustee; provided that if in the reasonable opinion of the Agency the failure stated in the notice can be corrected, but not within such 60 day period, such failure will not constitute an event of default if corrective action is instituted by the Agency within such 60 day period and the Agency thereafter diligently and in good faith cures such failure in a reasonable period of time.
- (d) Certain acts relating to the bankruptcy of the Agency.

Remedies. Upon the occurrence and during the continuance of any event of default, the Trustee may, and at the written direction of the Owners of a majority in aggregate principal amount of the Bonds at the time outstanding shall, (a) declare the principal of all of the Bonds then outstanding, and the interest accrued thereon, to be due and payable immediately, and (b) enforce any rights of the Trustee under or with respect to the Indenture. The Trustee is irrevocably appointed as trustee and lawful attorney-in-fact of the Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the Bonds, the Indenture and applicable provisions of any law.

No Bond Owner has the right to institute any suit, action or proceeding at law or in equity, for any remedy under the Indenture, unless (a) such Owner has 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 have requested the Trustee in writing to exercise its powers under the Indenture; (c) said Owners have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee has refused or failed to comply with such request for a period of 60 days after such written request has been received by the Trustee and said tender of indemnity is made to the Trustee.

## **Defeasance of Bonds**

The Agency may pay and discharge the indebtedness on any or all of the outstanding Bonds by irrevocably depositing with the Trustee or another fiduciary, in trust, Federal Securities in such amount as an independent accountant determines will, together with the interest to accrue thereon and available moneys then on deposit in any of the funds and accounts established pursuant to the Indenture, be fully sufficient to pay and discharge the indebtedness on such Bonds (including all principal and interest) at maturity. Upon such deposit, the pledge of the Tax Revenues and other funds provided for in the Indenture, and all other obligations of the Agency under the Indenture, will cease and terminate, except only the obligation of the Agency to pay or cause to be paid to the Owners of such Bonds not so surrendered and paid all sums due thereon from amounts set aside for such purpose. Any funds thereafter held by the Trustee, which are not required for said purposes, will be paid over to the Agency.

## **The Trustee**

Duties, Immunities and Liabilities of Trustee. The Trustee shall, prior to the occurrence of an Event of Default, and after the curing of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in the Indenture and no implied covenants or duties shall be read into the Indenture against the Trustee. The Trustee shall, during the existence of any Event of Default (which has not been cured), exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use in the conduct of such person's own affairs.

The Agency may remove the Trustee at any time, 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) or (ii) if at any time the Trustee shall cease to be eligible in accordance with the Indenture, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation. In each case such removal shall be accomplished by the giving of thirty (30) days 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.

The Trustee may at any time resign by giving written notice of such resignation to the Agency, and by giving notice of such resignation by first class mail, postage prepaid, to the Bond Owners 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.

Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee shall have been appointed and have accepted appointment within forty-five (45) days following giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any Owner (on behalf of such Owner and all other Owners) 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. Any successor Trustee appointed under the Indenture shall signify its acceptance of such appointment by executing and delivering to the Agency and to its predecessor Trustee a written acceptance thereof, and to the predecessor Trustee an instrument indemnifying the predecessor Trustee for any costs or claims arising during the time the successor Trustee serves as Trustee under the Indenture, and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee therein; but, nevertheless, upon the receipt by the predecessor Trustee of the Request of the Agency or the request of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions set forth in the Indenture. Upon request

of the successor Trustee, the Agency shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in this subsection, the Agency shall mail or cause the successor Trustee to mail, by first class mail postage prepaid, a notice of the succession of such Trustee to the trusts of the Indenture to each rating agency which then maintains a rating on the Bonds and to the Owners at the addresses shown on the Registration Books. If the Agency fails to mail such notice within fifteen (15) days after acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notice to be mailed at the expense of the Agency.

Any Trustee appointed under the provisions of the Indenture in succession to the Trustee shall (i) be a company or bank having trust powers, (ii) have a corporate trust office in the State of California, (iii) have (or be part of a bank holding company system whose bank holding company has) a combined capital and surplus of at least Fifty Million Dollars (\$50,000,000), and (iv) be subject to supervision or examination by federal or state authority. If such bank or company 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 the combined capital and surplus of such bank or company 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 subsection (c) of this Section.

Notwithstanding any other provision of the Indenture, the Trustee may be removed at any time for any breach of the trust set forth therein.

Merger or Consolidation. Any bank or company into which the Trustee may be merged or converted or with which either of them may be consolidated or any bank or company resulting from any merger, conversion or consolidation to which it shall be a party or any bank or company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such bank or company shall be eligible under the Indenture, shall be the successor to such Trustee without the execution or filing of any paper or any further act, anything therein to the contrary notwithstanding.

Liability of Trustee. The recitals of facts in the Indenture and in the Bonds shall be taken as statements of the Agency, and the Trustee shall not assume responsibility for the correctness of the same, nor make any representations as to the validity or sufficiency of the Indenture or of the Bonds nor shall incur any responsibility in respect thereof, other than as expressly stated in the Indenture. The Trustee shall, however, be responsible for its representations contained in its certificate of authentication on the Bonds. The Trustee shall not be liable in connection with the performance of its duties under the Indenture, except for its own negligence or willful misconduct. The Trustee shall not be liable for the acts of any agents of the Trustee selected by it with due care. The Trustee may become the Owner of any Bonds with the same rights it would have if they were not Trustee and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of the Owners, whether or not such committee shall represent the Owners of a majority in principal amount of the Bonds then Outstanding. The Trustee, either as principal or agent, may engage in or be entrusted in any financial or other transaction with the Agency.

The Trustee shall not be liable for any error of judgment made in good faith by a responsible officer.

The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in accordance with the direction of the Owners of a majority in aggregate principal amount of the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Indenture.

The Trustee shall not be liable for any action taken by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by the Indenture, except for actions arising from

the negligence or willful misconduct of the Trustee. The permissive right of the Trustee to do things enumerated thereunder shall not be construed as a mandatory duty.

The Trustee shall not be deemed to have knowledge of any Event of Default under the Indenture unless and until a responsible officer of the Trustee shall have actual knowledge thereof, or the Trustee shall have received written notice thereof at its Trust Office. Except as otherwise expressly provided in the Indenture, the Trustee shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements in the Indenture or of any of the documents executed in connection with the Bonds, or as to the existence of an Event of Default thereunder. The Trustee shall not be responsible for the Agency's payment of principal and interest on the Bonds, the observance or performance by the Agency of any other covenants, conditions or terms contained in the Indenture, or the validity or effectiveness of any collateral given to or held by it. Without limiting the generality of the foregoing, the Trustee shall not be responsible for reviewing the contents of any financial statements furnished to the Trustee pursuant to the Indenture and may rely conclusively on the Certificate of the Agency accompanying such financial statements to establish the Agency's compliance with its financial covenants thereunder, including, without limitation, its covenants regarding the deposit of Tax Revenues into the Special Fund and the investment and application of moneys on deposit in the Special Fund (other than its covenants to transfer such moneys to the Trustee when due hereunder).

No provision in the Indenture shall require the Trustee to risk or expend its own funds or otherwise incur any financial liability hereunder. The Trustee shall be entitled to receive interest on any moneys advanced by it thereunder, at the maximum rate permitted by law.

The Trustee shall have no responsibility with respect to any information, statement, or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Bonds.

Right to Rely on Documents. The Trustee shall be protected in acting upon any notice, resolution, requisition, request, consent, order, certificate, report, opinion or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, including, without limitation, Bond Counsel or other counsel of or to the Agency, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by the Trustee in accordance with the Indenture.

The Trustee shall not be bound to recognize any person as the Owner of a Bond unless and until such Bond is submitted for inspection, if required, and his title thereto is established to the satisfaction of the Trustee.

Whenever in the administration of the trusts imposed upon it by the Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action thereunder, such matter (unless other evidence in respect thereof be specifically prescribed) may be deemed to be conclusively proved and established by a Certificate of the Agency, which shall be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of the Indenture in reliance upon such Certificate of the Agency, but in its discretion the Trustee may (but shall have no duty to), in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may deem reasonable. The Trustee may conclusively rely on any certificate or report of any Independent Accountant or Independent Financial Consultant appointed by the Agency.

Preservation and Inspection of Documents. All documents received by the Trustee under the provisions of the Indenture shall be retained in its possession and shall be subject during normal business hours, and upon reasonable prior written notice, to the inspection of the Agency and any Owner, and their agents and representatives duly authorized in writing.

Compensation and Indemnification. The Agency shall pay to the Trustee from time to time compensation for all services rendered under the Indenture and also all expenses, charges, legal and consulting fees and other disbursements and those of its attorneys (including any allocated costs of internal counsel), agents

and employees, incurred in and about the performance of its powers and duties under the Indenture. The Trustee shall have a first lien on the Tax Revenues and all funds and accounts held by the Trustee under the Indenture to secure the payment to the Trustee of all fees, costs and expenses, including compensation to its experts, attorneys and counsel incurred in declaring such Event of Default and in exercising the rights and remedies set forth in the Indenture.

The Agency further covenants and agrees to indemnify and save the Trustee and its officers, directors, agents and employees, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise and performance of its powers and duties under the Indenture, including the costs and expenses of defending against any claim of liability and of enforcing any remedies thereunder and under any related documents, but excluding any and all losses, expenses and liabilities which are due to the negligence or willful misconduct of the Trustee, its officers, directors, agents or employees. The obligations of the Agency under the Indenture shall survive resignation or removal of the Trustee and payment of the Bonds and discharge of the Indenture.

Accounting Records and Financial Statements. The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with industry standards, in which complete and accurate entries shall be made of all transactions made by it 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, during regular business hours, with reasonable prior notice and under reasonable circumstances. The Trustee shall furnish to the Agency, at least semiannually, an accounting (which may be in the form of its customary statements) of all transactions relating to the proceeds of the Bonds and all funds and accounts held by the Trustee pursuant to the Indenture.

Appointment of Co-Trustee or Agent. It is the purpose of the Indenture that there shall be no violation of any law of any jurisdiction (including particularly the law of the State) denying or restricting the right of banks to transact business as Trustee in such jurisdiction. It is recognized that in the case of litigation under the Indenture, and in particular in case of the enforcement of the rights of the Trustee on default, or in the case the Trustee deems that by reason of any present or future law of any jurisdiction it may not exercise any of the powers, rights or remedies therein granted to the Trustee or hold title to the properties, in trust, as therein granted, or take any other action which may be desirable or necessary in connection therewith, it may be necessary that the Trustee appoint an additional individual or institution as a separate co-Trustee.

In the event that the Trustee appoints an additional individual or institution as a separate or co-Trustee, each and every remedy, power, right, claim, demand, cause of action, immunity, estate, title, interest and lien expressed or intended by the Indenture to be exercised by or vested in or conveyed to the Trustee with respect thereto shall be exercisable by and vest in such separate or co-Trustee but only to the extent necessary to enable such separate or co-Trustee to exercise such powers, rights and remedies, and every covenant and obligation necessary to the exercise thereof by such separate or co-Trustee shall run to and be enforceable by either of them.

Should any instrument in writing from the Agency be required by the separate Trustee or co-Trustee so appointed by the Trustee for more fully and certainly vesting in and confirming to it such properties, rights, powers, trusts, duties and obligations, any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by the Agency. In case any separate Trustee or co-Trustee, or a successor to either, shall become incapable of acting, resign or be removed, all the estates, properties, rights, powers, trusts, duties and obligations of such separate Trustee or co-Trustee, so far as permitted by law, shall vest in and be exercised by the Trustee until the appointment of a new Trustee or successor to such separate Trustee or co-Trustee.

The Trustee may perform any of its obligations or duties under the Indenture and under any related documents through agents or attorneys and shall not be responsible for the acts of any such agents or attorneys appointed by it with due care.

## APPENDIX E

### FORM OF BOND COUNSEL OPINION

Upon issuance of the 2010 Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, proposes to render its final approving opinion in substantially the following form:

\_\_\_\_\_, 2010

Yucaipa Redevelopment Agency  
Yucaipa, California

*Re:     \$\_\_\_\_\_ Yucaipa Redevelopment Agency Yucaipa Redevelopment Project 2010 Tax  
          Allocation Bonds*

Ladies and Gentlemen:

We have examined certified copies of proceedings of the Yucaipa Redevelopment Agency (the “Agency”), and other information and documents submitted to us relative to the sale and issuance by the Agency of its Yucaipa Redevelopment Project 2010 Tax Allocation Bonds in the aggregate principal amount of \$\_\_\_\_\_ (the “2010 Bonds”), and such other information and documents as we consider necessary to render this opinion. In rendering this opinion, we also have relied upon certain representations of fact and certifications made by the Agency, the initial purchaser of the 2010 Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The 2010 Bonds have been issued pursuant to the authority contained in Part 1 of Division 24 of the Health and Safety Code of the State of California (the “Act”), a resolution of the Agency adopted on October 11, 2010 (the “Resolution”) and in accordance with the terms and conditions of an Indenture of Trust dated as of June 1, 1998, by and between Union Bank of California, N.A., as trustee (the “Trustee”) and the Agency, as supplemented by the First Supplemental Indenture of Trust dated as of October 1, 2004, by and between the Agency and the Trustee and a Second Supplemental Indenture of Trust dated as of November 1, 2010 (collectively, the “Indenture”). All terms not defined herein have the meanings ascribed to those terms in the Indenture.

The 2010 Bonds are dated their date of delivery, and mature on the dates and bear interest at the rates per annum set forth in the Indenture. The 2010 Bonds are registered Bonds in the form set forth in the Indenture, redeemable in the amounts, at the times and in the manner provided for in the Indenture.

Based upon our examination of all of the foregoing, and in reliance thereon, and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

1.     The 2010 Bonds have been duly and validly authorized by the Agency and are valid and binding special obligations of the Agency and, except as specifically limited in the Indenture, payable solely from Tax Revenues and other sources as and to the extent provided for in the Indenture. The 2010 Bonds are enforceable in accordance with their terms and the terms of the Indenture, except to the extent that enforceability may be limited by moratorium, bankruptcy, reorganization, fraudulent conveyance or transfer, insolvency or other similar laws affecting creditors’ rights to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public agencies in the State of California. The 2010 Bonds are special obligations of the Agency but are not a debt of the City of Yucaipa, the State of California or any other of its political subdivisions within the meaning of any constitutional or statutory limitation, and neither the City of Yucaipa, the State of California, or any other of its political subdivisions, excepting the Agency, is liable for the payment thereof.

2. The Indenture has been duly authorized by the Agency, is valid and binding upon the Agency and is enforceable in accordance with its terms, except to the extent that enforceability may be limited by moratorium, bankruptcy, reorganization, fraudulent conveyance or transfer, insolvency or other similar laws affecting creditors' rights to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public agencies in the State of California.

3. The Indenture creates a valid pledge of that which the Indenture purports to pledge, subject to the provisions of the Indenture, except to the extent that such pledge may be limited by moratorium, bankruptcy, reorganization, fraudulent conveyance or transfer, insolvency or other similar laws affecting creditors' rights to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public agencies in the State of California.

4. Under existing statutes, regulations, rulings and judicial decisions, interest (and original issue discount) on the 2010 Bonds is excluded from gross income for federal income tax purposes, and such interest (and original issue discount) is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; with respect to corporations, such interest (and original issue discount) will not be included as an adjustment in the calculation of alternative minimum taxable income.

5. Interest (and original issue discount) on the 2010 Bonds is exempt from State of California personal income tax.

6. The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity are to be sold to the public) and the stated redemption price at maturity with respect to such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bond owner will increase the Bond owner's basis in the applicable Bond. Original issue discount that accrues to the Bond owner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations (as described in paragraph 4 above), and is exempt from State of California personal income tax.

7. The amount by which a Bond owner's original basis for determining loss on sale or exchange in the applicable Bond (generally the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"); such amortizable Bond premium reduces the Bond owner's basis in the applicable Bond (and the amount of tax exempt interest received) and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bond owner realizing a taxable gain when a Bond is sold by the owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the owner.

The opinions set forth in paragraphs 4 and 6 above are subject to the condition that the Agency comply with certain covenants and the applicable requirements of the Code that must be satisfied subsequent to the issuance of the 2010 Bonds to assure that interest (and original issue discount) on the 2010 Bonds will remain excludable from gross income for federal income tax purposes. Failure to comply with such covenants and requirements may cause interest (and original issue discount) on the 2010 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2010 Bonds. The Agency has covenanted to comply with all such requirements. Except as expressly set forth in paragraphs 4, 5, 6 and 7 above, we express no opinion regarding other tax consequences with respect to the 2010 Bonds.

Certain requirements and procedures contained or referred to in the Indenture and the Tax Certificate may be changed, and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. We express no opinion as to the exclusion of interest (and original issue discount) on the 2010 Bonds from gross income for federal income tax purposes on and after the



date on which any such change occurs or action is taken upon the advice or approval of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

We are admitted to the practice of law only in the state of California and our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction and express no opinion as to the enforceability of the choice of law provisions contained in the Indenture.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds and expressly disclaim any duty to advise the Owners of the Bonds with respect to matters contained in the Official Statement or other offering material.

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. Such actions or events may adversely affect the value or tax treatment of the 2010 Bonds and we express no opinion with respect thereto. Our engagement as Bond Counsel with respect to the 2010 Bonds terminates as of their date of issuance. Except as expressly set forth herein, we express no opinion regarding the validity or enforceability of the 1998 Bonds, the 2004 Bonds or provisions of the Indenture related thereto.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement relating to the 2010 Bonds or other offering material relating to the 2010 Bonds and purchasers of the 2010 Bonds should not assume that we have reviewed the Official Statement on their behalf.

Respectfully submitted,

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## APPENDIX F

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the Yucaipa Redevelopment Agency (the “Issuer”) in connection with the issuance of the Yucaipa Redevelopment Agency, Yucaipa Redevelopment Project 2010 Tax Allocation Bonds (the “Bonds”). The Bonds are being issued pursuant to an Indenture of Trust dated as of June 1, 1998 (the “Indenture”) by and between the Agency and Union Bank, N.A., as trustee (the “Trustee”), as supplemented by the First Supplemental Indenture of Trust, dated as of October 1, 2004 and a Second Supplemental Indenture dated as of November 1, 2010, by and between the Agency and the Trustee. The Issuer covenants and agrees as follows:

1. Purpose of this Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

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

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

“Beneficial Owner” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“Fiscal Year” shall mean the one-year period ending on the last day of June of each year. “Holder” means a registered owner of the Bonds.

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

“National Repository” shall mean the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access (EMMA) system, and any other Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently recognized by the Securities and Exchange Commission are set forth in the SEC website located at <http://www.sec.gov/info/municipal/nrmsir.htm>.

“Participating Underwriter” shall mean the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Repository” shall mean each National Repository and each State Repository.

“Rule” shall mean Rule 15c2-12 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” shall mean the State of California.

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

3. Provision of Annual Reports.

(a) The Issuer shall provide not later than 270 days following the end of its Fiscal Year (commencing with the Fiscal Year 2009-10) to each Repository an Annual Report relating to the immediately preceding Fiscal Year which is consistent with the requirements of Section 4 of this Disclosure Certificate, which Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate.

(b) If the Issuer is unable to provide to each Repository an Annual Report by the date required in subsection (a), the Issuer shall send to each Repository a notice in substantially the form attached hereto as Exhibit A.

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

(a) The audited financial statements of the Issuer for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Issuer'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 financing statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they come available.

(b) Principal amount of the Bonds outstanding.

(c) An update of the financial information and operating data relating to the Yucaipa Redevelopment Project for the most recently ended fiscal year of the type included in the following tables located in the Official Statement for the Bonds, as follows (to the extent not included in the Issuer's audited financial statements);

(1) the table on Page \_\_\_ of the Official Statement entitled "Historic Tax Revenues";

(2) the table on Page \_\_\_ of the Official Statement entitled "Land Use Summary";  
and

(3) the table on Page \_\_\_ of the Official Statement entitled "Top Ten Taxable Property Owners."

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

5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Issuer 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) modifications to rights of Bondholders.

- (4) optional, contingent or unscheduled Bond calls.
- (5) defeasances.
- (6) rating changes.
- (7) adverse tax opinions or events affecting the tax-exempt status of the Bonds.
- (8) unscheduled draws on the debt service reserves reflecting financial difficulties.
- (9) unscheduled draws on the credit enhancements reflecting financial difficulties.
- (10) substitution of the credit or liquidity providers or their failure to perform.
- (11) release, substitution or sale of property securing repayment of the Bonds.

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

(c) If the Issuer determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Issuer shall promptly file a notice of such occurrence with the Repositories. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) 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.

6. Customarily Prepared and Public Information. Upon request, the Issuer shall provide to any person financial information and operating data regarding the Issuer which is customarily prepared by the Issuer and is publicly available.

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

8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Issuer may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule.

9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Issuer chooses to include any information in any notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Issuer shall not thereby have any obligation under this Disclosure Certificate to update such information or include it in any future notice of occurrence of a Listed Event.

10. Default. In the event of a failure of the Issuer to comply with any provision of this Disclosure Certificate, 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 Issuer to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the Issuer to comply with this Disclosure Certificate shall be an action to compel performance.

No Holder or Beneficial Owner of the Bonds may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the Issuer satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the Issuer shall have refused to comply therewith within a reasonable time.

11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Issuer, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Dated: \_\_\_\_\_, 2010

YUCAIPA REDEVELOPMENT AGENCY

By: \_\_\_\_\_  
Its: Executive Director

**EXHIBIT A**

**NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: YUCAIPA REDEVELOPMENT AGENCY

Name of Issue: \$\_\_\_\_\_ YUCAIPA REDEVELOPMENT AGENCY  
YUCAIPA REDEVELOPMENT PROJECT  
2010 TAX ALLOCATION BONDS

Date of Issuance \_\_\_\_\_, 2010

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate executed by the Issuer on \_\_\_\_\_, 2010. The Issuer anticipates that the Annual Report will be filed by

Dated: \_\_\_\_\_, 2010

YUCAIPA REDEVELOPMENT AGENCY

By: \_\_\_\_\_

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## APPENDIX G

### BOOK-ENTRY ONLY SYSTEM

THE INFORMATION IN THIS APPENDIX G HAS BEEN PROVIDED BY THE DEPOSITORY TRUST COMPANY (“DTC”), NEW YORK, NEW YORK, FOR USE IN SECURITIES OFFERING DOCUMENTS, AND THE AGENCY TAKES NO RESPONSIBILITY FOR THE ACCURACY OR COMPLETENESS THEREOF. THE AGENCY CANNOT GIVE ANY ASSURANCES THAT DTC, DTC PARTICIPANTS OR INDIRECT PARTICIPANTS WILL DISTRIBUTE THE BENEFICIAL OWNERS EITHER (A) PAYMENTS OF INTEREST, PRINCIPAL OR PREMIUM, IF ANY, WITH RESPECT TO THE BONDS OR (B) CERTIFICATES REPRESENTING OWNERSHIP INTEREST IN OR OTHER CONFIRMATION OF OWNERSHIP INTEREST IN THE BONDS, OR THAT THEY WILL SO DO ON A TIMELY BASIS OR THAT DTC, DTC DIRECT PARTICIPANTS OR DTC INDIRECT PARTICIPANTS WILL ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT.

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

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

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

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

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

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

NEITHER THE AGENCY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS FOR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS ON THE BONDS OR THE PROVIDING OF NOTICES TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF BONDS FOR REDEMPTION.

9. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the issuer or the paying agent or bond trustee. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

10. The Agency may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered.