

**NEW ISSUE – FULL BOOK-ENTRY ONLY**

**Insured Rating:**  
**Standard & Poor's: "AAA"**  
**Underlying Rating:**  
**Standard & Poor's: "A-"**  
**(See "RATINGS" herein)**

*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 discussed herein, interest on the 2007 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 taxes imposed on individuals and corporations. In the further opinion of Bond Counsel, interest and original issue discount on the 2007 Bonds is exempt from California personal income tax. The difference between the issue price of a 2007 Bond (the first price at which a substantial amount of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to such 2007 Bond constitutes original issue discount. See "TAX MATTERS" herein.*

**\$43,495,000**

**COMMUNITY REDEVELOPMENT AGENCY OF THE CITY OF MORENO VALLEY  
2007 TAX ALLOCATION BONDS, SERIES A**

**Dated: Date of Delivery**

**Due: August 1 as shown on inside cover**

Interest on the 2007 Bonds will be payable on February 1 and August 1 of each year, commencing February 1, 2008. The 2007 Bonds will be issued as fully registered bonds in the denomination of \$5,000 each or any integral multiple thereof. Principal of the 2007 Bonds will be payable at the principal corporate trust office of Wells Fargo Bank, National Association, as trustee. When issued, the 2007 Bonds 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 2007 Bonds. Individual purchases may be made in book-entry form only. Principal, premium, if any, and interest on the 2007 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 2007 Bonds as described herein.

*The 2007 Bonds are subject to optional and mandatory redemption prior to maturity.*

The 2007 Bonds are special obligations of the Community Redevelopment Agency of the City of Moreno Valley and are secured pursuant to an Indenture of Trust, dated as of October 1, 2007, by and between the Agency and the Trustee, by Tax Revenues, as described below. Proceeds of the 2007 Bonds will be applied to (i) finance undertakings of the Agency for the Redevelopment Project and purposes related thereto, and (ii) pay costs of issuance of the 2007 Bonds, a financial guaranty insurance policy and a reserve fund surety.

Payment of principal and interest on the 2007 Bonds is secured by a pledge of Tax Revenues. Tax Revenues constitute Tax Increment Revenues less: (i) certain statutory and other payment obligations to other taxing entities; (ii) statutory low and moderate income housing obligations; (iii) certain obligations in connection with the pledge of tax increment revenues from the Project Area to bonds for the \$8,075,000 Community Facilities District No. 3 of the City of Moreno Valley (Auto Mall Refinancing) Special Tax Bonds, Series 2000 (the "Auto Mall Bonds") presently outstanding in the amount of \$4,185,000, (iv) \$14,170,000 City of Moreno Valley Towngate Special Tax Refunding Bonds, Series A currently outstanding in the amount of \$10,170,000 (or bonds which refund such outstanding bonds), (v) \$8,530,000 Community Facilities District No. 87-1 of the City of Moreno Valley Towngate Special Tax Refunding Bonds, Series B, currently outstanding in the amount of \$2,340,000 (or bonds which refund such outstanding bonds), and (vi) \$5,000,000 City of Moreno Valley, Towngate Community Facilities District Improvement Area No. 1 Bonds, currently outstanding in the amount of \$3,810,000 (or bonds which refund such outstanding bonds); the Agency has no other bonds or other obligations outstanding with a pledge on Tax Increment Revenues for the Project Area senior to the pledge securing the 2007 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 2007 Bonds.

Payment of the principal of and interest on the 2007 Bonds will be insured by a policy of insurance to be issued simultaneously with the delivery of the 2007 Bonds by Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance corporation.

**Ambac**

**THE 2007 BONDS ARE SPECIAL OBLIGATIONS OF THE AGENCY PAYABLE SOLELY FROM THE TAX REVENUES, AS DESCRIBED HEREIN, AND AMOUNTS IN CERTAIN FUNDS AND ACCOUNTS MAINTAINED UNDER THE INDENTURE, ON A PARITY WITH PARITY DEBT, IF ANY, AND, AS SUCH, ARE NOT A DEBT OF THE CITY OF MORENO VALLEY (THE "CITY") OR THE STATE OF CALIFORNIA OR ANY OF THE STATE'S POLITICAL SUBDIVISIONS (OTHER THAN THE AGENCY, TO THE LIMITED EXTENT SET FORTH IN THE INDENTURE), AND NEITHER THE CITY NOR THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS (OTHER THAN THE AGENCY), IS LIABLE THEREFOR. THE 2007 BONDS ARE NOT PAYABLE FROM, AND ARE NOT SECURED BY, ANY FUNDS OF THE AGENCY, OTHER THAN THE TAX REVENUES PLEDGED PURSUANT TO THE INDENTURE. THE 2007 BONDS DO NOT CONSTITUTE AN INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL DEBT LIMITATION OR RESTRICTION. NEITHER THE MEMBERS OF THE AGENCY NOR ANY PERSONS RESPONSIBLE FOR THE EXECUTION OF THE 2007 BONDS IS LIABLE PERSONALLY FOR PAYMENT OF THE 2007 BONDS BY REASON OF THEIR ISSUANCE.**

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 2007 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 Underwriter by its counsel, Best Best & Krieger LLP and for the Agency by Robert D. Herrick, Esq., General Counsel. It is anticipated that the 2007 Bonds will be available for delivery to DTC in book-entry form in New York, New York on or about November 29, 2007.



**\$43,495,000**

**MATURITY SCHEDULE**

**Base CUSIP®† No. 616908**

<b><i>Maturity Date</i></b> <b><i>(August 1)</i></b>	<b><i>Principal Amount</i></b>	<b><i>Interest Rate</i></b>	<b><i>Yield</i></b>	<b><i>CUSIP® No.</i></b>	<b><i>Maturity Date</i></b> <b><i>(August 1)</i></b>	<b><i>Principal Amount</i></b>	<b><i>Interest Rate</i></b>	<b><i>Yield</i></b>	<b><i>CUSIP® No.</i></b>
2008	\$ 770,000	4.00%	3.30%	AB5	2018	\$ 260,000	4.000%	4.14%	AM1
2009	120,000	4.00	3.33	AC3	2019	265,000	4.000	4.25	AN9
2010	130,000	4.00	3.37	AD1	2020	270,000	4.125	4.35	AP4
2011	210,000	4.00	3.45	AE9	2021	285,000	4.250	4.45	AQ2
2012	220,000	4.00	3.53	AF6	2022	1,320,000	4.300	4.55	AR0
2013	230,000	4.00	3.61	AG4	2023	1,370,000	4.500	4.65	AS8
2014	230,000	3.50	3.70	AH2	2024	1,685,000	4.500	4.72	AT6
2015	235,000	3.50	3.80	AJ8	2025	1,755,000	4.500	4.78	AU3
2016	245,000	4.00	3.90	AK5	2026	1,830,000	4.600	4.84	AV1
2017	250,000	4.00	4.00	AL3	2027	1,915,000	4.625	4.88	AW9

\$11,360,000 5.00% Term Bonds due August 1, 2032 – Price 100.450<sup>(c)</sup> CUSIP<sup>†</sup> No. AX7

\$18,540,000 5.00% Term Bonds due August 1, 2038 – Price 99.217 CUSIP<sup>†</sup> No. AY5

<sup>(c)</sup> Price to optional prepayment date of August 1, 2017 at par.

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No dealer, broker, salesperson or other person has been authorized by the Agency, the City or the Underwriter to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the 2007 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the 2007 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. The information and expressions of opinions herein are subject to change without notice, and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the Agency since the date hereof. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with one or more repositories

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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.

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This Official Statement is submitted in connection with the sale of the 2007 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement, nor any sale hereunder, shall under any circumstances create an implication that there has been no change in the affairs of the Agency, the Authority or any other matter described herein since the date hereof. The information set forth herein is not guaranteed as to accuracy or completeness by the Trustee and the Trustee makes no representation concerning the issuance or validity of the 2007 Bonds.

**IN CONNECTION WITH THE OFFERING OF THE 2007 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.**

**THE UNDERWRITER MAY OFFER AND SELL 2007 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.**

**THE 2007 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.**

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 AGENCIES DO NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

All the information for investors regarding the Agency, the City of Moreno Valley, the Moreno Valley Public Financing Authority (the “Authority”) and the 2007 Bonds is contained in this Official Statement. While the City of Moreno Valley maintains an internet website for various purposes, none of the information on that website is intended to assist investors in making any investment decision or to provide any continuing information with respect to the 2007 Bonds or any other bonds or obligations of the City, the Agency, or the Authority.

**COMMUNITY REDEVELOPMENT AGENCY OF THE CITY OF MORENO VALLEY**

**AGENCY MEMBERS AND GOVERNING BOARD OF THE MORENO VALLEY PUBLIC  
FINANCING AUTHORITY**

Charles R. White, Chair  
William H. Batey II, Vice Chair  
Bonnie Flickinger, Member  
Richard A. Stewart, Member  
Frank West, Member

**AGENCY OFFICIALS**

Robert G. Gutierrez, Executive Director  
Robert D. Herrick, Agency General Counsel  
Rick C. Hartmann, Deputy Executive Director  
Steven M. Chapman, Finance Director/City Treasurer  
Barry Foster, Economic Development Director  
Chris A. Vogt, P.E., Public Works Director/City Engineer  
Alice Reed, Agency Secretary  
Mitch Slagerman, Redevelopment Manager  
Sue Maxinoski, Special Districts Manager

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Newport Beach, California

**Fiscal Consultant**

DHA Consulting  
Long Beach, California

**Financial Advisor**

Ross Financial  
San Francisco, California

**Trustee**

Wells Fargo Bank, National Association  
Los Angeles, California



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**\$43,495,000**  
**COMMUNITY REDEVELOPMENT AGENCY OF THE CITY OF MORENO VALLEY**  
**2007 TAX ALLOCATION BONDS, SERIES A**

**INTRODUCTION**

This Introduction is subject in all respects to the more complete information contained elsewhere in this Official Statement and the offering of the 2007 Bonds 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 Community Redevelopment Agency of the City of Moreno Valley (the "Agency") is to set forth information in connection with the sale of its \$43,495,000 principal amount of Community Redevelopment Agency of the City of Moreno Valley 2007 Tax Allocation Bonds, Series A (the "2007 Bonds"). The 2007 Bonds are being issued pursuant to the California Community Redevelopment Law (the "Redevelopment Law"), codified in Part 1 of Division 24 of the California Health and Safety Code, a resolution adopted by the Agency on October 23, 2007, and in accordance with the terms and conditions of an Indenture of Trust, dated as of October 1, 2007 (the "Indenture"), by and between the Agency and Wells Fargo Bank, National Association, as trustee (the "Trustee").

The 2007 Bonds are special obligations of the Agency and are secured by a pledge of Tax Revenues generated within the Moreno Valley Redevelopment Project Area (the "Project Area") and allocated to the Agency pursuant to the California Community Redevelopment Law and the Redevelopment Plan for the Project Area (as more particularly described below, the "Redevelopment Plan"). Proceeds of the 2007 Bonds will be applied to pay costs of issuance, a financial guaranty insurance policy and a reserve fund surety, and finance undertakings of the Agency.

The 2007 Bonds will be sold by the Agency to the Moreno Valley Public Financing Authority (the "Authority") pursuant to the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 of Chapter 5 of Division 7 of Title 1 (commencing with Section 6484) of the California Government Code. The 2007 Bonds purchased by the Authority will be resold immediately to E. J. De La Rosa & Co., Inc. (the "Underwriter") as described under the caption "UNDERWRITING."

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

The City of Moreno Valley (the "City") encompasses approximately 50.6 square miles. As of January 1, 2007, the City had a population of approximately 180,466. The City is located approximately 65 miles east of the City of Los Angeles, in proximity to California Route 60 and Interstate 215. Incorporated on December 3, 1984, the City operates as a general law city under California law. The City has a council-manager form of government, with the Mayor and four Council members elected by district for overlapping four-year terms. The City Council acts as the governing board of the Agency. See the caption "THE COMMUNITY REDEVELOPMENT AGENCY OF THE CITY OF MORENO VALLEY" herein.

The Agency was established pursuant to the Redevelopment Law. The Agency was activated on February 18, 1986, by City Ordinance No. 50. The Agency adopted and approved the Redevelopment Plan for the Project Area by Ordinance 87-154 of the City on December 29, 1987.

The Project Area consists of approximately 4,676 acres and is made up of commercial, industrial, housing and public land uses including the City's Civic Center. See the caption "THE MORENO VALLEY

REDEVELOPMENT PROJECT—General.” The assessed value for the Project Area for Fiscal Year 2007-08 is \$2,608,666,928; \$17,325,288 of Tax Increment Revenues were received during Fiscal Year 2006-07 and the Agency expects to receive approximately \$20,447,504 of Tax Increment Revenues during 2007-08.

The Redevelopment Plan provides that the Agency is authorized to receive revenues described at subsection (b) of Section 33670 of the Redevelopment Law comprising a portion of ad valorem taxes levied by the County with respect to taxable property in the Project Area; such revenues constitute “Tax Increment Revenues.” Under the Indenture, Tax Revenues are a portion of Tax Increment Revenues. See the caption “SECURITY FOR THE 2007 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 those times or in excess of those amounts set forth herein under the caption “THE MORENO VALLEY REDEVELOPMENT PROJECT—Plan Limitations” herein.

### **Security for the 2007 Bonds**

The 2007 Bonds are special obligations of the Agency payable solely from Tax Revenues and other funds and amounts pledged therefor pursuant to the Indenture. Tax Revenues are defined in the Indenture generally as Tax Increment Revenues received by the Agency within the Plan Limitations (as such capitalized terms are defined in the Indenture) less: (i) certain payments pursuant to the Tax Sharing Agreements and Tax Sharing Statutes; (ii) certain Tax Increment Revenues allocable to low and moderate income housing (excepting to such extent hereafter included with respect to Parity Debt); (iii) Tax Increment Revenues received by the Agency and payable under (a) the \$8,075,000 Community Facilities District No. 3 of the City of Moreno Valley (Auto Mall Refinancing) Special Tax Bonds, Series 2000 (the “Auto Mall Bonds”); (b) the \$9,000,000 City of Moreno Valley Towngate Special Tax Refunding Bonds, Series A (the “1994 Series A Bonds”); (c) the City of Moreno Valley Community Facilities District No. 87-1 of the City of Moreno Valley Towngate Community Facilities District No. 87-1 Special Tax Refunding Bonds, Series B (the “1994 Series B Bonds”), and (d) the \$5,000,000 City of Moreno Valley, Towngate Community Facilities District Improvement Area No. 1 Bonds (the “1993 Series C Bonds”). The City acting on behalf of Community Facilities District No. 87-1 has approved the refunding of the 1994 Series A Bonds, the 1994 Series B Bonds and the 1993 Series C Bonds to occur concurrent with the issuance of the 2007 Bonds. Upon such refunding occurring, Tax Increment Revenues available for the 2007 Bonds and Parity Debt will be subject to the obligation of the Agency to make payments in connection with such refunding bonds; see discussion under the heading “SECURITY FOR THE 2007 BONDS—Allocation of Taxes; Tax Increment Revenues.”

### **Parity Bonds**

The Indenture provides that the Agency may issue one or more series of Parity Bonds secured by a lien on Tax Revenues on a parity with the 2007 Bonds to finance the Redevelopment Project in such principal amount as shall be determined by the Agency. The Agency may deliver Parity Bonds subject to certain specific conditions set forth in the Indenture. See discussion under the heading “SECURITY FOR THE 2007 BONDS—Issuance of Parity Debt.”

### **Municipal Bond New Issue Insurance Policy**

The Agency has received a commitment from Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company (the “Bond Insurer”) to issue, effective as of the date the 2007 Bonds are delivered, a policy of insurance guaranteeing the payment, when due, of the principal of and interest on the 2007 Bonds. See “INSURANCE POLICY” herein and APPENDIX G—“FORM OF BOND INSURANCE POLICY” attached hereto. In addition, the Bond Insurer will issue a Reserve Account Surety Bond to be held in the Reserve Account. See discussion under the heading “SECURITY FOR THE 2007 BONDS—Reserve Account” 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 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.

## **Summaries of Documents**

Included in this Official Statement are descriptions of the 2007 Bonds, the Indenture, the Agency, the Project Area, the Redevelopment Law, tax sharing agreements, tax sharing statutes and obligations of the Agency under agreements and in connection with the 1993 Series C Bonds, the 1994 Series A Bonds, the 1994 Series B Bonds and the Auto Mall Bonds. The descriptions and summaries of documents herein do not purport to be comprehensive or definitive, and reference is made to each such document for the complete details of all 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 corporate trust office of the Trustee in Los Angeles, California.

## **Changes Since Date of Preliminary Official Statement**

This Official Statement includes changes since the date of the Preliminary Official Statement as follows: (i) the discussion under the heading “RATINGS,” and now referenced under the heading “RISK FACTORS,” has been modified to add language concerning the updating by Standard & Poor’s Ratings Services of its analysis of the collateralized debt obligations of asset-backed securities insured by the financial guaranty industry as well as the potential implications for its ratings on various municipal bond insurers; (ii) the discussion under the heading “INTRODUCTION—Security for the 2007 Bonds” has been modified to reflect approval of the issuance of bonds to refund the 1993 Series C Bonds, the 1994 Series A Bonds and the 1994 Series B Bonds; (iii) at Table 6, footnote 8 and numbers shown under the column headings “Less Obligation of Tax Increment Under Prior Obligations” and “Tax Revenues Available for Debt Service” have been modified to reflect final pricing of bonds to refund the 1993 Series C Bonds, the 1994 Series A Bonds and the 1994 Series B Bonds; (iv) the discussion under the heading “THE MORENO VALLEY REDEVELOPMENT PROJECT—Prior and Senior Obligations Encumbering Tax Increment Revenues” has been modified to reflect the approval of the issuance of bonds to refund the 1993 Series C Bonds, the 1994 Series A Bonds and the 1994 Series B Bonds; and (v) at Table 6, footnote 9, the column heading for “2007 Series A Debt Service” and the numbers under the headings “2007 Series A Debt Service” and “Combined Debt Service Coverage” have been revised to reflect final pricing on the 2007 Bonds and bonds which refund the 1993 Series C Bonds, the 1994 Series A Bonds and the 1994 Series B Bonds.

## ESTIMATED SOURCES AND USES OF BOND PROCEEDS

The following table sets forth the estimated sources and uses of proceeds of the 2007 Bonds.

Sources of Funds:	
Par Amount of Bonds	\$ 43,495,000.00
Net original issue discount	<u>(374,655.95)</u>
Total Sources	<u>\$ 43,120,344.05</u>
Uses of Funds:	
Redevelopment Fund	\$ 41,566,717.22
2007 Bonds Costs of Issuance <sup>(1)</sup>	<u>1,553,626.83</u>
Total Uses	<u>\$ 43,120,344.05</u>

<sup>(1)</sup> Includes bond insurance and reserve account surety premiums, Underwriter's Discount, Bond Counsel fees, financial advisor fees, rating agency fees, trustee fees, printing fees and fiscal consultant fees.

**Table 1**  
**ANNUAL DEBT SERVICE**

Set forth below is the annual debt service for the 2007 Bonds.

<i>Bond Year</i> <i>Ending August 1</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2008	\$ 770,000	\$ 1,403,925.19	\$ 2,173,925.19
2009	120,000	2,057,683.76	2,177,683.76
2010	130,000	2,052,883.76	2,182,883.76
2011	210,000	2,047,683.76	2,257,683.76
2012	220,000	2,039,283.76	2,259,283.76
2013	230,000	2,030,483.76	2,260,483.76
2014	230,000	2,021,283.76	2,251,283.76
2015	235,000	2,013,233.76	2,248,233.76
2016	245,000	2,005,008.76	2,250,008.76
2017	250,000	1,995,208.76	2,245,208.76
2018	260,000	1,985,208.76	2,245,208.76
2019	265,000	1,974,808.76	2,239,808.76
2020	270,000	1,964,208.76	2,234,208.76
2021	285,000	1,953,071.26	2,238,071.26
2022	1,320,000	1,940,958.76	3,260,958.76
2023	1,370,000	1,884,198.76	3,254,198.76
2024	1,685,000	1,822,548.76	3,507,548.76
2025	1,755,000	1,746,723.76	3,501,723.76
2026	1,830,000	1,667,748.76	3,497,748.76
2027	1,915,000	1,583,568.76	3,498,568.76
2028	2,000,000	1,495,000.00	3,495,000.00
2029	2,095,000	1,395,000.00	3,490,000.00
2030	2,200,000	1,290,250.00	3,490,250.00
2031	2,470,000	1,180,250.00	3,650,250.00
2032	2,595,000	1,056,750.00	3,651,750.00
2033	2,725,000	927,000.00	3,652,000.00
2034	2,860,000	790,750.00	3,650,750.00
2035	3,005,000	647,750.00	3,652,750.00
2036	3,155,000	497,500.00	3,652,500.00
2037	3,315,000	339,750.00	3,654,750.00
2038	3,480,000	174,000.00	3,654,000.00
	<u>\$ 43,495,000</u>	<u>\$ 47,983,724.13</u>	<u>\$ 91,478,724.13</u>

Source: Agency.

### THE PROJECT

The Agency will use the proceeds of the 2007 Bonds to fund various redevelopment activities and other undertakings permitted under the Redevelopment Law, including but not limited to: the provision of public improvements and the conduct of economic development activities, including but not limited to, street improvements such as street repavement, construction of new streets, street widening, sewer line improvements, water line improvements, curbs, gutters and sidewalk improvements and traffic signalization upgrades, public park capital improvements, flood control improvements, construction of a library and other community facilities, undergrounding of overhead utility lines and landscaping improvements. Such listing of public improvements and economic development activities is not exhaustive and the Agency may use the proceeds of the sale of the 2007 Bonds to finance any permissible undertakings pursuant to the Redevelopment

Plan. Improvements contemplated by the Agency using proceeds of the 2007 Bonds and other available monies include, without limitation, the following improvements:

**Main Library Phase 1.** Phase 1 of the Main Library consists of a building of 38,000 square feet of space that will be located at the City's Civic Center. The estimated cost of improvements is \$22,000,000, which includes final design, construction, construction management, materials and labor, surrounding landscaping, parking lot, and fixtures, furniture and equipment. Final design is expected to start in January 2008 and be completed in June 2009. Construction is expected to begin in October 2009 and be completed in February 2012.

**Fire Station 110.** Fire Station 110 is planned to be located on approximately 1.5 acres of Agency-owned property located at the northeast corner of Indian and Cottonwood Streets. Fire Station 110 is planned to be a three-bay facility with staff quarters as well as a detached storage building. Additionally, the Fire Station will have block fencing with security gates, security lighting, and landscaping. The Fire Station will be approximately 9,000 square feet in size with the detached storage building being approximately 600 square feet in size. Construction of Fire Station 110 will include design, grading, drainage, material and laboratory testing, survey and parking lot layout. The estimated cost of the project is \$6,500,000. Design of the project is expected to begin in April 2008 and be completed in October of 2009. Construction is expected to begin in November 2009 and be completed October 2012.

**Neighborhood Park.** A neighborhood park to be located on approximately 7.1 acres of Agency-owned property located at the northeast corner of Indian and Cottonwood Streets is to be developed. The park is planned to have passive recreational facilities including picnic shelters and furniture, landscaped areas and a tot lot. The estimated cost of the project is \$5,000,000. Design of the project is expected to begin by April 2008 and be completed in October of 2009. Construction is expected to begin in January 2010 and be completed by October 2012.

**Day Street (Alessandro Boulevard to Cottonwood Avenue).** The Day Street Improvements, between Alessandro Boulevard and Cottonwood Avenue, include street widening, construction of curb, gutter and sidewalk, waterline replacement, and construction of certain floodwater drainage improvements. The cost of the Day Street Improvements is estimated to be \$4,400,000. Design and right of way acquisition is expected to be completed in July 2008. Construction is expected to begin in October 2008 and be completed April 2009.

**Auto Mall Street Upgrades.** Auto Mall street upgrades would consist of certain roadway improvements at the Moreno Valley Auto Mall located at the southeast corner of the Route 60 freeway and Moreno Beach Drive. The project will include the partial realignment of Motor Way, replacement and construction of monument signage at the intersections of Moreno Beach Drive and Eucalyptus Avenue, Eucalyptus Avenue and Auto Mall Drive, and Auto Mall Drive and Moreno Beach Drive. The estimated cost of this project is \$2,000,000. Design of the project is expected to begin in April 2008 and be completed in April of 2009. Construction is expected to begin in July 2009 and be completed by January 2010.

**Indian Basin, Appurtenant Storm Drain and Miscellaneous Street Improvements.** The Indian Basin project located on City owned land bounded by Davis Street and the Festival Shopping Center will include the construction of a detention basin that will collect and slow the flow of floodwaters thereby protecting the surrounding area and neighborhoods located to the southeast. Improvements will include construction of the detention basin and installation of inlet and outlet storm drain facilities and street improvements on the south side of Ironwood Avenue between Heacock Street and Nita Drive. The estimated cost of this project is \$6,667,000. Design of the project is expected to begin in June 2008 and be completed in June of 2010. Construction is expected to begin in September 2010 and be completed by January 2012.

**Sidewalk Infill and ADA Curb Ramp Replacement (Various Locations in the Project Area).** The project consists of identification and prioritization of missing sidewalk segments that are primarily in close proximity to schools and in the path of school children. In addition, the project includes identification of

missing or non-compliant ADA curb ramps. Locations will focus primarily on pathways to schools; secondarily, locations will focus on pathways to retail and commercial establishments. Upon identification of needed improvements, the project will design and construct improvements to current standards, with the goal of providing missing segments to improve pathways Citywide. The cost of the project is estimated to be \$2,000,000. Design of logical groupings of locations is expected to begin in December 2007, with construction to follow. All improvements that can be completed within the budget will be constructed no later than November 2012.

***Pavement Rehabilitation (Various Locations in the Project Area).*** The project consists of identifying streets at various locations throughout the City to be rehabilitated. Staff will use the City pavement management program to aid in evaluating candidate streets. Strategies for rehabilitation include pavement fabric with asphalt concrete overlays, reconstruction with removals and pavement replacement, and other various cost-effective techniques. The cost of the project is estimated to be \$2,000,000. Identification and design of logical groupings of locations is expected to begin in December 2007, with construction to follow. All improvements that can be completed within the budget will be constructed no later than November 2012.

***Street Infill Widening (Various Locations in the Project Area).*** The City has identified and ranked a series of “infill” projects, which consist of arterial street cross-section widening at locations that are missing improvements, primarily adjacent to developed areas, where future development and/or other funding sources are unlikely to construct needed improvements in a timely manner. This project consists of using and evaluating the pre-existing priority list and the available budget to obtain ultimate street improvements for these locations, which may include right-of-way, utilities, asphalt concrete pavement, curb, gutter, drainage facilities, striping, and sidewalks. The cost of the project is estimated to be \$2,000,000. Design of logical groupings of locations is expected to begin in January 2008, with construction to follow. All improvements that can be completed within the budget will be constructed no later than November 2012.

## **THE 2007 BONDS**

### **General**

The 2007 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. RDA 2007-11 adopted on October 23, 2007, authorizing resolutions of the City Council and the Indenture.

**THE 2007 BONDS ARE SPECIAL OBLIGATIONS OF THE AGENCY PAYABLE SOLELY FROM THE TAX REVENUES, AS DESCRIBED HEREIN, AND AMOUNTS IN CERTAIN FUNDS AND ACCOUNTS MAINTAINED UNDER THE INDENTURE, ON A PARITY WITH PARITY DEBT, IF ANY, AND, AS SUCH, ARE NOT A DEBT OF THE CITY OF MORENO VALLEY (THE “CITY”) OR THE STATE OF CALIFORNIA OR ANY OF THE STATE’S POLITICAL SUBDIVISIONS (OTHER THAN THE AGENCY, TO THE LIMITED EXTENT SET FORTH IN THE INDENTURE), AND NEITHER THE CITY NOR THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS (OTHER THAN THE AGENCY), IS LIABLE THEREFOR. THE 2007 BONDS ARE NOT PAYABLE FROM, AND ARE NOT SECURED BY, ANY FUNDS OF THE AGENCY, OTHER THAN THE TAX REVENUES PLEDGED PURSUANT TO THE INDENTURE. THE 2007 BONDS DO NOT CONSTITUTE AN INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL DEBT LIMITATION OR RESTRICTION. NEITHER THE MEMBERS OF THE AGENCY NOR ANY PERSONS RESPONSIBLE FOR THE EXECUTION OF THE 2007 BONDS IS LIABLE PERSONALLY FOR PAYMENT OF THE 2007 BONDS BY REASON OF THEIR ISSUANCE.**

## Description of the 2007 Bonds

The 2007 Bonds will be issued in authorized denominations of \$5,000 each or integral multiples thereof and are dated the date of original delivery of the 2007 Bonds. The 2007 Bonds mature on the respective dates and bear interest in the respective amounts set forth on the inside cover page hereof. Interest on the 2007 Bonds is payable on February 1 and August 1 of each year (collectively, the “Interest Payment Dates”) commencing February 1, 2008. Interest on the 2007 Bonds will be calculated on the basis of a 360-day year comprised of twelve 30-day months.

The 2007 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 2007 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 2007 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 2007 Bonds as described herein. See APPENDIX H—“BOOK-ENTRY ONLY SYSTEM” herein.

## Redemption

**Optional Redemption.** The 2007 Bonds maturing on or before August 1, 2017, are not subject to optional redemption prior to maturity. The 2007 Bonds maturing on or after August 1, 2018, shall be subject to redemption, at the option of the Agency on any date on or after August 1, 2017, as a whole or in part, from any source of available funds, at par without premium.

**Mandatory Sinking Account Redemption.** The 2007 Bonds maturing on August 1, 2032 shall also be subject to redemption in part by lot from sinking account installments deposited in the Sinking Account on each August 1, on and after August 1, 2028, at a redemption price equal to the principal amount thereof to be redeemed together with accrued interest thereon to the redemption date, without premium, according to the following schedule (provided, however, that if some but not all of such 2007 Bonds have been redeemed, the total amount of all future Sinking Account payments attributable to such 2007 Bonds shall be reduced by the aggregate principal amount of such 2007 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 2007 Bonds Maturing on August 1, 2032 in the amount of \$11,360,000

<i>Redemption Date (August 1)</i>	<i>Principal Amount Redeemed</i>
2028	\$2,000,000
2029	2,095,000
2030	2,200,000
2031	2,470,000
2032 (maturity)	2,595,000

The 2007 Bonds maturing on August 1, 2038 shall also be subject to redemption in part by lot from sinking account installments deposited in the Sinking Account on each August 1, on and after August 1, 2033, at a redemption price equal to the principal amount thereof to be redeemed together with accrued interest thereon to the redemption date, without premium, according to the following schedule (provided, however, that if some but not all of such 2007 Bonds have been redeemed, the total amount of all future Sinking Account payments attributable to such 2007 Bonds shall be reduced by the aggregate principal amount of such 2007 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 2007 Bonds  
Maturing on August 1, 2038 in the amount of \$18,540,000**

<i>Redemption Date (August 1)</i>	<i>Principal Amount Redeemed</i>
2033	\$2,725,000
2034	2,860,000
2035	3,005,000
2036	3,155,000
2037	3,315,000
2038	3,480,000

In lieu of sinking account redemption of any of the Term Bonds, amounts on deposit in the Special Fund (to the extent not required to be transferred to the Trustee pursuant to Section 4.3 of the Indenture during the current Bond Year) may also be used and withdrawn by the Agency at any time for the purchase of such 2007 Bonds at public or private sale as and when at such prices (including brokerage and other charges and including accrued interest) as the Agency may in its discretion determine. The par amount of any of such 2007 Bonds so purchased by the Agency and delivered to the Trustee for cancellation in any twelve-month period ending on August 1 in any year shall be credited towards and shall reduce the par amount of the 2007 Bonds required to be redeemed pursuant the mandatory sinking fund installments described above on August 1 in such year.

**Selection of Bonds**

For the purposes of redemption, 2007 Bonds of denominations greater than \$5,000 will be deemed to consist of \$5,000 portions, and any such portion may be separately redeemed. If the Agency redeems less than all Outstanding Bonds under an optional redemption as described above, or if the Agency purchases 2007 Bonds, each of the remaining principal and sinking account payments for the respective 2007 Bonds will be reduced by amounts that are in authorized denominations and are as nearly as possible proportional among the remaining principal and sinking account payments.

**Notice of Redemption**

The Trustee, on behalf and at the expense of the Agency shall mail (by first class mail, postage prepaid) notice of any redemption at least thirty (30) but not more than sixty (60) days prior to the redemption date, to (i) the Owners of any 2007 Bonds designated for redemption at their respective addresses appearing on the Registration Books, and (ii) the Securities Depositories and to one or more Information Services designated in a Request of the Agency filed with the Trustee; but such mailing shall not be a condition precedent to such redemption and neither failure to receive any such notice nor any defect therein shall affect the validity of the proceedings for the redemption of such 2007 Bonds or the cessation of the accrual of interest thereon. Such notice shall state the redemption date and the redemption price, shall state (if applicable) that such redemption is conditioned upon the timely delivery of the redemption price by the Agency to the Trustee for deposit in the Redemption Account, shall designate the CUSIP number(s) of the 2007 Bonds to be redeemed, and shall require that such 2007 Bonds be then surrendered at the Office of the Trustee for redemption at the said redemption price, giving notice also that further interest on such 2007 Bonds will not accrue from and after the redemption date. In the event that funds are not provided to the Trustee for redemption, the notice may be terminated by the Trustee.

While the 2007 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 2007 Bonds will be governed by DTC's procedures. See APPENDIX H—"BOOK-ENTRY ONLY SYSTEM."

## **SECURITY FOR THE 2007 BONDS**

### **Tax Allocation Financing**

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

### **Allocation of Taxes; Tax Increment Revenues**

As provided in the Redevelopment Plan, as amended, and in the Indenture, 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 or other public corporation (the "taxing agencies") for fiscal years beginning after the effective date of that ordinance which provided for the inclusion of territory within the Project Area, whether by establishment of a redevelopment project area or by amendment thereto, shall be divided as follows:

(a) The portion equal to the amount of taxes produced by the then current tax rate, applied to the assessed valuation of such property in the Project Area as shown on the applicable base year assessment roll as last equalized prior to the establishment of the Project Area (and, as described above, with respect to the inclusion of territory by amendment, the then current rate, applied to the assessed valuation of such property as so added to the Project Area by amendment, as shown on the applicable base year assessment roll last equalized prior to the effective date of the Ordinance approving such amendment), shall be, when collected, paid into the funds of those respective taxing agencies;

(b) Except for taxes which are attributable to a tax levy 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 to the respective taxing agency, that portion of levied taxes each year in excess of such amount, including (to the extent permitted by law) all payments and reimbursements, if any, to the Agency specifically attributable to ad valorem taxes lost by reason of tax exemptions and tax rate limitations, will be allocated to, and when collected, will be paid to the Agency to pay the principal of and interest on loans to, money advanced to, or indebtedness incurred by the Agency to finance redevelopment projects.

Tax revenues generated as set forth under (b) above and allocated to the Agency constitute Tax Increment Revenues.

The term "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 period of time for establishing or incurring indebtedness payable from Tax Revenues and (c) the period of time for receiving Tax Revenues for any purpose, established pursuant to

Sections 33333.2, 33333.4 and 33333.6 of the Redevelopment Law and the Redevelopment Plan, as applicable. See the caption “THE MORENO VALLEY REDEVELOPMENT PROJECT—Plan Limitations.”

Payments pursuant to the Tax Sharing Agreements are described further under “THE MORENO VALLEY REDEVELOPMENT PROJECT—Tax Sharing Agreements,” and payments to the Agency’s Low and Moderate Income Housing Fund are described further under “THE MORENO VALLEY REDEVELOPMENT PROJECT—Housing Set-Aside.”

Payments pursuant to the Tax Sharing Statutes generally consist of amounts required to be paid to certain taxing entities under Sections 33607.5 and 33607.7 of the Redevelopment Law as a consequence of Redevelopment Plan amendments which add territory after January 1, 1994 or extend certain of the Plan Limitations. The effect of the Tax Sharing Statutes is described further under the caption “THE MORENO VALLEY REDEVELOPMENT PROJECT—Tax Sharing Statutes.”

The 2007 Bonds are special obligations of the Agency payable solely from Tax Revenues and other funds and amounts pledged therefor pursuant to the Indenture. Tax Revenues are defined in the Indenture generally as Tax Increment Revenues received by the Agency within the Plan Limitations less: (i) certain payments pursuant to the Tax Sharing Agreements and Tax Sharing Statutes; (ii) certain Tax Increment Revenues allocable to low and moderate income housing (excepting to such extent hereafter included with respect to Parity Debt); (iii) less Tax Increment Revenues received by the Agency and payable under (a) the Auto Mall Bonds; (b) the 1994 Series A Bonds; (c) the 1994 Series B Bonds; and (d) the 1993 Series C Bonds. The Auto Mall Bonds, the 1994 Series A Bonds (or bonds which refund such bonds), the 1994 Series B Bonds (or bonds which refund such bonds) and the 1993 Series C Bonds (or bonds which refund such bonds) collectively constitute the “Prior Obligations.”

It is contemplated that the 1994 Series A Bonds, the 1994 Series B Bonds and the 1993 Series C Bonds will be refunded at or about the same time as the issuance of the 2007 Bonds. Upon such refunding occurring, Tax Increment Revenues available for the 2007 Bonds and Parity Debt will be subject to the obligation of the Agency to make payments in connection with such refunding bonds.

With the exception of payments under: the Tax Sharing Statutes, Tax Sharing Agreements, statutory obligation to fund amounts to the Agency’s Low and Moderate Income Housing Fund, and obligations in connection with the 1994 Series A Bonds (or bonds which refund such bonds), the 1994 Series B Bonds (or bonds which refund such bonds), the 1993 Series C Bonds (or bonds which refund such bonds) and the Auto Mall Bonds, 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 the 2007 Bonds. See discussion under the captions “SECURITY FOR THE 2007 BONDS” and “LIMITATIONS ON TAX REVENUES” herein. The Agency has covenanted in the Indenture that it will not issue additional bonds senior to the 2007 Bonds. The Agency may issue additional obligations on a parity with the 2007 Bonds. See discussion under the captions “SECURITY FOR THE 2007 BONDS—Issuance of Parity Debt” herein and “THE MORENO VALLEY REDEVELOPMENT PROJECT” herein. The Agency may additionally issue bonds subordinate to the 2007 Bonds and bonds issued on a parity therewith.

### **Pledge of Tax Revenues**

Tax Revenues which secure the 2007 Bonds are a portion of Tax Increment Revenues. Tax Revenues are defined in the Indenture to mean all taxes annually allocated to the Agency with respect to the Project Area following the date of delivery of the 2007 Bonds within the Plan Limitations 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 (a) all payments, subventions and reimbursements (if any) to the Agency specifically attributable to ad valorem taxes lost by reason of tax exemptions and tax rate limitations, and (b) as to such percentage of annual debt service on any issue of Parity Debt as will be specified in the proceedings for such Parity Debt, all amounts of such taxes required to be

deposited into the Low and Moderate Income Housing Fund in any fiscal year pursuant to Section 33334.2 of the Redevelopment Law, but excluding (i) all amounts of such taxes which are payable to entities other than the Agency pursuant to the Tax Sharing Agreements to the extent that such Tax Sharing Agreements create a prior lien on such taxes and such entities other than the Agency have not subordinated their right to receive payments; (ii) all amounts of such taxes which are payable to entities other than the Agency pursuant to the Tax Sharing Statutes to the extent that such Tax Sharing Statutes create a prior lien on such taxes and such entities other than the Agency have not subordinated their right to receive payments; (iii) all amounts of such taxes required to be deposited into the Low and Moderate Income Housing Fund in any fiscal year pursuant to Section 33334.2 of the Redevelopment Law (except to the extent included in connection with the issuance of Parity Debt); (iv) amounts of Tax Increment required to be paid by Agency during such Bond Year under the Prior Obligations (as defined in the Indenture); and (viii) amounts, if any, payable by the State to the Agency under and pursuant to the provisions of Chapter 1.5 of Part 1 of Division 4 of Title 2 (commencing with Section 16110) of the Government Code of the State.

The 2007 Bonds are secured by a first and prior lien on Tax Revenues and by a pledge of all of the moneys in the Special Fund and the Reserve Account. The 2007 Bonds are additionally secured by a pledge of all of the moneys in the Interest Account, the Principal Account, the Sinking Account and the Redemption Account, including all amounts derived from the investment of such moneys, subject to application in accordance with the Indenture.

Any Tax Revenues received in any Bond Year (i.e., August 2 to the following August 1) following such time during such Bond Year as the amounts on deposit in the Special Fund held by the Agency pursuant to the Indenture equal the aggregate amounts required to be transferred to the Trustee for deposit into the Interest Account, Principal Account, Sinking Account, Redemption Account and Reserve Account, if necessary, in such Bond Year will be released as surplus from the pledge and lien under the Indenture and may be used for any lawful purpose of the Agency. See APPENDIX A—"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" contained herein.

The Agency has no power to levy and collect property taxes, and any property tax limitation, legislative measure, voter initiative or provisions of additional sources of income to taxing agencies having the effect of reducing the property tax rate could reduce the amount of Tax Revenues that would otherwise be available to pay the principal of, and interest on, the 2007 Bonds. Likewise, broadened property tax exemptions or changes in economic conditions within the Project Area could have a similar effect. See "RISK FACTORS—Educational Revenue Augmentation Fund; Proposed Budget" and "—State Budget" for discussion of certain pertinent legislative measures.

**THE 2007 BONDS ARE SPECIAL OBLIGATIONS OF THE AGENCY AND, AS SUCH, ARE NOT A DEBT OF THE CITY OF MORENO VALLEY, THE STATE OF CALIFORNIA, ANY OF THEIR POLITICAL SUBDIVISIONS AND NEITHER THE CITY, STATE, NOR ANY OF THEIR POLITICAL SUBDIVISIONS OTHER THAN THE AGENCY TO THE LIMITED EXTENT DESCRIBED HEREIN IS LIABLE FOR THE PAYMENT THEREOF. IN NO EVENT SHALL THE 2007 BONDS BE PAYABLE OUT OF ANY FUNDS OR PROPERTIES OTHER THAN TAX REVENUES OF THE AGENCY AS SET FORTH IN THE INDENTURE. THE 2007 BONDS DO NOT CONSTITUTE AN INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION. THE AGENCY HAS NO TAXING POWERS.**

#### **Reserve Account**

To secure further the payment of principal of and interest on the 2007 Bonds, the Agency is required under the Indenture, upon delivery of the 2007 Bonds, to make the necessary deposit of funds to cause the balance in the Reserve Account to be equal to the Reserve Requirement. The "Reserve Requirement" means, as of the date of any calculation by the Agency, the least of (a) Maximum Annual Debt Service (as defined in the Indenture), (b) 125% of average Annual Debt Service on the 2007 Bonds and any Parity Debt (as defined

in the Indenture), or (c) 10% of the original principal amount of the 2007 Bonds and any Parity Debt (less original issue discount if in excess of two percent (2%) of the stated redemption amount at maturity); provided, however, that the Reserve Requirement shall be computed without regard for the portions of other Parity Debt which remain as deposits in escrow funds, if any; and provided further with respect to any Parity Debt issued with a variable rate of interest, for purposes of calculating the Reserve Requirement, such Parity Debt shall be assumed to bear interest at (A) if interest on such variable rate Parity Debt is excludable from gross income under the applicable provisions of the Internal Revenue Code, the most recently published Bond Buyer “Revenue Bond Index” (or comparable index if no longer published), or (B) if interest is not so excludable, the interest rate on direct U.S. Treasury Obligations with comparable maturities. If at any time for any reason the amount in the Reserve Account is less than an amount equal to the Reserve Requirement, the Reserve Account will be restored to the Reserve Requirement by transfers to the Reserve Account from the Special Fund with the first available Tax Revenues in the Special Fund.

The Agency shall have the right at any time to direct the Trustee to release funds from the Reserve Account, in whole or in part, by tendering to the Trustee a Qualified Reserve Account Credit Instrument.

“Qualified Reserve Account Credit Instrument” is defined under the Indenture as an irrevocable standby or direct pay letter of credit or surety bond issued by a commercial bank or insurance company and approved as to form and substance by the Bond Insurer and deposited with the Trustee, provided that all of the following requirements are met by the Agency at the time of delivery thereof to the Trustee: (a) the long-term credit rating of such bank or insurance company is Aa or better from Moody’s Investors Service, Inc. and AA or better from Standard & Poor’s Rating Services; (b) such letter of credit or surety bond has a term of at least 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 released; 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 or the Principal Account or in any other amount for the purpose of making payments on the 2007 Bonds. Upon the expiration of any Qualified Reserve Account Credit Instrument, the Authority will be obligated either (i) to replace such Qualified Reserve Account Credit Instrument with a new Qualified Reserve Account Credit Instrument, or (ii) deposit or cause to be deposited with the Trustee or to draw upon the Qualified Reserve Account Credit Instrument prior to its maturity or renewal date an amount of funds such that amounts on deposit in the Reserve Account equal the Reserve Requirement.

### **Ambac Assurance Surety Bond**

The Indenture authorizes the Obligor (as such term is defined in the Surety Bond) to obtain a Surety Bond in place of fully funding the Reserve Account. Accordingly, application has been made to Ambac Assurance Corporation (“Ambac Assurance”) for the issuance of a Surety Bond for the purpose of funding the Reserve Account. See APPENDIX A—“SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.” The 2007 Bonds will be delivered upon the issuance of such Surety Bond. The premium on the Surety Bond is to be fully paid at or prior to the issuance and delivery of the 2007 Bonds. The Surety Bond provides that upon the later of (i) one (1) day after receipt by Ambac Assurance of a demand for payment executed by the Trustee certifying that provision for the payment of principal of or interest on the 2007 Bonds when due has not been made or (ii) the interest payment date specified in the Demand for Payment submitted to Ambac Assurance, Ambac Assurance will promptly deposit funds with the Paying Agent sufficient to enable the Paying Agent to make such payments due on the 2007 Bonds, but in no event exceeding the Surety Bond Coverage, as defined in the Surety Bond.

Pursuant to the terms of the Surety Bond, the Surety Bond Coverage is automatically reduced to the extent of each payment made by Ambac Assurance under the terms of the Surety Bond and the Obligor is required to reimburse Ambac Assurance for any draws under the Surety Bond with interest at a market rate. Upon such reimbursement, the Surety Bond is reinstated to the extent of each principal reimbursement up to

but not exceeding the Surety Bond Coverage. The reimbursement obligation of the Obligor is subordinate to the Obligor's obligations with respect to the 2007 Bonds.

In the event the amount on deposit, or credited to the Reserve Account, exceeds the amount of the Surety Bond, any draw on the Surety Bond shall be made only after all the funds in the Reserve Account have been expended. In the event that the amount on deposit in, or credited to, the Reserve Account, in addition to the amount available under the Surety Bond, includes amounts available under a letter of credit, insurance policy, Surety Bond or other such funding instrument (the "Additional Funding Instrument"), draws on the Surety Bond and the Additional Funding Instrument shall be made on a pro rata basis to fund the insufficiency. The Indenture provides that the Reserve Account shall be replenished in the following priority: (i) principal and interest on the Surety Bond shall be paid from first available Tax Revenues; (ii) after all such amounts are paid in full, amounts necessary to fund the Reserve Account to the required level, after taking into account the amounts available under the Surety Bond and the Additional Funding Instrument, if any, shall be deposited from next available Tax Revenues.

The Surety Bond does not insure against nonpayment caused by the insolvency or negligence of the Trustee.

In the event that Ambac Assurance were to become insolvent, any claims arising under the Surety Bond would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

### **Issuance of Parity Debt**

The Agency may issue or incur debt payable from Tax Revenues on a parity with the 2007 Bonds subject to the following specific conditions precedent, all of which are made conditions precedent to the issuance and delivery of such Parity Debt issued under the Indenture:

(a) The Agency shall certify that it is and shall be in compliance with all covenants in the Indenture.

(b) The Parity Debt shall be on such terms and conditions as may be set forth in a supplemental resolution and indenture, which shall provide for (i) bonds substantially in accordance with the Indenture, (ii) the deposit of moneys into the Reserve Amount in an amount sufficient (which may be represented by a surety bond as permitted by the Indenture) together with the balance of the Reserve Account, to equal the Reserve Requirement on all 2007 Bonds and Parity Debt expected to be outstanding, and (iii) the disposition of surplus Tax Revenues in substantially the same manner as the Indenture.

(c) Receipt of a certificate or opinion of an Independent Redevelopment Fiscal Consultant showing:

(i) For the current and each future Bond Year the Annual Debt Service for each such Bond Year with respect to all 2007 Bonds and Parity Debt reasonably expected to be outstanding following the issuance of the Parity Debt; and

(ii) The Tax Revenues to be received by the Agency in each Fiscal Year during the term of the Parity Debt, assuming no growth in assessed value, but taking into account all Plan Limits and other factors which would cause a reduction in Tax Revenues in any future Fiscal Year, plus at the option of the Agency, the Additional Allowance. "Additional Allowance" is defined as the amount of Tax Revenues which, as shown in the report of an Independent Redevelopment Consultant, are estimated to be receivable by the Agency in the next succeeding Fiscal Year as a result of increases in the assessed valuation in the next succeeding Fiscal Year as a result in increases in the assessed valuation of taxable property in the Project Area due to (i) new construction for which building permits have been issued by the City pursuant to which

construction has commenced, or (ii) transfer of ownership or any other interest in real property which has been recorded but which is not then reflected on the tax roll; and

(iii) That the Tax Revenues referred to in (ii) above are at least equal to 1.25 times Annual Debt Service for each Bond Year on all 2007 Bonds and Parity Debt to be outstanding following the issuance of the Additional Bonds (excluding debt service with respect to any portion of the Parity Debt deposited in an escrowed proceeds account); and

(iv) That, so long as the Prior Obligations are outstanding, the sum of (x) Tax Revenues and (y) scheduled debt service payable from Tax Increment under the Prior Obligations shall be at least equal to (z) 1.25 times Annual Debt Service on the Bonds, any outstanding Parity Debt, Parity Debt to be outstanding following the issuance of Parity Debt (excluding debt service with respect to any portion of the Parity Debt deposited in an escrowed proceeds account), and scheduled debt service payable from Tax Increment under the Prior Obligations for each Bond Year; and

(d) The Parity Debt shall mature and the interest shall be payable on the same dates as the 2007 Bonds, except the first interest payment may be from the date of the Parity Debt until the next succeeding August 1 or February 1.

(e) In the event that such Parity Debt shall bear interest at a variable rate (which, in the event the 2007 Bonds are insured, shall only be permitted with the prior approval of the Bond Insurer), for purposes of meeting the requirements of the preceding clause (c), such Parity Debt shall be assumed to bear interest at a fixed rate equal to the maximum rate permitted to be borne by such Parity Debt under the indenture of trust or Supplemental Indenture providing for the issuance thereof.

(f) Any certifications requiring computations establishing that debt service coverage is sufficient to authorize to support the issuance of Additional Bonds or that requisite debt service savings are available to support the issuance of refunding bonds shall, in all cases, be evidenced by a certificate of an Independent Redevelopment Fiscal Consultant.

(g) No additional bonds, notes certificates, contracts or any other obligations payable from Tax Revenues shall be issued by the Agency unless no Event of Default shall have occurred and be continuing with respect to the 2007 Bonds.

If all or a portion of the proceeds of the Parity Debt or the 2007 Bonds are to be applied for the provision of affordable housing under Sections 33334.2 and 33334.6 of the Law, Tax Revenues shall include that portion of taxes allocated under Section 33670 of the Law for payment of the 2007 Bonds or the Parity Debt which are applied for the purposes of Section 33334.2 and specifically pledged to the repayment of such Parity Debt, to the maximum extent permitted by the Law.

### **Issuance of Subordinate Debt**

The Agency expects to issue Subordinate Debt concurrent with the issuance of the 2007 Bonds, in a principal amount of approximately \$22,500,000. In the event certain litigation initiated by the Agency is resolved in favor of the Agency, such bonds, initially as Subordinate Debt, may be refunded on a parity with the 2007 Bonds. In addition, the Agency may incur other Subordinate Debt in such principal amounts 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 MORENO VALLEY REDEVELOPMENT PROJECT—Plan Limitations” and APPENDIX A—“SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE” contained herein.

## FINANCIAL GUARANTY INSURANCE POLICY

*The following information concerning the Bond Insurer and the Insurance Policy has been furnished by the Bond Insurer for use in this Official Statement, and has not been independently certified or verified by the Agency. No representation is made by the Agency or the Underwriter as to the accuracy, completeness or adequacy of such information or as to the absence of material adverse changes in the condition of the Bond Insurer subsequent to the date of this Official Statement. Reference is made to Appendix G for a specimen of the Bond Insurer's policy.*

### Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance Corporation (the "Bond Insurer") has made a commitment to issue a financial guaranty insurance policy (the "Policy") relating to the 2007 Bonds, effective as of the date of issuance of the 2007 Bonds. Under the terms of the Policy, the Bond Insurer will pay to The Bank of New York, in New York, New York, or any successor thereto (the "Insurance Trustee"), that portion of the principal of and interest on the 2007 Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Policy). The Insurance will make such payments to the Insurance Trustee on the later of the date on which such principal and/or interest becomes Due for Payment or within one business day following the date on which the Bond Insurer shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the 2007 Bonds and, once issued, cannot be canceled by the Bond Insurer.

The Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the 2007 Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding 2007 Bonds, the Bond Insurer will remain obligated to pay the principal of and interest on outstanding 2007 Bonds on the originally scheduled interest and principal payment dates, including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the 2007 Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration, except to the extent that the Bond Insurer elects, in its sole discretion, to pay all or a portion of the accelerated principal and interest accrued thereon to the date of acceleration (to the extent unpaid by the Obligor). Upon payment of all such accelerated principal and interest accrued to the acceleration date, the Bond Insurer's obligations under the Policy shall be fully discharged.

In the event the Trustee has notice that any payment of principal of or interest on a 2007 Bond that has become Due for Payment and that is made to a holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, non-appealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from the Bond Insurer to the extent of such recovery if sufficient funds are not otherwise available.

The Policy does **not** insure any risk other than Nonpayment (as set forth in the Policy). Specifically, the Policy does **not** cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity;
2. payment of any redemption, prepayment or acceleration premium; and
3. nonpayment of principal or interest caused by the insolvency or negligence of the Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Policy, payment of principal requires surrender of the 2007 Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such 2007 Bonds to be registered in the name of the Bond Insurer to the extent of the payment under the Policy. Payment of interest pursuant to the Policy requires proof of holder entitlement to interest payments and an appropriate assignment of the holder's right to payment to the Bond Insurer.

Upon payment of the insurance benefits, the Bond Insurer will become the owner of the 2007 Bond, appurtenant coupon, if any, or right to payment of the principal of or interest on such 2007 Bond and will be fully subrogated to the surrendering holder's rights to payment.

In the event that the Bond Insurer were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

### **Ambac Assurance Corporation**

The Bond Insurer is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin, and is licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$10,391,000,000 (unaudited) and statutory capital of approximately \$6,730,000,000 (unaudited) as of June 30, 2007. Statutory capital consists of the Bond Insurer's policyholders' surplus and statutory contingency reserve. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., Moody's Investors Service, Inc. and Fitch Ratings have each assigned a triple-A financial strength rating to the Bond Insurer.

The Bond Insurer has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by the Bond Insurer will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by the Bond Insurer under policy provisions substantially identical to those contained in the Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor.

The Bond Insurer makes no representation regarding the 2007 Bonds or the advisability of investing in the 2007 Bonds and makes no representation regarding, nor has it participated in the preparation of, this Official Statement other than the information supplied by the Bond Insurer and presented under the heading "FINANCIAL GUARANTY INSURANCE POLICY."

### **Available Information**

The parent company of the Bond Insurer, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information may be read and copied at the public reference facilities maintained by the Commission at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the Commission at (800) SEC-0330 for further information on the public reference room. The Commission maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the Commission, including the Company. These reports, proxy statements and other information can also be read at the office of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of the Bond Insurer's financial statements prepared in accordance with statutory accounting standards are available from the Bond Insurer. The address of the Bond Insurer's administrative offices is One State Street Plaza, 19th Floor, New York, New York 10004, and its telephone number is (212) 668-0340.

## **Incorporation of Certain Documents by Reference**

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 and filed on March 1, 2007;
2. The Company's Current Report on Form 8-K dated and filed on April 25, 2007;
3. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2007 and filed on May 10, 2007;
4. The Company's Current Report on Form 8-K dated and filed on July 25, 2007;
5. The Company's Current Report on Form 8-K dated and filed on August 3, 2007;
6. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2007 and filed on August 9, 2007;
7. The Company's Current Report on Form 8-K dated October 10, 2007 and filed on October 11, 2007;
8. The Company's Current Report on Form 8-K dated and filed on October 24, 2007; and
9. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ending September 30, 2007 and filed on November 9, 2007.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above under the heading "Available Information."

## **LIMITATIONS ON TAX REVENUES**

### **Property Tax Limitations - Article XIII A**

California voters, on June 6, 1978, approved an amendment (commonly known as both Proposition 13 and the Jarvis-Gann Initiative) to the California Constitution. This amendment, which added Article XIII A to the California Constitution, among other things affects the valuation of real property for the purpose of taxation in that it defines the full cash value of property to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under full cash value, or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or any reduction in the consumer price index or comparable local data, or any reduction in the event of declining property value caused by damage, destruction or other factors. See APPENDIX C—"FISCAL CONSULTANT'S REPORT—Section C—Taxable Values and Historical Revenues."

Article XIII A further limits the amount of any ad valorem tax on real property to 1% of the full cash value except that additional taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978. In addition, an amendment to Article XIII A was adopted in June 1986 by initiative which exempts any bonded indebtedness approved by two-thirds of the votes cast by voters for the acquisition or improvement of real property from the 1 percent limitation.

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

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

Article XIII A has subsequently been amended to permit reduction of the “full cash value” base in the event of declining property values caused by 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 certain other minor or technical ways. See the caption “RISK FACTORS—Reduction in Taxable Value” herein and see “THE MORENO VALLEY REDEVELOPMENT PROJECT—Plan Limitations.”

### **Challenges to Article XIII A**

There have been many challenges to Article XIII A of the California Constitution. On December 22, 1978, the California Supreme Court upheld the Proposition B over challenges on several state and federal constitutional grounds (*Amador Valley Joint Union School District v. State Board of Equalization*.) The Court reserved certain constitutional issues and the validity of legislation implementing the amendment for future determination in proper cases.

The United States Supreme Court also considered Article XIII A in *Nordlinger v. Hahn*, a challenge relating to residential property. Based upon the facts presented in *Nordlinger*, the United States Supreme Court held that the method of property tax assessment under Article XIII A did not violate the federal Constitution.

The Orange County Superior Court invalidated the method used by the Orange County Assessor to implement the provisions of Article XIII A (which are described under the “LIMITATIONS ON TAX REVENUES—Property Tax Limitations—*Article XIII A*” herein) allowing the full cash value of properties to be increased at a rate not to exceed 2% per year to account for inflation. The practice of the Orange County Assessor is to permit increases above the 2% per year in situations where the value of properties whose assessments had been lowered in prior years rebounds in subsequent years. In these situations, the Orange County Assessor increases the assessments more than 2% per year to recapture the previous reductions until the properties are again being assessed at their original assessed value, plus 2% per year from the date of the original assessment. On December 27, 2001, an Orange County Superior Court ruled in *County of Orange v. Orange County Assessment Appeals Board No. 3* (the “Orange County Litigation”) that the Orange County Assessor raised a homeowner’s assessment in violation of Article XIII A by increasing the assessment on the homeowner’s property by more than 2% per year, when the price appreciation in prior years was less than 2% per year. Orange County raised assessments by more than 2% in a single year if the market value of a property remained flat after a taxpayer purchased the property, and then increased by more than 2% in a subsequent year. On December 12, 2002, the Orange County Superior Court (the “Superior Court”) certified the lawsuit as a class action. On January 30, 2003, the Superior Court held a hearing and ruled that the Orange County Tax Collector must notify the affected taxpayers of their right to file tax refund claims. On April 18, 2003, the Superior Court entered a Final Judgment which held that the current statewide practice of restoring property assessment, after a prior assessment reduction due to an economic downturn, based on the market value was invalid. On June 12, 2003, an appeal was filed with the Court of Appeal, Fourth District, Division Three. The Court of Appeal overturned the Superior Court’s Final Judgment on March 26, 2004. On July 21, 2004, the California State Supreme Court declined to review the Court of Appeal decision. The Respondent did not file

a petition for writ of certiorari to the U.S. Supreme Court. Thus, the Court's ruling in the Orange County Litigation applies only to the assessments involved in the case.

The Agency cannot predict whether there will be any future challenges to California's present system of property tax assessment and cannot evaluate the ultimate effect on the Agency's receipt of tax increment revenues should a future decision hold unconstitutional the method of assessing property.

### **Implementing Legislation**

Legislation enacted by the California Legislature to implement Article XIII A (Statutes of 1978, Chapter 292, as amended) provides that each county will levy the maximum tax permitted by Article XIII A, \$4.00 per \$100 assessed valuation (based on the traditional practice in California of using 25% of full cash value as the assessed value for tax purposes).

The apportionment of property taxes in fiscal years after 1978-79 has been revised pursuant to Statutes of 1979, Chapter 282 which provides relief funds from State moneys beginning in fiscal year 1978-79 and is designed to provide a permanent system for sharing State taxes and budget surplus funds with local agencies. Under Chapter 282, cities and counties receive about one-third more of the remaining property tax revenues collected under Proposition 13 instead of direct State aid. School districts receive a correspondingly reduced amount of property taxes, but receive compensation directly from the State and are given additional relief. Chapter 282 does not affect the derivation of the base levy (\$1.00 per \$100 taxable valuation) and the bonded debt tax rate.

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

### **Proposition 87**

Under State law prior to 1988, if a taxing entity increased its tax rate to obtain revenues to repay voter approved general obligation bonds, any redevelopment project area which included property affected by the tax rate increase would realize a proportionate increase in tax increment.

Proposition 87, approved by the voters of the State on November 8, 1988, requires that all revenues produced by a tax rate increase (approved by the voters on or after January 1, 1989) go directly to the taxing entity which increases the tax rate to repay the general obligation bonded indebtedness. As a result, redevelopment agencies no longer receive an increase in tax increment when taxes on property in the project area are increased to repay voter approved general obligation debt.

### **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.

**Penalties.** A 10% penalty is added to delinquent taxes which have been levied with respect to property on the secured roll. In addition, property on the secured roll on which taxes are delinquent is sold to the State 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 1½% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is deeded to the State and then 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 1½% per month accrues with respect to such taxes beginning the first day of the third month following the delinquency date.

**Delinquencies.** The valuation of property is determined as of January 1 each year and equal installments of taxes levied upon secured property become delinquent on the following December 10 and April 10. Taxes on unsecured property are due March 1 and become delinquent on the succeeding August 31.

**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 (March 1 was used as the lien date as of the enactment of Chapter 498; however, as discussed below, the lien date was changed by legislation enacted in 1995) 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 provides 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 lien date. To the extent such supplemental assessments occur within the Project Area, Tax Revenues may increase. As a result of legislation enacted in 1995 (SB 327 and SB 722, chaptered as Chapter 499 to 497, respectively), commencing as of January 1, 1997, the lien date for locally assessed property tax has been changed from March 1 to January 1; the initial change was implemented by the use of January 1, 1997 in place of March 1, 1997 as the lien date. The first day of January for each succeeding year shall be the lien date. Tax Increment Revenues resulting from supplemental assessments are not included in revenue projections of the Fiscal Consultant. See APPENDIX C—"FISCAL CONSULTANT'S REPORT—Section E—Tax Allocation and Disbursement—Property Tax Allocation Procedures."

### **Tax Collection Fees**

The State Legislature has authorized county auditors to determine property tax administration costs proportionately attributable to local jurisdictions and to submit invoices to the jurisdictions for such costs. Subsequent legislation specifically includes redevelopment agencies among the entities which are subject to a property tax administration charge. The projections of Tax Revenues pledged to the 2007 Bonds are net of such administrative costs. See Table 6 herein and see Table 8 in APPENDIX C—"FISCAL CONSULTANT'S REPORT."

### **Unitary Taxation of Utility Property**

AB 2890 (Statutes of 1986, Chapter 1457) provides that, commencing with fiscal year 1988-89, assessed value derived from State-assessed unitary property (consisting mostly of operational property owned by certain railroad and utility companies) is to be allocated county-wide as follows: (i) each tax rate area will

receive the same amount from each assessed utility it 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 is changed from March 1 to January 1.

AB 454 (Statutes of 1987, Chapter 921) further modifies Chapter 1457 regarding the distribution of tax revenues derived from property assessed by the State Board of Equalization. Chapter 921 provides for the consolidation of all State-assessed property, except for regulated railroad property, into a single tax rate area in each county. Chapter 921 further provides for a new method of establishing tax rates on State-assessed property and distribution of property tax revenues derived from State-assessed property to taxing jurisdictions within each county as follows: for revenues generated from the one percent tax rate, each jurisdiction, including redevelopment project areas, will receive a percentage up to 102% of its prior year State-assessed unitary revenue; and if county-wide revenues generated for unitary property are greater than 102% of the previous year's unitary revenues, each jurisdiction will receive a proportionate share of the excess unitary revenue generated from the application of the debt service tax rate to county wide unitary taxable value, further, each jurisdiction will receive a proportionate share of revenue based on the jurisdiction's annual debt service requirements and the proportionate of property taxes received by each jurisdiction from unitary property taxes. Railroads will continue to be assessed and revenues allocated to all tax rate areas where railroad property is sited.

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

#### **Appropriations Limitations: Article XIII B of the California Constitution**

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.

The California Legislature has 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 of California, including Section 33678 of the Redevelopment Law. The constitutionality of Section 33678 has been upheld in two California appellate court decisions, *Brown v. Community Redevelopment Agency of the City of Santa Ana* and *Bell Community Redevelopment Agency v. Woosley*. The plaintiff in *Brown* petitioned the California Supreme Court for a hearing of this case. The California Supreme Court formally denied the petition. On the basis of these court decisions, the Agency does not believe it is subject to Article XIII B and has not adopted an appropriations limit.

#### **Future Initiatives**

Article XIII A, Article XIII B and Proposition 62 were each adopted as measures that 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.*** Each year, the County determines the amount of property tax revenue to be levied in the Project Area for a given tax year and identifies the respective amounts due the Agency and the taxing entities represented in the base year.

The County's current practice is to pay redevelopment agencies 100 percent of the tax levy with no deduction for delinquencies, appeals, refunds or tax roll adjustments. This practice could change at any time and investors should assume taxes may be disbursed to the Agency based upon actual collections. Current tax payment practices by the County provide for payment to the Agency of Tax Revenues principally in two payments, occurring in January and May. Secured and unsecured reconciliations are made each fiscal year. At that time, adjustments to taxes and revenues attributable to changes in parcel value since the establishment of the prior roll are made. See APPENDIX C—"FISCAL CONSULTANT'S REPORT—Section E—Tax Allocation and Disbursement—Property Tax Allocation Procedures."

***County Collection Charge.*** Counties are authorized to charge redevelopment agencies for costs incurred in the assessment, collection and allocation of property tax revenues pursuant to SB 2557 (Chapter 466, Statutes of 1990). The Tax Revenues do not include such amounts. See APPENDIX C—"FISCAL CONSULTANT'S REPORT."

***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 projections of Tax Revenues by the Fiscal Consultant as shown here and in APPENDIX C—"FISCAL CONSULTANT'S REPORT," incorporate the Fiscal Year 2007-08 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 2007-08 Fiscal Year. Acquisition of property within the Project Area by public agencies may cause assessed values to decline, resulting in a reduction in Tax Revenues received by the Agency.

## **Certification of Agency Indebtedness**

A significant provision of the Redevelopment Law, Section 33675, was added by the Legislature in 1976, providing for the filing not later than the first day of October of each year with the county auditor, a statement of indebtedness certified by the chief fiscal officer of the redevelopment 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 and interest rate of 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 redevelopment 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 redevelopment agency's statement of indebtedness. The Section further provides that the statement of indebtedness is prima facie evidence of the indebtedness of the redevelopment 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 will involve only the amount of the indebtedness and not the validity of any contract or debt in connection with payments by such public agency pursuant thereto. An exception is made for payments to a public agency in connection with payment by such agency pursuant to a bond issue

which shall not be disputed in any action under the section. The 2007 Bonds should be entitled to the protection of that portion of the statute.

### **THE AUTHORITY**

The Moreno Valley Public Financing Authority was formed pursuant to the provisions of Articles 1 and 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code and a Joint Exercise of Powers Agreement, dated as of October 28, 1997 (the "Joint Powers Agreement"), by and between the City and the Agency. The Agency was activated on February 18, 1986, by City Ordinance No. 50. The Agency was activated pursuant to the Community Redevelopment Law of the State of California. The Authority was formed to assist the Agency and the City in the financing and refinancing of public capital improvements. The Authority is governed by a five-member board whose members are the same as the City Council of the City and the governing board of the Agency. The Authority has no employees and all staff work is done by Agency staff or by consultants to the Authority. The Authority has acted as a conduit issuer for the City for a variety of financings.

### **THE COMMUNITY REDEVELOPMENT AGENCY OF THE CITY OF MORENO VALLEY**

#### **Members and Staff**

The Agency was activated on February 18, 1986, with the adoption of Ordinance No. 50 pursuant to the Redevelopment Law. Members of the City Council serve as board members to the Agency. The City Council members are elected by district for 4-year overlapping terms. The board members of the Agency are listed below along with the years their terms expire.

<i>Name of Member</i>	<i>Term Expiration (November 30)</i>
William H. Batey II	2008
Bonnie Flickinger	2010
Richard A. Stewart	2010
Frank West	2008
Charles R. White	2008

Robert G. Gutierrez was appointed City Manager of the City on January 3, 2006. Prior to this appointment, Mr. Gutierrez was Assistant City Manager for the City of Pomona, California.

Robert D. Herrick was appointed City Attorney on February 1, 1994. Prior to this position, Mr. Herrick was an Assistant City Attorney for the City of Orange, California.

Rick C. Hartmann was hired as the Deputy City Manager on June 19, 2006. Prior to this position, Mr. Hartmann was the Community Development Director for the City of Highland where he managed the City of Highland's planning, building and safety, economic/redevelopment, park development code enforcement, water quality compliance and a variety of other activities.

Steven M. Chapman was hired as Director of Finance/City Treasurer on June 30, 1997. Prior to this position, Mr. Chapman was Finance Director for the City of Redlands.

Barry Foster was appointed Economic Development Director on September 24, 2005. Prior to this position, Mr. Foster was the Economic Development Director for the City of Rancho Mirage, California.

Chris A. Vogt, P.E. was hired as the Director of Public Works/City Engineer on May 15, 2006. Prior to this position, Mr. Vogt was the Director of Public Works/City Engineer for the City of Pomona from

September 2001 to May 2006 and was the Public Works Director/City Engineer for the City of La Quinta from 1996 to 2001.

Alice Reed was appointed City Clerk June 26, 2001. Prior to this position, she was employed in the City Attorney's Office in Moreno Valley.

Mitch Slagerman was appointed Redevelopment Manager on September 10, 2001. Prior to this position, Mr. Slagerman was the Senior Redevelopment Analyst for the City of Rancho Cucamonga, California.

Sue Maxinoski was appointed Special Districts Manager on April 9, 2007. Prior to this position, Ms. Maxinoski was the Special Districts Program Manager for the City of Moreno Valley, 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, including the right of eminent domain as to certain portions of the Project Area (but excluding detached single family dwelling units), 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.

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 2007 Bonds.

### **Factors Affecting Redevelopment Agencies Generally**

Other features of the 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 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.

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 2007-08.

### **Financial Statements**

Included in this Official Statement as Appendix B are the audited financial statements of the Agency for the year ended June 30, 2006 reproduced from the report thereon rendered by Mayer Hoffman McCann P.C. independent accountants for the Agency (“Agency Auditor”). No consent of the Agency Auditor has been obtained for the inclusion by the Agency of the audited financial statements of the Agency in this Official Statement. The Agency Auditor has not undertaken to update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by the Agency Auditor with respect to any event subsequent to its report for the Fiscal Year ended June 30, 2006.

The Agency anticipates audited financial statements for the Fiscal Year ending June 30, 2007 will be available by December 31, 2007. Assuming the 2007 Bonds are issued and the proceeds applied as described herein, the Agency does not anticipate that such audited financial statements will reflect any material deterioration of the financial position of the Agency. Copies of the audited financial statements for the Agency’s other Fiscal Years can be obtained at the office of the Finance Director/Treasurer at the offices of the Agency.

### **RISK FACTORS**

Matters discussed under this heading are among the risk factor associated with the 2007 Bonds; other risk factors are associated with the 2007 Bonds and investors should read this official statement in its entirety, including without limitation the discussion under the heading “RATINGS” as referenced under the heading “INTRODUCTION—Changes Since Date of Preliminary Official Statement” concerning ratings on various municipal bond insurers, and the appendixes hereto.

### **Reduction in Taxable Value**

Tax Increment Revenues allocated to the Agency are determined by the amount of incremental taxable value in the Project Area and the current rate or rates at which property in the Project Area is taxed. The reduction of taxable values of property in a project area caused by economic factors beyond the Agency’s control, such as a relocation out of a project area by one or more major property owners, successful appeals by property owners for a reduction in a property’s assessed value, blanket reductions in assessed value due to general reductions in property values or the complete or partial destruction of such property caused by, among other eventualities, an earthquake or other natural disaster, could cause a reduction in Tax Revenues securing the 2007 Bonds. Such reduction of Tax Revenues could have an adverse effect on the Agency’s ability to make timely payments of principal of and interest on the 2007 Bonds. The Project Area has previously experienced declines in assessed value, such as during the period from Fiscal Year 1995-96 to Fiscal Year 1998-99; see Appendix C—“FISCAL CONSULTANT’S REPORT.” Assessments on the unsecured roll which involve fixtures or equipment that could be moved from the Project Area constitute approximately 4.2% of the total assessed value of the Project Area for 2007-08. Such unsecured assessed valuation may be more susceptible to fluctuation from year to year than valuation reflected on the secured roll.

### **Natural and Man-Made Disasters**

The Project Area, like all California communities, may be subject to unpredictable seismic activity, fires, floods or other natural or man-made disasters. In the event of a severe earthquake, fire, flood or other disaster, there may be significant damage to both property and infrastructure in the Project Area. As a result, property owners may be unable or unwilling to pay their property taxes when due. In addition, the value of

land in the Project Area could be reduced in the aftermath of such a disaster. Such a reduction of assessed valuations could result in a reduction of the Tax Revenues that secure the 2007 Bonds.

The nearest known fault to Moreno Valley is the San Jacinto Fault, the most historically active fault zone in Southern California. The San Jacinto Fault crosses the southwest corner of the City and is outside the Project Area. Since 1986, there has been eight notable earthquakes in Southern California, each having a magnitude of five or greater on the Richter Scale. None of these resulted in injury or damage in the City. The City is within Seismic Zone 4 of the 1997 Uniform Building Code. According to the Division of Mines and Geology, the San Jacinto Fault is the only active fault in the City.

The southerly half of the City, which includes portions of the Project Area, is considered to be outside the 500-year floodplain, as shown on the Flood Insurance Rate Map (FIRM) dated March 18, 1996. The northerly portion of City is considered to be protected from the 100-year flood by a Federal flood protection system currently under construction. Upon certification of completion of this project by the U.S. Army Corps of Engineers, the Agency anticipates the revised FIRM will show the entire City to be free of flood risk.

### **Reduction in Inflationary Rate and Changes in Legislation; Further Initiatives**

As described in greater detail above under the caption “LIMITATIONS ON TAX REVENUES,” Article XIII A of the California Constitution provides that the full cash value base of real property used in determining taxable value may be adjusted from year to year to reflect the inflationary rate, not to exceed a two percent increase for any given year, or may be reduced to reflect a reduction in the consumer price index or comparable local data. Such measure is computed on a calendar year basis.

Article XIII A of the California Constitution, which significantly affected the rate of property taxation, was 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 alter the calculation of tax increment revenues, reduce the property tax rate, or broaden property tax exemptions. Future legislative reallocation of the 1% basic levy among the affected taxing entities could increase the taxes retained by certain taxing entities with a corresponding reduction in Tax Revenues. See the caption “LIMITATIONS ON TAX REVENUES—Property Tax Limitations—*Article XIII A.*”

### **Educational Revenue Augmentation Fund**

Tax Revenues received by the Agency may be reduced by specific legislative shifts in property tax allocations. The State budget for fiscal year 1993-94 transferred \$2.6 billion to school districts from cities, counties and other local governments, including redevelopment agencies. As part of the budget’s transfer of moneys to school districts, the State Legislature required redevelopment agencies to transfer approximately \$65 million to the Educational Revenue Augmentation Fund (“ERAF”) in both fiscal years 1993-94 and 1994-95. 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.

Faced with a projected \$23.6 billion budget gap for fiscal year 2002-03, the State Legislature adopted and the Governor signed AB 1768 requiring redevelopment agencies to pay \$75 million into ERAF. AB 1768 required the payment into ERAF in fiscal year 2002-03 only. As part of the overall legislation to enact the 2003-04 State Budget, the State enacted as urgency legislation, SB 1045, Chapter 260, Statutes of 2003 (“Chapter 260”) as part of the 2003-04 State Budget requiring redevelopment agencies to pay into ERAF in fiscal year 2003-04 an aggregate amount of \$135 million. Chapter 260 required the payment into ERAF in fiscal year 2003-04 only. Chapter 260 provides that one-half of an agency’s ERAF obligation is calculated based on the gross tax increment received by such agency and the other one-half of such agency’s ERAF obligation is calculated based on the net tax increment revenues (after any pass-through payments to other taxing entities), as such tax increment revenues are shown in Table 7 of the fiscal year 2002-03 Annual Report

of the California Controller. The Agency's ERAF obligation for fiscal year 2002-03 was approximately \$172,943 and for 2003-04 was approximately \$320,239.

On May 13, 2004, the Governor issued the May Revision to the Governor's Budget. The May Revision provided, in part, for an ERAF shift to be borne by redevelopment agencies in the amount of \$250 million statewide for each of 2004-05 and 2005-06. The obligation of the Agency under ERAF for fiscal year 2004-05 was \$609,304 and for fiscal year 2006-06 was \$682,410. There was no ERAF shift for 2006-07 and there is no ERAF shift for 2007-08.

Based upon the foregoing, investors should assume that there may be reductions in Tax Increment Revenues available to the Agency, which will in turn reduce those moneys available as Tax Revenues. The magnitude of such reductions cannot be quantified at this time, but it may be substantial and affect multiple years.

### **State Budget**

*The following information concerning the Agency's budgets has been obtained from publicly available information which the Agency believes to be reliable; however, the Agency does not guaranty the accuracy or completeness of this information and has not independently verified such information. Furthermore, it should not be inferred from the inclusion of this information in this Official Statement that the 2007 Bonds are payable from any funds of the State.*

***Economic Conditions in California.*** Since early 2001, the State has faced severe financial challenges, challenges which may continue for several years. The major forces involved in the State's economic downturn were sharp declines in the high technology, internet and telecommunications sectors, lower demand for exports, the effects of the events of September 11, rising unemployment levels and large stock market declines. The downturn resulted in a serious erosion of the State's tax revenues. A substantial portion of the tax revenue shortfall was attributable to a decline in personal income tax revenues, principally from reduced capital gains realizations and stock option income and increased unemployment. Although the State's tax revenues have rebounded since 2001, the State continues to face a structural budget imbalance where annual expenditures exceed annual revenues.

***2008 Budget.*** On August 24, 2007, Governor Schwarzenegger signed the Fiscal Year 2008 Budget (the "2008 Budget"). The 2008 Budget projects State General Fund revenues and transfers for Fiscal Year 2008 of \$105.6 billion and State General Fund expenditures of \$102.3 billion with an expected year-end reserve balance of approximately \$4.1 billion. The 2008 Budget represents a 6.5% increase from the 2007 budget. The 2008 Budget may be found at the website of the Department of Finance, [www.dof.ca.gov](http://www.dof.ca.gov), under the heading "California Budget."

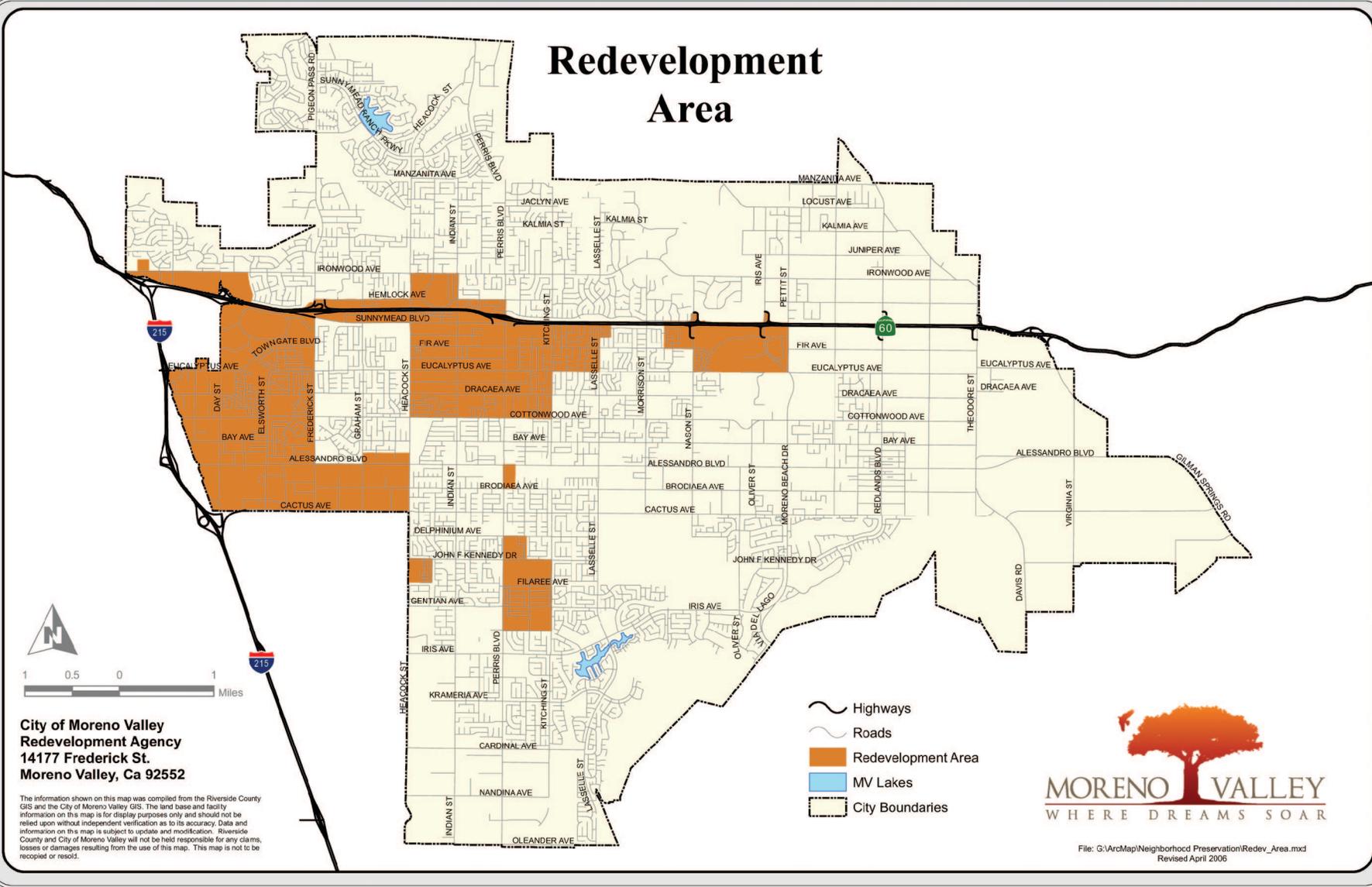
The California Legislative Analyst's Office (the "LAO") released its "Major Features of the 2007 California Budget" (the "Major Features Report") on August 31, 2007. The Major Features Report discusses operating shortfalls in the 2008 Budget and states that unlike the previous year's budget, the expenditures do not exceed revenues in the 2008 Budget. The Major Features Report goes on to state, however, that "[b]ased on the 2007-08 budget plan's policies ... the state would once again face operating shortfalls of more than \$5 billion in both 2008-09 and 2009-10." The LAO attributes this shortfall to the fact that many of the solutions enacted in the budget plan are of a one-time nature. The Major Features Report states that the 2008 Budget has proposed various solutions addressing the state's operating shortfalls, including solutions related to proposition 98, transportation, revenue assumptions, social services savings and governor's vetoes. The full text of the Major Features Report and other publications from the LAO can be viewed at the LAO website ([www.lao.ca.gov](http://www.lao.ca.gov)).

Agency currently believes that that the provisions of the 2008 Budget related to revenues of the Agency do not materially adversely affect the Agency.

***Potential Impact of Future Events.*** The Agency cannot predict what actions will be taken in future years by the State Legislature and the Governor to address the State's current or future budget deficits. Future State budgets will be affected by national and state economic conditions and other factors over which the Agency has no control. To the extent that the State budget process results in reduced revenues to the Agency, such reductions may have an adverse impact on the Agency to make payments on the Bonds.

The Agency cannot predict the outcome of pending or future legal challenges related to the State budget, or whether the State Legislature (or the voters through the initiative process) will enact any other legislation requiring shifts of sales tax, property tax or vehicle license fees to the State and/or to schools, in the current or future fiscal years and, if so, the effect on the revenues of the Agency. Given the level of the State of California's structural deficit, monies available to the Agency for payment on the Bonds may be reduced in the future as a result of State budget issues.

# Redevelopment Area



City of Moreno Valley  
 Redevelopment Agency  
 14177 Frederick St.  
 Moreno Valley, Ca 92552

The information shown on this map was compiled from the Riverside County GIS and the City of Moreno Valley GIS. The land base and facility information on this map is for display purposes only and should not be relied upon without independent verification as to its accuracy. Data and information on this map is subject to update and modification. Riverside County and City of Moreno Valley will not be held responsible for any claims, losses or damages resulting from the use of this map. This map is not to be recycled or resold.

- Highways
- Roads
- Redevelopment Area
- MV Lakes
- City Boundaries



File: G:\ArcMap\Neighborhood Preservation\Redev\_Area.mxd  
 Revised April 2006

## **THE MORENO VALLEY REDEVELOPMENT PROJECT**

### **General**

The Agency adopted the redevelopment plan for the Moreno Valley Redevelopment Project and the merged project area designated thereunder (the “Project Area”) by Ordinance No. 87-154 on December 29, 1987. As defined under the Indenture, “Redevelopment Plan” means the Redevelopment Plan for the Moreno Valley Redevelopment Project, together with any amendments thereof at any time duly authorized pursuant to the Redevelopment Law. See “INTRODUCTION—The City, the Agency and the Redevelopment Project” for a description of the Redevelopment Plan. The Project Area consists of approximately 4,676 acres and consists of commercial, industrial, housing and public land uses including the City’s Civic Center. There are pockets of vacant land within the Project Area.

### **Redevelopment Plan Purposes and Objectives; Activities**

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, including without limitation, recreational and other facilities incidental or appurtenant to them. Under the Redevelopment Plan, the Agency further proposes to eliminate the conditions of blight still existing in the Project Area and prevent their recurrence by providing for the alteration, improvement, modernization, reconstruction or rehabilitation of existing structures in the Project Area and by providing for open space types of uses, public and private buildings, structures, facilities, and improvements. The Redevelopment Plan further provides that the Agency further proposes to eliminate such conditions and prevent their recurrence by providing for the replanning or redesign or development of undeveloped areas and that the Agency proposes to promote: (i) the elimination and prevention of the spread of blight and deterioration and the conservation, rehabilitation and redevelopment of the Project Area; (ii) the promotion of new and continuing private sector investment within the Project Area; (iii) the achievement of an environment reflecting a high level of concern for architectural, landscape and urban design and land use principles; (iv) provision of interchange and transportation improvements; (v) retention and expansion of business activities; (vi) promotion of increased revenues to the City; (vii) the creation and development of local job opportunities and the preservation and expansion of the City’s existing employment base; (viii) improvement of environmental deficiencies, such as substandard traffic circulation patterns, inadequate water, sewer and storm drainage systems, insufficient commercial parking and utility deficiencies; (ix) improvement of the community’s supply of housing, including opportunities for low and moderate income households; (x) increase revenues for adequate public services and facilities, including but not limited to fire protection, parks and recreation, libraries, and bike and equestrian trails.

### **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 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.

The Redevelopment Plan provides that the Agency shall not establish any loans, advances or indebtedness to finance projects in the Project Area after December 29, 2007. The City may amend the Redevelopment Plan to eliminate such limitation. In such event, the Agency would be required to make payments to taxing agencies; this would have the effect of reducing Tax Revenues. Projections of Tax Revenues do not reflect the effect of such an amendment. See discussion below under the subheading “—Tax Sharing Statutes” and see APPENDIX C—“FISCAL CONSULTANT’S REPORT—Section G—Agency Obligations—*Contingent Liabilities.*”

The Agency is of the opinion that the limitations described herein under “Plan Limitations” will not impair its ability in the future to repay any obligation or indebtedness, including the 2007 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 at Table 6 herein and in APPENDIX C—“FISCAL CONSULTANT’S REPORT” take these expiration dates into account. It is possible that the Agency will consider and approve an amendment to one or more of the Plan Limitations; the effect of such amendment is not reflected in the projection of Tax Revenues at Table 6 herein or in the Fiscal Consultant’s Report. See also “—Tax Sharing Statutes” below.

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 covenanted in the Indenture to manage its fiscal affairs in a manner which ensures that it will have sufficient Tax Revenues available under the Plan Limitations in the amounts and at the times required to enable the Agency to pay the principal of and interest and premium (if any) on the Bonds when due. Without limiting the foregoing, the Agency has agreed in the Indenture that it shall calculate annually not later than June 30 each year, the aggregate amount of Tax Increment Revenues which it remains entitled to receive under the Plan Limitations for the Redevelopment Project. In the event that the aggregate amount of Tax Increment Revenues which the Agency is permitted to receive under the Plan Limitations for the Redevelopment Project, plus the amount then held on deposit in any fund or account which is set aside by the Agency to make its debt payments with respect to the Redevelopment Project and the earnings which are reasonably expected to accrue thereon, are reasonably estimated at any time to be less than one hundred and ten percent (110%) of the aggregate amount of annual debt payments remaining to be made with respect to such Redevelopment Project, 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) set aside with the Trustee or into a dedicated fund or account to be held by the Agency an amount of Tax Revenues which, together with earnings to be derived from the investment thereof, will be 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”). None of debt service on the 2007 Bonds is chargeable to such Housing Set-Aside Payments and Tax Revenues do not reflect an allocation of payments to amounts otherwise chargeable to the Low and Moderate Income Housing Fund. See APPENDIX C—“FISCAL CONSULTANT’S REPORT.” Parity Debt may be issued with a claim against Housing Set-Aside Payments to the extent set forth in the proceedings for such Parity Debt. See “SECURITY FOR THE 2007 BONDS—Pledge of Tax Revenues.” 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 Redevelopment Plan, 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 (i) pursuant to Section 33401 of the Redevelopment Law or (ii) which operates as a waiver of the Agency's right to receive Tax Revenues under the Redevelopment Plan, unless the Agency's obligations under such agreements are made expressly subordinate and junior to the Agency's obligations under the Indenture and the Bonds.

The Agency has entered into two Tax Sharing Agreements whereby portions of the taxes which would otherwise be allocated and paid to the Agency as described above are required to be paid to certain entities. Amounts paid under the Tax Sharing Agreements which are senior in right of payment are not Tax Revenues and, therefore, are not pledged to secure the 2007 Bonds. Table 8, at the column entitled "Net Tax Revenue" contained in APPENDIX C—"FISCAL CONSULTANT'S REPORT" shows the amount of projected Tax Revenues net of amounts payable under the Tax Sharing Agreements, and Table 6 hereof shows Tax Revenues projected to be available for debt service on the 2007 Bonds.

**The County Agreement.** The Agency entered into an agreement with the County of Riverside (the "County") dated as of December 15, 1987 (the "County Agreement"). The County Agreement provides: (1) from the first \$7,000,000 in tax increment revenues realized annually in respect to the Project Area, that portion of the tax increment which would have been paid to the County had the Redevelopment Plan not been adopted shall be allocated to the Agency; (2) during the effective life of the Redevelopment Plan, in each Fiscal Year in which the tax increment revenues exceed \$7,000,000, all of such excess, but not more than \$5,000,000 in any one year up to a maximum of \$75,000,000 in the aggregate, shall be allocated to the County; and (3) all tax increment revenues in excess of that described under clauses (1) and (2) above shall be allocated in equal portions to the Agency and the County. During 2007, the County unilaterally reduced the Tax Increment Revenues disbursed to the Agency based upon an amount which the County contended was due to the County for two prior years because Tax Increment Revenues had exceeded \$7,000,000 in 2003-04. The Agency disputes that the County was entitled to reduce payments to the Agency in 2007 based upon the County's claims as to prior years; the projections of Tax Revenues at Table 6 hereof do not assume any recoupment of such amounts.

The County Agreement contains provisions which the Agency believes should reduce the percentage of Tax Increment Revenues payable to the County from approximately 34% of Tax Increment Revenues to approximately 25% of Tax Increment Revenues; the County disputes this. The Agency has initiated litigation in July 2007 against the County seeking a judicial determination that the lower percentage should be used in determining payments to the County (*City of Moreno Valley, et al. v. County of Riverside*, Case No. 476473, Superior Court of California in and for the County of Riverside, the "Petition"). Projections of Tax Revenues available for debt service on the 2007 Bonds as set forth in Table 6 hereof reflect the higher percentage asserted by the County. In the event the Petition is resolved in favor of the Agency, the amount of payments to the County would be reduced and the Tax Revenues would increase accordingly.

**The Flood Agreement.** The Agency has entered into an agreement with the Riverside County Flood Control and Water Conservation District ("Flood") and the City dated as of April 12, 1988 (the "Flood Agreement"). The Flood Agreement provides: (1) commencing with fiscal year 1988-89 and continuing for each fiscal year until the total annual Tax Increment Revenue for a fiscal year is \$12 million, the County Auditor-Controller shall allocate to the Agency one hundred percent (100%) of Tax Increment Revenues that

would have been paid to Flood had the Redevelopment Plan not been adopted (the “Flood Share”); (2) commencing with the first fiscal year in which the total annual Tax Increment is \$12 million, fifty percent (50%) of the Flood Share shall be disbursed to Flood by the County Auditor-Controller and fifty percent (50%) is to be disbursed by the County Auditor-Controller to the Agency; and (3) it is the intent of the parties to the Flood Agreement that over the effective life of the Redevelopment Plan, the cumulative amount of the Flood Share paid to the Agency shall not exceed the cumulative total of amounts approved by the Agency for certain improvements described in the Flood Agreement. Through Fiscal Year 2004-05, the Agency had received a cumulative total of \$4,828,695 as the Flood Share. In 2005-06 and 2006-07, the Agency received \$668,253 and \$868,244, respectively, as the Flood Share; approximately 50% of those two amounts are being held in reserve by the Agency and may be payable to Flood in the future. Total annual Tax Increment exceeded \$12 million in 2005-06. The Agency intends to cause the cumulative amount of the Flood Share paid to the Agency to be used for flood control facilities and improvements. In the event such revenues are not so applied, the amounts available to the Agency under the Flood Agreement may be reduced which would, in turn, reduce Tax Revenues.

For the 2006-07 Fiscal Year, Flood accounted for approximately 5.1% of Tax Increment Revenues from the Project Area, see APPENDIX C—“FISCAL CONSULTANT’S REPORT.”

### **Tax Sharing Statutes**

The Tax Sharing Statutes set forth a requirement for payments of tax increment revenues to be made in prescribed amounts to taxing entities in the event certain amendments are made to a project area, such as amendments to a redevelopment plan to add territory. 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. The time during which the Agency may incur debt as to the Project Area expires as of December 29, 2007. It is possible that the Agency will consider and approve extending the time during which the Agency may incur debt as to the Project Area. In the event an amendment to the time to incur debt as to the Project Area is approved, or if another amendment described in this paragraph is approved, payments would be required to be made under the Tax Sharing Statutes. In general, the amounts to be paid pursuant to Tax Sharing Statutes 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, 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 City 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.

Prior to incurring any loans, bonds, or other indebtedness, except loans or advances from the City, the 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. No such subordinations have been requested in connection with the 2007 Bonds.

### **Claims of School District and Community College District to Certain Payments**

Section 33676 of the Redevelopment Law used to allow taxing entities to elect to claim for themselves (and thus exclude from tax increment revenues available to an agency) the portion of tax increment revenues attributable to inflationary growth as determined under Section 110.1(f) of the Revenue and Taxation Code. School districts and community college districts were directed by Section 33676 to make such election pursuant to a specific procedure prior to adoption of any redevelopment plan or amendment, unless a tax sharing agreement existed between the redevelopment agency and the taxing entity.

In the case of *Santa Ana Unified School District v. Orange County Development Agency*, the State Court of Appeals upheld the determination of a trial court that where the County of Orange had adopted a redevelopment project in 1986 and a school district which served the project area had failed to submit a resolution electing to receive a proportionate share of property tax revenues attributable to inflationary growth as determined under Section 110.1(f) of the Revenue and Taxation Code, the school district should nevertheless be deemed entitled to receive such revenues under Health and Safety Code Section 33676 as in effect as of 1986. Section 33676 has been the subject of amendments both before and after 1986 but was in substantially the same form between 1984 and 1993. In connection with the Redevelopment Plan, which was adopted on December 29, 1987, the Agency has no agreement with the Moreno Valley Unified School District (the “School District”), the Riverside Community College District or the Riverside Superintendent of Schools, and none of those three entities submitted a resolution electing to receive payments under Health and Safety Code section 33676. If one or more of those entities were to receive additional moneys by virtue of the principle set forth in the *Santa Ana Unified School District* case in connection with the Project Area, this would reduce the Tax Revenues available to the Agency. In October 2007, the School District informed the Agency that it has notified the County Auditor-Controller that it is electing to receive payments under the *Santa Ana Unified School District* case prospectively. The impact of such payments is described in APPENDIX C—“FISCAL CONSULTANT’S REPORT—Section G—Agency Obligations.”

The School District has also indicated that it intends to initiate discussions with the Agency regarding payments as to an unspecified period of time preceding the delivery of the School District’s notice to the County Auditor-Controller. In the event the Agency is required to make payments to the School District for a period preceding its notice to the County Auditor-Controller, this could reduce amounts of Tax Revenues.

### **Prior and Senior Obligations Encumbering Tax Increment Revenues**

***Towngate Bonds.*** Starting in 1986, the City of Moreno Valley and the Agency entered into a series of agreements with third parties concerning the development of a shopping mall. As part of the effort to develop the area’s infrastructure and to encourage development of the shopping mall, the City approved the formation of a community facilities district, Community Facilities District No. 87-1, in 1987, and issued bonds to pay for infrastructure improvements, as described below.

The City of Moreno Valley, Towngate Community Facilities District No. 87-1 issued the following bonds: (i) \$9,000,000 City of Moreno Valley Towngate Community Facilities District No. 87-1 Special Tax Bonds, Series A, which were refunded by the 1994 Series A Bonds; (ii) \$12,000,000 City of Moreno Valley Towngate Community Facilities District No. 87-1 Special Tax Bonds, Series B, which were refunded by the 1994 Series B Bonds; and (iii) the 1993 Series C Bonds. The Agency has previously made and delivered promissory notes which are payable from Tax Increment Revenues generated from a portion of the Project Area and which evidence the Agency's obligation to make certain payments, subject to various limitations based upon the special taxes levied in connection with the 1994 Series A Bonds (and the bonds refunded thereby), the 1994 Series B Bonds (and the bonds refunded thereby) and, subject to additional limitations, the 1993 Series C Bonds.

The 1994 Series A Bonds, the 1994 Series B Bonds and the 1993 Series C Bonds are scheduled to be refunded with proceeds of bonds ("City CFD Refunding Bonds") being issued by the City on or about the same date as the issuance of the 2007 Bonds. The obligation of the Agency to make payments from Tax Increment Revenues with respect to the City CFD Refunding Bonds will remain senior and prior to the Bonds. The amounts shown at Table 6 hereof under the column heading "Less Obligation of Tax Increment Under Prior Obligations" reflect such issuance of the City CFD Refunding Bonds. In the event City CFD Refunding Bonds are not issued, the Agency will continue to make payments as to the 1994 Series A Bonds and the 1994 Series B Bonds and will continue to be subject to its existing obligations with respect to the 1993 Series C Bonds. The Agency has covenanted that it will not enter into additional obligations which would be payable by a pledge of Tax Increment Revenues senior to the Bonds.

**Auto Mall Bonds.** In March 2000, Community Facilities District No. 3 of the City of Moreno Valley issued the Auto Mall Bonds, which are currently outstanding in the amount of \$4,185,000 and are scheduled to mature on September 1, 2030.

In connection with the Auto Mall Bonds, the Agency has committed to make payments under the Auto Mall Bonds from Tax Increment Revenues generated from the approximately 58.5 acre portion (the "Auto Mall Parcels") of the Project Area which constitutes what is commonly known as the Moreno Valley Auto Mall. It is unclear whether the Agency's obligations with respect to the Auto Mall Bonds or contractual obligations in connection therewith constitute a senior pledge from such Tax Increment Revenues as generated. However, the projections of Tax Revenues available for debt service on the 2007 Bonds treat such amounts as senior obligations. See Table 6 herein. That portion of scheduled annual debt service for the Auto Mall Bonds to be borne by the Agency from Tax Increment Revenues is limited to these tax increment revenues generated by the Auto Mall Parcels less a pro rata reduction for payments to the Agency's Low and Moderate Income Housing Fund and payments under the County Agreement. Payments by the Agency from tax increment revenues under the Auto Mall Bonds are expected to be approximately \$136,000 per year, with the highest amount for any such year estimated to be \$161,750 in 2029. The amount of approximately \$1,200,000 is on deposit with the trustee for the Auto Mall Bonds in the reserve account. If payments of principal and interest on the Auto Mall Bonds are made to and including September 1, 2010, and provided that the City and the Agency make payment of their respective amounts of debt service for the Auto Mall Bonds, the principal amount which will thereupon remain outstanding under the Auto Mall Bonds will be approximately \$1,325,000. The City has indicated to the Agency that the City intends to call the Auto Mall Refunding Bonds at the second optional call date therefor, March 1, 2011. In such event, additional Tax Revenues ranging from approximately \$117,000 in 2012 to approximately \$161,750 in 2029 will become available to the Agency.

#### **Other Agreements Providing for Payments by the Agency; Other Agency Agreements**

In connection with the development of the Moreno Valley Mall at TownGate, the Agency executed and delivered the following three promissory notes: (i) a Promissory Note dated December 11, 1992 in the original principal amount of \$3,000,000, in favor of TownGate Regional Mall Company; (ii) a Promissory Note dated December 11, 1992 in the original principal amount of \$6,000,000, in favor of TownGate Regional Mall Company; and (iii) a Promissory Note dated February 1, 1993 in the original principal amount of

\$4,000,000, in favor of TownGate Regional Mall Company (collectively, the “Mall Notes”). The Mall Notes are payable from a portion of the Tax Increment Revenues received by the Agency from the Project Area. As of June 1, 2007, the outstanding balance under the Mall Notes was \$16,575,940. The Mall Notes have been purchased by the City of Moreno Valley. The City has subordinated its right to receive payments under the Mall Notes to the Bonds.

The Agency, pursuant to various agreements with the City, is indebted to the City in the approximate amount of \$33,006,700, inclusive exclusive of the Mall Notes and all other agreements between the City and the Agency; all obligations of the Agency to the City are subordinate to the Bonds.

The Agency has entered into various agreements with private parties for the development, redevelopment or improvements to housing units to be available at affordable housing cost to households of limited income. The obligations of the Agency to make payment under such agreements do not provide for any pledge of Tax Revenues, but instead provide for payment using moneys from the Agency’s Low and Moderate Income Housing Fund (which do not constitute part of Tax Revenues) or moneys under the federal HOME program.

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

The Project Area base year assessed valuation is \$568,836,168. The following table presents a six-year summary of Project Area assessed valuation for the fiscal years 2001-02 to 2007-08 and gross tax increment revenues for fiscal years 2001-02 to 2006-07.

**Table 2**  
**Community Redevelopment Agency of the City of Moreno Valley**  
**Moreno Valley Redevelopment Project**  
**Historical Assessed Valuation and Tax Increment Revenue**

<i>Fiscal Year</i>	<i>Secured Assessed Valuation<sup>(1)</sup></i>	<i>Unsecured Assessed Valuation<sup>(1)</sup></i>	<i>Total Assessed Valuation<sup>(1)</sup></i>	<i>Percentage of Increase in Assessed Valuation</i>	<i>Incremental Assessed Valuation</i>	<i>Gross Tax Increment Received<sup>(2)</sup></i>	<i>Housing Set-Aside</i>	<i>Senior Pass Through Amounts<sup>(3)</sup></i>	<i>Amounts Payable by Agency Under Prior Obligations Payable from Tax Increment Revenue<sup>(4)</sup></i>	<i>County Administration Fee</i>	<i>Tax Revenues<sup>(4)</sup></i>	<i>Percentage of Increase in Tax Revenues</i>
2001-02	\$ 999,130,454	\$ 87,749,319	\$ 1,086,879,773	4.01%	\$ 518,043,605	\$ 5,390,495	\$ 1,078,099	\$ ---	\$ 1,882,204	\$ 113,793	\$ 2,316,399	-
2002-03	1,050,040,854	91,517,583	1,141,558,437	5.03	572,722,269	6,078,769	1,215,754	---	1,848,906	47,172	2,966,937	28.08%
2003-04	1,172,735,581	81,779,571	1,254,515,152	9.89	685,678,984	7,594,035	1,518,807	453,619	2,166,814	98,766	3,356,029	13.11
2004-05	1,354,300,359	86,103,007	1,440,403,366	14.82	871,567,619	10,181,729	2,036,346	2,986,624	2,445,084	116,478	2,597,197	-22.61
2005-06	1,609,867,931	82,139,820	1,692,007,751	17.47	1,123,171,583	13,348,153	2,669,631	6,269,729	2,022,664	107,333	2,278,796	-12.26
2006-07	1,992,800,281	85,503,873	2,078,304,154	22.83	1,509,467,980	17,325,288	3,465,058	8,411,115	1,900,321	140,517	3,408,277	49.56
2007-08	2,499,096,528	109,570,400	2,608,666,928	25.52	2,039,830,760	N/A <sup>(5)</sup>	N/A <sup>(5)</sup>	N/A <sup>(5)</sup>	N/A <sup>(5)</sup>	N/A <sup>(5)</sup>	N/A <sup>(5)</sup>	N/A

(1) Values reported for the Project Area by the County Auditor-Controller each year.

(2) Includes all tax increment revenues received, including supplemental and miscellaneous revenues.

(3) Includes pass through payments to the County and to Flood under Tax Sharing Agreements. Amounts payable to the Flood Control District for 2005-06 and 2006-07 have not yet been collected by the District.

(4) Includes (a) amounts paid by the Agency from Tax Increment Revenue for the Auto Mall Bonds; and (b) approximate amounts paid by the Agency as debt service on the 1994 Series A Bonds and the 1994 Series B Bonds. No amounts were paid by the Agency during the period shown on the 1993 Series C Bonds.

(5) Projected amounts are shown in Table 6.

Source: DHA Consulting, excepting as to "Amounts Payable by Agency Under Prior Obligations payable from Tax Increment Revenue" for which the Agency is the source.

The Project Area is subject to various limitations upon the receipt of Tax Increment Revenues by the Agency. See the caption “THE MORENO VALLEY REDEVELOPMENT PROJECT—Plan Limitations.” The Fiscal Consultant’s Report includes tax collections for fiscal years 2002-03 through 2006-07 and projections of Tax Increment Revenues for the Project Area. See APPENDIX C—“FISCAL CONSULTANT’S REPORT.”

The following table shows the ten largest taxpayers on the secured roll in the Project Area for the 2007-08 assessment year. The top ten taxpayers represent approximately 16.5% of the total assessed value for the Project Area. See the caption “RISK FACTORS—Reduction in Taxable Value.”

**Table 3**  
**Community Redevelopment Agency of the City of Moreno Valley**  
**Moreno Valley Redevelopment Project**  
**Top Ten Taxable Taxpayers**  
**Based Upon 2007-08 Assessed Valuation**

<i>Assessee</i>	<i>Use</i>	<i>Total 2007-08</i>	<i>% of Total Value</i>	<i>% of Incremental Value</i>
Dav G Stonegate LLC	Legacy Apartments	\$ 88,368,000	3.4%	4.3%
Towngate Lot 12 Apartments	Santa Rosa Apartments	69,148,000	2.7	3.4
Ridge Moreno Valley	Centerpointe Business Park	55,883,829	2.1	2.7
BRE Properties	BRE Apartments	41,600,664	1.6	2.0
Homart Newco Two Inc.	Retail	40,000,000	1.5	2.0
Cactus Commerce	Warehouse	34,727,089	1.3	1.7
TSC	Retail	31,488,311	1.2	1.5
Broadstone at Valley View	Apartments	30,945,196	1.2	1.5
Walmart	Retail	20,782,543	0.8	1.0
Lowes HIW Inc.	Retail	\$ 16,536,084	0.6	0.8
<b>TOTAL MAJOR ASSESSEES</b>		<u>429,479,716</u>	<u>16.4%</u>	<u>20.9%</u>
<b>TOTAL PROJECT AREA VALUE</b>		<b>\$2,608,666,928</b>		

Source: Riverside County Tax Records and DHA Consulting.

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. Land uses within the Project Area are shown below.

**Table 4**  
**Moreno Valley Redevelopment Agency**  
**Moreno Valley Redevelopment Project**  
**Land Use By Assessed Valuation**  
**For Fiscal Year 2007-08**

<i>Land Use Category</i>	<i>Number of Assessments</i>	<i>2007-08 Assessed Valuation</i>	<i>Percentage</i>
Residential	5,754	\$ 1,450,234,022	55.59%
Commercial	314	544,736,339	20.88
Industrial	57	175,182,990	6.72
Recreational	5	32,232,597	1.24
Institutional	28	11,474,812	0.44
Vacant Land	715	145,357,488	5.57
SBE Non-Unitary <sup>(1)</sup>	-	-	0.00
Unsecured <sup>(1)</sup>	983	109,597,900	4.20
Possessory Interest <sup>(1)</sup>	269	10,316,800	0.40
Other	530	129,533,980	4.96
<b>Total</b>	<b><u>8,655</u></b>	<b><u>\$ 2,608,666,928</u></b>	<b><u>100.00%</u></b>

<sup>(1)</sup> Indicates the number of assessments in this category but actually represent duplicate parcel counts. The total number of taxable parcels in the Project Area equals 7,403.

Source: Riverside County Tax Records and DHA Consulting.

The Fiscal Consultant's Report projects that development within the Project Area that is recently completed or was under construction as of September 2007 will add approximately \$120.9 million in assessed value onto the County roll for the Project Area in the 2008-09 fiscal year and approximately \$10.8 million in 2009-10. See APPENDIX C—"FISCAL CONSULTANT'S REPORT."

### Assessment Appeals

The Fiscal Consultant has reviewed assessment appeals filed by Project Area taxpayers, as reported by the County of Riverside to determine the potential impact that pending appeals may have on the projected Tax Revenues. According to County data, one resolved appeal and twenty-four outstanding appeals with valuations totaling \$80.0 million are projected by the Fiscal Consultant to reduce the assessed value in the Project Area by \$12.1 million. See APPENDIX C—"FISCAL CONSULTANT'S REPORT." The outcome of the appeals may differ from the results reflected in the projections of the Fiscal Consultant.

## TAX REVENUES AND ANNUAL DEBT SERVICE

### Current Year Assessed Valuation

Following is the 2007-08 assessed value for the Moreno Valley Redevelopment. Incremental taxable value is shown under the caption “THE MORENO VALLEY REDEVELOPMENT PROJECT—Historical Valuations and Tax Increment Revenues.” See also APPENDIX C—“FISCAL CONSULTANT’S REPORT.”

**Table 5**  
**Community Redevelopment Agency of the City of Moreno Valley**  
**Moreno Valley Redevelopment Project**  
**2007-08 Assessed Valuation**

	<i>Assessed Valuation</i>
<b>Secured<sup>(1)</sup></b>	\$ 2,499,096,528
<b>Unsecured</b>	<u>109,570,400</u>
<b>GRAND TOTAL</b>	<u>\$ 2,608,666,928</u>

<sup>(1)</sup> Secured values include any state assessed non-unitary utility property and include the effect of homeowner exemptions.  
Source: County of Riverside Tax Records.

The Fiscal Consultant’s Report projects that development within the Project Area that is recently completed or was under construction as of September 2007 will add approximately \$120.9 million of assessed value in 2008-09 and \$10.8 million in 2009-10.

### Projected Tax Revenues and Debt Service Coverage

The following table shows projections of Tax Increment Revenues assuming annual assessed valuation growth of 1%. See APPENDIX C—“FISCAL CONSULTANT’S REPORT” for a further description of the assumptions and limiting conditions relative to these projections. Based on expected debt service on the 2007 Bonds, the Agency expects annual Tax Revenues, based upon 2007-08 assessed values and without assuming any growth, to equal or exceed 1.25 times Annual Debt Service on the 2007 Bonds.

Table 6 shows coverage based upon assumed annual assessed valuation growth of 1% per year.

**Table 6**  
**Community Redevelopment Agency of the City of Moreno Valley**  
**Moreno Valley Redevelopment Project**  
**Projected Tax Revenues**  
**000s Omitted**

<i>Fiscal Year</i>	<i>Taxable Valuation<sup>(1)</sup></i>	<i>Incremental Valuation<sup>(2)</sup></i>	<i>Tax Increment Revenue<sup>(1),(3)</sup></i>	<i>Less 33676<sup>(4)</sup> Pass Thru</i>	<i>Less Housing Set-Aside<sup>(5)</sup></i>	<i>Less Tax Sharing Agreement Payments<sup>(6)</sup></i>	<i>Less County Admin. Charge<sup>(7)</sup></i>	<i>Adjusted Tax Revenue<sup>(7),(8)</sup></i>	<i>Less Obligation of Tax Increment Under Prior Obligations<sup>(7),(8)</sup></i>	<i>Tax Revenues Available for Debt Service</i>	<i>2007 Series A Debt Service</i>	<i>Combined Debt Service Coverage<sup>(9)</sup></i>
2007-08	\$2,608,667	\$2,039,831	\$20,448	\$ 944	\$3,901	\$10,267	\$181	\$5,154	\$1,479	\$3,675	\$2,174	141.1%
2008-09	2,742,833	2,173,997	21,789	1,004	4,157	11,007	193	5,428	1,472	3,956	2,178	148.7
2009-10	2,780,323	2,211,487	22,164	1,066	4,220	11,213	197	5,469	1,471	3,998	2,183	149.7
2010-11	2,807,409	2,238,573	22,435	1,128	4,261	11,362	199	5,484	1,394	4,090	2,258	150.2
2011-12	2,834,766	2,265,929	22,708	1,192	4,303	11,513	201	5,498	1,393	4,105	2,259	150.5
2012-13	2,862,396	2,293,560	22,985	1,257	4,346	11,665	204	5,513	1,394	4,119	2,260	150.9
2013-14	2,890,302	2,321,466	23,264	1,324	4,388	11,819	206	5,526	1,402	4,124	2,251	151.3
2014-15	2,918,488	2,349,651	23,546	1,391	4,431	11,975	209	5,540	1,406	4,134	2,248	151.6
2015-16	2,946,955	2,378,119	23,830	1,461	4,474	12,132	211	5,553	1,403	4,150	2,250	152.0
2016-17	2,975,707	2,406,871	24,118	1,531	4,517	12,290	214	5,566	1,406	4,160	2,245	152.5
2017-18	3,004,746	2,435,910	24,408	1,603	4,561	12,450	217	5,578	1,409	4,169	2,245	152.6
2018-19	3,034,076	2,465,240	24,702	1,676	4,605	12,612	219	5,589	1,410	4,179	2,240	153.1
2019-20	3,063,699	2,494,863	24,998	1,751	4,649	11,195	222	7,181	1,418	5,763	2,234	196.6
2020-21	3,093,619	2,524,783	25,297	1,828	4,694	10,440	224	8,111	1,417	6,694	2,238	221.9
2021-22	3,123,837	2,555,001	25,599	1,905	4,739	10,606	227	8,122	392	7,730	3,261	222.4
2022-23	3,154,358	2,585,522	25,904	1,985	4,784	10,775	230	8,133	396	7,735	3,254	222.7
2023-24	3,185,184	2,616,348	26,213	2,066	4,829	10,945	233	8,141	146	7,995	3,508	222.8
2024-25	3,216,318	2,647,482	26,524	2,148	4,875	11,116	235	8,149	150	7,999	3,502	223.2
2025-26	3,247,764	2,678,928	26,838	2,233	4,921	11,289	238	8,157	153	8,004	3,498	223.5
2026-27	3,279,524	2,710,688	27,156	2,319	4,968	11,464	241	8,165	155	8,010	3,499	223.5
2027-28	3,311,602	2,742,766	27,477	2,406	5,014	11,641	244	8,172	156	8,016	3,495	223.8
2028-29	3,344,000	2,775,164	27,801	2,496	5,061	11,820	247	8,178	162	8,016	3,490	223.9
2029-30	3,376,723	2,807,886	28,128	2,587	5,108	12,000	249	8,183	161	8,022	3,490	224.1
2030-31	3,409,772	2,840,936	28,459	2,680	5,156	12,182	252	8,188	0	8,188	3,650	224.3
2031-32	3,443,152	2,874,316	28,792	2,775	5,204	12,366	255	8,192	0	8,192	3,652	224.3
2032-33	3,476,866	2,908,030	29,129	2,872	5,252	12,552	258	8,196	0	8,196	3,652	224.4
2033-34	3,510,917	2,942,081	29,470	2,970	5,300	12,740	261	8,199	0	8,199	3,651	224.6
2034-35	3,545,309	2,976,473	29,814	3,071	5,349	12,929	264	8,201	0	8,201	3,653	224.5
2035-36	3,580,045	3,011,208	30,161	3,174	5,398	13,121	268	8,202	0	8,202	3,653	224.6
2036-37	3,615,127	3,046,291	30,512	3,278	5,447	13,314	271	8,202	0	8,202	3,655	224.4
2037-38	3,650,561	3,081,725	30,866	3,385	5,496	13,509	274	8,202	0	8,202	3,654	224.5

(1) Property Tax Revenues for years subsequent to 2007-08 are projected based on 2007-08 assessed values reported by the County, with adjustments for have been reduced for assessment appeals and increased for a 1.0% trend and new development that was under construction and/or completed but not yet reflected on the tax roll as of August 2007. Revenues shown for years prior to 2007-08 are based on actual tax receipts. See Fiscal Consultant's Report.

(2) Taxable valuation less Base Year valuation of \$568,836,168.

(3) Calculated at a 1.0% tax rate, plus \$49,196 in unitary revenue. See Fiscal Consultant's Report.

(4) Payments to the school districts are assumed to be required commencing in the 2007-08 fiscal year pursuant to a 2001 court case referred to as the *Santa Ana* case. Per an attorney general's opinion these payments are not required to count as tax increment revenue and therefore are not subject to the housing set-aside requirement.

(5) The Housing Set-Aside obligation for the Project Area has been calculated based on tax increment revenues, less the 33676 Pass Thru amounts. See Note 4 above.

(6) Estimated payments due to the County and the Flood Control District pursuant to the terms of tax sharing agreements between the Agency and those taxing entities. See "Agency Obligations" section in the Fiscal Consultant's Report for additional information. The amount calculated as due is based on gross tax increment receipts, without offset for the 33676 payments.

(7) See Fiscal Consultant's Report. Amounts shown reflect scheduled debt service for bonds that refund the 1994 Series A Bonds, the 1994 Series B Bonds and, to the extent payable with Tax Increment Revenues, the 1993 Series C Bonds. Amounts shown do not include amounts for administration of community facilities district.

(8) Includes scheduled Debt Service on Auto Mall Bonds and scheduled debt service for bonds that refund the 1994 Series A Bonds, the 1994 Series B Bonds and, to the extent payable from Tax Increment Revenues, the 1993 Series C Bonds at rates established in connection with approved refundings of such bonds.

(9) Based on Adjusted Tax Revenue over the sum of 2007 Series A Debt Service and Debt Service Under Prior Obligations.

Source: DHA Consulting, excepting for amounts shown under the column headings "Less Obligation of Tax Increment Under Prior Obligations," "Tax Revenues Available for Debt Service," "2007 Series A Debt Service" and "Combined Debt Service Coverage," for which the Agency is the source.

## 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, interest and original issue discount on the 2007 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 2007 Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest and original issue discount on the 2007 Bonds will be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative maximum taxable liability of such corporations.

The difference between the issue price of a 2007 Bond (the first price at which a substantial amount of the 2007 Bonds of a maturity are to be sold to the public) and the stated redemption price at maturity with respect to such 2007 Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bondowner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bondowner will increase the Bondowner's basis in the applicable 2007 Bond. The amount of original issue discount with respect to the 2007 Bonds that accrues to a 2007 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, and is exempt from State of California personal income tax.

Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of interest and original issue discount on the 2007 Bonds is based upon certain representations of fact and certifications made by the Agency, the Underwriter and others and is subject to the condition that the Agency complies with all requirements of the Code that must be satisfied subsequent to the issuance of the 2007 Bonds to assure that interest and original issue discount on the 2007 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 2007 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2007 Bonds. The Agency has covenanted to comply with all such requirements.

It is possible that subsequent to the issuance of the 2007 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 2007 Bonds or the market value of the 2007 Bonds. No assurance can be given that subsequent to the issuance of the Bonds such changes or interpretations will not occur. On May 21, 2007, the U.S. Supreme Court agreed to review a Kentucky state court decision, in the matter of *Kentucky v. Davis*, on the issue of whether the U.S. Constitution commerce clause precludes states from giving more favorable tax treatment to state and local government bonds issued within that state than the tax treatment given bonds issued outside that state. The outcome of this or any similar case cannot be predicted, but the ultimate result could be a change in the treatment for state tax purposes of interest on the 2007 Bonds. If the *Kentucky v. Davis* decision is affirmed by the United States Supreme Court, states such as California may be required to eliminate the disparity between the income tax treatment of out-of-state tax-exempt obligations and the income tax treatment of in-state tax-exempt obligations, such as the 2007 Bonds. The impact of such a United States Supreme Court decision may also affect the market price for, or the marketability of the 2007 Bonds. Prospective purchasers of the 2007 Bonds should consult their tax advisors regarding this matter.

The amount by which a 2007 Bond Owner's original basis for determining loss on sale or exchange in the applicable 2007 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 Bond Owner's basis in the applicable 2007 Bond (and the amount of tax-exempt interest received with respect to the 2007 Bonds), 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 2007 Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2007 Bond to the Owner. Purchasers of the 2007 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 2007 Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2007 Bonds might be affected as a result of such an audit of the 2007 Bonds (or by an audit of similar bonds).

Bond Counsel’s opinion 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 2007 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 effect on the exclusion from gross income of interest (and original issue discount) on the 2007 Bonds for federal income tax purposes 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 the interest (and original issue discount) on the 2007 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 2007 Bonds and the accrual or receipt of interest (and original issue discount) with respect to the 2007 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 2007 Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2007 Bonds.

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

#### **FISCAL CONSULTANT**

The Agency has retained the firm of DHA Consulting to act as Fiscal Consultant for the Agency with respect to the Project Area. As part of its duties, the Fiscal Consultant has prepared a Fiscal Consultant’s Report concerning the 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 C.

#### **UNDERWRITING**

The 2007 Bonds are being initially purchased from the Authority by E. J. De La Rosa & Co., Inc., as Underwriter. The original purchase price paid for the 2007 Bonds is \$42,598,404.05 (the par amount of the 2007 Bonds, less a net original issue discount of \$374,655.95 and less Underwriter’s discount of \$521,940.00). The Underwriter intends to offer the 2007 Bonds to the public initially at the interest rates and prices set forth on the cover page of this Official Statement. Such prices may subsequently change without any requirement of prior notice.

#### **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 March 1 in each year commencing March 1, 2008 (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 D—"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).

### **RATINGS**

Standard and Poor's Ratings Services ("S&P"), is expected to assign the 2007 Bonds a rating of "AAA", with the understanding that upon delivery of the 2007 Bonds, a policy insuring the payment when due of principal of and interest on the 2007 Bonds will be issued by Ambac Assurance Corporation. In addition, S&P has assigned an underlying rating of "A-" to the 2007 Bonds. Such ratings reflect only the views of such organization and any desired explanation of the significance of such ratings may be obtained from S&P. 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 ratings will continue for any given period of time or that any rating will not be revised downward or withdrawn entirely by the rating agency, if in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2007 Bonds.

S&P has indicated that it is currently updating its analysis of the collateralized debt obligations of asset-backed securities ("ABS CDOs") insured by the financial guaranty industry, as well as the potential implications for its ratings on various municipal bond insurers. Such updated capital adequacy analysis is understood by the Agency to be in light of recent rating actions with respect to ABS CDOs having subprime mortgage-backed securities exposure. A possible result of such analysis may be that one or more of the financial guarantors being reviewed may no longer meet S&P's "AAA" capital guidelines. Were that to occur, the insurer financial strength ("IFS") rating of such financial guarantors could be placed on "Credit Watch Negative" and if adequate corrective action is not taken, the IFS rating of such financial guarantors (and therefore the rating on securities guaranteed by such financial guarantors, such as the 2007 Bonds) from S&P could be downgraded. Further information concerning this matter should be obtained from S&P.

### **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 2007 Bonds, to contest the validity of the 2007 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 2007 Bonds when due.

### **LEGAL MATTERS**

The legality of the issuance of the 2007 Bonds is subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel. A copy of its opinion will be substantially in the form set forth in Appendix F herein. Certain legal matters will be passed upon for the Underwriter by its counsel, Best Best & Krieger, LLP and for the Agency by its General Counsel, Robert D. Herrick, Esq.

### **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 Finance Director have been duly authorized by the Agency.

COMMUNITY REDEVELOPMENT AGENCY OF THE  
CITY OF MORENO VALLEY

By: /s/ Steven M. Chapman  
Finance Director

## APPENDIX A

### SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

*The following is a summary of certain provisions of 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. All capitalized terms not defined in the body of the Official Statement have the meanings set forth in the Indenture.*

#### DEFINITIONS

**“Additional Allowance”** has the definition provided therefor in the Indenture.

**“Agency”** means the Community Redevelopment Agency of the City of Moreno Valley, a public body corporate and politic duly organized and existing under the Redevelopment Law.

**“Annual Debt Service”** means, for each 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.

**“Auto Mall Agreement”** means that certain agreement entitled “Amended and Restated Agreement to Provide for the Refinancing and Restructuring of Community Facilities District No. 2 (Moreno Valley Auto Mall) of the City of Moreno Valley, the Implementation of the Moreno Valley Auto Mall Participation Agreement and the Release of Claims” dated as of March 7, 2000, by and among the City Community Facilities District No. 2 (Moreno Valley Auto Mall) of the City of Moreno Valley; Community Facilities District No. 3 of the City of Moreno Valley (Auto Mall Refinancing); the Agency; Diamond Chevrolet, Inc.; Moreno Valley Imports, Inc.; Moreno Valley Pontiac GMC Buick, Inc.; Moreno Valley Motors, Inc.; and Auto Mall Resolution, LLC. The Auto Mall Agreement is on file with the City as a public record.

**“Auto Mall Bonds”** means the \$8,075,000 Community Facilities District No. 3 of the City of Moreno Valley (Auto Mall Refinancing) Special Tax Bonds, Series 2000.

**“Beneficial Owner”** means (a) when used with respect to a 2007 Bond held in book-entry form, the person or entity whose name is shown on the records of a Participant, pursuant to the arrangements for book-entry determination of ownership applicable to the Securities Depository, as the beneficial owner of the 2007 Bond, and (b) when used with respect to a 2007 Bond held in certificated form, the registered owner of the 2007 Bond.

**“Bond Counsel”** means (a) Stradling Yocca Carlson & Rauth, a Professional Corporation, or (b) any other attorney or firm of attorneys appointed or approved in writing by 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 Insurance Policy”** means the municipal bond new issue insurance policy issued by the Bond Insurer that guarantees payment of the principal of and interest on the 2007 Bonds as provided therein.

**“Bond Insurer”** means Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company, or any successor thereto.

**“Bond Law”** means the provisions of Articles 10 and 11 of Chapter 3 of Part 1 of Division 2, Title 5 of the California Government Code as in effect on the Closing Date together with all amendments thereto.

**“Bond Year”** means any twelve-month period beginning on August 2 in any year and extending to the next succeeding August 1, both dates inclusive; except that the first Bond Year shall begin on the Closing Date and end on August 1, 2008 provided for purposes of the Indenture, Bond Year means such bond year identified in the Tax Certificate.

**“Bonds”** means, collectively, the 2007 Bonds and any Parity Debt.

**“Business Day”** means a day of the year (other than a Saturday or Sunday) on which banks in California, or the city or cities where the Office of the Trustee is located, are not required or permitted to be closed, and on which the Federal Reserve banking system is open.

**“Certificate of the Agency”** means a certificate in writing signed by the Chair, Executive Director, Deputy Executive Director, Finance Officer or Secretary of the Agency, or any other officer of the Agency duly authorized by the Agency for that purpose.

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

**“Closing Date”** means the date on which the 2007 Bonds are delivered by the Agency to the Original Purchaser.

**“Continuing Disclosure Certificate”** means the Continuing Disclosure Certificate entered into as of the date of the Indenture by the Agency relative to the Original Purchaser’s obligations under Rule 15c2-12 of the Securities and Exchange Commission, as provided pursuant to the Indenture.

**“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 2007 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, fees and charges for preparation, execution and safekeeping of the 2007 Bonds and any other cost, charge or fee in connection with the original issuance of the 2007 Bonds.

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

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

**“County Agreement”** meant an agreement dated as of December 15, 1987, by and among the City, the Agency, and the County of Riverside.

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

**“Defeasance Securities”** means any of the following, or any combination thereof: (i) cash, (ii) direct non-callable obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America, to which direct obligation or guarantee the full faith and credit of the United States of America has been pledged, Refcorp interest strips, CATS, TIGRS, STRPS, or pre-refunded municipal bonds rated AAA by S&P or Aaa by Moody’s or any combination of the foregoing), (iii) the obligations listed in the Indenture of the definition of Permitted Investments (excluding (b)(vi) therein), and (iv) and other securities approved in writing by the Bond Insurer.

“**DTC**” means The Depository Trust Company and any successor to it or any nominee of it.

“**DTC Participant**” has the meaning given to that term in the Indenture.

“**DTC System**” has the meaning given to that term in the Indenture.

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

“**Federal Securities**” means any direct obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America, provided, that the full faith and credit of the United States of America must be pledged to any such direct obligation or guarantee.

“**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.

“**Flood District Agreement**” means an agreement dated as of April 12, 1988 by and among the Riverside County Flood Central and Water Conservation District, the Agency and the City.

“**Guaranty Agreement**” means an agreement by that name by and between the Agency and the Bond Insurer in connection with the Surety Bond, to be executed and delivered concurrent with the delivery of the Surety Bond.

“**Indenture**” means the Indenture of Trust by and between the Agency and the Trustee, as amended or supplemented from time to time pursuant to any supplemental indenture entered into pursuant to the provisions of the Indenture.

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

“**Independent Redevelopment Fiscal Consultant**” means any consultant or firm of such consultants appointed by or acceptable to the Agency and who, or each of whom: (a) is judged by the Agency to have substantial expertise in matters relating to the collection, estimation and projection of Tax Revenues or otherwise with respect to the financing of redevelopment projects; (b) is in fact independent and not under domination of the Agency; (c) does not have any substantial interest, direct or indirect, with the Agency, including but not limited to acting as a financial advisor or underwriter or in a similar capacity in connection with the issuance of Bonds, and (d) is not connected with the Agency as an officer or employee of the Agency, but who may be regularly retained to make reports to the Agency.

“**Indirect Participant**” has the meaning given to that term in the Indenture.

“**Information Services**” means national information services that disseminate securities redemption notices; or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other services providing information with respect to called bonds as the Agency may designate in a Request of the Agency delivered to the Trustee.

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

**“Interest Payment Date”** means, so long as any of the 2007 Bonds remain unpaid, February 1 and August 1 of each year, commencing February 1, 2008.

**“Letter of Representations”** has the meaning given to that term in the Indenture.

**“Low and Moderate Income Housing Fund”** means the Low and Moderate Income Housing Fund created by the Agency in accordance with the Redevelopment Law.

**“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 Agency meets the requirements of the Indenture for the issuance of Parity Debt at the time of such release, taking the released proceeds into account.

**“Moody’s”** means Moody’s Investors Service, of New York, New York, and its successors.

**“1994 Indenture”** means a Bond Indenture dated as of May 1, 1994, by and between the City and U.S. Trust Company, N.A., which has been succeeded as trustee thereunder by Wells Fargo Bank, National Association.

**“1994 Series A Bonds”** means the City of Moreno Valley Towngate Special Tax Refunding Bonds, Series A authorized by and Outstanding pursuant to the 1994 Series A Indenture.

**“1994 Series A Trustee”** means Wells Fargo Bank, National Association, as successor to U.S. Trust Company, N.A., as trustee for the 1994 Series A Bonds under the 1994 Indenture.

**“1994 Series B Bonds”** means the City of Moreno Valley Towngate Community Facilities District No. 87-1 Special Tax Bonds, Series B authorized by and Outstanding pursuant to the 1994 Indenture.

**“1994 Series B Trustee”** means Wells Fargo Bank, National Association, as successor to U.S. Trust Company, N.A., as trustee for the 1994 Series B Bonds under the 1994 Indenture.

**“Nominee”** means (a) initially, Cede & Co. as nominee of DTC, and (b) any other nominee of the Depository designated pursuant to the Indenture.

**“Office”** means the trust office of the Trustee at 707 Wilshire Boulevard, 17<sup>th</sup> Floor, Los Angeles, California 90017 or such other place or places as may be designated by the Trustee from time to time in written notice filed with the Agency.

**“Original Purchaser”** means E. J. De La Rosa & Co., Inc., as original purchaser of the 2007 Bonds.

**“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 2007 Bond, the person in whose name the ownership of such 2007 Bond shall be registered on the Registration Books.

**“Parity Debt”** means any bonds, notes, loans, advances or other indebtedness issued or incurred by the Agency on a parity with the 2007 Bonds pursuant to the Indenture.

**“Participant”** means a broker-dealer, bank or other financial institution for which DTC holds Bonds as Securities Depository.

**“Permitted Investments”** means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested in the Indenture:

A. The following obligations to be used as Permitted Investments for all purposes, including defeasance investments in refunding escrow accounts:

(1) Cash (insured at all times by the Federal Deposit Insurance Corporation),

(2) Obligations of, or obligations guaranteed as to principal and interest by, the United States of America or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the United States of America including:

- U.S. treasury obligations
- All direct or fully guaranteed obligations
- Farmers Home Administration
- General Services Administration
- Guaranteed Title XI financing
- Government National Mortgage Association (GNMA)
- State and Local Government Series

Any security used for defeasance must provide for the timely payment of principal and interest and cannot be callable or prepayable prior to maturity or earlier redemption of the rated debt (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date).

B. The following obligations to be used as Permitted Investments for all purposes other than defeasance investments in refunding escrow accounts:

(1) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:

- Export-Import Bank
- Rural Economic Community Development Administration
- U.S. Maritime Administration
- Small Business Administration
- U.S. Department of Housing & Urban Development (PHAs)

- Federal Housing Administration
- Federal Financing Bank

(2) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

- Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC).
- Obligations of the Resolution Funding Corporation (REFCORP)
- Senior debt obligations of the Federal Home Loan Bank System
- Senior debt obligations of other government sponsored agencies approved by the Bond Insurer

(3) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P, and maturing not more than 360 calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);

(4) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1+" by S&P and which matures not more than 270 calendar days after the date of purchase;

(5) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P;

(6) Pre-refunded municipal obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(A) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Moody's or S&P or any successors thereto; or

(B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph A(2) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant or firm of such accountants, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate.

(7) Municipal obligations rated "Aaa/AAA" or general obligations of States with a rating of "A2/A" or higher by both Moody's and S&P.

(8) Investment agreements approved in writing by the Bond Insurer (supported by appropriate opinions of counsel);

(9) County or State-administered pooled investment funds in which the School District is statutorily permitted or required to invest to the extent that any amounts are deposited by the Trustee into such funds and the Trustee shall have direct access to such fund;

(10) The Local Agency Investment Fund of the State, created pursuant to Section 16429.1 of the California Governmental Code, to the extent the Trustee is authorized to register such investments in its own name;

(11) The City of Moreno Valley Investment Fund;

(12) other forms of investments (including repurchase agreements) approved in writing by the Bond Insurer.

C. The value of the above investments shall be determined as follows:

(1) For the purpose of determining the amount in any fund, all Permitted Investments credited to such fund shall be valued at fair market value. The Trustee shall determine the fair market value based on accepted industry standards and from accepted industry providers. Accepted industry providers shall include but are not limited to pricing services provided by Financial Times Interactive Data Corporation, Merrill Lynch, Citigroup Global Markets Inc., Bear Stearns, or Lehman Brothers.

(2) As to certificates of deposit and bankers' acceptances, the face amount thereof, plus accrued interest thereon; and

(3) As to any investment not specified above, the value thereof established by prior agreement among the Issuer, the Trustee, and Bond Insurer.

**"Plan Limitations"** means the limitations, if any, as may be amended from time to time, contained or incorporated in the Redevelopment Plan on (a) the aggregate principal amount of bonded indebtedness payable from tax increment 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, (c) the period of time for establishing or incurring indebtedness payable from tax increment revenues, (d) the period of time for receiving tax increment revenues for any purpose, and (e) the time limit on the effectiveness of the Redevelopment Plan, established pursuant to Sections 33333.2, 33333.4, 33333.6 or 33334.1 of the Redevelopment Law, as applicable.

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

**"Prior Obligations"** means the obligations of the Agency payable from Tax Increment under: (i) the 1994 Series A Bonds (or bonds which refund 1994 Series A Bonds); (ii) the 1994 Series B Bonds (or bonds which refund 1994 Series B Bonds); (iii) the 1993 Series C Bonds (or bonds which refund 1993 Series C Bonds); and (iv) the Auto Mall Bonds.

**"Project Area"** means the area included in Ordinance No. 87-154 of the City adopted on December 29, 1987.

**"Project Costs"** means (subject to the provisions of the Indenture and the Tax Certificate) all costs of financing the Redevelopment Project which are paid from moneys on deposit in the Redevelopment Fund, including but not limited to:

(i) all costs required to be paid to any person in connection with the acquisition, construction and improvement of any public improvements located in or of benefit to the Redevelopment

Project including costs incurred in connection with the acquisition of land, easements, rights of way and other interests in real property, costs of construction of such improvements, landscaping, utilities and other incidental costs, and costs of preliminary work such as for design, engineering, architectural, consultant and legal services;

(ii) administrative costs of the Agency incurred in connection with the redevelopment of the Project Area;

(iii) all costs of acquiring property for any redevelopment purposes of the Agency in connection with the Redevelopment Project, including land to be developed for commercial or other private uses, which costs shall include deposits required to be made into court in connection with any judicial proceedings to acquire such property;

(iv) amounts required to be paid to the City or any other public agency in connection with the adoption of the Redevelopment Plan or otherwise in connection with the redevelopment of the Project Area;

(v) all financing costs incurred in connection with the redevelopment of the Project Area and the financing thereof, including but not limited to Costs of Issuance and interest on obligations of the Agency incurred in connection with the redevelopment of the Project Area;

(vi) any sums required to reimburse the Agency for advances made for any of the above items or for any other costs incurred and for work done which are properly chargeable to the acquisition, construction, improvement or equipping of property within or of benefit to the Project Area; and

(vii) any other costs which are lawfully incurred by the Agency with respect to the redevelopment of the Project Area, for which Agency funds are permitted to be expended under the Redevelopment Law and consistent with the Tax Certificate.

**“Rating Agency”** means Moody’s, S&P or any nationally recognized rating agency then maintaining a rating on the 2007 Bonds.

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

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

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

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

**“Redevelopment 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 Moreno Valley Redevelopment Project, together with all amendments thereof at any time duly authorized pursuant to the Redevelopment Law.

**“Redevelopment Project”** means the redevelopment project described in the Redevelopment Plan.

**“Registration Books”** means the records maintained by the Trustee pursuant to the Indenture for the registration and transfer of ownership of the 2007 Bonds.

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

**“Request of the Agency”** means a request in writing signed by the Chair, Executive Director, Finance Director 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 the date of any calculation by the Agency, the least of (a) Maximum Annual Debt Service, (b) 125% of average Annual Debt Service on the Bonds, or (c) 10% of the original principal amount of the Bonds; provided however that the Reserve Requirement shall be computed without regard for portions of Parity Debt which remain as deposits in escrow funds. If at the time of calculation of the Reserve Requirement there are two (2) or more reserve accounts established with respect to the 2007 Bonds and any Parity Debt, then the amounts deposited in such reserve accounts may be aggregated for purposes of calculating compliance with the Reserve Requirement.

**“S&P”** means Standard and Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., or its successor.

**“Securities Depository”** means initially, The Depository Trust Company, New York, New York, and its successors and assigns and any replacement securities depository appointed under the Indenture.

**“Series C Bonds”** means the City of Moreno Valley, Community Facilities District 87-1 (Towngate) Improvement Area No. 1, Special Tax Bonds authorized by and outstanding pursuant to the Series C Indenture.

**“Series C Indenture”** means a Bond Indenture dated as of April 1, 1993, by and between the City and Bank of America National Trust and Savings Association, Los Angeles, California which has been succeeded by Wells Fargo Bank, National Association, as trustee thereunder.

**“Series C Trustee”** means Wells Fargo Bank, National Association, Los Angeles, California, as successor to Bank of America National Trust and Savings Association, Los Angeles, California, as trustee for the Series C Bonds.

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

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

**“State”** means the State of California.

**“Subordinate Debt”** means any loans, advances, contracts or 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 resolution, agreement or other instrument which amends, supplements or modifies the Indenture and which has been duly adopted or entered into by the Agency; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

**“Surety Bond”** means the debt service reserve fund Surety Bond issued by the Bond Insurer guaranteeing certain payments into the Reserve Account with respect to the 2007 Bonds as provided therein and subject to the limitations set forth therein.

**“Tax Certificate”** means the Tax Certificate of the Agency executed and delivered on the Closing Date to establish certain facts and expectations with respect to the 2007 Bonds.

**“Tax Code”** means the Internal Revenue Code of 1986, as in effect on the date of issuance of the 2007 Bonds or (except as otherwise referenced in the Indenture) as it may be amended to apply to obligations issued on the date of issuance of the 2007 Bonds, together with applicable proposed, temporary and final regulations promulgated, and applicable official public guidance published, under the Tax Code (including the Tax Regulations).

**“Tax Increment”** means all taxes annually allocated to the Agency with respect to the Project Area following the Closing Date within the Plan Limitations pursuant to Article 6 of Chapter 6 (commencing with Section 33670) of the Redevelopment Law and Section 16 of Article XVI of the Constitution of the State and as provided in the Redevelopment Plan, including all payments, subventions and reimbursements (if any) to the Agency specifically attributable to ad valorem taxes lost by reason of tax exemptions and tax rate limitations.

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

**“Tax Revenues”** means (a) Tax Increment and (b) as to such percentage of annual debt service on any issue of Parity Debt as will be specified in the proceedings for such Parity Debt, all amounts of Tax Increment required to be deposited into the Low and Moderate Income Housing Fund in any year pursuant to Section 33334.2 of the Redevelopment Law, but excluding (i) all amounts of such taxes which are payable to entities other than the Agency pursuant to the Tax Sharing Agreements to the extent that such Tax Sharing Agreements create a prior lien on such taxes and such entities other than the Agency have not subordinated their right to receive payments; (ii) all amounts of such taxes which are payable to entities other than the Agency pursuant to the Tax Sharing Statutes to the extent that such Tax Sharing Statutes create a prior lien on such taxes and such entities other than the Agency have not subordinated their right to receive payments; (iii) all amounts of such taxes required to be deposited into the Low and Moderate Income Housing Fund in any fiscal year pursuant to Section 33334.2 of the Redevelopment Law; (iv) amounts of Tax Increment required to be paid by Agency during such Bond Year under the Prior Obligations; and (v) amounts, if any, payable by the State to the Agency under and pursuant to the provisions of Chapter 1.5 of Part 1 of Division 4 of Title 2 (commencing with Section 16110) of the Government Code of the State.

**“Tax Sharing Agreements”** means the County Agreement and the Flood District Agreement.

**“Tax Sharing Statutes”** means Section 33607.7 of the Redevelopment Law and, to the extent incorporated pursuant to such Section 33607.7, Section 33607.5 of the Redevelopment Law.

“**Trustee**” means Wells Fargo Bank, National Association, as trustee under the Indenture, or any successor thereto appointed as trustee under the Indenture in accordance with the provisions of the Indenture.

“**2007 Bonds**” means the Community Redevelopment Agency of the City of Moreno Valley 2007 Tax Allocation Bonds, Series A authorized by and at any time Outstanding pursuant to the Indenture.

## **TERMS OF 2007 BONDS**

### Terms of the 2007 Bonds.

Interest on the 2007 Bonds shall be payable from the Interest Payment Date next preceding the date of authentication thereof unless (i) a 2007 Bond is authenticated on or before an Interest Payment Date and after the close of business on the preceding Record Date, in which event it shall bear interest from such Interest Payment Date, (ii) a 2007 Bond is authenticated on or before the first Record Date, in which event interest thereon shall be payable from the Closing Date, or (iii) interest on any 2007 Bond is in default as of the date of authentication thereof, in which event interest thereon shall be payable from the date to which interest has been paid in full, payable on each Interest Payment Date. Interest shall be paid on each Interest Payment Date to the persons in whose names the ownership of the 2007 Bonds is registered on the Registration Books at the close of business on the immediately preceding Record Date, except as provided below. Interest on any 2007 Bond which is not punctually paid or duly provided for on any Interest Payment Date shall be payable to the person in whose name the ownership of such 2007 Bond is registered on the Registration Books at the close of business on a special record date for the payment of such defaulted interest to be fixed by the Trustee, notice of which shall be given to such Owner not less than ten (10) days prior to such special record date.

Interest on the 2007 Bonds shall be paid by check of the Trustee mailed by first class mail, postage prepaid, on each Interest Payment Date to the Owners of the 2007 Bonds at their respective addresses shown on the Registration Books as of the close of business on the preceding Record Date; provided, however, that at the written request of the Owner of 2007 Bonds in an aggregate principal amount of at least \$1,000,000, which written request is on file with the Trustee as of any Record Date, interest on such 2007 Bonds shall be paid on each succeeding Interest Payment Date by wire transfer in immediately available funds to such account within the United States of America as shall be specified in such written request. The principal of and premium (if any) on the 2007 Bonds shall be payable in lawful money of the United States of America by check of the Trustee upon presentation and surrender thereof at the Office of the Trustee.

### Redemption of 2007 Bonds.

(a) Partial Redemption of 2007 Bonds. In the event only a portion of any 2007 Bond is called for redemption, then upon surrender thereof the Agency shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the Agency, a new 2007 Bond or Bonds of the same interest rate and maturity, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the 2007 Bond to be redeemed.

(b) Effect of Redemption. From and after the date fixed for redemption, if funds available for the payment of the redemption price of and interest on the 2007 Bonds so called for redemption shall have been duly deposited with the Trustee, such 2007 Bonds so called shall cease to be entitled to any benefit under the Indenture other than the right to receive payment of the redemption price and accrued interest to the redemption date, and no interest shall accrue thereon from and after the redemption date specified in such notice.

(c) Manner of Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the 2007 Bonds, the Trustee shall select the 2007 Bonds to be redeemed by lot in any manner which the Trustee in its sole discretion shall deem appropriate and fair. For purposes of such

selection, all 2007 Bonds shall be deemed to be comprised of separate \$5,000 denominations and such separate denominations shall be treated as separate 2007 Bonds which may be separately redeemed.

Transfer of 2007 Bonds. Any 2007 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 2007 Bond to the Trustee at its Office 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 2007 Bonds pursuant to the Indenture. Whenever any 2007 Bond or Bonds shall be surrendered for transfer, the Agency shall execute and the Trustee shall authenticate and deliver to the transferee a new 2007 Bond or Bonds of like maturity and aggregate principal amount. The Trustee may refuse to transfer, under the provisions of the Indenture, any 2007 Bonds selected by the Trustee for redemption pursuant to the Indenture.

Exchange of 2007 Bonds. The 2007 Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of 2007 Bonds of other authorized denominations and of the same maturity. Trustee shall collect any tax or other governmental charge on the exchange of any 2007 Bonds pursuant to the Indenture. The Trustee may refuse to exchange, under the provisions of the Indenture, any 2007 Bonds selected by the Trustee for redemption pursuant to the Indenture.

Registration Books. The Trustee will keep or cause to be kept, at its Office, sufficient records for the registration and registration of transfer of the 2007 Bonds, which shall at all times during normal business hours, and upon reasonable notice, be open to inspection by the Agency; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on the Registration Books, 2007 Bonds as provided in the Indenture.

2007 Bonds Mutilated, Lost, Destroyed or Stolen. If any 2007 Bond shall become mutilated, the Agency, at the expense of the Owner of such 2007 Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new 2007 Bond of like tenor in exchange and substitution for the 2007 Bond so mutilated, but only upon surrender to the Trustee of the 2007 Bond so mutilated. Every mutilated 2007 Bond so surrendered to the Trustee shall be canceled by it and delivered to, or upon the order of, the Agency. If any 2007 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 and deliver, a new 2007 Bond of like tenor in lieu of and in substitution for the 2007 Bond so lost, destroyed or stolen. The Trustee may require payment of a sum not exceeding the actual cost of preparing each new 2007 Bond issued under the Indenture and of the expenses which may be incurred by the Trustee in connection therewith. Any 2007 Bond issued under the provisions of the Indenture in lieu of any 2007 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 2007 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 2007 Bonds issued pursuant to the Indenture.

Notwithstanding any other provision of the Indenture, in lieu of delivering a new 2007 Bond for which principal has or is about to become due for a 2007 Bond which has been mutilated, lost, destroyed or stolen, the Trustee may make payment of such 2007 Bond in accordance with its terms upon receipt of indemnity as provided above.

#### **DEPOSIT AND APPLICATION OF PROCEEDS OF 2007 BONDS; ISSUANCE OF PARITY DEBT**

Costs of Issuance Fund. There is established a separate fund to be known as the "Costs of Issuance Fund", which shall be held by the Trustee in trust. The moneys in the Costs of Issuance Fund shall be used and withdrawn by the Trustee from time to time to pay the Costs of Issuance upon submission of a Request of

the Agency stating (a) the person to whom payment is to be made, (b) the amount to be paid, (c) the purpose for which the obligation was incurred, (d) that such payment is a proper charge against the Costs of Issuance Fund, and (e) that such amounts have not been the subject of a prior Request of the Agency. On the earlier of (i) January 1, 2008, or (ii) the date of receipt by the Trustee of a Request of the Agency therefor, all amounts (if any) remaining in the Costs of Issuance Fund shall be withdrawn therefrom by the Trustee and transferred to the Agency for deposit to the Redevelopment Fund. Thereafter, the Costs of Issuance Fund shall be closed.

Redevelopment Fund. There is established a separate fund to be held by the Agency, to be known as the "Redevelopment Fund." Amounts on deposit in the Redevelopment Fund shall be derived solely from the proceeds of the 2007 Bonds which are deposited therein on the Closing Date. The Agency shall disburse moneys from the Redevelopment Fund for the purpose of paying the Project Costs upon submission of a Request of the Agency stating (a) the person to whom such disbursement is to be made, (b) the amount to be disbursed, (c) the purpose for which such disbursement is being made, (d) that such disbursement is a proper charge against the Redevelopment Fund, and (e) that such disbursement has not been the subject of a prior Request of the Agency.

Issuance of Parity Debt. The Agency may issue Parity Debt for its redevelopment purposes provided that it satisfies the following conditions prior to the delivery of the Parity Debt.

(a) The Agency shall certify that it is and shall be in compliance with all covenants in the Indenture.

(b) The Parity Debt shall be on such terms and conditions as may be set forth in a supplemental resolution and indenture, which shall provide for (i) bonds substantially in accordance with the Indenture, (ii) the deposit of moneys into the Reserve Amount in an amount sufficient (which may be represented by a surety bond as permitted by the Indenture) together with the balance of the Reserve Account, to equal the Reserve Requirement on all 2007 Bonds and Parity Debt expected to be outstanding, and (iii) the disposition of surplus Tax Revenues in substantially the same manner as the Indenture.

(c) Receipt of a certificate or opinion of an Independent Redevelopment Fiscal Consultant showing:

(i) For the current and each future Bond Year the Annual Debt Service for each such Bond Year with respect to all 2007 Bonds and Parity Debt reasonably expected to be outstanding following the issuance of the Parity Debt; and

(ii) The Tax Revenues to be received by the Agency in each Fiscal Year during the term of the Parity Debt, assuming no growth in assessed value, but taking into account all Plan Limits and other factors which would cause a reduction in Tax Revenues in any future Fiscal Year, plus at the option of the Agency, the Additional Allowance. "Additional Allowance" is defined as the amount of Tax Revenues which, as shown in the report of an Independent Redevelopment Consultant, are estimated to be receivable by the Agency in the next succeeding Fiscal Year as a result of increases in the assessed valuation in the next succeeding Fiscal Year as a result of increases in the assessed valuation of taxable property in the Project Area due to (i) new construction for which building permits have been issued by the City pursuant to which construction has commenced, or (ii) transfer of ownership or any other interest in real property which has been recorded but which is not then reflected on the tax roll; and

(iii) That the Tax Revenues referred to in (ii) above are at least equal to 1.25 times Annual Debt Service for each Bond Year on all 2007 Bonds and Parity Debt to be outstanding following the issuance of the Additional Bonds (excluding debt service with respect to any portion of the Parity Debt deposited in an escrowed proceeds account and interest held in such account); and

(iv) That, so long as the Prior Obligations are outstanding, the sum of (x) Tax Revenues and (y) scheduled debt service payable from Tax Increment under the Prior Obligations shall be at least equal to (z) 1.25 times Annual Debt service on the Bonds, any outstanding Parity Debt, Parity Debt to be outstanding following the issuance of Parity Debt (excluding debt service with respect to any portion of the Parity Debt deposited in an escrowed proceeds account), and scheduled debt service payable from Tax Increment under the Prior Obligations for each Bond Year; and

(d) The Supplemental Indenture providing for the issuance of such Parity Debt shall provide that interest thereon shall not be payable on any dates other than February 1 and August 1, and principal thereof shall be payable on August 1 in any year in which principal is payable.

(e) In the event that such Parity Debt shall bear interest at a variable rate (which, in the event the 2007 Bonds are insured, shall only be permitted with the prior approval of the Bond Insurer), for purposes of meeting the requirements of the preceding clause (c), such Parity Debt shall be assumed to bear interest at a fixed rate equal to the maximum rate permitted to be borne by such Parity Debt under the indenture of trust or Supplemental Indenture providing for the issuance thereof.

(f) Any certifications requiring computations establishing that debt service coverage is sufficient to authorize to support the issuance of Additional Bonds or that requisite debt service savings are available to support the issuance of refunding bonds shall, in all cases, be evidenced by a certificate of an Independent Redevelopment Consultant.

(g) No additional bonds, notes certificates, contracts or any other obligations payable from Tax Revenues shall be issued by the Agency unless no Event of Default shall have occurred and be continuing with respect to the 2007 Bonds.

(h) The Agency shall deliver to the Trustee a Certificate of the Agency (which may be based in part on an opinion of Bond Counsel or other counsel to the Agency acceptable to the Bond Insurer) certifying that the conditions precedent to the issuance of such Parity Debt set forth in the foregoing paragraphs (a) through (g) have been satisfied.

If all or a portion of the proceeds of the Parity Debt or the 2007 Bonds are to be applied under Sections 33334.2 and 33334.6 of the Law, Tax Revenues shall include that portion of taxes allocated under Section 33670 of the Law for payment of the 2007 Bonds or the Parity Debt which are applied for the purposes of Section 33334.2 and specifically pledged to the repayment of such Parity Debt, to the maximum extent permitted by the Law.

Issuance of Subordinate Debt. From time to time the Agency may 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 Limitation.

Validity of Bonds. The validity of the authorization and issuance of the 2007 Bonds shall not be dependent upon the completion of the Redevelopment Project or upon the performance by any person of its obligation with respect to the Redevelopment Project.

## **SECURITY OF BONDS; FLOW OF FUNDS; INVESTMENTS**

Security of Bonds; Equal Security. The Bonds shall be secured by a first pledge of and lien on all of the Tax Revenues and all of the moneys on deposit in the Special Fund. In addition, the 2007 Bonds shall be secured by a first and exclusive pledge of and lien upon all of the moneys in the Debt Service Fund, including, but not limited to, the Interest Account, the Principal Account, the Sinking Account, the Reserve Account and the Redemption Account and amounts in the Redevelopment Fund (and accounts therein) to the limited extent described in the Indenture. Such pledges and liens shall be for the equal security of the Outstanding Bonds or

2007 Bonds, as the case may be, without preference or priority for series, issue, number, dated date, sale date, date of execution or date of delivery. Except for the Tax Revenues and such moneys, no funds or properties of the Agency shall be pledged to, or otherwise liable for, the payment of principal of or interest or redemption premium (if any) on the Bonds.

In consideration of the acceptance of the 2007 Bonds by those who shall hold the same from time to time, the Indenture shall be deemed to be and shall constitute a contract between the Agency and the Owners from time to time of the 2007 Bonds, and the covenants and agreements set forth in the Indenture to be performed on behalf of the Agency shall be for the equal and proportionate benefit, security and protection of all Owners of the 2007 Bonds without preference, priority or distinction as to security or otherwise of any of the 2007 Bonds over any of the others by reason of the number or date thereof or the time of sale, execution and delivery thereof, or otherwise for any cause whatsoever, except as expressly provided therein or in the Indenture.

Special Fund; Deposit of Tax Revenues. There is established a special fund to be known as the “Special Fund”, which shall be held by the Agency. The Agency shall deposit all of the Tax Revenues received in any Bond Year in the Special Fund promptly upon receipt thereof by the Agency, until such time during such Bond Year as the amounts on deposit in the Special Fund equal the aggregate amounts required to be transferred to the Trustee for deposit into the Interest Account, the Principal Account, the Sinking Account and the Redemption Account in such Bond Year pursuant to the Indenture and for deposit in such Bond Year into the funds and accounts established with respect to Parity Debt.

All Tax Revenues received by the Agency during any Bond Year in excess of the amount required to be deposited in the Special Fund during such Bond Year pursuant to the preceding paragraph of the Indenture may be applied by the Agency for any lawful purposes of the Agency, including but not limited to the payment of any amounts due and owing to the United States of America pursuant to the Indenture. Prior to the payment in full of the principal of and interest and redemption premium (if any) on the 2007 Bonds, and the payment in full of all other amounts payable under the Indenture, the Agency shall not have any beneficial right or interest in the moneys on deposit in the Special Fund, except as may be provided in the Indenture.

Debt Service Fund; Transfer of Amounts to Trustee. There is established a special trust fund to be known as the “Debt Service Fund”, which shall be held by the Trustee under the Indenture in trust. Moneys in the Special Fund shall be transferred by the Agency to the Trustee in the following amounts at the following times, for deposit by the Trustee in the following respective special accounts within the Debt Service Fund, which accounts are established with the Trustee, 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 2007 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 2007 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 2007 Bonds as it shall become due and payable (including accrued interest on any 2007 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 2007 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 2007 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 2007 Bonds upon the maturity thereof.

(c) Sinking Account. On or before the fifth (5th) Business Day preceding each date on which any Outstanding Term 2007 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 2007 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 2007 Bonds as it shall become due and payable upon the mandatory Sinking Account redemption thereof.

(d) 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 and the Sinking Account, in such order of priority, on any date which the principal of or interest on the 2007 Bonds becomes due and payable under the Indenture, in the event of any deficiency at any time in any of such accounts, or at any time for the retirement of all the 2007 Bonds then Outstanding. So long as the Trustee shall not have any notice that any Event of Default shall have occurred and is continuing, any amount in the Reserve Account in excess of the Reserve Requirement on or before each Interest Payment Date shall be withdrawn from the Reserve Account by the Trustee and deposited in the Interest Account. In the event of any deficiency in the Reserve Account (whether due to a payment therefrom or due to the fluctuation in market value of securities credited thereto, or otherwise) as of the date of any valuation of the Reserve Account pursuant to the Indenture, the Trustee shall promptly notify the Agency and the Bond Insurer, so long as the Bond Insurer in not in default under the Insurance Policy, in writing of the amount of such deficiency, and the Agency shall restore such deficiency from Tax Revenues as soon as possible but in any event not later than the next succeeding valuation date.

In lieu of the deposit of moneys into Reserve Account, the Agency may cause to be provided a Surety Bond issued by an insurance company rated in the highest rating category by S&P and Moody's and, if rated by A.M. Best & Company, rated in the highest rating category by A.M. Best & Company, which Surety Bond shall be payable to the Trustee in an amount equal to the difference between the Reserve Requirement and the amount of cash, if any, deposited in the Reserve Account.

The Agency has elected to obtain the Surety Bond from the Bond Insurer to satisfy the Reserve Requirement.

(e) Redemption Account. On or before the fifth (5th) Business Day preceding any date on which 2007 Bonds are subject to redemption (other than mandatory Sinking Account redemption of term bonds), 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 2007 Bonds to be so redeemed on such date. 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 Moneys in Funds and Accounts. Moneys in the Debt Service Fund and the accounts therein (other than the Reserve Account) and the Costs of Issuance Fund shall be invested and reinvested by the Trustee in Permitted Investments, provided that such investments mature by their terms prior to the date on which such moneys are required to be paid out under the Indenture.

Moneys in the Reserve Account shall be invested by the Trustee except as otherwise permitted by the Insurer solely in Permitted Investments having a maturity not greater than 5 years or beyond the date it is anticipated that such moneys will be needed, whichever comes. Such investments shall be made by the Trustee as directed in writing by Request of the Agency (such written request to be received by 12:00 noon two (2) Business Days prior to such investment) or, in the absence of such written direction, by the Trustee in Permitted Investments described in clause (d) of the definition thereof. The Trustee shall not be liable to the Agency or the City in acting in accordance with the Indenture or the Agency's direction.

Moneys in the Special Fund and the Redevelopment Fund shall be invested in Permitted Investments as directed by the Agency by its Treasurer subject to the requirements and limitations set forth in the Tax Certificate.

Moneys in the Rebate Fund shall be invested in Government Obligations which mature before the date such amounts are required to be paid to the United States.

Any or all interest or gain received from such investments of moneys in any Fund or Account shall be deposited by the Trustee in the respective Fund or Account and any loss incurred in connection with such investments shall be debited against the Fund or Account from which the investment was made. The Trustee shall have no liability or responsibility for any loss resulting from any investment made in accordance with the provisions of the Indenture. The Trustee or its affiliates may act as principal or agent in the making or disposing of any investment and may also act as sponsor, advisor or manager in connection with any investments. For investment purposes, the Trustee may commingle the funds and accounts established under the Indenture but shall separately account for the amounts in such funds and accounts.

The Agency acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Agency the right to receive brokerage confirmations of security transactions as they occur, the Agency will not receive such confirmations to the extent permitted by law. The Trustee will furnish the Agency periodic cash transaction statements which include detail for all investment transactions made by the Trustee under the Indenture.

Valuation and Disposition of Investments. For the purpose of determining the amount in any fund or account established under the Indenture, the value of investments credited to such fund shall be calculated at least semiannually (not later than February 1 and August 1 in each year) at the market value thereof. Notwithstanding anything to the contrary in the Indenture, in making any valuations of investments under the Indenture, the Trustee may utilize computerized securities pricing services that may be available to it, including those available through its regular accounting system, and rely thereon.

#### Rebate Fund.

(a) Establishment. A special fund is created and designated the “Rebate Fund” (the “Rebate Fund”) which is to be held by the Trustee. Absent an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest on the applicable Bonds will not be adversely affected, the Agency shall cause to be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Indenture and the Tax Certificate. All money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, for payment to the United States Treasury. All amounts on deposit in the Rebate Fund shall be governed by the Indenture and the Tax Certificate, unless and to the extent that the Agency delivers to the Trustee an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest on the 2007 Bonds will not be adversely affected if such requirements are not satisfied.

(i) Computation. Within 55 days of the end of each fifth Bond Year, the Agency shall calculate or cause to be calculated the amount of rebatable arbitrage, in accordance with Section 148(f)(2) of the Code and Section 1.148-3 of the Rebate Regulations (taking into account any applicable exceptions with respect to the computation of the rebatable arbitrage, described, if applicable, in the Tax Certificate (e.g., the temporary investments exceptions of Section 148(f)(4)(B) and (C) of the Code), and taking into account whether the election pursuant to Section 148(f)(4)(C)(vii) of the Code (the “1½% Penalty”) has been made, for this purpose treating the last day of the applicable Bond Year (or retirement date) as a computation date, within the meaning of Section 1.148-1(b) of the Rebate Regulations (the “Rebatable Arbitrage”). The Agency shall obtain expert advice as to the amount of the Rebatable Arbitrage to comply with the Indenture.

(ii) Transfers. Within 55 days after the end of each fifth Bond Year, upon the written direction of the Agency, an amount shall be deposited to the Rebate Fund by the Trustee from any Tax Revenues legally available for such purpose deposited by the Agency with the Trustee (as specified by the Agency in the aforesaid written direction), if and to the extent required so that the balance in the Rebate Account shall equal the amount of Rebatable Arbitrage so calculated in accordance with (i) above. In the event that immediately following the transfer required by the previous sentence, the amount then on deposit to the credit of the Rebate Fund exceeds the amount required to be on deposit therein, upon written instructions from the Agency, the Trustee shall withdraw the excess from the Rebate Fund and then credit the excess to the Interest Account in the Debt Service Fund.

(iii) Payment to the Treasury. The Trustee shall pay, as directed in writing by the Agency, to the United States Treasury, out of amounts in the Rebate Fund:

(A) Not later than 60 days after the end of (x) the fifth Bond Year, and (y) each applicable fifth Bond Year thereafter, an amount equal to at least 90% of the Rebatable Arbitrage calculated as of the end of such Bond Year; and

(B) Not later than 60 days after the payment of all the 2007 Bonds, an amount equal to 100% of the Rebatable Arbitrage calculated as of the end of such applicable Bond Year, and any income attributable to the Rebatable Arbitrage, computed in accordance with Section 148(f) of the Code.

In the event that, prior to the time of any payment required to be made from the Rebate Fund, the amount in the Rebate Fund is not sufficient to make such payment when such payment is due, the Agency shall calculate or cause to be calculated the amount of such deficiency and deposit with the Trustee an amount received from any legally available source equal to such deficiency prior to the time such payment is due. Each payment required to be made pursuant to this subparagraph (a)(iii) shall be made to the Internal Revenue Service Center, Philadelphia, Pennsylvania 19255 on or before the date on which such payment is due, and shall be accompanied by Internal Revenue Service Form 8038-T, which shall be prepared by the Agency and provided to the Trustee or shall be made in such other manner as provided under the Tax Code.

(b) Disposition of Unexpended Funds. Any funds remaining in the Rebate Fund after redemption and payment of the 2007 Bonds and the payments described in subparagraph (a)(iii)(A) or (a)(iii)(B) (whichever is applicable), shall upon written direction of the Agency be withdrawn by the Trustee and paid to the Agency for any lawful purpose consistent with the Redevelopment Law and the Tax Certificate.

(c) Survival of Defeasance. Notwithstanding anything in the Indenture or the Indenture to the contrary, the obligation to comply with the requirements of the Indenture shall survive the defeasance of the 2007 Bonds.

(d) Trustee Responsible. The Trustee shall have no obligations or responsibilities under the Indenture other than to follow the written directions of the Agency. The Trustee may rely conclusively upon all calculations and directions made and furnished by the Agency under the Indenture and the Trustee shall have no responsibility to independently make any calculations, determinations or to review the Agency's calculations under the Indenture. The Trustee shall not incur any liability whatsoever in reasonably acting upon and as instructed by such calculations and directions.

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

Punctual Payment. The Agency shall 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 shall faithfully observe and perform all of the conditions, covenants and

requirements of the Indenture. Nothing in the Indenture contained shall prevent the Agency from making advances of its own moneys howsoever derived to any of the uses or purposes referred to in the Indenture.

Limitation on Additional Indebtedness; Compliance With Plan Limitations. The Agency has covenanted 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 2007 Bonds, any Parity Debt, any Subordinate Debt, and any obligations entered into pursuant to the Indenture. The Agency shall 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 shall manage its fiscal affairs in a manner which ensures that it will have sufficient Tax Revenues available under the Plan Limitations in the amounts and at the times required to enable the Agency to pay the principal of and interest and premium (if any) on the Bonds when due. Without limiting the foregoing, the Agency has agreed that it shall calculate annually not later than June 30 each year, the aggregate amount of Tax Revenues which it remains entitled to receive under the Plan Limitations for the Redevelopment Project. In the event that the aggregate amount of Tax Revenues which the Agency is permitted to receive under the Plan Limitations for the Redevelopment Project, plus the amount then held on deposit in any fund or account which is set aside by the Agency to make its debt payments with respect to the Redevelopment Project and the earnings which are reasonably expected to accrue thereon, are reasonably estimated at any time to be less than one hundred and ten percent (110%) of the aggregate amount of annual debt payments remaining to be made with respect to such Redevelopment Project, 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) set aside with the Trustee or into a dedicated fund or account to be held by the Agency an amount of Tax Revenues which, together with earnings to be derived from the investment thereof, will be sufficient to enable the Agency to meet such requirements.

Extension of Payment of Bonds. The Agency shall not directly or indirectly extend or assent to the extension of the maturity of any of the 2007 Bonds or the time of payment of any claims for interest by the purchase of such 2007 Bonds or by any other arrangement, and in case the maturity of any of the 2007 Bonds or the time of payment of any such claims for interest shall be extended, such 2007 Bonds or claims for interest shall not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Outstanding 2007 Bonds and of all claims for interest thereon which shall not have been so extended. Nothing in the Indenture shall be deemed to limit the right of the Agency to issue bonds for the purpose of refunding any Outstanding 2007 Bonds, and such issuance shall not be deemed to constitute an extension of maturity of the 2007 Bonds.

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 to the Indenture, or which might impair the security of the 2007 Bonds. Nothing in the Indenture contained shall require the Agency to make any such payment so long as the Agency in good faith shall contest the validity of said claims.

Books and Accounts; Financial Statements. The Agency shall keep, or cause to be kept, proper books of record and accounts, separate from all other records and accounts of the Agency and the City, in which complete and correct entries shall be made of all transactions relating to the Redevelopment Project, the Tax Revenues and the Special Fund. Such books of record and accounts shall at all times during business hours be subject to the inspection of the Owners of not less than ten percent (10%) in aggregate principal amount of the 2007 Bonds then Outstanding, or their representatives authorized in writing.

Protection of Security and Rights of Owners. The Agency has covenanted not to issue additional obligations senior to the 2007 Bonds; provided that the Agency may refund one or more of the Prior Obligations so long as the obligations of the Agency from Tax Increment Revenues thereunder do not in any

year exceed the liability of the Agency for scheduled debt service payments under the Prior Obligations. The Agency will preserve and protect the security of the 2007 Bonds and the rights of the Owners. From and after the date of issuance of any 2007 Bonds, such 2007 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 be lawfully imposed upon the Agency or the properties then owned by the Agency in the Redevelopment Project after the execution of the Indenture, when the same shall become due. Nothing contained in the Indenture shall require the Agency to make any such payment so long as the Agency in good faith shall contest the validity of said taxes, assessments or charges. The Agency will duly observe and conform with all valid requirements of any governmental authority relative to the Redevelopment Project or any part thereof.

Disposition of Property. The Agency will not participate in the disposition of any land or real property in the Redevelopment Project to anyone which will result in such property becoming exempt from taxation because of public ownership or use or otherwise (except property dedicated for public right-of-way and except property planned for public ownership or use by the Redevelopment Plan in effect on the date of the Indenture) so that such disposition shall, when taken together with other such dispositions occurring after the Closing Date, aggregate more than ten percent (10%) of the land area in the Redevelopment Project unless such disposition is permitted as provided in this the Indenture. If the Agency proposes to participate in such a disposition, it shall thereupon appoint an Independent Redevelopment Fiscal Consultant to report on the effect of said proposed disposition. If the Report of the Independent Redevelopment Fiscal Consultant concludes that the security of the Bonds or the rights of the Owners will not be materially adversely impaired by said proposed disposition, the Agency may thereafter make such disposition. If said Report concludes that such security will be materially adversely impaired by said proposed disposition, the Agency shall not approve said proposed disposition.

Maintenance of Tax Revenues. The Agency shall comply with all requirements of the Redevelopment Law to insure the allocation and payment to it of the Tax Revenues, including without limitation the timely filing of any necessary statements of indebtedness with appropriate officials of the County and (in the case of supplemental revenues and other amounts payable by the State) appropriate officials of the State. The Agency will not amend the Redevelopment Plan in a manner that will reduce Tax Revenues in any future Fiscal Year unless the Agency first: (i) obtains the report of an Independent Redevelopment Fiscal Consultant stating that the Tax Revenues for the then current Fiscal Year (calculated on the assumption that such reduction of Tax Revenues was in effect throughout such Fiscal Year), are at least equal to one hundred twenty-five percent (125%) of Annual Debt Service on the Bonds which will be Outstanding immediately following the effective date of such amendment, or (ii) obtains the written consent of the Bond Insurer (which may be granted or withheld at Bond Insurer's discretion), so long as the Bond Insurer is not in default under the Insurance Policy. The Agency will not enter into any agreement with the County or any other governmental or private entity, which would have the effect of reducing the amount of Tax Revenues otherwise available to the Agency for payment of the Bonds or waiving the Agency's right to receive Tax Revenues, unless such agreement or amendment constitutes Subordinate Debt, provided, such limitation shall not apply to amendments to the Redevelopment Plan which result in payments pursuant to the Tax Sharing Statutes, where such amendment otherwise complies with the Indenture.

Tax Covenants Relating to 2007 Bonds. The Agency has covenanted and agreed to contest by court action or otherwise any assertion by the United States of America or any department or agency thereof that the interest received by the Owners is includable in gross income of the recipient under federal income tax laws. Notwithstanding any other provision of the Indenture, absent an opinion of Bond Counsel that the exclusion from gross income of interest with respect to the 2007 Bonds and any Parity Debt will not be adversely affected for federal income tax purposes, the Agency has covenanted to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income and specifically has covenanted, without limiting the generality of the foregoing, as follows:

(a) Private Activity. The Agency will take no action or refrain from taking any action or make any use of the proceeds of the 2007 Bonds or any Parity Debt or of any other monies or property which would cause the 2007 Bonds or any Parity Debt to be “private activity bonds” within the meaning of Section 141 of the Code;

(b) Private Loan Limitation. The Agency shall assure that no more than five percent (5%) of the net proceeds of the 2007 Bonds are used, directly or indirectly, to make or finance a loan (other than loans constituting nonpurpose obligations as defined in the Tax Code or constituting assessments) to persons other than state or local government units;

(c) Arbitrage. The Agency will make no use of the proceeds of the 2007 Bonds or any Parity Debt or of any other amounts or property, regardless of the source, or take any action or refrain from taking any action which will cause the 2007 Bonds or any Parity Debt to be “arbitrage bonds” within the meaning of Section 148 of the Code;

(d) Federal Guaranty. The Agency will make no use of the proceeds of the 2007 Bonds or any Parity Debt or take or omit to take any action that would cause the 2007 Bonds or any Parity Debt to be “federally guaranteed” within the meaning of Section 149(b) of the Code;

(e) 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;

(f) Hedge Bonds. The Agency will make no use of the proceeds of the 2007 Bonds or any Parity Debt or any other amounts or property, regardless of the source, or take any action or refrain from taking any action that would cause either the 2007 Bonds or any Parity Debt 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 2007 Bonds and any Parity Debt for federal income tax purposes; and

(g) Miscellaneous. The Agency will take no action or refrain from taking any action inconsistent with its expectations stated in that certain Tax Certificate executed by the Agency in connection with each issuance of 2007 Bonds and any Parity Debt and will comply with the covenants and requirements stated therein and incorporated by reference in the Indenture.

Limitations on Senior Debt. The Agency has covenanted and agreed that, so long as one or more of the Prior Obligations is outstanding: (i) the Agency will not extend the maturities of the Prior obligations or refinance the Prior Obligations unless the refinancing results in reduced scheduled annual debt service in each and every years; (ii) the Agency will not pay toward Prior Obligations, with Tax Increment Revenues during any Fiscal Year, amounts greater than scheduled debt service on the Prior Obligations until scheduled debt service on the Bonds for such Fiscal Year has been paid or deposited with the Trustee for payment; and (iii) the Agency will not issue bonds on a parity with such Prior Obligations. The Agency has further covenanted that so long as the Bonds are outstanding, it will not enter additional obligations which would be payable by a pledge of Tax Increment Revenues senior to the Bonds.

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

Continuing Disclosure Certificate. The Agency has covenanted and agreed that it will comply with and carry out all of its obligations under the Continuing Disclosure Certificate to be executed and delivered by the Agency in connection with the issuance of the 2007 Bonds. Notwithstanding any other provision of the Indenture, failure of the Agency to comply with the Continuing Disclosure Certificate shall not be considered

an Event of Default; however, any Owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Agency to comply with its obligations under the Indenture. For purposes of the Indenture, "Beneficial Owner" means any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any 2007 Bonds (including persons holding 2007 Bonds through nominees, depositories or other intermediaries).

## **THE TRUSTEE**

### Duties, Immunities and Liabilities of Trustee.

(a) The Trustee shall, prior to the occurrence of an Event of Default, and after the curing or waiver 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 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 or waived), 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.

(b) The Agency may remove the Trustee at any time, unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee (i) if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing), (ii) at the request of the Bond Insurer so long as the Bond Insurance Policy remains in effect, for any breach of duties imposed on the Trustee in the Indenture, or (iii) if at any time the Trustee shall cease to be eligible in accordance with paragraph (e) below, 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 30 days' written notice of such removal by the Agency to the Trustee, whereupon the Agency shall appoint a successor Trustee by an instrument in writing.

(c) The Trustee may at any time resign by giving written notice of such resignation to the Agency and to the Bond Insurer so long as the Bond Insurance Policy remains in effect, and by giving the Owners notice of such resignation by first class mail, postage prepaid, 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.

(d) 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 himself 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 after payment by the Agency of all unpaid fees and expenses of the predecessor Trustee, 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 in the Indenture; 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 confining 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 paragraph, 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 under the Indenture to the Bond Insurer, so long as the Bond Insurer is not in default under the Insurance Policy. Rating Agency and 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.

(e) Any Trustee appointed under the provisions of the Indenture in succession to the Trustee shall be a trust company or bank having the powers of a trust company, or authorized to exercise trust powers, having an Office in the State, having a combined capital and surplus of at least Seventy-Five Fifty Million Dollars (\$75,000,000), and subject to supervision or examination by federal or state authority and acceptable to the Bond Insurer. If such bank or trust 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 paragraph the combined capital and surplus of such bank or trust 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 paragraph, the Trustee shall resign immediately in the manner and with the effect specified in the Indenture.

(f) Notwithstanding any other provision of the Indenture, no removal, resignation or termination of the Trustee shall take effect until a successor, acceptable to the Bond Insurer, shall be appointed.

(g) Notwithstanding any other provision of the Indenture, in determining whether the rights of the Owners will be adversely affected by any action taken pursuant to the terms and provisions of the Indenture, the Trustee shall consider the effect on the Owners as if there were no Bond Insurance Policy.

Merger or Consolidation. Any bank or trust company into which the Trustee may be merged or converted or with which either of them may be consolidated or any bank or trust company resulting from any merger, conversion or consolidation to which it shall be a party or any bank or trust company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such bank or trust 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 in the Indenture to the contrary notwithstanding.

#### Liability of Trustee.

(a) The recitals of facts in the Indenture and in the 2007 Bonds contained 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 2007 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 2007 Bonds. The Trustee shall not be liable in connection with the performance of its duties under the Indenture, except for its own gross 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 2007 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.

(b) The Trustee shall not be liable for any error of judgment made by a responsible officer.

(c) 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 not less than 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.

(d) The Trustee shall not be liable for any action taken by it and believed by it to be authorized or within the discretion or rights or powers conferred on 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 under the Indenture shall not be construed as a mandatory duty.

(e) The Trustee shall not be deemed to have knowledge of any Event of Default under the Indenture unless and until it shall have actual knowledge thereof, or shall have received written notice thereof at its 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 2007 Bonds, or as to the existence of an Event of Default under the Indenture or thereunder.

(f) No provision in the Indenture shall require the Trustee to risk or expend its own funds or otherwise incur any financial liability under the Indenture. Before taking action under the Indenture, the Trustee may require indemnity satisfactory to the Trustee be furnished to it to protect it against all fees and expenses, including those of its attorneys and advisors, and protect it against all liability it may incur.

(g) The Trustee shall have no responsibility or liability with respect to any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the 2007 Bonds.

(h) The immunities extended to the Trustee shall also extend to its officers, directors, employees and agents.

Right to Rely on Documents. The Trustee shall be protected in acting upon any notice, resolution, 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, in the absence of negligence or willful misconduct by the Trustee. 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 in the absence of gross negligence or willful misconduct by the Trustee the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by the Trustee under the Indenture in accordance therewith.

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 under the Indenture, such matter (unless other evidence in respect thereof be in the Indenture 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, 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 Redevelopment Fiscal 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, agents and employees, incurred in and about the performance of its powers and duties under the Indenture pursuant to an Agency approved fee letter. Upon the occurrence of an Event of Default, 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 reasonable 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 has further covenanted and agreed 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 under the Indenture 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 under the Indenture and payment of the 2007 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 corporate trust industry standards, in which complete and accurate entries shall be made of all transactions made by it relating to the proceeds of the 2007 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 monthly, an accounting (which may be in the form of its customary statements) of all transactions relating to the proceeds of the 2007 Bonds and all funds and accounts held by the Trustee pursuant to the Indenture, provided that the Trustee shall not be obligated to deliver an accounting for any Fund or Account that (a) has a zero balance and (b) has not had any activity since the last report date.

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 national banking associations or associations 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 granted in the Indenture to the Trustee or hold title to the properties, in trust, as granted in the Indenture, 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. The following provisions of the Indenture are adopted to these ends.

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.

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

Amendment Without Consent Of Owners. Subject to the Indenture and the rights and obligations of the Agency, of the Owners and of the Bond Insurer may be modified or amended at any time by a supplemental indenture which shall become binding upon adoption, but without the consent of any Owners, to the extent permitted by law and only for any one or more of the following purposes -

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

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

(c) to provide for the delivery of a Qualified Reserve Account Credit Instrument meeting the requirements of the Indenture;

(d) to provide for the issuance of Parity Debt pursuant to the Indenture, and to provide the terms and conditions under which such Parity Debt may be issued, including but not limited to the establishment of special funds and accounts relating thereto and any other provisions relating solely thereto, subject to and in accordance with the provisions of the Indenture; or

(e) to amend any provision of the Indenture relating to the requirements of or compliance with the Tax Code, to any extent whatsoever but only if and to the extent such amendment will not adversely affect the exclusion from gross income of interest on the 2007 Bonds for federal income tax purposes, in the opinion of Bond Counsel.

Subject to the Indenture, except as set forth in the preceding paragraph, the Indenture and the rights and obligations of the Agency and of the Owners may be modified or amended at any time by a supplemental indenture which shall become binding when the written consents of the Owners of a majority in aggregate principal amount of the 2007 Bonds then Outstanding or, so long as the Bond Insurance Policy remains in effect, the written consent of the Bond Insurer (to the extent required by the Indenture) are delivered to the Trustee. No such modification or amendment shall (a) extend the maturity of or reduce the interest rate on any 2007 Bond or otherwise alter or impair the obligation of the Agency to pay the principal, interest or redemption premium (if any) at the time and place and at the rate and in the currency provided therein of any 2007 Bond without the express written consent of the Owner of such 2007 Bond, (b) reduce the percentage of

2007 Bonds required for the written consent to any such amendment or modification, or (c) without its written consent thereto, modify any of the rights or obligations of the Trustee.

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

Upon the execution and delivery of any supplemental indenture pursuant to the Indenture, the Agency shall deliver or cause to be delivered to the Rating Agency (a) a copy of such supplemental indenture, as executed by the parties thereto, (b) a full transcript of all proceedings relating to the execution of such Supplemental Indenture, and (c) any other proceedings with respect to such supplemental indenture as shall be requested by the Rating Agency.

Endorsement or Replacement of Bonds After Amendment. After the effective date of any amendment or modification of the Indenture pursuant to the Indenture, the Agency may determine that any or all of the 2007 Bonds shall bear a notation, by endorsement in form approved by the Agency, as to such amendment or modification and in that case upon demand of the Agency the Owners of such 2007 Bonds shall present such 2007 Bonds for that purpose at the Office of the Trustee, and thereupon a suitable notation as to such action shall be made on such 2007 Bonds. In lieu of such notation, the Agency may determine that new 2007 Bonds shall be prepared and executed in exchange for any or all of the Bonds and in that case upon demand of the Agency the Owners of the Bonds shall present such 2007 Bonds for exchange at the Office of the Trustee, without cost to such Owners.

Amendment by Mutual Consent. The provisions of the Indenture shall not prevent any Owner from accepting any amendment as to the particular 2007 Bond held by such Owner, provided that due notation thereof is made on such 2007 Bond. Unless otherwise expressly provided in the Indenture, so long as the Bond Insurance Policy remains in effect, the Bond Insurer's consent shall be required in lieu of consent of the Owners, when required, for the following purposes: (i) execution of any Supplemental Indenture; (ii) removal of the Trustee or selection of any successor Trustee; and (iii) initiation or approval of any action not described in (i) or (ii) above which requires consent of the Owners.

Trustee's Reliance. The Trustee may rely, and shall be protected in relying, upon a Certificate of the Agency and an opinion of counsel stating that all requirements of the Indenture relating to the amendment or modification of the Indenture have been satisfied and that such amendments or modifications do not materially adversely affect the interests of the Owners.

Rights of Bond Insurer as to Amendments and Notices to Rating Agency. Notwithstanding any other provision of the Indenture to the contrary, so long as the payment of the principal and interest with respect to any 2007 Bonds is guaranteed by the Bond Insurer under the Bond Insurance Policy and the Bond Insurer is not in default under the Bond Insurance Policy, any amendment or supplement to the Indenture shall be subject to the prior written consent of the Bond Insurer (other than amendments under the Indenture for which no consent is required). The Bond Insurer reserves the right to charge the Agency a fee for any consent or amendment to the Indenture while the Surety Bond is outstanding. The Agency has agreed to forward to S&P any amendments consented to by the Bond Insurer and entered into pursuant to the Indenture. Whenever the Trustee receives a consent of the Bond Insurer in accordance with the provisions of the Indenture, the Trustee shall forward to the Rating Agency at its principal corporate headquarters a copy of such consent together with the amendment or supplement to which it applies. The Bond Insurer shall be provided with a full transcript of all proceedings relating to the execution of any such amendment or supplement.

## EVENTS OF DEFAULT AND REMEDIES

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

(a) Failure to pay any installment of the principal of any Bonds when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by acceleration, or otherwise.

(b) Failure to pay any installment of interest on any Bonds when and as the same shall become due and payable.

(c) Failure by the Agency to observe and perform any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, if such failure shall have continued for a period of sixty (60) days after written notice thereof, specifying such failure and requiring the same to be remedied, shall have been given to the Agency by the Trustee, provided, however, if in the reasonable opinion of the Agency the failure stated in the notice can be corrected, but not within such sixty (60) day period, such failure shall not constitute an Event of Default if corrective action is instituted by the Agency within such sixty (60) day period and the Agency shall thereafter diligently and in good faith cure such failure in a reasonable period of time.

(d) The Agency shall commence a voluntary case under Title 11 of the United States Code or any substitute or successor statute.

If an Event of Default has occurred and is continuing the Trustee may, and if requested in writing by the Owners of a majority in aggregate principal amount of the 2007 Bonds then Outstanding the Trustee shall, (a) declare the principal of the 2007 Bonds, together with the accrued interest thereon, to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, anything in the Indenture or in the 2007 Bonds to the contrary notwithstanding, and (b) exercise any other remedies available to the Trustee and the Owners in law or at equity. Any payments made by the Bond Insurer under the Bond Insurance Policy shall not be deemed payments on the 2007 Bonds for the purpose of determining whether an Event of Default has occurred. Upon the occurrence of an Event of Default specified in the Indenture, to the extent there are no other available funds held by the Trustee pursuant to the Indenture, any funds remaining in the Redevelopment Fund, and all accounts thereunder, shall be used to cure such default. Notwithstanding anything to the contrary in the Indenture, any acceleration of the 2007 Bonds or any annulment thereof shall be subject to the prior written consent of the Bond Insurer, so long as the Bond Insurer is not in default under the Insurance Policy, provided that the Bond Insurer has not failed to comply with its payment obligations under the Bond Insurance Policy.

Immediately upon becoming aware of the occurrence of an Event of Default described in the preceding clauses (a) or (b), and within thirty (30) days of becoming aware of the occurrence of an Event of Default described in the preceding clauses (c) or (d), the Trustee shall give notice of such Event of Default to the Agency and the Bond Insurer by telephone, promptly confirmed in writing. Such notice shall also state whether the principal of the 2007 Bonds shall have been declared to be or have immediately become due and payable. With respect to any Event of Default described in clauses (a) or (b) above the Trustee shall, and with respect to any Event of Default described in clauses (c) or (d) above the Trustee in its sole discretion may, also give such notice to the Owners in the same manner as provided in the Indenture for notices of redemption of the 2007 Bonds, which shall include the statement that interest on the 2007 Bonds shall cease to accrue from and after the date, if any, on which the Trustee shall have declared the 2007 Bonds to become due and payable pursuant to the preceding paragraph (but only to the extent that principal any accrued, but unpaid, interest on the 2007 Bonds is actually paid on such date).

This provision, however, is subject to the condition that if, at any time after the principal of the 2007 Bonds shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Agency shall deposit with the Trustee a sum sufficient to pay all principal on the 2007 Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the 2007 Bonds, with interest on such overdue installments of principal and interest (to the extent permitted by law) at the net effective rate then borne by the Outstanding 2007 Bonds, and the fees and expenses of the Trustee, including any fees and expenses of its attorneys, and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the 2007 Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Owners of a majority in aggregate principal amount of the 2007 Bonds then Outstanding, by written notice to the Agency and to the Trustee, may, on behalf of the Owners of all of the 2007 Bonds, rescind and annul such declaration and its consequences. However, no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Anything in the Indenture to the contrary notwithstanding, upon the occurrence and continuance of an event of default as described in the Indenture, the Bond Insurer, so long as the Bond Insurance Policy remains in effect, shall be entitled to control and direct the enforcement of all rights and remedies granted to the Owners or the Trustee for the benefit of the Owners under the Indenture.

Remedies Upon Event of Default. If any Event of Default shall occur, then, and in each and every such case during the continuance of such Event of Default, the Trustee, with the written consent of the Bond Insurer so long as the Bond Insurance Policy is in full force and effect may, and at the written direction of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding with the written consent of the Bond Insurer so long as the Bond Insurance Policy is in full force and effect, and at the written direction of the Bond Insurer so long as the Bond insurance Policy is in full force and effect shall, upon notice in writing to the Agency, (a) declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding or (b) exercise any other remedies available to the Trustee or the Owners in law or at equity.

Any such declaration is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Agency shall deposit with the Trustee a sum sufficient to pay all the principal of and installments of interest on the Bonds payment of which is overdue, with interest on such overdue principal at the rate borne by the respective Bonds to the extent permitted by law, and the reasonable charges and expenses of the Trustee, and any and all other Events of Default known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case the Trustee shall, with the written consent of the Bond Insurer so long as the Bond Insurance Policy is in full force and effect, on behalf of the Owners of all of the Bonds, rescind and annul such declaration and its consequences and waive such Event of Default; but no such rescission and annulment shall extend to or shall affect any subsequent Event of Default, or shall impair or exhaust any right or power consequent thereon.

Application of Funds Upon Acceleration. All of the Tax Revenues and all sums in the funds and accounts established and held by the Trustee under the Indenture upon the date of the declaration of acceleration as provided in the Indenture, and all sums thereafter received by the Trustee under the Indenture, shall be applied by the Trustee as follows and in the following order:

(a) To the payment of any fees, costs and expenses incurred by the Trustee to protect the interests of the Owners of the Bonds; payment of the fees, costs and expenses of the Trustee (including fees

and expenses of its counsel) incurred in and about the performance of its powers and duties under the Indenture and the payment of all fees, costs and expenses owing to the Trustee pursuant to the Indenture;

(b) To the payment of the whole amount then owing and unpaid upon the Bonds for interest and principal with interest on such overdue amounts at the respective rates of interest borne by the Outstanding Bonds, and in case such moneys shall be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then to the payment of such interest, principal and interest on overdue amounts without preference or priority among such interest, principal and interest on overdue amounts ratably to the aggregate of such interest, principal and interest on overdue amounts.

Power of Trustee to Control Proceedings. In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties under the Indenture, whether upon its own discretion, the Owners of a majority in principal amount of the Bonds then Outstanding, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues an Event of Default, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of a majority in principal amount of the Outstanding Bonds under the Indenture opposing such discontinuance, withdrawal, compromise, settlement other disposal of such litigation.

Limitation on Owners' Right to Sue. No Owner of any 2007 Bond issued under the Indenture shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of all the 2007 Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared in the Indenture, in every case, to be conditions precedent to the exercise by any Owner of 2007 Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners of 2007 Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of 2007 Bonds, or to enforce any right under the 2007 Bonds, the Indenture or other applicable law with respect to the 2007 Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner provided in the Indenture and for the benefit and protection of all Owners of the Outstanding 2007 Bonds, subject to the provisions of the Indenture.

The right of any Owner of any 2007 Bond to receive payment of the principal of and premium, if any, and interest on such 2007 Bond as provided in the Indenture, shall not be impaired or affected without the written consent of such Owner, notwithstanding the foregoing provisions of the Indenture.

Non-waiver. Nothing in the Indenture or in the 2007 Bonds, shall affect or impair the obligation of the Agency, which is absolute and unconditional, to pay from the Tax Revenues and other amounts pledged under the Indenture, the principal of and interest and redemption premium (if any) on the 2007 Bonds to the respective Owners when due and payable as provided in the Indenture, or affect or impair the right of action, which is also absolute and unconditional, of the Owners to institute suit to enforce such payment by virtue of the contract embodied in the 2007 Bonds.

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

Termination of Proceedings. In case any proceedings taken by the Trustee or any one or more Bond Owners on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee, or the 2007 Bond Owners, then in every such case the Agency, the Trustee and the 2007 Bond Owners, subject to any determination in such proceedings, shall be restored to their former positions and rights under the Indenture, severally and respectively, and all rights, remedies, powers and duties of the Agency, the Trustee and the Bond Owners shall continue as though no such proceedings had been taken.

Actions by Trustee as Attorney-in-Fact. Any suit, action or proceeding which any Owner shall have the right to bring to enforce any right or remedy under the Indenture may be brought by the Trustee for the equal benefit and protection of all Owners similarly situated and the Trustee is appointed by the Indenture (and the successive respective Owners by talking and holding the 2007 Bonds shall be conclusively deemed so to have appointed it) the true and lawful attorney-in-fact of the respective Owners for the purpose of bringing any such suit, action or proceeding and to do and perform any and all acts and things for and on behalf of the respective Owners as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney-in-fact, subject to the provisions of the Indenture.

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

Powers of the Bond Insurer Upon Default. Anything in the Indenture to the contrary notwithstanding, so long as the payment of the principal and interest on any 2007 Bonds is guaranteed by the Bond Insurer under the Bond Insurance Policy and the Bond Insurer is not in default under the Bond Insurance Policy, upon the occurrence and continuance of an Event of Default as defined in the Indenture, the Bond Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Owners of 2007 Bonds or the Trustee for the benefit of the 2007 Bond Owners under the Indenture.

## MISCELLANEOUS

Benefits Limited to Parties. Nothing in the Indenture, expressed or implied, is intended to give to any person other than the Agency, the Bond Insurer (which shall be deemed to be a third party beneficiary under the Indenture), the Trustee and the Owners of 2007 Bonds, any right, remedy, claim under or by reason of the Indenture. Any covenants, stipulations, promises or agreements in the Indenture contained by and on behalf of the Agency shall be for the sole and exclusive benefit of the Trustee, the Bond Insurer and the Owners.

Successor is Deemed Included in All References to Predecessor. Whenever in the Indenture or any supplemental indenture either the Agency or the Trustee is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in the Indenture contained by or on behalf of the Agency or the Trustee shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Defeasance of 2007 Bonds. If the Agency shall pay and discharge the entire indebtedness on any 2007 Bonds in any one or more of the following ways:

(a) by paying or causing to be paid the principal of and interest on such 2007 Bonds, as and when the same become due and payable;

(b) by irrevocably depositing with the Trustee or another fiduciary, in trust, at or before maturity, money which, together with the available amounts then on deposit in the funds and accounts established pursuant to the Indenture, in the opinion or report of an Independent Accountant is fully sufficient to pay such 2007 Bonds, including all principal, interest and redemption premium, if any;

(c) by irrevocably depositing with the Trustee or another fiduciary, in trust, non-callable Defeasance Securities in such amount as an Independent Accountant shall determine 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 2007 Bonds (including all principal, interest and redemption premium, if any) at or before maturity; or

(d) by purchasing such 2007 Bonds prior to maturity and tendering such 2007 Bonds to the Trustee for cancellation;

and if such 2007 Bonds are to be redeemed prior to the maturity thereof notice of such redemption shall have been duly given or provision satisfactory to the Trustee shall have been made for the giving of such notice, then, at the election of the Agency, and notwithstanding that any such 2007 Bonds shall not have been surrendered for payment, the pledge of the Tax Revenues and other funds provided for in the Indenture and all other obligations of the Trustee and the Agency under the Indenture with respect to such 2007 Bonds shall cease and terminate, except only (a) the obligations of the Agency under the Indenture, (b) the obligation of the Trustee to transfer and exchange 2007 Bonds under the Indenture, (c) the obligation of the Agency to pay or cause to be paid to the Owners of such 2007 Bonds, from the amounts so deposited with the Trustee, all sums due thereon, (d) the obligations of the Agency to pay the Bond Insurer all sums of money due or to become due according to the provisions of the Indenture or under the Bond Insurance Policy, and (e) the obligations of the Agency to compensate and indemnify the Trustee pursuant to the Indenture. Notice of such election shall be filed with the Trustee. Any funds thereafter held by the Trustee, which are not required for said purpose, shall be paid over to the Agency.

The Bond Insurer, so long as the Bond Insurer is not in default under the Insurance Policy, shall be provided with an opinion of counsel acceptable to the Bond Insurer that the 2007 Bonds have been legally defeased and that the escrow agreement establishing such defeasance operates to legally defease the 2007 Bonds within the meaning of the Indenture. In addition, the Bond Insurer, so long as the Bond Insurer is not in default under the Insurance Policy, shall receive (i) 15 business days' notice of any advance refunding of the 2007 Bonds, and (ii) an accountant's report with respect to the sufficiency of the amounts deposited in escrow to defease the 2007 Bonds.

Notwithstanding anything in the Indenture to the contrary, in the event that the principal and/or interest due on the 2007 Bonds shall be paid by the Bond Insurer pursuant to the Bond Insurance Policy, the 2007 Bonds shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Agency, and the assignment and pledge of the trust estate and all covenants, agreements and other obligations of the Agency to the Owners of the 2007 Bonds shall continue to exist and shall run to the benefit of the Bond Insurer, and the Bond Insurer shall be subrogated to the rights of such Owners.

Execution of Documents and Proof of Ownership by Owners. Any request, consent, declaration or other instrument which the Indenture may require or permit to be executed by any Owner of 2007 Bonds may be in one or more instruments of similar tenor, and shall be executed by such Owner of 2007 Bonds in person or by their attorneys appointed in writing.

Except as otherwise in the Indenture expressly provided, the fact and date of the execution by any Owner of 2007 Bonds or his attorney of such request, declaration or other instrument, or of such writing

appointing such attorney, may be proved by the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state in which he purports to act, that the person signing such request, declaration or other instrument or writing acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer.

The ownership of 2007 Bonds and the amount, maturity, number and date of ownership thereof shall be proved by the Registration Books.

Any request, consent, declaration or other instrument or writing of the Owner of any 2007 Bond shall bind all future Owners of such 2007 Bond in respect of anything done or suffered to be done by the Agency or the Trustee in good faith and in accordance therewith.

Disqualified 2007 Bonds. In determining whether the Owners of the requisite aggregate principal amount of 2007 Bonds have concurred in any demand, request, direction, consent or waiver under the Indenture, 2007 Bonds which are owned or held by or for the account of the Agency or the City (but excluding 2007 Bonds held in any employees' retirement fund) shall be disregarded and deemed not to be Outstanding for the purpose of any such determination, provided, however, that for the purpose of determining whether the Trustee shall be protected in relying on any such demand, request, direction, consent or waiver, only 2007 Bonds which the Trustee knows to be so owned or held shall be disregarded.

Bond Insurer as a Third Party Beneficiary. To the extent that the Indenture confers upon or gives or grants to the Bond Insurer any right, remedy or claim under or by reason of the Indenture, the Bond Insurer, so long as the Bond Insurer is not in default under the Insurance Policy, is explicitly recognized by the Indenture as being a third-party beneficiary under the Indenture and may enforce any such right remedy or claim conferred, given or granted under the Indenture.

Waiver of Personal Liability. No member, officer, agent or employee of the Agency shall be individually or personally liable for the payment of the principal of or interest or any premium on the 2007 Bonds; but nothing in the Indenture contained shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law.

Destruction of Canceled 2007 Bonds. Whenever in the Indenture provision is made for the surrender to the Agency of any 2007 Bonds which have been paid or canceled pursuant to the provisions of the Indenture, upon receipt by the Trustee of the Request of the Agency a certificate of destruction duly executed by the Trustee shall be deemed to be the equivalent of the surrender of such canceled Bonds and the Agency shall be entitled to rely upon any statement of fact contained in any certificate with respect to the destruction of any such 2007 Bonds therein referred to. The Agency shall pay all costs of microfilming the 2007 Bonds to be destroyed.

Unclaimed Moneys. Anything contained in the Indenture to the contrary notwithstanding, any money held by the Trustee in trust for the payment and discharge of the interest or premium (if any) on or principal of the 2007 Bonds which remains unclaimed for two (2) years after the date when the payments of such interest, premium and principal have become payable, if such money was held by the Trustee at such date, or for two (2) years after the date of deposit of such money if deposited with the Trustee after the date when the interest and premium (if any) on and principal of such 2007 Bonds have become payable, shall be repaid by the Trustee to the Agency as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the Agency for the payment of the principal of and interest and redemption premium (if any) on of such 2007 Bonds.

Payment Procedure Pursuant to the Surety Bond.

(a) In the event and to the extent that moneys on deposit in the Reserve Account, plus all amounts on deposit in and credited to the Reserve Account in excess of the amount of the Surety Bond, are

insufficient to pay the amount of principal and interest coming due, then upon the later of: (i) one (1) day after receipt by the General Counsel of the Bond Insurer of a demand for payment in the form attached to the Surety Bond as Attachment 1 (the “Demand for Payment”), duly executed by the Trustee certifying that payment due under the Indenture has not been made to the Trustee; or (ii) the payment date of the 2007 Bonds as specified in the Demand for Payment presented by the Trustee to the General Counsel of the Bond Insurer, the Bond Insurer will make a deposit of funds in an account with the Trustee or its successor, in New York, New York, sufficient for the payment to the Trustee, of amounts which are then due to the Trustee under the Indenture (as specified in the Demand for Payment) up to but not in excess of the Surety Bond Coverage, as defined in the Surety Bond; provided, however, that in the event that the amount on deposit in, or credited to, the Reserve Account, in addition to the amount available under the Surety Bond, includes amounts available under a letter of credit, insurance policy, Surety Bond or other such funding instrument (the “Additional Funding Instrument”), draws on the Surety Bond and the Additional Funding Instrument shall be made on a pro rata basis to fund the insufficiency.

(b) The Trustee shall, after submitting to the Bond Insurer the Demand for Payment as provided in (a) above, make available to the Bond Insurer Assurance all records relating to the Funds and Accounts maintained under the Indenture.

(c) The Trustee shall, upon receipt of moneys received from the draw on the Surety Bond, as specified in the Demand for Payment, credit the Reserve Account to the extent of moneys received pursuant to such demand

(d) The Reserve Account shall be replenished in the following priority: (i) principal and interest on the Surety Bond shall be paid from first available Tax Revenues and, if there is an Additional Funding Instrument, principal and interest on the Surety Bond and on the Additional Funding Instrument shall be paid from first available Tax Revenues on a pro rata basis and (ii) after all such amounts are paid in full, amounts necessary to fund the Reserve Account to the required level, after taking into account the amounts available under the Surety Bond and the Additional Funding Instrument, if any, shall be deposited from next available Tax Revenues.

#### Payment Procedure Pursuant to the Bond Insurance Policy.

(a) At least one (1) business day prior to all Interest Payment Dates the Trustee will determine whether there will be sufficient funds in the Funds and Accounts to pay the principal of or interest on the 2007 Bonds on such Interest Payment Date. If the Trustee determines that there will be insufficient funds in such Funds or Accounts, the Trustee shall so notify the Bond Insurer. Such notice shall specify the amount of the anticipated deficiency, the 2007 Bonds to which such deficiency is applicable and whether such 2007 Bonds will be deficient as to principal or interest, or both. If the Trustee has not so notified the Bond Insurer at least one (1) business day prior to an Interest Payment Date, the Bond Insurer will make payments of principal or interest due on the 2007 Bonds on or before the first (1st) business day next following the date on which the Bond Insurer shall have received notice of nonpayment from the Trustee.

(b) The Trustee shall, after giving notice to the Bond Insurer as provided in (a) above, make available to the Bond Insurer and, at Bond Insurer’s direction, to The Bank of New York, in New York, New York, as insurance trustee for Bond Insurer or any successor insurance trustee (the “Insurance Trustee”), the registration books of the Agency maintained by the Trustee and all records relating to the Funds and Accounts maintained under the Indenture.

(c) The Trustee shall provide the Bond Insurer and the Insurance Trustee with a list of registered owners of the 2007 Bonds entitled to receive principal or interest payments from the Bond Insurer under the terms of the Bond Insurance Policy, and shall make arrangements with the Insurance Trustee (i) to mail checks or drafts to the registered owners of 2007 Bonds entitled to receive full or partial interest payments from the

Bond Insurer and (ii) to pay principal upon 2007 Bonds surrendered to the Insurance Trustee by the registered owners of the 2007 Bonds entitled to receive full or partial principal payments from the Bond Insurer.

(d) The Trustee shall, at the time it provides notice to the Bond Insurer pursuant to (a) above, notify registered owners of 2007 Bonds entitled to receive the payment of principal or interest thereon from the Bond Insurer (i) as to the fact of such entitlement, (ii) that the Bond Insurer will remit to them all or a part of the interest payments next coming due upon proof of holder entitlement to interest payments and delivery to the Insurance Trustee, in form satisfactory to the Insurance Trustee, of an appropriate assignment of the registered owner's right to payment, (iii) that should they be entitled to receive full payment of principal from the Bond Insurer, they must surrender their 2007 Bonds (along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee to permit ownership of such 2007 Bonds to be registered in the name of the Bond Insurer) for payment to the Insurance Trustee, and not the Trustee, and (iv) that should they be entitled to receive partial payment of principal from the Bond Insurer, they must surrender their 2007 Bonds for payment thereon first to the Trustee who shall note on such 2007 Bonds the portion of the principal paid by the Trustee and then, along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee, to the Insurance Trustee, which will then pay the unpaid portion of principal.

(e) In the event that the Trustee has notice that any payment of principal of or interest on a Bond which has become due for payment and which is made to a holder by or on behalf of the Agency has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee if any, shall, at the time the Bond Insurer is notified pursuant to (a) above, notify all registered owners that in the event that any registered owner's payment is so recovered, such registered owner will be entitled to payment from the Bond Insurer to the extent of such recovery if sufficient funds are not otherwise available, and the Trustee shall furnish to the Bond Insurer its records evidencing the payments of principal of and interest on the 2007 Bonds which have been made by the Trustee and subsequently recovered from registered owners and the dates on which such payments were made.

(f) In addition to those rights granted the Bond Insurer under the Indenture, the Bond Insurer shall, to the extent it makes payment of principal of or interest on 2007 Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Bond Insurance Policy, and to evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Trustee shall note the Bond Insurer's rights as subrogee on the registration books of the Agency maintained by the Trustee upon receipt from the Bond Insurer of proof of the payment of interest thereon to the registered owners of the 2007 Bonds, and (ii) in the case of subrogation as to claims for past due principal, the Trustee shall note the Bond Insurer's rights as subrogee on the registration books of the Agency maintained by the Trustee upon surrender of the 2007 Bonds by the registered owners thereof together with proof of the payment of principal thereof.

(g) The Agency has covenanted and agreed that it shall reimburse the Bond Insurer for any amounts paid under the Bond Insurance Policy and all costs of collection thereof and enforcement of the Indenture and any other documents executed in connection with the Indenture, together with interest thereon, from the date paid or incurred by the Bond Insurer until payment thereof in full by the Agency, payable at the Insurer Payment Rate (as defined in the Indenture), including without limitation (to the extent permitted by applicable law) interest on claims paid by the Bond Insurer in respect of interest on the 2007 Bonds. Such payment obligation shall be payable on demand and on a parity with, and from the same sources and secured by the same security as, regularly scheduled principal and interest payments in respect of the 2007 Bonds. For purposes of the foregoing, "Insurer Payment Rate" shall mean the lesser of (a) the maximum rate permissible under applicable usury or similar laws limiting interest rates and (b) the greater of (i) the then applicable highest rate of interest on the 2007 Bonds and (ii) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank, N.A. ("Chase") at its principal office in the Agency of New York, as its prime or base lending rate ("Prime Rate") (any change in such Prime Rate to be effective on the date such change is announced by Chase) plus 3 percent. The Insurer Payment Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days. In the event that Chase ceases to announce its

Prime Rate publicly, Prime Rate shall be the publicly announced prime or base lending rate of such national bank as the Bond Insurer shall specify.

Notice to Bond Insurer From Trustee. While the Bond Insurance Policy is in effect, the Agency or the Trustee (as to (b) and (c)) at the Agency's written request, shall furnish to the Bond Insurer:

- (a) as soon as practicable after the filing thereof, a copy of any financial statement of the Agency and a copy of any audit and annual report of the Agency;
- (b) a copy of any notice to be given to the registered owners of the Bonds and any certificate rendered pursuant to the Indenture relating to the security for the Bonds; and
- (c) such additional information it may reasonably request.

The Agency will permit the Bond Insurer to discuss the affairs, finances and accounts of the Agency or any information the Bond Insurer may reasonably request regarding the security for the Bonds with appropriate officers of the Agency. The Trustee or Agency, as appropriate, will permit the Bond Insurer to have access to and to make copies of all books and records relating to the Bonds at any reasonable time.

Notwithstanding any other provision of the Indenture, the Trustee shall promptly notify the Bond Insurer if at any time there are insufficient moneys to make any payments of principal and interest as required and immediately upon the occurrence of (i) any event of default under the Indenture or (ii) any payment default under the Guaranty Agreement and promptly upon receipt of information in accordance with the Indenture of any Event of Default under the Indenture.

The Trustee or Agency shall notify the Bond Insurer of any failure of the Agency to provide relevant notices or certificates.

The Bond Insurer shall have the right to direct an accounting at the Agency's expense, and the Agency's failure to comply with such direction within thirty (30) days after receipt of written notice of the direction from the Bond Insurer shall be deemed a default under the Indenture; provided, however, that if compliance cannot occur within such period, then such period will be extended so long as compliance is begun within such period and diligently pursued, but only if such extension would not materially adversely affect the interests of any registered owner of the Bonds.

To the extent that the Agency has entered into a Continuing Disclosure Certificate with respect to the Bonds, the Bond Insurer shall be included as party to be notified.

Consent of the Bond Insurer. Any provision of the Indenture expressly recognizing or granting rights in or to the Bond Insurer may not be amended in any manner which affects the rights of the Bond Insurer under the Indenture without the prior written consent of the Bond Insurer.

Notwithstanding anything in the Indenture to the contrary if the Bond Insurer has failed to make any payments under the Bond Insurance Policy, and such failure remains unremedied, all rights accruing to the Bond Insurer under the Indenture with respect to the giving of directions, instructions, approvals or consents shall cease to be in force and effect until such time as such failure to make such payments has been remedied.

Consent of the Bond Insurer in Addition to Consent of the Owners. The Bond Insurer's consent shall be required in addition to consent of the Owners, when required, for the following purposes: (i) execution and delivery of any supplemental Indenture; (ii) removal of the Trustee and selection and appointment of any successor trustee or paying agent; and (iii) initiation or approval of any action not described in (i) or (ii) above which required consent of the Owners.

**APPENDIX B**

**AUDITED FINANCIAL STATEMENTS OF THE  
COMMUNITY REDEVELOPMENT AGENCY OF THE CITY OF MORENO VALLEY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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**REDEVELOPMENT AGENCY OF THE  
CITY OF MORENO VALLEY, CALIFORNIA**

**FINANCIAL AND COMPLIANCE REPORT**

**YEAR ENDED JUNE 30, 2006**

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**REDEVELOPMENT AGENCY OF THE  
CITY OF MORENO VALLEY**

June 30, 2006

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Board of Directors  
Redevelopment Agency of the City of Moreno Valley  
Moreno Valley, California

### **INDEPENDENT AUDITORS' REPORT**

We have audited the accompanying financial statements of the governmental activities and each major fund of the Redevelopment Agency of the City of Moreno Valley ("Agency"), a component unit of the City of Moreno Valley, California, as of and for the year ended June 30, 2006, which collectively comprise the Agency's basic financial statements, as listed in the accompanying table of contents. These financial statements are the responsibility of the management of the Redevelopment Agency of the City of Moreno Valley. Our responsibility is to express an opinion on these component unit financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall component unit 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 respective financial position of governmental activities and each major fund of the Redevelopment Agency of the City of Moreno Valley at June 30, 2006, and the respective changes in financial position of the Agency for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Agency has not presented *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Redevelopment Agency of the City of Moreno Valley's basic financial statements. The supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Board of Directors  
Redevelopment Agency of the City of Moreno Valley  
Page Two

In accordance with *Government Auditing Standards*, we have also issued a report dated January 30, 2007 on our consideration of the Redevelopment Agency of the City of Moreno Valley's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

*Mayor Hoffman McClann P.C.*

Irvine, California  
January 30, 2007

## REDEVELOPMENT AGENCY OF THE CITY OF MORENO VALLEY

## STATEMENT OF NET ASSETS

JUNE 30, 2006

	<u>Governmental Activities</u>	
<b>Assets:</b>		
Cash and investments		\$ 17,229,967
Receivables:		
Accounts	\$ 264,891	
Interest	64,562	
Loans	<u>6,372,376</u>	
Total Receivables		6,701,829
Due from other governments		294,861
Advances to the City of Moreno Valley		317,999
Nondepreciated capital assets		
Land	7,179,757	
Depreciable capital assets		
Building	<u>11,503,946</u>	
Total Capital Assets		<u>18,683,703</u>
<b>Total Assets</b>		<b><u>43,228,359</u></b>
<b>Liabilities:</b>		
Accounts payable and accrued expenses		1,068,013
Due to other governments		1,350,783
Other current liabilities		95,925
Long-term liabilities:		
Due within one year	200,000	
Due in more than one year	<u>32,279,932</u>	
Total Long-Term Liabilities		<u>32,479,932</u>
<b>Total Liabilities</b>		<b><u>34,994,653</u></b>
<b>Net Assets:</b>		
Invested in capital assets, net of related debt		18,546,530
Restricted for:		
Low & Moderate Housing		15,295,134
Unrestricted (deficit)		<u>(25,607,958)</u>
<b>Total Net Assets</b>		<b><u>\$ 8,233,706</u></b>

See Notes to the Basic Financial Statements

## REDEVELOPMENT AGENCY OF THE CITY OF MORENO VALLEY

## STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets Governmental Activities
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	
<b>Governmental Activities:</b>					
General government	\$ 1,164,534	\$ -	\$ -	\$ -	\$ (1,164,534)
Community development	3,985,331	-	-	-	(3,985,331)
Interest on long-term debt	1,900,411	-	-	-	(1,900,411)
<b>Total Governmental Activities</b>	<b>\$ 7,050,276</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>(7,050,276)</b>
<b>General Revenues:</b>					
Taxes (net of pass-through payments)					6,434,589
Intergovernmental					878,106
Use of money and property					544,674
<b>Total General Revenues</b>					<b>7,857,369</b>
Change in Net Assets					807,093
Net Assets at Beginning of Year					6,685,359
Restatement of Net Assets					741,254
<b>Net Assets at End of Year</b>					<b>\$ 8,233,706</b>

See Notes to the Basic Financial Statements

**REDEVELOPMENT AGENCY OF THE CITY OF MORENO VALLEY  
GOVERNMENTAL FUNDS  
BALANCE SHEET**

JUNE 30, 2006

	<u>Capital Projects</u>		<u>Total Governmental Funds</u>
	<u>Moreno Valley Redevelopment Project</u>	<u>Moreno Valley Redevelopment Project  Low and Moderate Housing</u>	
<b>Assets:</b>			
Cash and investments	\$ 7,656,837	\$ 9,573,130	\$ 17,229,967
Receivables:			
Accounts	-	264,891	264,891
Interest	-	64,562	64,562
Loans	-	6,372,376	6,372,376
Due from other governments	294,861	-	294,861
Advances to City	317,999	-	317,999
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Total Assets</b>	<b><u>\$ 8,269,697</u></b>	<b><u>\$ 16,274,959</u></b>	<b><u>\$ 24,544,656</u></b>
<b>Liabilities and Fund Balances:</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 144,216	\$ 923,797	\$ 1,068,013
Due to other governments	1,350,783	-	1,350,783
Deferred revenue	-	64,562	64,562
Accrued payroll	39,897	56,028	95,925
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Total Liabilities</b>	<b><u>1,534,896</u></b>	<b><u>1,044,387</u></b>	<b><u>2,579,283</u></b>
<b>Fund Balances:</b>			
Reserved:			
Encumbrances	392,921	9,280,939	9,673,860
Long Term Receivables	-	6,372,376	6,372,376
Advances to City	317,999	-	317,999
Unreserved:			
Designated:			
Continuing Projects	1,166,738	-	1,166,738
Undesignated	4,857,143	(422,743)	4,434,400
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Total Fund Balances</b>	<b><u>6,734,801</u></b>	<b><u>15,230,572</u></b>	<b><u>21,965,373</u></b>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 8,269,697</u></b>	<b><u>\$ 16,274,959</u></b>	<b><u>\$ 24,544,656</u></b>

See Notes to the Basic Financial Statements

REDEVELOPMENT AGENCY OF THE CITY OF MORENO VALLEY

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2006

Fund balances of governmental funds	\$ 21,965,373
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	18,683,703
Deferred revenue is present in governmental fund financial statements to indicate that receivables are not available currently; however, in the Statement of Net Assets these deferrals are eliminated.	64,562
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	
Developer loans	(2,818,937)
Loans from City	<u>(29,660,995)</u>
<b>Net assets of governmental activities</b>	<b><u>\$ 8,233,706</u></b>

**REDEVELOPMENT AGENCY OF THE CITY OF MORENO VALLEY  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2006**

	<u>Capital Projects</u>		<u>Total Governmental Funds</u>
	<u>Moreno Valley Redevelopment Project</u>	<u>Moreno Valley Redevelopment Project  Low and Moderate Housing</u>	
<b>Revenues:</b>			
Taxes and assessments	\$ 11,232,908	\$ 2,673,012	\$ 13,905,920
Use of money and property	270,059	274,615	544,674
Other revenue	734,494	121,264	855,758
<b>Total Revenues</b>	<b><u>12,237,461</u></b>	<b><u>3,068,891</u></b>	<b><u>15,306,352</u></b>
<b>Expenditures:</b>			
Current:			
General government	345,006	819,528	1,164,534
Public Safety	-	58,000	58,000
Community development	15,296,979	271,471	15,568,450
Debt service:			
Interest expense	1,900,411	-	1,900,411
Long-term debt repayments	1,368,429	-	1,368,429
<b>Total Expenditures</b>	<b><u>18,910,825</u></b>	<b><u>1,148,999</u></b>	<b><u>20,059,824</u></b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b><u>(6,673,364)</u></b>	<b><u>1,919,892</u></b>	<b><u>(4,753,472)</u></b>
<b>Other Financing Sources (Uses):</b>			
Proceeds from advances	13,776,495	-	13,776,495
Pass-through agreement payments	(6,788,921)	-	(6,788,921)
Payment to Educational Revenue Augmentation Fund	(682,410)	-	(682,410)
<b>Total Other Financing Sources (Uses)</b>	<b><u>6,305,164</u></b>	<b><u>-</u></b>	<b><u>6,305,164</u></b>
<b>Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses</b>	<b><u>\$ (368,200)</u></b>	<b><u>\$ 1,919,892</u></b>	<b><u>\$ 1,551,692</u></b>
<b>Fund Balances:</b>			
Beginning of Year	\$ 7,103,001	\$ 13,310,680	\$ 20,413,681
<b>Net Change in Fund Balances</b>	<b><u>(368,200)</u></b>	<b><u>1,919,892</u></b>	<b><u>1,551,692</u></b>
<b>End of Year</b>	<b><u>\$ 6,734,801</u></b>	<b><u>\$ 15,230,572</u></b>	<b><u>\$ 21,965,373</u></b>

See Notes to the Basic Financial Statements

## REDEVELOPMENT AGENCY OF THE CITY OF MORENO VALLEY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds	\$ 1,551,692
Amounts reported for governmental activities in the Statement of Activities differs from the amounts reported in the statement of activities because:	
Governmental funds report capital outlay as expenditures. However in the statement of activities the cost of those assets is capitalized and allocated over their useful lives through depreciation expense.	137,173
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	(904,120)
Collections on receivables and loan transactions offset by deferred revenue are reported as revenue and expenditures in governmental funds; however, they do not provide revenue or expenses in the Statement of Activities.	<u>22,348</u>
<b>Changes in net assets of governmental activities</b>	<b><u>\$ 807,093</u></b>

REDEVELOPMENT AGENCY OF THE  
CITY OF MORENO VALLEY

NOTES TO THE BASIC FINANCIAL STATEMENTS  
Year Ended June 30, 2006

I. SIGNIFICANT ACCOUNTING POLICIES

Note 1: Organization and Summary of Significant Accounting Policies

a. Description of the Reporting Entity

The Redevelopment Agency of the City of Moreno Valley, California, is a component unit of a reporting entity that consist of the following primary and component units:

Reporting Entity:

Primary Government:

City of Moreno Valley

Component Units:

Redevelopment Agency of the City of Moreno Valley  
Community Services District of the City of Moreno Valley  
Community Facilities Districts No. 2 and No. 3  
Towngate Community Facilities District No. 87-1  
Moreno Valley Public Facilities Financing Corporation  
Moreno Valley Public Financing Authority  
Industrial Development Authority

The attached basic financial statements contain information relative only to the Redevelopment Agency of the City of Moreno Valley as one component unit, which is an integral part of the total reporting entity. They do not contain financial data relating to the other component units.

The Redevelopment Agency of the City of Moreno Valley (the Agency) was created by a City Council ordinance adopted on February 18, 1986. The Agency was established pursuant to the State of California Health and Safety Code, Section 33000, entitled Community Redevelopment Law. Its purpose is to prepare and carry out plans for the improvement, rehabilitation and redevelopment of blighted areas within the City of Moreno Valley (the City).

Government Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, defines the reporting entity as the primary government and those component units for which the primary government is financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either: a) the primary government has the ability to impose its will, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. Since the City Council of the City of Moreno Valley also serves as

**Redevelopment Agency of the City of Moreno Valley  
Notes to the Basic Financial Statements (Continued)**

**Note 1: Organization and Summary of Significant Accounting Policies (Continued)**

**a. Description of the Reporting Entity (Continued)**

the Governing Board of the Agency, the City, in effect, has the ability to influence and control operations. Therefore, the City has oversight responsibility for the Agency. Accordingly, in applying the criteria of GASB Statement No. 14, the financial statements of the Agency are included in the City's Comprehensive Annual Financial Report. There are no other entities that are considered to be component units of the Agency. The Agency has the same fiscal year end as the City and its financial statements can be obtained from the City Clerk.

**b. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Major individual governmental funds are reported as separate columns in the fund financial statements.

**c. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

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

**Redevelopment Agency of the City of Moreno Valley  
Notes to the Basic Financial Statements (Continued)**

**Note 1: Organization and Summary of Significant Accounting Policies (Continued)**

**c. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 90 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Agency reports the following major governmental funds:

The Project Fund accounts for the tax increment received, and the debt service and rehabilitation expenditures made by the Agency.

The Low and Moderate Housing Fund accounts for 20% of the tax increment that is set aside for low and moderate housing activities.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

**d. Assets, Liabilities and Net Assets or Equity**

**1. Investments**

Investments for the Agency are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

**Redevelopment Agency of the City of Moreno Valley  
Notes to the Basic Financial Statements (Continued)**

**Note 1: Organization and Summary of Significant Accounting Policies (Continued)**

**d. Assets, Liabilities and Net Assets or Equity (Continued)**

**2. Receivables and Payables**

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles.

Property tax revenue is recognized in the fiscal year for which the taxes have been levied providing they become available. Available means then due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter (not to exceed 90 days) to be used to pay liabilities of the current period. The County of Riverside collects property taxes for the Agency. Tax liens attach annually as of 12:01 A.M. on the first day in January preceding the fiscal year for which the taxes are levied. The tax levy covers the fiscal period July 1 to June 30. All secured personal property taxes and one-half of the taxes on real property are due November 1; the second installment is due February 1. All taxes are delinquent, if unpaid, on December 10 and April 10, respectively. Unsecured personal property taxes become due on the first of March each year and are delinquent on August 31.

**3. Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**4. Capital Assets**

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**Redevelopment Agency of the City of Moreno Valley  
Notes to the Basic Financial Statements (Continued)**

**Note 1: Organization and Summary of Significant Accounting Policies (Continued)**

**d. Assets, Liabilities and Net Assets or Equity (Continued)**

In accordance with GASB Statement No. 34, the Agency is required to report general infrastructure assets. The Agency does not own any infrastructure capital assets except for land and building for the year ended June 30, 2006.

Buildings are depreciated using the straight-line method over the estimated useful life of 50 years.

**5. Deferred Revenue**

The government reports unearned revenue on its combined balance sheet. Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

**6. Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets.

**7. Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**II. STEWARDSHIP**

**Note 2: Stewardship, Compliance and Accountability**

**a. Budgetary Data**

**General Budget Policies**

Budgets are legally adopted and formal budgetary integration is employed as a management control device during the year for all Governmental Fund types. From the effective date of the budget, the amounts stated therein as proposed expenditures become appropriations to the various Agency departments.

**Redevelopment Agency of the City of Moreno Valley  
Notes to the Basic Financial Statements (Continued)**

**Note 2: Stewardship, Compliance and Accountability (Continued)**

Reported budget amounts represent the original legally adopted budget as amended. The City Council, acting as the Agency Board, may amend the budget only by a duly adopted minute resolution during a regular meeting, providing that sufficient monies are available and that expenditures of proceeds of taxes will not be increased beyond the constitutional appropriations limit as imposed by Article XIII B of the State Constitution.

Individual fund budgets are, in all cases where appropriations are required, the same as the appropriation amounts. In the case of the governmental fund types, unexpended budgeted amounts, except for amounts relating to capital projects, lapse at the end of the budget year. Spending control for most funds is established by the amount of expenditures budgeted for each department within the fund, but management control is exercised at budgetary line item levels within the departments. Management can transfer budgeted amounts between line items within each department provided that they do not increase or decrease total department appropriations. Expenditures may not legally exceed budgeted appropriations at the department and fund levels.

**Encumbrances**

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental funds. Unexpended and unencumbered appropriations of the governmental funds automatically lapse at the end of the fiscal year. Encumbrances at year-end are a portion of the reserved fund balance and are reappropriated the following year.

**Budget Basis Accounting**

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

**Note 3: Cash and Investments**

Cash and investments reported in the accompanying financial statements consisted of the following:

Cash and investments pooled with the City	<u>\$17,229,967</u>
---	---------------------

The Agency's funds are pooled with the City of Moreno Valley's cash and investments in order to generate optimum interest income. The information required by GASB Statement No. 40 related to authorized investments, credit risk, etc. is available in the annual report of the City.

**Redevelopment Agency of the City of Moreno Valley  
Notes to the Basic Financial Statements (Continued)**

**Note 4: Long-Term Receivables**

Long-Term receivables of \$6,672,376 consist primarily of loans and advances for development purposes.

**Note 5: General Capital Assets**

A summary of changes in general capital assets follows:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>
Non-Depreciable Assets:				
Land	\$7,042,584	\$ 137,173	\$ -	\$ 7,179,757
Depreciable Assets:				
Building	-	11,503,946	-	11,503,946
Total Capital Assets	<u>\$7,042,584</u>	<u>\$11,641,119</u>	<u>\$ -</u>	<u>\$18,683,703</u>

**Note 6: Advances from City**

The Towngate Regional Mall notes (Sears Note), totaling \$13,000,000, originated from a participation agreement (as amended) whereby the Agency acquired certain parcels within the mall for subsequent transfer to major tenants. The notes bear interest of 7.25% and are payable solely from available site-generated property tax increment and up to 50% of site-generated sales tax. Furthermore, the Agency had covenanted to use reasonable best efforts to refinance these notes with Tax Allocation Bonds, provided such financing is determined to be fiscally feasible. At June 30, 2006, accrued interest amounted to \$3,799,618. During 2003-2004, the City purchased the rights to the notes from the holder. These amounts are now payable to the City and were previously reported in the Project Fund and are now reported as a long term liability in the government-wide financial statements.

The Agency purchased improved property from the City – the Conference and Recreation Center. The purchase price was \$14,203,946. The loan note is \$11,503,946 after the initial payment of \$2,700,000. The term is 20 years with 12% simple interest. The Agency will make interest only annual payments with a balloon payment due at the end of the term.

**Note 7: Long-Term Liabilities**

- a. A description of the Agency's long-term liabilities outstanding as of June 30, 2006 is as follows:

Note Payable, Price Company

The Agency has recorded a long-term payable in the amount of \$2,462,131 under a development and disposition agreement and promissory note with Price Company for the reimbursement of costs of construction of a 130,000 square-foot-retail store. The note bears interest at 8% per annum and is payable solely from 50% of site-generated sales tax. Any remainder payable after September 2015 will be forgiven. At June 30, 2006, accrued interest amounted to \$356,806.

**Redevelopment Agency of the City of Moreno Valley  
Notes to the Basic Financial Statements (Continued)**

**Note 7: Long-Term Liabilities (Continued)**

b. The following is a schedule of changes in long-term debt of the Agency for the fiscal year ended June 30, 2006:

	Balance July 1, 2005	Adjustments	Additions	Repayments	Balance June 30, 2006	Due Within One Year
Moreno Valley Redevelopment Project						
City Loans – Principal	\$13,467,077	\$ -	\$11,503,946	200,000	\$24,771,023	200,000
City Loans – Unpaid Interest	4,349,873	(741,254)	2,032,855	751,502	4,889,972	-
Price Company Note	2,462,131	-	-	-	2,462,131	-
Price Company matured interest	<u>534,039</u>	<u>-</u>	<u>239,694</u>	<u>416,927</u>	<u>356,806</u>	<u>-</u>
Total	<u>20,813,120</u>	<u>(741,254)</u>	<u>13,776,495</u>	<u>1,368,429</u>	<u>32,479,932</u>	<u>200,000</u>
Total – All Project Areas						
City Loans – Principal	\$13,467,077	\$ -	\$11,503,946	\$200,000	\$24,771,023	200,000
City Loans – Unpaid Interest	4,349,873	(741,254)	2,032,855	751,502	4,889,972	-
Developer Loans - Principal	2,462,131	-	-	-	2,462,131	-
Developer Loans - Unpaid Interest	<u>534,039</u>	<u>-</u>	<u>239,694</u>	<u>416,927</u>	<u>356,806</u>	<u>-</u>
Total	<u>\$20,813,120</u>	<u>(741,254)</u>	<u>13,776,495</u>	<u>1,368,429</u>	<u>\$32,479,932</u>	<u>200,000</u>
Net Long-term debt					<u>\$32,479,932</u>	

Annual maturities for long-term debt are not presented, as fixed maturities have not been established.

**IV. OTHER DISCLOSURES**

**Note 8: Long-Term Payable to the City of Moreno Valley**

The long-term payable to the City of Moreno Valley, totaling \$267,077 (exclusive of Towngate Regional Mall notes and the Conference and Recreation Center note – See Note 6), represents remaining monies borrowed in prior fiscal years by the Agency to finance redevelopment activities. The stated interest rate is commensurate with the rate paid by the State of California Local Agency Investment Fund. Repayment of the long-term payable is made when funds become available.

**Note 9: Commitments and Contingencies**

Riverside County Agreement

During December 1987, the City of Moreno Valley and the Agency entered into an agreement with the County of Riverside to reimburse the County for the portion of tax increment the County would have been allocated and paid had there not been a redevelopment project adopted in the City. The Agency receives these amounts up to \$7 million annually. The County will receive all annual tax increment in excess of \$7 million until the total increment reaches \$12 million and half of annual tax increment in excess of \$12 million. When total tax increment paid to the County under this agreement from increments between \$7 million and \$12 million reaches \$75 million, tax increment in excess of \$7 million annually will be split equally between the Agency and County.

**Redevelopment Agency of the City of Moreno Valley  
Notes to the Basic Financial Statements (Continued)**

**Note 9: Commitments and Contingencies, (Continued)**

During April 1988, the City of Moreno Valley and the Agency entered into an agreement with the Riverside County Flood Control and Water Conservation District (District) which specifies that the Agency shall receive 100% of the District share of the Tax Increment until such time the total Tax Increment exceeds \$12 million at which time the District shall receive at least 50% of its share.

The Agency must annually demonstrate, on a project by project basis, that the cumulative project costs paid by the Agency for the project improvements exceed the cumulative total of District share received by the Agency. To the extent that the cumulative project costs paid by the Agency exceed the cumulative total of District share received by the Agency, the Agency will receive the balance needed from the remaining 50% of the District share.

Beginning in 2004-2005 the Agency's tax increment exceeded \$7 million. The County deducts its proportionate share from the Agency's remittances. The amount retained by the County is included in Other Financing Sources – Pass Through Agreement Payments in the financial statements. An additional amount of \$1,350,784 was not remitted to the County and has been included in Due to Other Governments.

**Community Facilities District No. 3 Agreement**

In conjunction with the issuance of the Moreno Valley Auto Mall Special Tax Bonds Series 2000 (Auto Mall Refinancing), the Agency and the City are parties to an owner participation agreement which provides that the Agency will transmit to the District the available property tax increment it receives on parcels within the District as a credit against the special parcel taxes that otherwise would be payable by the owners. Furthermore, the City has agreed to loan the Agency available sales tax generated within the District for payment directly to the parcel owners should the increment be insufficient to offset the special parcel taxes. In addition, the Agency has agreed to pay to the parcel owners, subject to certain restrictions, certain available surplus sales tax from within the District. The obligations to remit sales tax terminate by December 1, 2010.

This agreement replaces a previous arrangement involving these parcels when they were included in Community Facilities District No. 2.

The amounts remitted during the year under the replacement and previous agreement to parcel owners totaled \$1,065,477.

**Community Facilities District No. 87-1 Agreement**

In connection with the issuance of the Community Facilities District No. 87-1 (CFD) Bonds, Series A and B, the City of Moreno Valley and the Agency entered into an owner participation agreement whereby the Agency has committed tax increment for the payment of debt service requirements for these Bonds.

**Redevelopment Agency of the City of Moreno Valley  
Notes to the Basic Financial Statements (Continued)**

**Note 9: Commitments and Contingencies, (Continued)**

Other Agreements

The Agency entered into an ownership participation agreement in February 2000 to fund, on a reimbursement basis, the cost of public infrastructure improvements required for a proposed 49,000 square-foot manufacturing facility. The Agency's commitment is not to exceed \$325,000 and is payable incrementally over five years ending in 2006, upon completion of the improvements and the manufacturing facility.

Self-Insurance

The Agency is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, and injuries to employees. The City of Moreno Valley established two self-insurance funds (internal service funds) to account for and finance its uninsured risks of loss. Under this program, the self-insurance funds provide coverage for up to a maximum of \$300,000 for each workers' compensation claim and \$250,000 for each general liability claim. The City purchases commercial insurance for claims in excess of coverage provided by the funds and for all other risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three years. All funds of the Agency participate in the program and make payments to the self-insurance funds based on actuarial estimates of the amounts needed to pay prior and current year claims.

**Note 10: Restatement to Beginning Net Assets**

During the year ended June 30, 2006, the city discovered that interest paid by the Community Redevelopment Agency on a City loan in FY 2005 had not been applied to the loan to reduce the accrued interest payable. To correct this oversight, an adjustment was made to increase the Community Redevelopment Agency's net assets at the beginning of the fiscal year.

	Government- <u>Wide</u>
Net assets at beginning of year, as previously reported	\$6,685,359
Adjustment to record interest on advances credited to prior year	<u>741,254</u>
Net assets at beginning of year, as restated	<u>\$7,426,613</u>

## REDEVELOPMENT AGENCY OF THE CITY OF MORENO VALLEY

COMBINING PROJECT AREA BALANCE SHEET  
ALL DEBT SERVICE AND CAPITAL PROJECTS FUNDS

YEAR ENDED JUNE 30, 2006

	Moreno Valley Redevelopment Project		TOTAL Capital Projects Funds
	Capital Projects		
	Project	Low and Moderate Housing	
<b>ASSETS</b>			
Cash and investments	\$ 7,656,837	\$ 9,573,130	\$ 17,229,967
Receivables:			
Accounts	-	264,891	264,891
Interest	-	64,562	64,562
Loans	-	6,372,376	6,372,376
Due from other governments	294,861	-	294,861
Advances to City	317,999	-	317,999
<b>Total Assets</b>	<b>\$ 8,269,697</b>	<b>\$ 16,274,959</b>	<b>\$ 24,544,656</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 144,216	\$ 923,797	\$ 1,068,013
Due to other governments	1,350,783	-	1,350,783
Deferred revenue	-	64,562	64,562
Accrued payroll	39,897	56,028	95,925
<b>Total Liabilities</b>	<b>1,534,896</b>	<b>1,044,387</b>	<b>2,579,283</b>
<b>Fund Balances:</b>			
Reserved:			
Encumbrances	392,921	9,280,939	9,673,860
Long Term Receivables	-	6,372,376	6,372,376
Advances to City	317,999	-	317,999
Unreserved:			
Designated:			
Continuing projects	1,166,738	-	1,166,738
Undesignated	4,857,143	(422,743)	4,434,400
<b>Total Fund Balances</b>	<b>6,734,801</b>	<b>15,230,572</b>	<b>21,965,373</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 8,269,697</b>	<b>\$ 16,274,959</b>	<b>\$ 24,544,656</b>

## REDEVELOPMENT AGENCY OF THE CITY OF MORENO VALLEY

COMBINING PROJECT AREA STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
ALL DEBT SERVICE AND CAPITAL PROJECTS FUNDS

YEAR ENDED JUNE 30, 2006

	Moreno Valley Redevelopment Project		TOTAL Capital Projects Funds
	Capital Projects		
	Project	Low and Moderate Housing	
<b>Revenues:</b>			
Taxes and Assessments:			
Tax increment	\$ 10,692,050	\$ 2,673,012	\$ 13,365,062
Sales and use tax	540,858	-	540,858
Use of Money and Property:			
Interest income	270,059	274,615	544,674
Other Revenue:			
Miscellaneous revenue	734,494	121,264	855,758
<b>Total Revenues</b>	<b>12,237,461</b>	<b>3,068,891</b>	<b>15,306,352</b>
<b>Expenditures:</b>			
Current:			
General Government:			
Administrative costs	321,620	751,261	1,072,881
Professional services	23,386	68,267	91,653
Public Safety:			
Subsidy to low and moderate housing	-	58,000	58,000
Community Development:			
Project improvement costs	15,296,979	271,471	15,568,450
Debt Service:			
Interest expense	1,900,411	-	1,900,411
Long-term debt repayments	1,368,429	-	1,368,429
<b>Total Expenditures</b>	<b>18,910,825</b>	<b>1,148,999</b>	<b>20,059,824</b>
<b>Excess of Revenues over (under) Expenditures</b>	<b>(6,673,364)</b>	<b>1,919,892</b>	<b>(4,753,472)</b>
<b>Other Financing Sources (Uses)</b>			
Proceeds from advances	13,776,495	-	13,776,495
Pass through agreement payments	(6,788,921)	-	(6,788,921)
Payment to Educational Revenue Augmentation Fund	(682,410)	-	(682,410)
<b>Total Other Financing Sources (Uses)</b>	<b>6,305,164</b>	<b>-</b>	<b>6,305,164</b>
<b>Excess of Revenues and Other Sources over (under) Expenditures and Other Uses</b>	<b>(368,200)</b>	<b>1,919,892</b>	<b>1,551,692</b>
<b>Fund Balances</b>			
Beginning of Year	7,103,001	13,310,680	20,413,681
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	(368,200)	1,919,892	1,551,692
<b>End of Year</b>	<b>\$ 6,734,801</b>	<b>\$ 15,230,572</b>	<b>\$ 21,965,373</b>

## REDEVELOPMENT AGENCY OF THE CITY OF MORENO VALLEY

COMPUTATION OF LOW AND MODERATE  
INCOME HOUSING FUNDS  
EXCESS/SURPLUS

	Low and Moderate Housing Funds - All Project Areas July 1, 2005	Low and Moderate Housing Funds - All Project Areas July 1, 2006
Opening Fund Balance	\$ 13,310,680	\$ 15,230,572
Less Unavailable Amounts:		
Encumbrances (Section 33334.12 (g)(2))	(4,139,839)	(4,775,939)
Rehabilitation loans	<u>(6,401,132)</u>	<u>(6,372,376)</u>
	<u>(10,540,971)</u>	<u>(11,148,315)</u>
Available Low and Moderate Income Housing Funds	2,769,709	4,082,257
Limitation (greater of \$1,000,000 or four years set-aside)		
Set-Aside for last four years:		
2005 - 2006	-	2,673,192
2004 - 2005	1,943,785	1,943,785
2003 - 2004	1,500,061	1,500,061
2002 - 2003	1,215,754	1,215,574
2001 - 2002	<u>1,078,099</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 5,737,699</u></b>	<b><u>\$ 7,332,612</u></b>
<b>Base Limitation</b>	<b><u>\$ 1,000,000</u></b>	<b><u>\$ 1,000,000</u></b>
Greater amount	<u>5,737,699</u>	<u>7,332,612</u>
<b>Computed Excess/Surplus</b>	<b><u>None</u></b>	<b><u>None</u></b>



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Board of Directors  
Redevelopment Agency of the City of Moreno Valley  
Moreno Valley, California

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

We have audited the financial statements of the Redevelopment Agency of the City of Moreno Valley ("Agency") as of and for the year ended June 30, 2006 and have issued our report thereon dated January 30, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

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

Internal Control Over Financial Reporting

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

Board of Directors  
Redevelopment Agency of the City of Moreno Valley  
Page Two

This report is intended for the information of the Board of Directors, management of the Redevelopment Agency of the City of Moreno Valley, State Controller, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Mayer Hoffman Melann P.C.*

Irvine, California  
January 30, 2007

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**APPENDIX C**

**FISCAL CONSULTANT'S REPORT**

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Community Redevelopment Agency  
of the City of Moreno Valley  
Redevelopment Project Area

**Fiscal Consultant Report**

October 5, 2007

Prepared By:

DHA Consulting  
211 E. Ocean Blvd., Suite 216  
Long Beach, CA 90802

**Community Redevelopment  
Agency of the City of Moreno Valley  
Moreno Valley Redevelopment Project Area  
Fiscal Consultant Report**

**Section A - Introduction**

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The Community Redevelopment Agency of the City of Moreno Valley is proposing to issue bonds to be secured, in whole or in part, by tax increment revenues from the Moreno Valley Redevelopment Project Area (Project Area). In connection with the proposed financings, the Agency has retained DHA Consulting to conduct a review of assessed values and prepare a projection of future tax increment revenues for the Project Area. This report summarizes the findings of that review.

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

This Fiscal Consultant Report will present an examination of valuations and tax receipts and a projection of future tax increment revenues for the Project Area. The projections are based on assumptions determined by a review of the taxable value history of the Project Area; anticipated new development activities; and the property tax assessment and property tax apportionment procedures of Riverside County. This report was prepared in August and September of 2007 and is primarily based on 2007-08 assessed value and appeal information as available during that timeframe.

This report is organized into the following sections:

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

## Section B – The Project Area

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The Redevelopment Plan for the Moreno Valley Redevelopment Project was adopted by the City Council of the City of Moreno Valley on December 29, 1987 by Ordinance Number 87-154. As prescribed by law, the Redevelopment Plan contains certain limits, which are currently as follows:

### Redevelopment Plan Limitations

<u>Type of Limitation</u>	<u>Limit</u>
Debt Incurrence Deadline	December 29, 2007
Plan Termination Date	December 29, 2028
Receipt of Tax increment Deadline	December 29, 2038
Bonded Debt Limit	\$247.8 Million
Tax Increment Limit (1)	\$821.2 Million

- (1) The tax increment limit of \$821.2 million, as included in the Redevelopment Plan, excludes from the limit the obligations for the housing set-aside and amounts payable to the County and the Flood Control District under certain written agreements.

As shown above, the Agency's debt incurrence deadline is December 29, 2007. This means that after this date, the Agency cannot issue any more bonds or incur other debt. This deadline can be omitted by ordinance if the Agency so elects, although such action will trigger certain obligations on the part of the Agency to share additional portions of the tax increment revenues generated by the Project Area. See "Agency Obligations" below for additional information on other liens on tax increment revenues.

#### *Project Boundaries and Land Use*

The Project Area encompasses 4,676 acres in several non-contiguous areas. It is irregularly shaped and extends easterly along the 60 Freeway on the north and Cactus Avenue on the south from the western boundary of the City of Moreno Valley. The eastern boundary of the Project Area is irregular and extends as far east as Petit Street, although the majority of the Project Area is west of Lasselle Street.

The assessed value in Project Area is derived from a mix of uses, with residential uses predominating. Table 1 shows the 2007-08 value in the Project Area by type of land use. As shown, residential uses comprise over 55 percent of the 2007-08 assessed values while commercial uses comprise nearly 21 percent and industrial nearly 7 percent. Unlike the balance of Moreno Valley, residential construction that has taken place within the Project Area in the last several years has consisted primarily of large residential apartment

complexes. While there are a number of single family homes in the Project Area, the majority of them were constructed during the 1960's, 70's and 80's.. (One notable exception is the 550 unit Renaissance complex of single family homes constructed in the 2002 to 2004 timeframe.) Approximately 75 percent of the \$1.4 billion in 2007-08 residential assessed values is attributable to single family homes or condominiums with the remaining 25 percent attributable to apartments and other miscellaneous types of residential uses.

#### *Major Taxpayers*

The Major Taxpayers in the Project Area are summarized on Table 2. The total taxable value for the major assesseees represents \$429 million, or about 16.5 percent, of the total value for the Project Area. Four of the largest taxpayers are recently developed or rehabilitated residential apartment complexes, while the balance of the major taxpayers includes industrial, commercial and retail uses. Ridge Moreno Valley, the third largest taxpayer, is the assessee of record for Centerpointe Business Park, a large recently constructed industrial business park. Homart Newco Two Inc., the fifth largest taxpayer, is the owner of the Moreno Valley Mall, an indoor regional mall completed in 1992. The value of the mall assessment was reduced to \$40 million several years ago as the result of the resolution of Proposition 8 appeals. See "Assessment Appeals" for additional information on Proposition 8 appeals.

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

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#### *Property Valuation Methods*

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

The restrictions on property assessment and reassessment imposed by Proposition 13 tend to act as a stabilizing factor for property taxes. Assessed values do not typically increase as much or as quickly as market values do in an escalating real estate market, and do not decrease as much or as quickly in a declining real estate market.

Certain types of property subject to property taxation are not subject to Proposition 13 but rather are subject to annual reappraisal. These include personal property and property assessed by the State Board of Equalization (state-assessed property or SBE). State-assessed property is considered secured property while personal property can either appear on the secured or the unsecured roll. The secured roll includes property on which the property tax levied becomes a lien on the property to secure the payment of taxes. The tax on unsecured property does not become a lien on such property, but may become a lien on other property of the taxpayer. Since 1987-88, the value of most state-assessed property has been reported on a county-wide basis, with resulting revenues allocated to taxing entities and redevelopment projects pursuant to a specified formula as required by AB 454. Only

state-assessed non-unitary values and railroad values are reported at the local situs level. The Agency receives less than \$50,000 in revenue from any type of state-assessed property within the Project Area.

### *Project Area Value Trends*

Assessed values for the Project Area are reported by the County in August each year and then are generally updated in October. Corrections, or other changes, to the assessed values are made by the County throughout the fiscal year, but redevelopment agencies are paid 100 percent of the revenues attributable to the values as reported in October. Table 3 shows the historical taxable values reported by the County for the Project Area since the 1992-93 fiscal year.

As shown on Table 3, the assessed values reported for the Project Area decreased in the mid-1990s, but have increased significantly over the last 5 years. The current year (2007-08) value reported for the Project Area is \$2.6 billion, which is double the 2003-04 reported value of \$1.1 billion. During the mid-1990's, however, the values in the Project Area experienced some declines, ranging from 4 to 9 percent each year from 1995-96 to 1998-99. These declines were related to the real estate recession and resulting declines in values that were experienced during that timeframe. Thereafter growth ranged from 0 to 5 percent until 2002-03; annual growth since 2002-03 has ranged from 9 to 25 percent. In southern California, real estate prices have increased substantially over the last 5 to 7 years, resulting in an increase in the median price of homes of over 50 percent, and an increase in residential new construction. In the Project Area, much of the new residential construction has been apartment buildings rather than single family homes. These factors have contributed to the substantial amount of growth that the Project Area has experienced in the last 5 years: the increases in value for the Project Area have been largely the result of changes in ownership, new residential apartment construction and new commercial and industrial construction.

Economists are now in agreement that housing price appreciation in southern California is slowing, if not stopping or even losing ground. Economists disagree, however, as to whether the softening in the housing market will lead to prices falling or just flattening. Further, there is not any consensus as to the effect of the housing market on real estate values in general. Any such changes to the general real estate market are likely to have an impact on the future assessed values within the Project Area.

## **Section D – Assessment Appeals**

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### *Types of Appeals*

Taxpayers may dispute, or appeal, their property tax assessments. Depending on the outcome of the appeal, taxes paid in the current year may be either higher or lower than the initial assessment. (An appeal which results in a lower valuation is referred to in this Report as a successful appeal.) When an appeal is successfully resolved after the disputed taxes have already been paid, a refund with interest is subsequently issued to the taxpayer by the county.

In California, there are two types of appeals: a Proposition 8 appeal and a base year appeal. A Proposition 8 appeal is based on Section 51 of the Revenue and Taxation Code and allows for temporary reductions in the taxes paid on properties because the assessed value of a property somehow becomes higher than its actual market value. This can be the result of the damage or removal of property, or general reductions in real estate values. Once the property damage is restored, or the real estate market improves, an assessment subject to Proposition 8 reduction can be returned to its pre-appeal value. The second type of appeal is a base year assessment appeal where owners challenge the original, or base year, valuation assigned by the Assessor. Any reduction resulting from a base year assessment appeal is permanent and can only increase at the allowable inflationary adjustment unless the property is sold or experiences new construction.

There are also two methods for achieving a reduction in the valuation of property. One way is for the applicant to file an assessment appeal application; the other way is for the Assessor's office to process an assessment reduction without the taxpayer's prompting or request. For the purpose of this report, assessed value reductions processed by the County without taxpayer prompting are referred to as automatic reductions. Automatic assessed value reductions would almost always be Proposition 8 appeals, although filed appeals can be either Proposition 8 or base year appeals.

#### *Automatic Assessment Appeals*

In August 2007, the Riverside County Assessor announced that his office would process temporary assessed value reductions (Proposition 8) for properties without such reductions being necessitated by the request or prompting of the taxpayer, as is more typical with assessment reductions. These reductions would be processed in instances where the assessed values now exceed the current market value of properties. This announcement was triggered by at least the perception of dropping residential property values in certain areas of Riverside County.

**Citywide:** For the City of Moreno Valley, the automatic Proposition 8 assessed value reductions announced by the Assessor had very little impact on the 2007-08 assessed values. Citywide, the total reduction equaled about \$12.6 million, or about one-tenth of one percent (0.1%) of total 2007-08 assessed value reported for the City. The supervising residential appraiser for the Riverside/western Moreno Valley area reported that very few such reductions were processed for residential properties in the Riverside/Moreno Valley area: the major reductions processed for 2007-08 were in the desert areas such as Palm Springs and Indio. The amounts of the assessed value reductions resulting from Proposition 8 appeals, both filed appeals and automatic reductions, for both the City of Moreno Valley and the County of Riverside are shown in Table 4. While the amounts shown on Table 4 include both filed and automatic appeals, the amounts shown for 2007-08 are probably largely attributable to automatic assessment reductions as taxpayers have until December 2007 to file appeals for the 2007-08 fiscal year.

**Redevelopment Project Area:** Historical Information on the amount of the reductions attributable to the Project Area was not available. For the 2007-08 fiscal year, however, the Proposition 8 assessment appeals information for the Project Area is as follows:

### 2007-08 Proposition 8 Reductions

<b>Project Area Total Value</b>	<b>Original Value</b>	<b>Reduced Value</b>	<b>Value Reduction</b>
2,608,666,928	13,695,794	10,492,102	(3,203,692)

As shown above, the value for \$13.7 million in property was reduced to \$10.5 million for the 2007-08 fiscal year through Proposition 8 appeals adjustments. This represents a \$3.2 million, or 23.4 percent, reduction. When compared to the total Project value of \$2.6 billion, however, the \$3.2 million decline equals a reduction of about one-tenth of one percent (0.1%). The 2007-08 assessed values used in this report as the basis of current year revenue estimates have already been reduced by the automatic assessment reductions processed by the County Assessor's office for the 2007-08 fiscal year and shown above.

At this time, it is difficult to determine what impact trends in the real estate market may have on future assessed values in the Project Area. While the Assessor announced that Proposition 8 reductions processed for the 2008-09 fiscal year would be substantially greater than those enrolled for 2007-08, appraisers within the Assessor's office responsible for assessing property in the vicinity of the Project Area could not postulate as to the amount of reductions, if any, that might occur: the data needed to estimate such reductions is not yet available. Reductions made to date in the Moreno Valley area are insignificant and are substantially below the Proposition 8 reductions that occurred in prior fiscal years (see above and Table 4). Because of these factors, a deduction to 2007-08 or future year assessed values has not been made as a result of any automatic assessment appeal reductions which may be processed by the County Assessor. Should property values for real estate decline in future years, such declines may have a detrimental affect on future assessed values and tax increment revenues.

#### *Filed Assessment Appeals*

As mentioned above, appeals can be processed as automatic reductions or on a case by case basis as a result of action by the taxpayer through the filing of assessment appeals. Assessment appeals actually filed by taxpayers have been analyzed, and estimated assessed value reductions have been quantified and included in projections of future year revenues to be generated by the Project Area. These filed appeals include both base year assessment disputes as well as Proposition 8 appeals. Because taxpayers have until December 2007 to file appeals for the 2007-08 fiscal years, 2007-08 taxpayer appeals are not yet available. Appeals filed for 2006-07 and prior fiscal years, however, have been examined. The results of that review are summarized below.

Table 5 presents a summary of the appeal information that is projected to potentially impact future assessed values in the Project Area. Included in the appeals summaries are appeals which have already been resolved, but are projected to impact current or future values, and currently outstanding appeals which may have an impact on future values. Reductions to reported values can occur as a result of the resolution of prior year appeals. As a result, it can be assumed that most outstanding appeals will impact future values and revenues for the Project Areas. For the purposes of projecting future tax increment revenues, currently outstanding appeals are assumed to proportionately reduce taxable values in 2008-09 and

thereafter. The exception to this assumption is where appeals are outstanding on the same property over a number of years: only one assessed value reduction can occur regardless of the number of years being appealed.

The resolution of the outstanding appeals is assumed to result in an average assessed value reduction of 15 percent. This is based on the average reduction in value of resolved assessment appeals filed for the 2000-01 to 2003-04 fiscal year. An insufficient number of appeals have been resolved for the 2004-05 through 2006-07 fiscal years to be able to demonstrate any kind of trend for the more recent years.

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

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

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### *Tax Rates*

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

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

For the 2006-07 fiscal year, secured tax increment revenues allocated to the Project Area were based a weighted average tax rate slightly above 1.0 percent, or 1.01415 percent. This weighted average is the result of several similar, but somewhat different tax rates present in the Project Area. The components of a typical tax rate in the Project Area, excluding any rates associated with indebtedness approved by the voters in 1989 or thereafter is shown below.

<b>Taxing Entity</b>	<b>Typical 2006-07 Rate</b>
Metro Water District	.004700 %
Eastern Muni Wtr Imp District	.009000 %
General	<u>1.000000 %</u>
<b>Total Tax Rate</b>	<b>1.013700 %</b>

For unsecured property, the prior year secured tax rate is used by the County, in accordance with applicable regulations. As mentioned above, tax increment revenue projections included herein are calculated without the inclusion of any override rates, i.e., the revenue projections are based on a 1.0 percent tax rate.

#### *Statements of Indebtedness*

Tax increment is allocated to redevelopment agencies by county auditor-controller offices, provided the agencies have filed a legislatively required debt statement by October 1 each year (Statement of Indebtedness). The legislatively prescribed process requires that redevelopment agencies list all of their debts on the Statement of Indebtedness. Tax increment revenues are only to be allocated to a redevelopment agency to the extent that net debt levels are sufficient. (Net debt equals gross debt less revenues available to retire that debt.)

For redevelopment purposes, debt is defined liberally to include all loans, moneys advanced to or indebtedness, whether funded, refunded assumed or otherwise, incurred by a redevelopment agency to finance or refinance, in whole or in part, the redevelopment project. As a result of this broad definition, expenditure items like administrative expenses can be considered debt if properly documented.

In addition to listing its outstanding debt items, a redevelopment agency must also prepare and file a Reconciliation Statement which provides an explanation for the expenditure of all tax increment revenues received in the prior fiscal year: tax increment revenues can only be spent on qualified debt. If tax increment revenues are spent on other items, the amount so spent is designated as available ("Available Revenue"), and is deducted from the gross amount of debt for a project area. Similarly, any tax increment revenues received but not yet spent are considered Available Revenues.

Estimates of future Available Revenues and/or debt levels have not been prepared as a part of this analysis. The estimates of revenues included in the accompanying tables are based on the assumption that the Agency will remain eligible to receive 100 percent of revenues generated by the Project Area. This will require that the Agency properly files a Statement of Indebtedness for the Project Area on an annual basis, expends tax increment revenues for eligible debt items and properly reports its expenditures as debt on supporting Statement of Indebtedness schedules.

#### *Property Tax Allocation Procedures*

The method by which a county allocates property taxes and tax increment revenues can have a significant impact on the receipt of such revenues. A description of some of Riverside County's procedures is included below.

Riverside County aggregates assessed values for all taxing entities early in the Fiscal year. These values are generally updated slightly later in the fiscal year, after the equalized values are available. It is these revised assessed value aggregations that serve as the basis for the County's beginning of the year estimates of revenue due. Changes to estimated revenues can occur throughout the fiscal year as a result of corrections to the tax roll, assessment appeals, tax refunds or tax delinquencies. In Riverside County, any revenue and/or taxable value changes that may occur after the County prepares its final estimates are accounted for

only on a County-wide basis. Taxing entities, other than redevelopment agencies, are impacted by these changes on a County-wide basis and are only indirectly impacted by changes within their specific jurisdictions. In the following fiscal year, any valuation changes which occurred are directly accounted for in the new fiscal year values reported by the County. Taxing entities in Riverside County also have the option to enroll in a Teeter plan for secured revenues, which provides that the County will allocate 100 percent of the secured taxes due regardless of whether such taxes have actually been paid.

**Redevelopment Allocations:** Taxes are allocated to redevelopment agencies somewhat differently from other taxing entities. It is the County's policy to allocate to redevelopment agencies 100 percent of the calculated tax increment due a redevelopment project area without adjustment for delinquencies, redemption payments or roll adjustments. (The exception to the Counties "hold harmless" policy is supplemental revenues, which are discussed below.) Redevelopment agencies are not impacted by these occurrences, even on a county-wide basis, until the following fiscal year when valuations change. The result of the policy is that the Project Area is somewhat insulated from the impacts of appeals, tax refunds and taxable value adjustments. This policy is set administratively and is therefore subject to change.

Supplemental revenues result from a one time "additional" assessment of property at the time of a change in ownership or completion of construction. These revenues are not included in the County's original estimates of revenues due redevelopment agencies. Supplemental assessments within redevelopment project areas are distributed subsequent to the time when the supplemental revenues are actually received by the County. Unlike other categories of tax increment revenues, supplemental revenues are not allocated based on any kind of estimate.

The majority of the tax increment revenues received by the Agency are disbursed by the County in two payments: 50% in January and 50% in May. Since 1989, unitary revenues have been disbursed separately, lagging behind tax increment disbursements by fifteen to sixty days. (The amount of unitary revenue allocated in 2006-07 to the Project Area was under \$50,000.) In addition, supplemental revenues are disbursed as collected, on a monthly basis.

#### *Tax Receipts*

As discussed above, the County pays redevelopment agencies 100 percent of the tax increment revenue due, based on its beginning of the year computations, not actual collections. Revenues allocated are affected by actual collections only because of supplemental assessments, which are disbursed as collected. Supplemental assessments almost always add to tax collections, although a negative supplemental assessment (or tax refund) can occur in situations when the sales price of a property is less than its existing market value. Over the last 5 years, supplemental revenues have caused actual tax receipts to exceed the County's initial tax levy amount in every year. A comparison of tax receipts to the tax levy amount is as follows:

### Comparison of Tax Receipts to Estimated Levy

Fiscal Year	Estimated Tax Levy	Tax Increment Received	Percentage Received
2001-02	5,327,097	5,390,495	101.2%
2002-03	5,859,215	6,078,769	103.7%
2003-04	6,913,599	7,594,035	109.8%
2004-05	8,889,985	10,181,729	114.5%
2005-06	11,418,909	13,348,153	116.9%
2006-07	15,399,527	17,325,288	112.5%

The amounts shown above, both for the levies and the actual tax increment receipts, have not been reduced by the Agency's other obligations, even when such amounts have been retained by the County. See "Agency Obligations" section below for a description of impact on tax increment revenues of the Agency's pre-existing obligations.

### **Section F – Tax Increment Projections**

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#### *Current and Projected Revenues*

Current year (2007-08) assessed values and current year projections of gross tax increment and housing set-aside revenues are summarized on Table 6. The 2007-08 estimates of revenues are based on current year information, as reported by Riverside County. The only exception is the use of an artificially low 1.0 percent tax rate. The actual 2007-08 tax rate used to calculate tax increment revenue for the Project Areas will be slightly higher than 1.0%: the 2006-07 effective tax rate was 1.014 percent.

This is a challenging time to prepare estimates of future revenues. The real estate market in southern California has experienced unprecedented growth over the last 5+ years: new construction has been prominent, property values have been increasing at double digit rates and properties, particularly housing, have been selling quickly. That growth has definitely slowed in the last 6 to 12 months, but recognized economists differ as to their opinion as to the future of the real estate market in general, and housing in particular. For the current 2007-08 fiscal year, appraisal staff members in the County Assessor's office advised that the major valuation declines in Riverside County were experienced in the resort desert areas, such as Palm Springs and Indio. They further indicated that at the present time, there is insufficient information to determine what types of reductions, if any, may have occurred or may be occurring in the Riverside/west Moreno Valley area for 2008-09 or future fiscal years.

In addition, staff indicated that such declines can be “uneven”; that is certain residential tracks in an area may be impacted while other properties (residential or commercial) nearby are not.

Because of the limitations on valuation increases that are the result of Proposition 13, enacted in 1979, only properties that were reappraised in the last couple of years are vulnerable to reductions in the event market values decrease: the assessed values assigned to the balance of the properties would probably be below market values even if such values are reduced by 10 to 20 percent. Table 7 shows the valuations for the Project Area that have been reappraised each year since 2004-05, as reported in County assessment records. These values are prepared for information only and have not been factored into the revenue estimates shown in Table 8.

Future tax increment revenue projections are summarized in Table 8. Future revenues shown in the tables have been modified from the 2007-08 levels only to incorporate clearly identified factors that will change values. Potential future reductions to value as a result of the economy or general real estate values have not been incorporated. Assessed values and unitary revenue are assumed to remain at their 2007-08 levels for 2008-09 and thereafter unless modified by assessment appeals, new development, or the Proposition 13 inflationary growth. The specific elements which are assumed to modify future assessed values and/or revenues are as follows:

<b>Impacts to Future Values</b>	<b>Assumptions</b>
<b>Positive Impacts</b>	
Trended Taxable Value	Inflationary Trend has been Assumed for Portions of the Project with Transfer Dates Prior to 1/1/2004
New Development	Developments Completed or Under Construction Only
<b>Negative Impacts</b>	
Appeals	15 % Reduction in Filed Appeals

**Trended Taxable Value:** In California, real property values (land and improvements) are subject to an annual inflationary increase, as allowed under Proposition 13. The maximum inflation factor that county assessors can use to increase assessed values is two percent. Since Proposition 13 was enacted, the inflation factor has equaled the 2.0 percent maximum in most, but not all fiscal years. The application of a 2.0% inflationary increase is just about automatic when real estate prices are increasing at a rate consistent with, or greater than, inflation. When real estate values are not increasing, however, the factor would only be applied by the County to properties where the assessed value is less than the current market value. As approximately 50 percent of the assessed value of the Project Area is reported as having sold since January 1, 2004 (Table 7), it has been assumed that only the remaining 50 percent of the Project Area value is subject to the 2.0 percent inflationary trend. The

remaining 50 percent of the assessed value in the Project Area is assumed to remain at 2007-08 levels in 2008-08 and thereafter. This equates to an effective inflationary rate assumption of 1.0 percent of total project value. This trend is applied to those elements subject to the inflationary adjustments, i.e., land and improvements. Personal property is subject to annual appraisal and is assumed to remain constant throughout the projection.

**New Development:** Future year tax increment revenue estimates have been increased for new developments that have been recently completed or that are currently under construction. Development activity was obtained from Agency staff and confirmed through site visits and/or secondary sources. Amounts estimated as added are summarized on Table 9.

**Appeals:** Assumptions regarding the resolution of appeals that are utilized in the enclosed projections are as shown in Table 5 and are presented in the above "Assessment Appeals" section. Valuation reductions resulting from the resolution of appeals are assumed to occur in 2008-09. Refunds related to the resolution of these appeals have not been incorporated into the revenue projections as the County's practice for the allocation of those refunds holds redevelopment agencies harmless.

## **Section G – Agency Obligations**

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### *Deductions from Tax Increment Generated*

The tax increment revenues for the Project Area are subject to certain Agency obligations as described in this section. The amount of each of these obligations has been quantified and is deducted from gross tax increment revenues in the projections of available revenues to the Agency.

**33676 or 2.0% Payments:** Section 33676 of the redevelopment law requires statutory payments to certain taxing entities for applicable projects. The law only applies to plan adoptions or additions which were completed in the late 1980's until 1993, and is only applicable to taxing entities without a written pass through agreement.

Specifically, the Law provided that a base year taxing entity without a formal tax sharing agreement with a redevelopment agency could still share in the Proposition 13 "automatic" 2.0 percent inflationary growth in a redevelopment project area by adopting a resolution of intention and filing it with the applicable county. Any base year taxing entity that filed the necessary paperwork at the time a redevelopment project was adopted would be eligible to receive its share of the 2.0 percent revenue.

A 2001 court case (Santa Ana Unified School District v. Orange County Development Agency), however, provided a precedent for school districts to be able to file years later to receive revenue generated by the automatic inflationary factor of up to 2.0 percent. Many school districts throughout the state have filed 33676 resolutions in the last few years and are currently receiving these payments. Indeed, some counties have determined to automatically begin making these payments to school districts from qualifying project areas.

For the Moreno Valley Redevelopment Project Area, the school districts have not previously followed the precedent allowed in the Santa Ana Case and have therefore not yet received

any automatic inflationary payments. Agency staff reports that at least one of the applicable school districts has recently adopted a resolution, as required under the Santa Ana case precedent, and thus is apparently now eligible to receive these payments from the Project Area tax increment revenues. For the purpose of this analysis, 33676 payments to all school districts with jurisdiction in the Project Area are assumed to be required starting in 2007-08.

As established in a California Attorney General's opinion, amounts payable to the school districts under 33676 resolutions are not considered tax increment revenue for the purpose of calculating the Agency's housing set-aside obligation.

**Administrative Fees:** Tax increment revenues are reduced by the County through a charge for property tax administrative costs. State law allows counties to charge taxing entities, including redevelopment agencies, for the cost of administering the property tax collection system. The fees have been estimated based on the County of Riverside's historical charges and are assumed to equal slightly less than one percent of tax increment revenue.

**Housing Set-Aside:** Redevelopment agencies are required to deposit not less than 20 percent of the tax increment generated in a project area into a special fund to be used for qualified low and moderate income housing programs. The Agency has and is assumed to continue to comply with this requirement. Amounts potentially due the school districts under the Santa Ana case precedent (2.0% Payments) have been deducted from gross tax increment revenues before calculating the 20 percent due to the housing fund in the revenue estimates included in Table 8. See section entitled "33676 or 2.0% Payments" above.

**Tax Sharing Agreement/County:** At the time the Project was adopted, the Agency entered into an agreement with the County of Riverside to share taxes generated by the Project Area by making payments referred to as pass through payments. The Agreement provides that the County receives no pass through payments until gross tax increment reaches an annual level of \$7 million. Once that threshold is reached, the County receives 100 percent of all tax increment generated (not just its share) over \$7 million, but less than \$12 million. In addition, the County is to receive 50 percent of all tax increment generated over \$12 million. Taxes reached the \$7 million threshold in 2003-04, thus triggering the County sharing in a portion of the revenue stream. Two years later, in 2005-06, Agency revenues exceeded the \$12 million threshold as well: the amount of gross revenue estimated to be generated in 2007-08 totals \$20.4 million.

Because of the provisions of the tax sharing agreement, while gross revenues are between \$7 million and \$12 million, the amount of net tax increment can actually decrease as gross revenues rise. This is because the Agency's obligation to the housing set-aside fund will increase as gross revenues increase over \$7 million, even though 100 percent of the increase is to be paid to the County. Once gross revenues exceed \$12 million, the Agency receives 50 percent of the revenue above \$12 million, resulting in net revenues increasing as gross revenues rise.

Gross tax increment revenues generated by the Project Area had been under \$7 million dollars for a number of years until fiscal 2003-04, when tax increment receipts equaled about \$7.5 million (See "Section E - Tax Allocation and Disbursement/Tax Receipts" above for information concerning total tax receipts.) The County neglected to retain the amount it was due per the Agreement in 2003-04. In addition, it only retained a portion of the total amount

it was due in 2004-05 and 2005-06. The County recognized its error in 2006-07 and deducted the amounts due for prior years from 2006-07 tax distributions. The Agency disputes the County's right to deduct prior year payments from then current year tax receipts.

The County's current practice related to its share of the tax increment revenues generated by the Project Area is to retain the amount it is due under the Agreement from tax increment revenues otherwise distributed to the Agency. The County computes the amount it will be due based on the terms of the Agreement and proportionately reduces payments to the Agency based on that estimated allocation. As a result, the tax distributions received by the Agency in future fiscal years should be based on net tax increment revenues, i.e., tax revenues less the County's proportionate share of the tax increment revenues. All previous tax sharing payments to the County have been calculated based on gross tax increment revenues. No deductions from amounts otherwise due the County have been assumed for projected 2.0 percent payments which may be paid to school districts commencing in 2007-08.

**Tax Sharing Agreement/Flood Control District:** The Agency also entered into an agreement with the Flood Control District to share certain taxes generated by the Project Area. The Agreement provides that the Agency does not owe the District any pass through payment until gross tax increment revenues equal \$12 million. At that time, the Agency agreed to pay to the District 50 percent of its share of tax increment revenue. In addition, the Agency will be obligated to pay to the District up to an additional 50 percent of its share, depending upon the cost of certain flood control improvements that the Agency may have completed. Specifically, if the Agency has completed a sufficient amount of specified flood control improvements, it may get to retain all or a portion of the remaining 50 percent of the District's share. For the purpose of estimating future tax increment revenues, it has been assumed that the Agency pays the Flood Control District 100 percent of its share of tax increment revenue, or about 5.1 percent of gross tax increment revenue, without any deduction for payments made to other taxing entities.

Tax increment revenues exceeded the \$12 million threshold in fiscal year 2005-06, although the County has not, as yet, retained the Flood Control District's share of revenue from the taxes otherwise disbursed to the Agency, nor has the Agency otherwise made provision to pay the Flood Control District directly. The amount potentially due to the Flood Control District for the two fiscal years totals approximately \$1.5 million. Agency staff reports that it has the \$1.5 million reserved to pay the District should the District or the County request payment.

#### *Other Obligations*

The Agency also has other obligations payable from tax revenues that have not been deducted from the tax increment revenue estimates shown in Table 8. Those obligations involve reimbursement for special tax levies for certain Community Facilities Bonds and certain other loans and other agreements with the City of Moreno Valley. Some of these obligations represent senior liens on revenues and some are or will be subordinate to the bonds. Deductions for these obligations have not been included in the enclosed revenue projections. The reader should refer to the Official Statement for the bonds for a description and quantification of those obligations.

### *Contingent Liabilities*

The Redevelopment Plan for Project Area currently provides that the Agency cannot incur debt after December 29, 2007. This limitation was required to be added to the Project Area by legislation that was adopted in 1994, AB 1290. Legislation adopted in 2001, SB 211, provides that the Agency can eliminate this deadline by adopting an ordinance, although additional pass-through payment requirements would be triggered by this action.

Specifically, the Agency would be required to make AB 1290 pass-through payments if it eliminates its debt incurrence deadline. The additional pass-through payments would be based on increases in assessed values above 2007-08 levels. The amount of the AB 1290 pass-through obligations are first payable in an amount equal to 25 percent of non-housing tax increment revenues above 2007-08 levels. In addition, the portion of tax increment on which the Agency already pays pass-through payments because of existing tax sharing agreements would not be subject to the AB 1290 additional payments. In the Project Area, this means that only about 70 percent of the taxes would be included in the AB 1290 pass-through calculation. Because a portion of the revenue is exempt and the calculation is based on increases above future year levels, the actual amount passed through will be significantly less than 25 percent of the non-housing tax increment revenue. The specific amounts of the pass-through requirement will vary depending upon the actual growth in tax increment revenues. Because the Agency has not yet determined whether to pass a SB 211 ordinance, AB 1290 pass through payments have not been deducted from net tax revenues in the enclosed projections.

## **Section H – Other Issues**

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### *Current Legislative Requirements*

Due to shortfalls in the state budget, the state has from time to time required that redevelopment agencies pay a certain portion of tax increment revenues into a state fund for schools, known as the Educational Revenue Augmentation Fund (ERAF). The required redevelopment payments offset the need for a similar amount of state aid to education. The Agency has been required to make ERAF contributions in the following fiscal years: 1993-94; 1994-95; 2002-03; 2003-04; 2004-05; 2005-06. The ERAF obligations, while based on tax increment revenues generated in the Project Area in previous fiscal years, has historically been payable from any source of funds of the Agency, with the exception of housing tax increment. The amounts of the ERAF contributions required from the Community Redevelopment Agency of the City of Moreno Valley since 2002-03 are shown below.

<u>Year</u>	<u>ERAF Pmt</u>
2002-03	172,943
2003-04	320,239
2004-05	609,365
2005-06	682,410

The state budgets for 2006-07 and 2007-08 were passed without the requirement for an additional ERAF contribution, although such a measure could possibly be adopted by the legislature in a future fiscal year.

#### *Caveats*

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

Table 1  
 Community Redevelopment Agency of the City of Moreno Valley  
 Moreno Valley Redevelopment Project Area  
 Land Use Category Summary

<b>Category</b>	<b># of Assessments</b>	<b>2007-08 Value</b>	<b>Percentage</b>
Residential	5,754	1,450,234,022	55.59%
Commercial	314	544,736,339	20.88%
Industrial	57	175,182,990	6.72%
Recreational	5	32,232,597	1.24%
Institutional	28	11,474,812	0.44%
Vacant Land	715	145,357,488	5.57%
SBE Non-Unitary (1)	-	-	0.00%
Unsecured (1)	983	109,597,900	4.20%
Possessory Interest (1)	269	10,316,800	0.40%
Other	530	129,533,980	4.97%
<b>Total</b>	<b>8,655</b>	<b>2,608,666,928</b>	<b>100.00%</b>

(1) Indicates the number of assessments in these categories but actually represent duplicate parcel counts. The total number of taxable parcels in the Project area equals 7,403.

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 Source: Riverside County Tax Records

Table 2  
Community Redevelopment Agency of the City of Moreno Valley  
Moreno Valley Redevelopment Project Area  
Major Taxpayers

No.	Assessee	Use	Total 2007-08	% of Total Value	% of Incr. Value
1	Dav G Stonegate LLC	Legacy Apartments	88,368,000	3.4%	4.3%
2	Towngate Lot 12 Apartments	Santa Rosa Apartments	69,148,000	2.7%	3.4%
3	Ridge Moreno Valley	Centerpoint Business Park	55,883,829	2.1%	2.7%
4	BRE Properties	BRE Apartments	41,600,664	1.6%	2.0%
5	Homart Newco Two Inc. (1)	Retail	40,000,000	1.5%	2.0%
6	Cactus Commerce (2)	Industrial Warehouse	34,727,089	1.3%	1.7%
7	TSC	Retail	31,488,311	1.2%	1.5%
8	Broadstone at Valley View	Apartments	30,945,196	1.2%	1.5%
9	Walmart	Retail	20,782,543	0.8%	1.0%
10	Lowe's HIW Inc.	Retail	16,536,084	0.6%	0.8%
<b>TOTAL MAJOR ASSESSEES</b>			<b>429,479,716</b>	<b>16.5%</b>	<b>21.1%</b>
<b>TOTAL PROJECT AREA VALUE</b>			<b>2,608,666,928</b>		

- (1) The value for this assessment was reduced to the amount shown several years ago as a result of the resolution a Proposition 8 appeal.  
(2) This recently completed industrial building is currently unoccupied.

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Source: Riverside County Tax Records.

Table 3  
 Community Redevelopment Agency of the City of Moreno Valley  
 Moreno Valley Redevelopment Project Area  
 Historical Taxable Values

Fiscal Year	Locally-Assessed Secured Value	Unsecured Value	Total Taxable Value	Percentage Change
1992-93	1,136,700,180	64,074,413	1,200,774,593	N/A
1993-94	1,195,403,919	82,714,427	1,278,118,346	6.44%
1994-95	1,244,967,855	81,648,719	1,326,616,574	3.79%
1995-96	1,111,902,596	88,941,916	1,200,844,512	-9.48%
1996-97	1,050,584,563	81,802,132	1,132,386,695	-5.70%
1997-98	990,535,200	70,634,346	1,061,169,546	-6.29%
1998-99	942,919,717	73,918,602	1,016,838,319	-4.18%
1999-00	941,897,354	76,693,184	1,018,590,538	0.17%
2000-01	965,638,632	79,311,822	1,044,950,454	2.59%
2001-02	999,130,454	87,749,319	1,086,879,773	4.01%
2002-03	1,050,040,854	91,517,583	1,141,558,437	5.03%
2003-04	1,172,735,581	81,779,571	1,254,515,152	9.89%
2004-05	1,354,300,359	86,103,007	1,440,403,366	14.82%
2005-06	1,609,867,931	82,139,820	1,692,007,751	17.47%
2006-07	1,992,800,281	85,503,873	2,078,304,154	22.83%
2007-08	2,499,096,528	109,570,400	2,608,666,928	25.52%

Total 15-Year % Change	117.25%
Average 15-Year % Change	5.70%
Total 5-Year % Change	107.94%
Average 5-Year % Change	20.08%

Source: Riverside County Auditor-Controller

Table 4  
City of Moreno Valley  
Historical Proposition 8 Reductions (1)

Fiscal Year	City of Moreno Valley (2)					County of Riverside				
	No. of Assmts	Total Assessed Value (AV)	Percentage Change	Assessed Value Reduction	Percentage of Total AV	No. of Assmts	Total Assessed Value (AV)	Percentage Change	Assessed Value Reduction	Percentage of Total AV
1994-95	19,363	5,415,238,185		433,885,737	8.0%	126,319	72,241,677,602		3,356,860,729	4.6%
1995-96	24,917	5,110,870,984	-5.6%	754,132,299	14.8%	175,016	72,492,855,548	0.3%	4,876,307,080	6.7%
1996-97	25,744	4,885,567,814	-4.4%	862,863,595	17.7%	200,662	72,474,728,709	0.0%	6,444,683,027	8.9%
1997-98	24,682	4,758,819,318	-2.6%	842,481,003	17.7%	203,183	73,424,218,753	1.3%	6,655,986,431	9.1%
1998-99	25,256	4,603,220,722	-3.3%	961,501,376	20.9%	216,584	74,690,549,113	1.7%	8,106,148,200	10.9%
1999-00	23,075	4,639,177,912	0.8%	931,822,107	20.1%	207,426	79,757,592,482	6.8%	7,687,636,687	9.6%
2000-01	21,086	4,856,230,519	4.7%	796,540,123	16.4%	167,388	88,025,025,469	10.4%	5,916,179,158	6.7%
2001-02	14,546	5,281,129,237	8.7%	542,781,096	10.3%	117,737	97,381,477,501	10.6%	4,085,698,505	4.2%
2002-03	7,911	5,704,231,309	8.0%	353,253,207	6.2%	80,206	108,271,316,869	11.2%	2,764,867,273	2.6%
2003-04	2,495	6,343,770,160	11.2%	197,821,902	3.1%	49,499	120,904,583,579	11.7%	1,972,097,293	1.6%
2004-05	468	7,451,775,432	17.5%	114,825,773	1.5%	34,173	138,842,009,323	14.8%	1,236,636,056	0.9%
2005-06	237	9,227,681,633	23.8%	58,197,781	0.6%	31,898	165,013,262,435	18.8%	787,960,099	0.5%
2006-07	166	11,400,969,085	23.6%	38,012,950	0.3%	27,893	203,619,374,057	23.4%	585,379,414	0.3%
2007-08 (3)	188	13,470,432,527	18.2%	12,651,596	0.1%	31,333	236,409,620,330	16.1%	610,070,683	0.3%

(1) Includes all types of Proposition 8 appeals, both appeals filed by the applicant and assessments reduced by the County Assessor's office without taxpayer request ("automatic" reductions).

(2) Data shown is for the entire City of Moreno Valley, including the Redevelopment Project Area.

(3) Assessment appeals for 2007-08 can be filed by the taxpayer through December 2007, although all automatic reductions processed for 2007-08 were completed by the Assessors office prior to August 2007.

Source: Riverside County Assessor Records

Table 5  
Community Redevelopment Agency of the City of Moreno Valley  
Moreno Valley Redevelopment Project Area  
Pending Appeals (1)

APPLICANT	Parcel #	Years Outstanding	No. of Assmts.	Applicants Opinion	Contested Value (2)	Reduction Assumed (3)	Resolved Value	Est. Value Change
<b>RESOLVED APPEALS (4)</b>								
Bui Thuy T	291-535-010	2006	1		271,735	(140,879)	412,614	(140,879)
<b>TOTAL RESOLVED</b>			<b>1</b>	<b>-</b>	<b>271,735</b>	<b>(140,879)</b>	<b>412,614</b>	<b>(140,879)</b>
<b>OUTSTANDING APPEALS (5)</b>								
<u>Appeals Assumed to Impact 2007-08+ (5)</u>								
El Corte Ingles (Gottchalks)		2006	1	4,600,000	13,679,000			
JC Penney		2004 -2006	1	8,000,000	11,914,364			
Macy's		2006	1	15,676,185	10,805,850			
Sears		2005 - 2006	1	938,768	15,102,593			
Supreme Property West		2004 - 2006	2	2,511,165	6,631,369			
Five Star Enterprises		2006	2	3,352,000	5,585,110			
Other Current Appeals		2006	7	(2,140,419)	8,935,414			
TSC		2005	2	260,917	501,831			
Other Prior Year Appeals		2004 - 2005	7	2,720,415	6,894,163			
<b>TOTAL OUTSTANDING</b>		<b>Varies</b>	<b>24</b>	<b>35,919,031</b>	<b>80,049,694</b>	<b>15%</b>	<b>68,042,240</b>	<b>(12,007,454)</b>
<b>GRAND TOTAL AV REDUCTION</b>			<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>68,454,854</b>	<b>(12,148,333)</b>

**ESTIMATED TAX REFUNDS (6)**

N/A

- (1) Based on Riverside County appeal database, updated through May 17, 2007.
- (2) Amounts shown equal the value under dispute for the applicable year and do not necessarily equal the 2007-08 assessed values.
- (3) For outstanding appeals, the reduction amount shown is estimated. The estimated reduction is based on recent appeal resolution history for the Project Area.
- (4) Includes appeals resolved since December 2006 and/or appeals estimated to have an impact on assessed values in 2007-08 and thereafter.
- (5) Includes appeals filed for 2006-07 and prior fiscal years; information on appeals filed for 2007-08 was not available as of September 2007.
- (6) Because of the way in which Riverside County allocates taxes to redevelopment agencies, the Agency will not be impacted by any refunds paid to taxpayers because of valuation reductions resulting from appeals.

Source: Riverside County Assessor's Appeal Database

Table 6  
Community Redevelopment Agency of the City of Moreno Valley  
Moreno Valley Redevelopment Project Area  
2007-08 Assessed Values and Revenues

Description	2007-08 Assessed Value	Base Year Value	Incremental Value
<b>ASSESSED VALUES (1)</b>			
<b>Secured</b>			
Land	719,909,818	194,102,637	525,807,181
Improvements	1,814,242,232	348,007,136	1,466,235,096
Personal Property	12,174,792	2,492,180	9,682,612
Subtotal	2,546,326,842	544,601,953	2,001,724,889
Other Exemptions	(47,230,314)	(2,988,915)	(44,241,399)
<b>Secured Total</b>	<b>2,499,096,528</b>	<b>541,613,038</b>	<b>1,957,483,490</b>
<b>Unsecured</b>			
Land	12,724	92,332	(79,608)
Improvements	50,089,804	13,225,373	36,864,431
Personal Property	59,582,955	13,905,425	45,677,530
Subtotal	109,685,483	27,223,130	82,462,353
Other Exemptions	(115,083)	-	(115,083)
<b>Unsecured Total</b>	<b>109,570,400</b>	<b>27,223,130</b>	<b>82,347,270</b>
<b>TOTAL VALUE</b>	<b>2,608,666,928</b>	<b>568,836,168</b>	<b>2,039,830,760</b>
<b>Adjust for Outstanding Appeals</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>ADJUSTED VALUE</b>	<b>2,608,666,928</b>	<b>568,836,168</b>	<b>2,039,830,760</b>
Tax Increment @ 1.0%			20,398,308
Estimated Unitary			49,196
<b>GROSS TAX INCREMENT</b>	<b>-</b>	<b>-</b>	<b>20,447,504</b>
<b>OFFSETS TO TAX INCREMENT (2)</b>			
Potential 33676 Payments			944,119
County Pass Through			9,223,752
Flood Control Pass Through			1,043,315
Housing Set-Aside			3,900,677
Administrative Charge			181,381
<b>TAX REVENUES</b>	<b>-</b>	<b>-</b>	<b>5,154,260</b>

(1) Actual 2007-08 values as reported by Riverside County, August 2007.

(2) Excludes any deductions attributable to the Agency's prior obligations towards assessment bonds.

Source: Riverside County Tax Records.

Table 7  
Community Redevelopment Agency of the City of Moreno Valley  
Moreno Valley Redevelopment Project Area  
Properties Reported as Transferring Since 1/1/2004 (1)

Description	Residential	Commercial/Other	Total
<b>Sales 1/1/2004 to 12/31/2004</b>			
No of Assessments	577	160	737
2007-08 Value	218,704,596	359,416,461	578,121,057
% of Total Project Value	15.1%	31.0%	22.2%
<b>Sales 1/1/2005 to 12/31/2005</b>			
No of Assessments	703	153	856
2007-08 Value	223,766,353	258,579,130	482,345,483
% of Total Project Value	15.4%	22.3%	18.5%
<b>Sales 1/1/2006 to 12/31/2006</b>			
No of Assessments	606	61	667
2007-08 Value	219,924,715	41,457,823	261,382,538
% of Total Project Value	15.2%	3.6%	10.0%
<b>Grand Total Sales 1/1/2004 to 12/31/2006</b>			
No of Assessments	1,886	374	2,260
2007-08 Value	662,395,664	659,453,414	1,321,849,078
% of Total Project Value	45.7%	56.9%	50.7%
<b>TOTAL 2007-08 PROJECT VALUES</b>	<b>1,450,234,022</b>	<b>1,158,432,906</b>	<b>2,608,666,928</b>

(1) Includes assessments that are designated as having transferred within the timelines indicated. It is possible that some properties that transferred are not so designated in the assessment records and that others did not result in an assessment increase.

Source: Riverside County Assessor and Recorder Records

Table 8  
Community Redevelopment Agency of the City of Moreno Valley  
Moreno Valley Redevelopment Project Area  
Tax Increment Projection

Fiscal Year	Prior (1) Year Value	Appeals (2)	New Dev. (3)	Incremental Value	Gross Tax Revenue (4)	33676 (5) Pass Thru	County Admin Chg	Housing Set-Aside (6)	County Agrmt Pass Thru (7)	Flood Control Agreement (8)	Net Tax Revenue	\$821 Million Cumulative Net TI/Limit (9)
Thru 2006-07												\$85,700,000
2007-08	2,608,666,928	-	-	2,039,830,760	20,447,504	944,119	181,381	3,900,677	9,223,752	1,043,315	5,154,260	91,035,641
2008-09	2,634,036,020	(12,148,333)	120,945,000	2,173,996,519	21,789,161	1,004,295	193,270	4,156,973	9,894,581	1,111,937	5,428,106	96,657,017
2009-10	2,769,543,436	-	10,780,000	2,211,487,268	22,164,069	1,065,674	196,595	4,219,679	10,082,034	1,131,112	5,468,974	102,322,586
2010-11	2,807,409,093	-	-	2,238,572,925	22,434,925	1,128,281	198,998	4,261,329	10,217,463	1,144,966	5,483,890	108,005,474
2011-12	2,834,765,606	-	-	2,265,929,438	22,708,490	1,192,140	201,424	4,303,270	10,354,245	1,158,958	5,498,454	113,705,351
2012-13	2,862,395,685	-	-	2,293,559,517	22,984,791	1,257,276	203,875	4,345,503	10,492,396	1,173,090	5,512,652	119,421,879
2013-14	2,890,302,064	-	-	2,321,465,896	23,263,855	1,323,714	206,350	4,388,028	10,631,927	1,187,363	5,526,472	125,154,701
2014-15	2,918,487,508	-	-	2,349,651,340	23,545,709	1,391,482	208,850	4,430,846	10,772,855	1,201,779	5,539,898	130,903,449
2015-16	2,946,954,805	-	-	2,378,118,637	23,830,382	1,460,605	211,375	4,473,956	10,915,191	1,216,339	5,552,916	136,667,741
2016-17	2,975,706,776	-	-	2,406,870,608	24,117,902	1,531,110	213,926	4,517,358	11,058,951	1,231,045	5,565,512	142,447,179
2017-18	3,004,746,266	-	-	2,435,910,098	24,408,297	1,603,025	216,502	4,561,054	11,204,148	1,245,898	5,577,669	148,241,350
2018-19	3,034,076,151	-	-	2,465,239,983	24,701,596	1,676,379	219,103	4,605,043	11,350,798	1,260,899	5,589,373	154,049,826
2019-20	3,063,699,335	-	-	2,494,863,167	24,997,828	1,751,200	221,731	4,649,326	9,918,529	1,276,051	7,180,992	161,452,549
2020-21	3,093,618,751	-	-	2,524,782,583	25,297,022	1,827,517	224,385	4,693,901	9,148,511	1,291,354	8,111,355	169,788,289
2021-22	3,123,837,361	-	-	2,555,001,193	25,599,208	1,905,361	227,065	4,738,769	9,299,604	1,306,809	8,121,600	178,136,953
2022-23	3,154,358,157	-	-	2,585,521,989	25,904,416	1,984,761	229,772	4,783,931	9,452,208	1,322,420	8,131,324	186,498,049
2023-24	3,185,184,161	-	-	2,616,347,993	26,212,676	2,065,749	232,506	4,829,385	9,606,338	1,338,187	8,140,510	194,871,066
2024-25	3,216,318,426	-	-	2,647,482,258	26,524,019	2,148,358	235,268	4,875,132	9,762,009	1,354,111	8,149,141	203,255,475
2025-26	3,247,764,032	-	-	2,678,927,864	26,838,475	2,232,618	238,057	4,921,171	9,919,237	1,370,194	8,157,196	211,650,728
2026-27	3,279,524,095	-	-	2,710,687,927	27,156,075	2,318,564	240,874	4,967,502	10,078,038	1,386,439	8,164,659	220,056,261
2027-28	3,311,601,759	-	-	2,742,765,591	27,476,852	2,406,228	243,720	5,014,125	10,238,426	1,402,846	8,171,508	228,471,489
2028-29	3,344,000,199	-	-	2,775,164,031	27,800,836	2,495,646	246,593	5,061,038	10,400,418	1,419,416	8,177,725	236,895,807
2029-30	3,376,722,623	-	-	2,807,886,455	28,128,061	2,586,852	249,496	5,108,242	10,564,030	1,436,153	8,183,288	245,328,591
2030-31	3,409,772,272	-	-	2,840,936,104	28,458,557	2,679,882	252,427	5,155,735	10,729,279	1,453,057	8,188,177	253,769,195
2031-32	3,443,152,417	-	-	2,874,316,249	28,792,358	2,774,773	255,388	5,203,517	10,896,179	1,470,130	8,192,371	262,216,955
2032-33	3,476,866,364	-	-	2,908,030,196	29,129,498	2,871,562	258,379	5,251,587	11,064,749	1,487,374	8,195,848	270,671,181
2033-34	3,510,917,450	-	-	2,942,081,282	29,470,009	2,970,286	261,399	5,299,945	11,235,004	1,504,790	8,198,585	279,131,165
2034-35	3,545,309,047	-	-	2,976,472,879	29,813,925	3,070,985	264,450	5,348,588	11,406,962	1,522,380	8,200,560	287,596,175
2035-36	3,580,044,560	-	-	3,011,208,392	30,161,280	3,173,698	267,531	5,397,516	11,580,640	1,540,146	8,201,749	296,065,454
2036-37	3,615,127,428	-	-	3,046,291,260	30,512,109	3,278,465	270,642	5,446,729	11,756,054	1,558,090	8,202,128	304,538,225
2037-38	3,650,561,125	-	-	3,081,724,957	30,866,446	3,385,328	273,785	5,496,224	11,933,223	1,576,213	8,201,673	313,013,683

- (1) Actual assessed values as reported by the County June 29, 2007. Article XIII A of the California Constitution allows for an annual inflationary adjustment not to exceed 2.0% per year. Fifty percent of the 2007-08 value for the Project Area is assumed to increase at the 2.0% maximum rate. This represents the assessed value for properties which, per County records, transferred ownership prior to January 1, 2004. The balance of the 2007-08 assessed value is assumed to remain constant at 2007-08 levels.
- (2) See Table 5 for information on appeals.
- (3) Value is estimated to be added to the Project Area as a result of new development that was under construction and/or completed but not yet reflected on the tax roll as of August 2007. See Table 9 for additional information.
- (4) Calculated at a 1.0% tax rate, plus \$49,196 in unitary revenue. See Fiscal Report for additional information.
- (5) Payments to the school districts are assumed to be required commencing in the 2007-08 fiscal year pursuant to a 2001 court case referred to as the Santa Ana case, which case allowed school districts that did not file the necessary paperwork could do so years later and thus be eligible to receive payments under the former section 33676 of the Redevelopment Law. Per an attorney general's opinion these payments are not required to count as tax increment revenue and therefore are not subject to the housing set-aside requirement.
- (6) The Housing Set-Aside obligation for the Project Area has been calculated based on Gross Tax Revenue, less the "33676 Pass Thru" amounts. See Note 4 above.
- (7) Estimated payments due to the County based on Gross Tax Revenues and the terms of a tax sharing agreement between the Agency and the County. See "Agency Obligations" section in the Fiscal Report for additional information.
- (8) Estimated payments due to the Flood Control District based on Gross Tax Revenues and the terms of a tax sharing agreement between the Agency and the District. See "Agency Obligations" section in the Fiscal Report for additional information.
- (9) The tax increment limit is \$821 million. This limit is to be applied to net tax increment; after deducting the housing set-aside and any pass through payments per 33401. Per the language in the Plan, the numbers shown above subtract from gross tax increment, the "Housing Set-Aside", the "County Agrmt Pass Thru" and the Flood Control Agreement" obligation, but not the "33676 Pass Thru" obligation.

Table 9  
Community Redevelopment Agency of the City of Moreno Valley  
Moreno Valley Redevelopment Project  
New Development Detail

Description	Sq. Ft/Units	Net Added	Start	Complete	2008-09	2009-10	2010-11	2011-12
<b>COMPLETED OR UNDER CONSTRUCTION</b>								
<b>Town Gate</b>								
Applebee's	5,400	1,200,000	Dec-06	Jul-07	1,200,000			
Panda Express	2,450	500,000	Feb-07	Sep-07	500,000			
Costco expansion	11,800	1,100,000	Feb-07	Oct-07	1,100,000			
Bravo Burgers	3,000	825,000	Jan-07		825,000			
Centerpointe								
Minka Lighting (Ridge Bldg 6)	533,000	11,800,000	Jan-06	Jan-07	11,800,000			
Moreno Valley Health & Wellness Ctr	130,000	2,200,000	Jan-06	Jun-07	2,200,000			
Ridge Property Trust								
Building 4	779,000	41,800,000	Sep-06	Sep-07	41,800,000			
Building 5	180,000	3,300,000	Sep-06	Sep-07	3,300,000			
Building 8	231,380	13,000,000	Jan-07	Jan-08	9,100,000	3,900,000		
Building 9	130,000	5,100,000	Sep-06	Sep-07	5,100,000			
Focus Estates								
Bay Ave Apartments/1 Bdrm	56	4,700,000	Sep-06	Jul-08	4,700,000			
Commercial on Alessandro	30,000	3,400,000	Sep-06	Jul-07	3,400,000			
Cactus Commerce Center	16,000	1,600,000	Sep-06	Jul-07	1,600,000			
Perris Isle Senior Apartments	189	Tax Exempt	Mar-07	Mar-09				
Stoneridge Ranch								
Commercial								
SuperTarget	178,665	17,000,000	Sep-06	Jul-07	13,600,000	3,400,000		
Kohl's	96,350	9,200,000	Sep-06	Oct-07	7,360,000	1,840,000		
Bldg A	7,370	700,000	Sep-06	Oct-07	560,000	140,000		
Bldg B	7,000	700,000	Sep-06	Oct-07	560,000	140,000		
Bldg C	45,650	4,300,000	Sep-06	Oct-07	3,440,000	860,000		
Bldg D	17,950	1,700,000	Sep-06	Oct-07	1,360,000	340,000		
PFF Bank & Trust (Bldg 1)	5,200	800,000	Sep-06	Oct-07	640,000	160,000		
Beazer Tract 32836 - sfd on Nason	43	4,500,000		Apr-07	4,500,000			
Beazer Tract 32835 - Townhomes on Eucalyptus	10	2,300,000			2,300,000			
<b>GRAND TOTAL/UNDER CONSTRUCTION</b>	<b>N/A</b>	<b>131,725,000</b>	<b>N/A</b>	<b>N/A</b>	<b>120,945,000</b>	<b>10,780,000</b>	<b>-</b>	

## APPENDIX D

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the Community Redevelopment Agency of the City of Moreno Valley (the “Issuer”) in connection with the issuance of the Agency’s Community Redevelopment Agency of the City of Moreno Valley, 2007 Tax Allocation Bonds, Series A (the “Bonds”). The Bonds are being issued pursuant to an Indenture of Trust dated as of October 1, 2007 (the “Indenture”) by and between the Agency and Wells Fargo Bank, National Association, as trustee (the “Trustee”). The Agency 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; provided, however, the Issuer shall have no obligation to comply with any provision hereof unless and until the interest rate with respect to the Bonds is converted to a Long-Term Interest Rate (as defined in the Indenture) or is otherwise determined to be subject to the Rule (as defined below).

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 any Nationally Recognized Municipal Securities Information Repository for the purpose of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are included in a list which is maintained on the Internet at <http://www.sec.gov/info/municipal/nrmsir.htm#state>

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

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

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

“State Repository” shall mean any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule. As of the date of this Agreement, there is no State Repository.

3. Provision of Annual Reports.

(a) The Issuer shall provide not later than March 1 following the end of its Fiscal Year (commencing with the Fiscal Year 2006-07) 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 4(1), 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 Moreno Valley 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 Agency's audited financial statements);

(1) Table 2 of the Official Statement entitled "Historical Assessed Valuation and Tax Increment Revenue;" and

(2) Table 3 of the Official Statement entitled "Top Ten Taxable Taxpayers."

(d) Calculation of (i) the ratio of Tax Increment Revenues available to pay debt service on the Bonds to Annual Debt Service on the Bonds using Tax Increment Revenues for the most recently completed Fiscal Year (to the extent not included in the Agency's audited financial statements).

(e) Information on appeals by top ten taxpayers in the Project Area of the Moreno Valley Redevelopment Project, to the extent known by the Agency after inquiry to the County of Riverside (to the extent not included in the Agency's audited financial statements).

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.

(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: \_\_\_\_\_, 2007

COMMUNITY REDEVELOPMENT AGENCY  
OF THE CITY OF MORENO VALLEY

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

**EXHIBIT A**

**NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: COMMUNITY REDEVELOPMENT AGENCY OF THE CITY OF MORENO VALLEY

Name of Issue: COMMUNITY REDEVELOPMENT AGENCY OF THE CITY OF MORENO VALLEY 2007 TAX ALLOCATION BONDS, SERIES A

Date of Issuance \_\_\_\_\_, 2007

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 approved pursuant to Resolution No. \_\_\_\_ adopted by the Board of Directors of the Issuer on \_\_\_\_\_, 2007. The Issuer anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

COMMUNITY REDEVELOPMENT AGENCY OF THE CITY OF MORENO VALLEY

By: \_\_\_\_\_

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## APPENDIX E

### GENERAL INFORMATION CONCERNING THE CITY OF MORENO VALLEY AND THE REGION

*The following information is presented as general background data. Payments for the 2007 Bonds are payable from Tax Revenues of the Agency as described in this Official Statement. The 2007 Bonds are not an obligation of the City.*

#### Location

The City of Moreno Valley (the “City”) is centrally located in Southern California, 66 miles east of Los Angeles and 100 miles north of San Diego. The City encompasses approximately 51 square miles of land area in western Riverside County. Geographically, the City is bordered by three low-lying mountain ranges, March Air Reserve Force Base and Lake Perris State Park. The City is situated at the junction of two major highways, California State Highway 60 (the Moreno Valley Freeway) and Interstate 215.

#### Population

The City is the second largest city in Riverside County with an estimated population of 180,466 as of January 1, 2007. Table E-1 sets forth total population for the City, the County of Riverside (the “County”) and the State of California (the “State”).

**Table E-1**  
**City of Moreno Valley, County of Riverside and State of California**  
**Population**

	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>
Moreno Valley	151,847	157,842	166,385	175,269	180,466
Riverside County	1,726,321	1,807,624	1,888,311	1,966,607	2,031,625
California	35,691,472	36,245,016	36,728,196	37,172,015	37,662,518

Source: State of California, Department of Finance, *E-4 Population Estimates for Cities, Counties and the State, 2001–2007, with 2000 DRU Benchmark*. Sacramento, California May 2007.

## Employment

Table E-2 summarizes the labor force, employment and unemployment figures over the period 2002 through 2006 for the City, the County, the State and United States.

**Table E-2**  
**City of Moreno Valley, County of Riverside, State of California and United States**  
**Labor Force, Employment and Unemployment Yearly Average**

<i>Year and Area</i>	<i>Labor Force</i>	<i>Employment<sup>(1)</sup></i>	<i>Unemployment<sup>(2)</sup></i>	<i>Unemployment Rate (%)<sup>(3)</sup></i>
2002				
Moreno Valley	70,700	65,600	5,100	7.2%
Riverside County	748,700	701,100	47,600	6.4
California	17,330,700	16,168,200	1,162,500	6.7
United States	144,863,000	136,485,000	8,378,000	5.8
2003				
Moreno Valley	73,700	68,400	5,300	7.2%
Riverside County	780,500	731,000	49,500	6.3
California	17,403,900	16,212,600	1,191,300	6.8
United States <sup>(4)</sup>	146,510,000	137,736,000	8,774,000	6.0
2004				
Moreno Valley	77,400	72,400	5,000	6.5%
Riverside County	820,800	773,700	47,100	5.7
California	17,499,600	16,407,900	1,091,700	6.2
United States <sup>(4)</sup>	147,401,000	139,252,000	8,149,000	5.0
2005				
Moreno Valley	81,800	76,600	5,200	6.3%
Riverside County	862,400	816,500	46,400	5.4
California	17,740,400	16,782,300	958,100	5.4
United States <sup>(4)</sup>	149,320,000	141,730,000	7,591,000	5.1
2006				
Moreno Valley	83,400	79,000	4,900	6.3%
Riverside County	886,400	842,000	44,400	5.0
California	17,901,900	17,029,300	872,600	5.4
United States <sup>(4)</sup>	151,413,000	144,419,000	6,910,000	4.6

<sup>(1)</sup> Includes persons involved in labor-management trade disputes.

<sup>(2)</sup> Includes all persons without jobs who are actively seeking work.

<sup>(3)</sup> The unemployment rate is computed from unrounded data; therefore, it may differ from rates computed from rounded figures in this table.

<sup>(4)</sup> Not strictly comparable with data for prior years.

Source: California Employment Development Department, based on March 2005 Benchmark and U.S. Department of Labor, Bureau of Labor Statistics

## Utilities

The City receives water service from the Eastern Municipal Water District, Sunnymead Mutual Water Company, Moreno Valley Mutual Valley Mutual Water Company and Edgemont Gardens Mutual Company. The City is also serviced by the following utilities: Verizon and Southern California Gas Company. Electrical

service for most of the City's developed areas is provided by Southern California Edison. The City has established an electric utility that is providing service for the remainder of the City.

### **Transportation**

The City is centrally located within the Inland Empire. Highways passing through the City include California State Highway 60 and Interstate 215. California State Highway 60 connects in Riverside to California State Highway 91, which connects to Orange County and Long Beach. California State Highway 60 and Interstate 215 provide access Interstate 10 within 15 miles of the City. Rail service in the City includes the Burlington Northern Santa Fe branch line. There is one local freight daily, which services the Edgemont area of Moreno Valley and areas on the west side of Interstate 215. The main line service in Riverside has stop locations at the Union Pacific, Southern Pacific and Burlington Northern Santa Fe stations. Metrolink commuter rail service in Riverside to Los Angeles and Orange County.

Ontario International Airport (owned and operated by Los Angeles World Airports), 31 miles northwest of the City, is served by AeroMexico, Alaska Airlines, American Airlines, ATA Airlines, Continental Airlines, Delta Air Lines, ExpressJet Airlines, JetBlue Airways, Lineas Aereas Azteca, Southwest Airlines, United Airlines and US Airways. Allegiant Air provides charter services at Ontario International Airport and various airlines provide freight services at Ontario International Airport. Riverside Municipal Airport has general aviation facilities with 5,400 feet and 1,600 feet runways.

### **Education**

The City is served by two public school districts: Moreno Valley Unified School District and Val Verde Unified School District. Moreno Valley Unified School District has 23 elementary schools, six middle schools, five comprehensive high schools, one charter school, one adult school, one continuation school, a community day school, one pre-school and one academic center. Val Verde Unified School District serves the communities of Perris, Mead Valley and Moreno Valley. Val Verde Unified District has one pre-school, 13 elementary schools, five middle schools and four high schools.

The City is also home to Moreno Valley Community College.

### **Recreation and Culture**

Lake Perris State Park offers boating, swimming, water-skiing, fishing and camping within its 8,300 acres. Box Springs Mountain Park provides trails for hiking and horseback riding. The City centralized location allows residents to visit nearby mountain resorts, Palm Springs and the beach cities with relative ease. Three golf courses are available, including the 27 hole Moreno Valley Rancho Golf Club, ranks among the top 75 public courses in the U.S. The City's park system consists of 29 parks with 328 acres. The City offers a variety of recreational activities for adults and youth. The City is served by the City's library system.

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**APPENDIX F**

**FORM OF BOND COUNSEL OPINION**

*Upon issuance of the 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:*

\_\_\_\_\_, 2007

Community Redevelopment Agency of the City of Moreno Valley  
14177 Frederick Street  
Moreno Valley, California

Re: \$\_\_\_\_\_ Community Redevelopment Agency of the City of Moreno Valley, 2007  
Tax Allocation Bonds, Series A

Ladies and Gentlemen:

We have examined certified copies of proceedings of the Community Redevelopment Agency of the City of Moreno Valley (the "Agency"), and other information and documents submitted to us relative to the issuance and sale by the Agency of its Community Redevelopment Agency of the City of Moreno Valley, 2007 Tax Allocation Bonds, Series A in the aggregate principal amount of \$\_\_\_\_\_ (the "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 purchasers of the Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The 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 23, 2007 (the "Resolution") and in accordance with the terms and conditions of an Indenture of Trust dated as of October 1, 2007 (the "Indenture"), by and between the Agency and Wells Fargo Bank, National Association, as trustee. All terms not defined herein have the meanings ascribed to those terms in the Indenture.

The Bonds are dated the date of original delivery of the Bonds, and mature on the dates and bear interest at the rates per annum set forth in the Indenture. The 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 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 (as defined in the Indenture) and other sources as and to the extent provided for in the Indenture. The Bonds are enforceable in accordance with their terms and the terms of the Indenture. The Bonds are special obligations of the Agency but are not a debt of the City of Moreno Valley, the State of California or any other of its political subdivisions and neither the City of Moreno Valley, the State of California nor any of its political subdivisions is liable for the payment thereof, nor in any event shall the Bonds be payable out of any funds or properties other than those of the Agency. The Bonds do not constitute an indebtedness in contravention of any constitutional or statutory debt limitation or restriction.

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.

3. Under existing statutes, regulations, rulings and judicial decisions, interest on the Bonds is excluded from gross income for federal income tax purposes, and such interest is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; however, we note that, with respect to corporations, such interest on the Bonds will be included as an adjustment in the calculation of alternative minimum taxable income which may affect such corporation's alternative minimum tax liability. The opinions set forth in the preceding sentence are subject to the condition that the Agency comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The Agency has covenanted in the Indenture and other instruments to comply with all such requirements. We express no opinion regarding other tax consequences with respect to the Bonds or the receipt of interest thereon.

4. Interest on the Bonds is exempt from State of California personal income tax.

5. 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 3 above), and is exempt from State of California personal income tax.

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 3 and 5 above are subject to the condition that the Agency comply with certain covenants and the applicable requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds to assure that interest (and original issue discount) on the 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 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The Agency has covenanted to comply with all such requirements. We express no opinion regarding other tax consequences with respect to the 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 effect on the exclusion of interest (and original issue discount) on the 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.

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 Bonds and we express no opinion with respect thereto.

The opinions expressed herein are based upon our analysis and interpretation of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. We call attention to the fact that the rights and obligations of the Agency under the Indenture and the Bonds are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles of equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California.

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

Respectfully submitted,

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**APPENDIX G**

**FORM OF BOND INSURANCE POLICY**

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Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.



President



Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.





Ambac Assurance Corporation  
c/o CT Corporation Systems  
44 East Mifflin Street, Madison, Wisconsin 53703  
Administrative Office:  
One State Street Plaza, New York, New York 10004  
Telephone: (212) 668-0340

**Endorsement**

Policy for:

Attached to and forming part of Policy No.:

Effective Date of Endorsement:

In the event that Ambac Assurance Corporation were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

**Ambac Assurance Corporation**



President

Secretary

Authorized Representative

## APPENDIX H

### BOOK-ENTRY ONLY SYSTEM

*The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the Agency believes to be reliable, but the Agency takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the 2007 Bonds, payment of principal, premium, if any, accreted value and interest on the 2007 Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the 2007 Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Reference made to [www.dtcc.com](http://www.dtcc.com) is presented as a link for additional information regarding DTC and is not a part of this Official Statement.*

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2007 Bonds (the "Bonds"). The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal of such issue.

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).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner

entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds 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.

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. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent, 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 the District, 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 Paying Agent, 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.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Paying Agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Paying Agent. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed

satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Paying Agent's DTC account.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, physical Bonds are required to be printed and delivered.

The County may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, physical Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

### **Discontinuance of DTC Services**

In the event that (a) DTC determines not to continue to act as securities depository for the Bonds or (b) the Authority determines to remove DTC from its functions as a depository, DTC's role as securities depository for the Bonds and use of the book-entry system will be discontinued. If the Authority fails to select a qualified securities depository to replace DTC, the Authority will cause the Trustee to execute and deliver new Bonds in fully registered form in such denominations numbered in the manner determined by the Trustee and registered in the names of such persons as are required in a written request of the Authority. The Trustee shall not be required to deliver such new Bonds within a period of less than 60 days from the date of receipt of such written request of the Authority. Upon such registration, such persons in whose names the Bonds are registered will become the registered owners of the Bonds for all purposes.

In the event that the book-entry system is discontinued, the following provisions would also apply: (a) Bonds may be exchanged for a like aggregate principal amount of such Bonds of the same maturity of other authorized denominations; (b) the transfer of any Bond may be registered on the books maintained by the Trustee under the Indenture for such purpose only upon the surrender thereof to the Trustee accompanied by delivery of a duly executed written instrument of transfer in a form acceptable to the Trustee; (c) for every exchange or transfer of Bonds, the Trustee shall require the payment by any Owner requesting such transfer or exchange of any tax or other governmental charge that may be imposed with respect to such exchange or registration of transfer; (d) the Trustee will not be required to transfer or exchange any Bond which has been selected for redemption in whole or in part from and after the day of mailing of a notice of redemption of such Bond selected for redemption or during the period established by the Trustee for selection of Bonds for redemption; (e) all interest payments on the Bonds will be made by check mailed by the Trustee to the Owners thereof to such Owner's address as it appears on the registration books maintained by the Trustee on the applicable Record Date next preceding such interest payment date; provided, that upon request of a Bondowner of \$1,000,000 or more in aggregate principal amount of the Bonds received by the Trustee prior to the first day of the month next preceding an interest payment date, interest shall be paid by wire transfer in immediately available funds to an account in the United States; and (f) all payments of principal, and any premium on the Bonds, will be made upon surrender thereof at the corporate trust office of the Trustee in Los Angeles, California.

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