

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the Series 2005 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS."

\$44,360,000
REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
CENTRAL DISTRICT REDEVELOPMENT PROJECT
SUBORDINATED TAX ALLOCATION BONDS
SERIES 2005

Dated: Date of Delivery

Due: September 1, as shown below

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The \$44,360,000 Redevelopment Agency of the City of Oakland Central District Redevelopment Project, Subordinated Tax Allocation Bonds, Series 2005 (the "Series 2005 Bonds") are being issued by the Redevelopment Agency of the City of Oakland (the "Agency") to: (i) finance certain redevelopment activities within or to the benefit of the Agency's Central District Project Area (the "Project Area"); (ii) satisfy the Reserve Requirement for the Series 2005 Bonds by purchasing the Series 2005 Qualified Reserve Account Credit Instrument, as defined herein; and (iii) pay the costs associated with the issuance of the Series 2005 Bonds. See "THE PROJECT" and "ESTIMATED SOURCES AND USES OF FUNDS." The Series 2005 Bonds are issued pursuant to an Indenture of Trust, dated as of January 1, 2003, as amended and supplemented to date (as so amended and supplemented, the "Indenture"), between the Agency and The Bank of New York Trust Company, N.A., as successor to BNY Western Trust Company, San Francisco, California (the "Trustee").

Interest on the Series 2005 Bonds will be payable on each March 1 and September 1 of each year, commencing March 1, 2005, at the respective rates, and principal of the Series 2005 Bonds is payable on the dates and in the respective principal amounts set forth below.

The Series 2005 Bonds will be issued in book-entry form in denominations of \$5,000 or any integral multiple thereof. The Series 2005 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 for the Series 2005 Bonds. Principal of and interest on the Series 2005 Bonds will be payable directly to DTC, as the registered owner of the Series 2005 Bonds, by the Trustee. For so long as DTC or its nominee, Cede & Co., is the registered owner of the Series 2005 Bonds, all notices, including any notice of redemption, will be mailed only to Cede & Co. See APPENDIX F—"DTC AND THE BOOK-ENTRY ONLY SYSTEM" herein.

For a discussion of some of the risks associated with the purchase of the Series 2005 Bonds, see "CERTAIN RISKS TO BONDHOLDERS."

The Series 2005 Bonds are payable from and secured by Tax Revenues (as defined herein), consisting primarily of tax increment derived from property in the Project Area and allocated to the Agency pursuant to the Redevelopment Law. No funds or properties of the Agency, other than the Tax Revenues, are pledged to secure the Series 2005 Bonds. **The pledge of Tax Revenues to secure the Series 2005 Bonds is subordinate to a pledge thereof to secure the Agency's Central District Redevelopment Project, Senior Tax Allocation Bonds, Series 1992 and on a parity with the pledge thereof to secure other bonds and parity debt previously issued or to be issued pursuant to the terms of the Indenture, including the Agency's Central District Redevelopment Project Subordinated Tax Allocation Bonds, Series 2003, outstanding as of the date hereof in the amount of \$112,950,000.** See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005 BONDS."

The scheduled payment of principal of and interest on the Series 2005 Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Series 2005 Bonds.

Ambac

THE SERIES 2005 BONDS ARE NOT A DEBT OF THE CITY OF OAKLAND, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS OTHER THAN THE AGENCY TO THE LIMITED EXTENT SET FORTH IN THE INDENTURE, AND NEITHER THE CITY, THE STATE NOR ANY OF ITS POLITICAL SUBDIVISIONS OTHER THAN THE AGENCY IS LIABLE THEREFOR. THE PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THE SERIES 2005 BONDS ARE PAYABLE SOLELY FROM TAX REVENUES ALLOCATED TO THE AGENCY FROM THE PROJECT AREA AND CERTAIN OTHER FUNDS PLEDGED THEREFOR UNDER THE INDENTURE. THE SERIES 2005 BONDS DO NOT CONSTITUTE AN INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. NONE OF THE MEMBERS OF THE AGENCY, THE CITY COUNCIL, OR ANY PERSONS EXECUTING THE SERIES 2005 BONDS, ARE LIABLE PERSONALLY ON THE SERIES 2005 BONDS BY REASON OF THEIR ISSUANCE. THE AGENCY HAS NO TAXING POWER.

MATURITY SCHEDULE
\$44,360,000 Serial Bonds

<u>Maturity Date</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield*</u>	<u>CUSIP</u>
2020	\$14,070,000	5%	4.040%	672321HJ8
2021	\$14,775,000	5%	4.100%	672321HK5
2022	\$15,515,000	5%	4.160%	672321HL3

The Series 2005 Bonds are offered when, as and if issued, subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Certain legal matters will be passed upon for the Agency by the City Attorney of the City of Oakland in his capacity as Agency Counsel, Oakland, California, for the Authority by the City Attorney of the City of Oakland in his capacity as Authority Counsel, Oakland, California and for the Underwriters by Nixon Peabody LLP, San Francisco, California. It is anticipated that the Series 2005 Bonds in book-entry form will be available for delivery through the facilities of DTC in New York, New York on or about February 8, 2005.

MORGAN STANLEY

E.J. De La Rosa & Co., Inc.

Date: January 25, 2005

* Priced to the call date of September 1, 2015.

No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations in connection with the offer or sale of the Series 2005 Bonds by the Agency or the Underwriters, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Agency or the Underwriters. 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 Series 2005 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

The information set forth herein has been furnished by the Agency and includes information which has been obtained from other sources which are believed to be reliable, and the Agency and the Underwriters have a reasonable basis for believing that the information set forth herein is accurate, but such information is not guaranteed by the Agency or the Underwriters as to accuracy or completeness and is not to be construed as a representation by the Underwriters. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Agency since the date hereof.

Any statement made in this Official Statement involving any forecast or matter of estimates or opinion, whether or not expressly so stated, is intended solely as such and not as a representation of fact. Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities-Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used, such as “plan,” “expect,” “estimate,” “budget” or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the captions “DEBT SERVICE COVERAGE PROJECTIONS,” “THE CENTRAL DISTRICT PROJECT AREA” and in APPENDIX C—“REPORT OF THE FISCAL CONSULTANT.”

The achievement of certain results or other expectations contained in such forward-looking statements involves 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 those forward-looking statements if or when their expectations, or events, conditions or circumstances on which such statements are based occur.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The Series 2005 Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption from the registration requirements contained in such Act. The Series 2005 Bonds have not been registered or qualified under the securities laws of any state.

In connection with the offering of the Series 2005 Bonds, the Underwriters may overallocate or effect transactions that stabilize or maintain the market price of the Series 2005 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriters may offer and sell the Series 2005 Bonds to certain dealers and others at prices lower than the public offering prices set forth on the cover page hereof and said public offering prices may be changed from time to time by the Underwriters.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
and
CITY OF OAKLAND
County of Alameda, California

AGENCY BOARD AND CITY COUNCIL

Ignacio De La Fuente (District 5)
Agency Chair and President of the City Council
Jane Brunner (District 1)
Agency Member and Vice-Mayor
Vacant (District 2)
Nancy Nadel (District 3)
Agency Member and Councilmember
Jean Quan (District 4)
Agency Member and Councilmember
Desley Brooks (District 6)
Agency Member and Councilmember
Larry Reid, Jr. (District 7)
Agency Member and Councilmember
Henry Chang, Jr. (At-Large)
Agency Member and Councilmember

AGENCY AND CITY STAFF

Edmund G. Brown, Jr., *Agency Chief Executive Officer and Mayor*
Deborah Edgerly, *Agency Administrator and City Administrator*
Cheryl A.P. Thompson, *Assistant City Administrator*
LaTonda Simmons, *Interim Agency Secretary and Interim City Clerk*
Roland E. Smith, *City Auditor*
John Russo, *Agency Counsel and City Attorney*
William E. Noland, *Agency Treasurer and Director, Finance and Management Agency*
Daniel Vanderpriem, *Director, Community and Economic Development Agency*
Katano Kasaine, *Treasury Manager*

SPECIAL SERVICES

The Bank of New York Trust Company, N.A.
San Francisco, California
Trustee

Public Financial Management, Inc.
San Francisco, California
Financial Advisor

HdL Coren & Cone
Diamond Bar, California
Fiscal Consultant

Jones Hall, A Professional Law Corporation
San Francisco, California
Bond Counsel

Nixon Peabody LLP
San Francisco, California
Underwriters' Counsel

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\$44,360,000
REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
CENTRAL DISTRICT REDEVELOPMENT PROJECT
SUBORDINATED TAX ALLOCATION BONDS
SERIES 2005

INTRODUCTION

This introduction contains only a brief summary of certain of the terms of the Series 2005 Bonds being offered, and a full review should be made of the entire Official Statement including the cover page, the table of contents and the appendices for a more complete description of the terms of the Series 2005 Bonds. All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of provisions of, any other documents referred to herein do not purport to be complete, and such references are qualified in their entirety by reference to the complete provisions of such documents.

General; Authority for Issuance

The purpose of this Official Statement, including the cover page and the appendices hereto, is to furnish information in connection with the sale and delivery of \$44,360,000 Redevelopment Agency of the City of Oakland Central District Redevelopment Project Subordinated Tax Allocation Bonds, Series 2005 (the "Series 2005 Bonds") to be issued by the Redevelopment Agency of the City of Oakland (the "Agency").

The Series 2005 Bonds are issued pursuant to the authority granted under the Community Redevelopment Law (constituting Part 1 of Division 24 of the Health and Safety Code of the State of California) (the "Redevelopment Law") and a resolution of the Agency adopted on January 18, 2005 (the "Resolution") which authorized the issuance, sale and delivery of the Series 2005 Bonds. The Series 2005 Bonds are being issued pursuant to an Indenture of Trust, dated as of January 1, 2003, as amended and supplemented by a First Supplemental Indenture of Trust, dated as of February 1, 2005 (collectively, the "Indenture"), by and between the Agency and The Bank of New York Trust Company, N.A., as successor to BNY Western Trust Company, as trustee (the "Trustee").

The Series 2005 Bonds will be issued by the Agency for sale to the Oakland Joint Powers Financing Authority (the "Authority") pursuant to the Marks-Roos Local Bond Pooling Act of 1985, commencing with Section 6584 of the California Government Code. See "THE AUTHORITY" and "UNDERWRITING" herein. The Series 2005 Bonds purchased by the Authority will be immediately resold by the Authority to the underwriters of the Series 2005 Bonds.

Purpose

The Series 2005 Bonds are being issued to (i) finance certain redevelopment activities within or to the benefit of the Agency's Central District Project Area (the "Project Area"); (ii) satisfy the Reserve Requirement for the Series 2005 Bonds by purchasing the Series 2005 Qualified Reserve Account Credit Instrument, as defined herein; and (iii) pay the costs associated with the issuance of the Series 2005 Bonds. See "THE PROJECT" and "ESTIMATED SOURCES AND USES OF FUNDS." The Series 2005 Bonds will mature in the years and amounts set forth on the inside cover page.

The Agency

The Agency was created by the City of Oakland (the “City”) in 1956 to exercise the powers granted by the California Community Redevelopment Law (Section 33000 *et seq.* of the Health and Safety Code) and, effective December 31, 1975, the City Council of the City (the “City Council”) declared itself to be the Agency. Although the Agency is an entity distinct from the City, certain City personnel provide staff support for the Agency. See “THE AGENCY.”

The Agency currently administers ten redevelopment project areas in the City. When the Agency issues debt for a project area, such debt is payable solely from the tax increment revenues generated in that project area.

The City

The City, located immediately east of the City of San Francisco across the San Francisco-Oakland Bay Bridge, lies at the heart of the East Bay. The City occupies approximately 53.8 square miles, is served by both Interstate 80 and Interstate 880, and boasts a world-class seaport.

The City is a charter city incorporated in 1854 and operates under a mayor-council form of government. An eight-member City Council, seven of whom are elected by district and one of whom is elected on a city-wide basis, governs the City. The mayor is not a member of the City Council, but is the City’s chief elective officer. The mayor and City Council members serve four-year terms staggered at two-year intervals. For additional information regarding the City, see APPENDIX A—“CERTAIN INFORMATION CONCERNING THE CITY OF OAKLAND.”

The Project Area

The Project Area encompasses approximately 828 acres, and contains the City’s downtown district, as well as residential and public uses. See “THE CENTRAL DISTRICT PROJECT AREA.”

The Series 2005 Bonds

The Series 2005 Bonds are to be dated the date of their initial issuance and delivery, are issuable in fully registered, book-entry form and are redeemable as set forth in the Indenture and summarized herein. See “THE SERIES 2005 BONDS.”

The Series 2005 Bonds, when issued, will be registered in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository for the Series 2005 Bonds. Individual purchases of the Series 2005 Bonds will be made in book-entry form only. Principal of, premium, if any, and interest on, the Series 2005 Bonds will be payable by the Trustee directly to DTC, as the registered owner of the Series 2005 Bonds. Upon receipt of payments of principal, premium, if any, and interest, DTC is to remit such principal, premium, if any, and interest to the DTC Participants for subsequent disbursement to the beneficial owners of the Series 2005 Bonds. Purchasers will not receive certificates representing the Series 2005 Bonds purchased by them. See APPENDIX F — “DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

It is expected that the Series 2005 Bonds will be available for delivery through the facilities of DTC in New York, New York on or about February 8, 2005.

The Series 2005 Bonds will bear interest at the rates per annum set forth on the inside cover page hereof payable semiannually on March 1 and September 1 (each, an “Interest Payment Date” with respect

to the Series 2005 Bonds), commencing March 1, 2005, and will mature on the dates and in the amounts set forth on the inside cover page hereof. The Series 2005 Bonds will be issued in denominations of \$5,000 or any integral multiple thereof.

Security for the Series 2005 Bonds

General. The Series 2005 Bonds are limited obligations of the Agency payable solely from and secured solely by a pledge of Tax Revenues (defined herein) and certain other funds held by the Trustee pursuant to the Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005 BONDS.”

Pursuant to the Redevelopment Law, a portion of all property tax revenues (the “Tax Revenues”), including certain reimbursements by the State, collected by or for each taxing agency on any increase in the taxable value of certain property within the Project Area over that shown on the assessment rolls for the base year (“Base Year Value”) may be pledged to the repayment of loans, advances and indebtedness incurred by the Agency in connection with redevelopment activities in or of benefit to the Project Area. The Project Area has a Base Year Value that was established based on the assessed value for the year in which taxable property in such area was last equalized prior to the effective date of the ordinance approving the applicable redevelopment plan. The Base Year for the Project Area is Fiscal Year 1982-83. The Agency, under the Indenture, pledges the Tax Revenues to secure repayment of the Series 2005 Bonds.

As and to the extent set forth in the Indenture, all the Tax Revenues are irrevocably pledged for the security and payment of the Series 2005 Bonds, the Series 2003 Bonds (defined below) and any other Parity Debt; but nevertheless out of the Tax Revenues certain amounts may be applied for other purposes as provided in the Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005 BONDS—Additional Parity and Subordinate Debt.”

Outstanding Senior and Parity Debt. The pledge of Tax Revenues securing the Series 2005 Bonds is subordinate to the pledge thereof securing the Agency’s Central District Redevelopment Project, Senior Tax Allocation Refunding Bonds, Series 1992 (the “Senior Bonds”). The Senior Bonds are outstanding in the principal amount of \$57,235,000 (as of February 1, 2005). See “DEBT SERVICE COVERAGE PROJECTIONS” and “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005 BONDS—Outstanding Senior Debt.” The Series 2005 Bonds are being issued on a parity with the Agency’s Central District Redevelopment Project Subordinated Tax Allocation Bonds, Series 2003 (the “Series 2003 Bonds”), which are outstanding as of the date hereof in the amount of \$112,950,000.

Reserve Account. In connection with the issuance of the Series 2003 Bonds, a Reserve Account under the Indenture was established for the Series 2003 Bonds and any Parity Debt issued as bonds pursuant to a Supplemental Indenture, including the Series 2005 Bonds, in an amount equal to the Reserve Requirement (as defined herein). On the date of delivery of the Series 2005 Bonds, a municipal bond debt service reserve fund policy in the amount of \$4,774,657.06 issued by Ambac Assurance Corporation (“Ambac” or the “Series 2005 Insurer”) will be deposited in the Reserve Account to satisfy the portion of the Reserve Requirement attributable to the Series 2005 Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005 BONDS—Reserve Account Surety Bond” and APPENDIX I—“SPECIMEN RESERVE ACCOUNT SURETY BOND POLICY.” Amounts on deposit in the Reserve Account will be used for the payment of debt service on the Series 2003 Bonds and the Series 2005 Bonds in the event that amounts on deposit in the Interest Account or the Principal Account are insufficient therefore. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005 BONDS—Reserve Account.”

THE SERIES 2005 BONDS ARE NOT A DEBT OF THE CITY OF OAKLAND, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS OTHER THAN THE AGENCY TO THE LIMITED EXTENT SET FORTH IN THE INDENTURE, AND NEITHER THE CITY NOR THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS OTHER THAN THE AGENCY IS LIABLE THEREFOR. THE PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THE SERIES 2005 BONDS ARE PAYABLE SOLELY FROM TAX REVENUES ALLOCATED TO THE AGENCY FROM THE PROJECT AREA AND CERTAIN OTHER FUNDS PLEDGED THEREFOR UNDER THE INDENTURE. THE SERIES 2005 BONDS DO NOT CONSTITUTE AN INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. NONE OF THE MEMBERS OF THE AGENCY, THE CITY COUNCIL, OR ANY PERSONS EXECUTING THE SERIES 2005 BONDS, ARE LIABLE PERSONALLY ON THE SERIES 2005 BONDS BY REASON OF THEIR ISSUANCE. THE AGENCY HAS NO TAXING POWER.

Bond Insurance

The payment of principal of and interest on the Series 2005 Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation (“Ambac Assurance” or “the Series 2005 Insurer”), simultaneously with the delivery of the Series 2005 Bonds. See “BOND INSURANCE” and APPENDIX H—“SPECIMEN BOND INSURANCE POLICY.”

Certain Risk Factors

Investment in the Series 2005 Bonds involves risk. For a discussion of certain considerations relevant to an investment in the Series 2005 Bonds, see “CERTAIN RISKS TO BONDHOLDERS.”

Continuing Disclosure

The Agency has agreed to provide, or cause to be provided, to each repository designated by the Securities and Exchange Commission (“SEC”) from time to time for purposes of Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time (“Rule 15c2-12(b)(5)”) (each a “National Repository”) and with any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12(b)(5) and recognized as such by the SEC (each, a “State Repository”) certain annual financial information and operating data (each, an “Annual Report”) and, in a timely manner, notice of certain material events (each, a “Material Event Notice”). In lieu of filing the Annual Reports and any Material Event Notices with each National Repository and each State Repository, the Agency may file any Annual Report or Material Event Notice with the Internet-based filing system currently located at www.DisclosureUSA.org, or such other similar filing system approved by the SEC (the “CPO”). These covenants have been made in order to assist the Underwriters in complying with Rule 15c2-12(b)(5). See “CONTINUING DISCLOSURE” for a description of the specific nature of the Annual Report and Material Event Notices and a summary description of the terms of the disclosure agreement pursuant to which such reports are to be made.

The Agency has never failed to comply in all material respects with any previous undertaking with regard to Rule 15c2-12(b)(5) to provide Annual Reports or Material Event Notices.

Additional Information

This Official Statement contains brief descriptions of the Series 2005 Bonds, the security for the Series 2005 Bonds, the Indenture, the Agency, the Project, the Project Area and certain other information relevant to the issuance of the Series 2005 Bonds. All references herein to the Indenture are qualified in

their entirety by reference to the complete text thereof and all references to the Series 2005 Bonds are further qualified by reference to the form thereof contained in the Indenture. The Agency's audited financial statements for the Fiscal Year ended June 30, 2004 are included in APPENDIX B. The proposed form of legal opinion of Bond Counsel for the Series 2005 Bonds is set forth in APPENDIX E. See APPENDIX D—"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" for definitions of certain words and terms used herein. All capitalized terms used in this Official Statement and not otherwise defined herein have the same meanings as in the Indenture. The information set forth herein and in the Appendices hereto has been furnished by the Agency and includes information which has been obtained from other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness by the Agency or the Underwriters and is not to be construed as a representation by the Underwriters. Copies of documents referred to herein and information concerning the Series 2005 Bonds are available upon written request from the Executive Director of the Community and Economic Development Agency, 250 Frank Ogawa Plaza, 3rd Floor, Oakland, California 94612. The Agency may impose a charge for copying, mailing and handling.

THE PROJECT

The proceeds of the Series 2005 Bonds will be deposited in the Redevelopment Fund held by the Agency to be applied to finance or refinance various redevelopment activities within the Project Area, including the following: property acquisition to facilitate residential and commercial development downtown, environmental remediation, parking garage expansion, renovation and maintenance of public facilities such as the Fox Theater, and public infrastructure such as streetscape and traffic improvements. Proceeds of the Series 2005 Bonds will also be used to fund façade improvements, tenant improvements, and support for all Agency-sponsored public capital projects for Fiscal Years 2005 through 2007.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds relating to the Series 2005 Bonds are as follows:

Sources:

Principal Amount of the Series 2005 Bonds	\$44,360,000.00
Original Issue Premium	<u>3,386,570.55</u>
TOTAL SOURCES	<u>\$47,746,570.55</u>

Uses:

Redevelopment Fund ¹	\$46,502,500.00
Costs of Issuance Fund ²	<u>1,244,070.55</u>
TOTAL USES	<u>\$47,746,570.55</u>

¹ To be used to finance redevelopment activities in the Project Area. See "THE PROJECT."

² Includes the fees and expenses of Bond Counsel; fees and expenses of the Trustee and the Financial Advisor, the Underwriters' discount, printing costs, rating agency fees, bond insurance and reserve account credit instrument premiums and other costs related to the issuance of the Series 2005 Bonds.

THE SERIES 2005 BONDS

Description

The Series 2005 Bonds will be dated their Date of Delivery, and are being issued in the respective aggregate principal amounts and will mature on the dates as set forth on the inside cover hereof. The Series 2005 Bonds will be issued only as one fully registered Series 2005 Bond for each maturity, in the

name of Cede & Co. as nominee for The Depository Trust Company, New York, New York (“DTC”), as registered owner of all Bonds. See APPENDIX F – “DTC AND THE BOOK-ENTRY ONLY SYSTEM.” Ownership may be changed only upon the registration books maintained by the Trustee as provided in the Indenture.

The Series 2005 Bonds will bear interest at the rates per annum set forth on the inside cover page hereof payable semiannually on March 1 and September, commencing March 1, 2005, and will mature on the dates and in the amounts set forth on the inside cover page hereof. The Series 2005 Bonds will be issued in denominations of \$5,000 or any integral multiple thereof, so long as no Series 2005 Bond shall have more than one maturity date. The Series 2005 Bonds shall mature and shall bear interest calculated on the basis of a 360-day year of twelve 30-day months.

Except as provided in the Indenture, the Trustee will not be required to register the transfer or exchange of any Bond during the 15 days before the date established by the Trustee for the selection of Bonds or after such Bond has been selected for redemption. The Trustee will require the Bondowner requesting such transfer or exchange to pay any tax or other charge required to be paid with respect to such transfer or exchange, and the Trustee also may require the Bondowner requesting such transfer or exchange to pay a reasonable sum to cover expenses incurred by the Trustee or the Authority in connection with such transfer or exchange.

Each Series 2005 Bond shall bear interest from the Interest Payment Date next preceding the date of authentication thereof, unless (a) it is authenticated after a Record Date and on or before the following Interest Payment Date, in which event it shall bear interest from such Interest Payment Date; or (b) it is authenticated on or before February 15, 2005, in which event it shall bear interest from the Closing Date; provided, however, that if, as of the date of authentication of any Bond, interest thereon is in default, such Bond shall bear interest from the date to which interest has previously been paid in full.

Interest on the Series 2005 Bonds (including the final interest payment upon maturity or redemption) is payable when due by check of the Trustee mailed on the Interest Payment Date to the Owner thereof at such Owner’s address as it appears on the Registration Books at the close of business on the preceding Record Date; provided that at the written request of any Owner of at least \$1,000,000 aggregate principal amount of Bonds, which written request is on file with the Trustee as of any Record Date, interest on such Bonds shall be paid on the succeeding Interest Payment Date in accordance with the wire instructions provided by the Owner at the Owner’s risk and expense.

While the Series 2005 Bonds are held in the book-entry only system of DTC, all such payments will be made to Cede & Co., as the registered Owner of the Series 2005 Bonds. The principal of the Series 2005 Bonds and any premium upon redemption, are payable in lawful money of the United States of America upon presentation and surrender thereof at the principal corporate trust office of the Trustee. See APPENDIX F-“DTC AND THE BOOK ENTRY ONLY SYSTEM.”

Redemption

Optional Redemption. The Series 2005 Bonds are subject to redemption prior to their maturity on or after September 1, 2015, as a whole or in part, by such maturities as shall be determined by the Agency, and by lot within a maturity, from any available source of funds, at 100% of the principal amount of the Series 2005 Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium.

In the Indenture, the Agency will agree that it will optionally redeem or defease the Series 2005 Bonds maturing on September 1, 2022 on or prior to June 1, 2022 if the Redevelopment Plan does not, as of April 1, 2022, permit the Agency to repay indebtedness at least until September 1, 2022.

Notice of Redemption. Notice of redemption will be mailed by the Trustee by first class mail, not less than 30 days nor more than 60 days prior to the date fixed for redemption, to the respective Holders of any Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee. Failure by the Trustee to mail notice of redemption to any one or more of the respective Holders of any Bonds designated for redemption will not affect the sufficiency of the proceedings for redemption with respect to the Holders to whom such notice was mailed. Any notice of redemption may be rescinded by written notice given to the Trustee by the Agency no later than 5 Business Days prior to the date fixed for redemption. The Trustee will give notice of such rescission as soon thereafter as practicable in the same manner, and to the same persons, as notice of such redemption was given.

So long as the book-entry system is in effect, the Trustee will send each notice of redemption to Cede & Co., as nominee of DTC, and not to the Beneficial Owners. So long as DTC or its nominee is the sole registered owner of the Series 2005 Bonds under the book-entry system, any failure on the part of DTC or a Direct Participant or Indirect Participant to notify the Beneficial Owner so affected will not affect the validity of the redemption.

Selection of Bonds for Redemption. Whenever any Bonds or portions thereof are to be selected for redemption by lot, the Agency shall make such selection, in such manner as the Agency shall deem appropriate, and if the Agency fails to make such selection, the Trustee shall make such selection, in such manner as the Trustee shall deem appropriate, and shall notify the Agency thereof to the extent Bonds are no longer held in book-entry form. In the event of redemption by lot of Bonds, the Trustee shall assign to each Bond then Outstanding a distinctive number for each \$5,000 of the principal amount of each such Bond. The Series 2005 Bonds to be redeemed shall be the Series 2005 Bonds to which were assigned numbers so selected, but only so much of the principal amount of each such Bond of a denomination of more than \$5,000 shall be redeemed as shall equal \$5,000 for each number assigned to it and so selected.

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 Series 2005 Bonds so called for redemption shall have been duly deposited with the Trustee, such Series 2005 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.

Purchase in Lieu of Redemption. In lieu of redemption of the Term Bonds pursuant to the Indenture, amounts on deposit in the Special Fund or in the Principal Account may also be used and withdrawn by the Agency and the Trustee, respectively, at any time, upon the Written Request of the Agency, for the purchase of the Term Bonds at public or private sale as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as the Agency may in its discretion determine. The par amount of any Term Bonds so purchased by the Agency in any twelve-month period ending on July 1 in any year shall be credited towards and shall reduce the par amount of the Term Bonds required to be redeemed pursuant to the Indenture on September 1 in each year; provided that evidence satisfactory to the Trustee of such purchase has been delivered to the Trustee by said July 1.

DEBT SERVICE COVERAGE PROJECTIONS

The following table shows annual debt service on the Senior Bonds, the Series 2003 Bonds and the Series 2005 Bonds, without regard to any optional redemption, and estimated coverage.

Bond Year Ending September 1	Projected Net Tax Revenues ¹	1992 Senior Bonds Debt Service ²	Tax Revenues Available for Series 2005 Bonds and Parity Debt	Series 2003 Bonds Debt Service	Series 2005 Bonds Debt Service	Total Parity Debt Service	Estimated Coverage ³ (times)	Estimated Combined Coverage (times)
2005	\$26,358,462	\$7,976,015	\$18,382,447	\$8,806,975	\$1,250,706	\$10,057,681	1.83	1.46
2006	26,358,462	7,957,850	18,400,612	8,820,875	2,218,000	11,038,875	1.67	1.39
2007	26,358,462	7,959,250	18,399,212	8,822,075	2,218,000	11,040,075	1.67	1.39
2008	26,358,462	7,985,100	18,373,362	8,793,475	2,218,000	11,011,475	1.67	1.39
2009	26,358,462	7,994,825	18,363,637	8,786,075	2,218,000	11,004,075	1.67	1.39
2010	26,358,462	6,745,088	19,613,375	10,035,825	2,218,000	12,253,825	1.60	1.39
2011	26,358,462	6,757,538	19,600,925	10,024,825	2,218,000	12,242,825	1.60	1.39
2012	26,358,462	6,801,563	19,556,900	9,977,575	2,218,000	12,195,575	1.60	1.39
2013	26,358,462	6,835,513	19,522,950	9,944,600	2,218,000	12,162,600	1.61	1.39
2014	26,358,462	6,863,700	19,494,762	9,917,875	2,218,000	12,135,875	1.61	1.39
2015	26,358,462	--	26,358,462	16,781,300	2,218,000	18,999,300	1.39	1.39
2016	26,358,462	--	26,358,462	16,780,100	2,218,000	18,998,100	1.39	1.39
2017	26,358,462	--	26,358,462	16,780,125	2,218,000	18,998,125	1.39	1.39
2018	26,358,462	--	26,358,462	16,784,175	2,218,000	19,002,175	1.39	1.39
2019	26,358,462	--	26,358,462	16,779,775	2,218,000	18,997,775	1.39	1.39
2020	26,358,462	--	26,358,462	--	16,288,000	16,288,000	1.62	1.62
2021	26,358,462	--	26,358,462	--	16,289,500	16,289,500	1.62	1.62
2022	26,358,462	--	26,358,462	--	16,290,750	16,290,750	1.62	1.62
TOTAL	<u>\$474,452,316</u>	<u>\$73,876,440</u>	<u>\$400,575,876</u>	<u>\$177,835,650</u>	<u>\$81,170,956</u>	<u>\$259,006,606</u>		

¹ Net Tax Revenue is net of the 20% Housing Set-Aside and the SB 2557 property tax administration costs and pass-through payments. For coverage purposes, this table maintains tax increment at a constant level equal to the amount available for debt service based on Fiscal Year 2003-2004 revenues, as provided by the Alameda County Auditor-Controller. See "LIMITATIONS ON TAX REVENUES—SB 2557" and Appendix C—"REPORT OF THE FISCAL CONSULTANT" on Table 2.

² See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005 BONDS—Outstanding Senior and Parity Debt."

³ See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005 BONDS—Outstanding Senior and Parity Debt."

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005 BONDS

Tax Allocation Financing

The Redevelopment Law provides a means for financing redevelopment projects based upon an allocation of taxes collected by a redevelopment agency within a redevelopment 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. Taxes collected upon any increase in taxable valuation over the base roll are allocated to a redevelopment agency and may be pledged by a redevelopment agency to the repayment of any indebtedness incurred in financing or refinancing a redevelopment project. Redevelopment agencies themselves have no authority to levy property taxes and must look specifically to the allocation of taxes produced as above indicated.

Allocation of Taxes

As provided in the Redevelopment Plan, and pursuant to Article 6 of Chapter 6 of the Redevelopment Law (commencing with Section 33670 of the California Health and Safety Code) and Section 16 of Article XVI of the Constitution of the State of California, taxes levied upon taxable property in the Project Area each year by or for the benefit of the State of California and any city, county, city and county, district or other public corporation (herein collectively referred to as “taxing agencies”) for each Fiscal Year beginning after the effective dates of the ordinance approving the redevelopment plan are divided as follows:

1. To other taxing agencies: That portion of the taxes which would be produced by the rate upon which the tax is levied each year by or for each of the taxing agencies upon the total sum of the assessed value of the taxable property in the Project Area as shown upon the assessment roll used in connection with the taxation of such property by such taxing agency last equalized prior to the effective dates of the ordinances referred to above (the “Base Year Amount”) shall be allocated to and when collected shall be paid into the funds of the respective taxing agencies in the same manner as taxes by or for the taxing agencies on all other property are paid; and

2. To the Agency: Except for taxes which are attributable to a tax rate levied by a taxing agency for the purpose of producing revenues to repay bonded indebtedness approved by the voters of the taxing agency on or after January 1, 1989, which shall be allocated to and when collected shall be paid to the respective taxing agency, and except for non-subordinated statutory pass-through payments, that portion of the levied taxes each year in excess of the Base Year Amount shall be paid into a special fund of the Agency to pay the principal of and interest on bonds, loans, moneys advanced to, or indebtedness (whether funded, refunded, assumed, or otherwise) incurred by the Agency to finance or refinance, in whole or in part, the Project Area.

When all bonds, loans, advances, and indebtedness, if any, and interest thereon, have been paid, all moneys thereafter received from taxes upon the taxable property in the Project Area shall be paid into the funds of the respective taxing agencies as taxes on all other property are paid. See “Tax Revenues,” below.

Tax Revenues

General. Subject to the prior and senior pledge of and interest in and lien on the Tax Revenues in favor of the Senior Bonds, the Series 2005 Bonds, the Series 2003 Bonds and any other Parity Debt (as defined below) will be equally secured by a first pledge of, security interest in and lien on all of the Tax Revenues and the moneys in the Special Fund, and the Series 2005 Bonds, the Series 2003 Bonds and any other Parity Debt shall also be secured by a first and exclusive pledge of, security interest in and lien upon all of the moneys in the Debt Service Fund, the Interest Account, the Principal Account, the Redemption Account, and the Reserve Account, 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 Series 2005 Bonds. Under the Indenture, the Agency may incur additional loans, advances or indebtedness on a parity with the Series 2005 Bonds and the Series 2003 Bonds (“Parity Debt”), which Parity Debt shall be equally secured on a parity with the Series 2003 Bonds and the Series 2005 Bonds by a pledge of and security interest in and lien on all of the Tax Revenues and the moneys in the Special Fund without preference or priority for series, issue, number, dated date, sale date, date of execution or date of delivery, and, if applicable under any Supplemental Indenture, any Parity Debt issued as Bonds shall also be secured by a first and exclusive pledge of, security interest in and lien upon all of the moneys in the Debt Service Fund (including the Reserve

Account). See “— Additional Parity and Subordinate Debt” below. See also APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

“Tax Revenues” is defined in the Indenture as all taxes annually allocated within the Plan Limit and paid to the Agency with respect to the Project Area pursuant to Article 6 of Chapter 6 (commencing with Section 33670) of the Law and Section 16 of Article XVI of the Constitution of the State, or pursuant to other applicable State laws, and as provided in the Redevelopment Plan, and all payments, subventions and reimbursements, if any, to the Agency specifically attributable to *ad valorem* taxes lost by reason of tax exemptions and tax rate limitations, but excluding all other amounts of such taxes (if any) (i) required to be deposited into the Low and Moderate Income Housing Fund of the Agency pursuant to Section 33334.2 of the Law for increasing and improving the supply of low and moderate income housing, (ii) amounts payable by the State to the Agency under and pursuant to Chapter 1.5 of Part 1 of Division 4 of Title 2 (commencing with Section 16110) of the California Government Code, and (iii) amounts payable by the Agency pursuant to Sections 33607.5 and 33607.7 of the Law, except and to the extent that any amounts so payable are payable on a basis subordinate to the payment of the Bonds.

The Agency’s receipt of Tax Revenues is subject to certain limitations (the “Plan Limit”) contained in the Redevelopment Plan on the number of dollars of taxes which may be divided and allocated to the Agency pursuant to the Redevelopment Plan, as such limitation is prescribed by Section 33333.4 of the Redevelopment Law. As described under the caption “LIMITATIONS ON TAX REVENUES,” the Agency’s collection of Tax Revenues in the Project Area is subject to limitations of the total tax increment collected by the Agency over the life of the Redevelopment Plan.

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 debt service on the Series 2005 Bonds and, consequently, the principal of, and interest on, the Series 2005 Bonds. Likewise, broadened property tax exemptions could have a similar effect. See “CERTAIN RISKS TO BONDHOLDERS” and “LIMITATIONS ON TAX REVENUES AND POSSIBLE SPENDING LIMITATIONS.”

THE SERIES 2005 BONDS ARE NOT A DEBT OF THE CITY OF OAKLAND, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS OTHER THAN THE AGENCY TO THE LIMITED EXTENT SET FORTH IN THE INDENTURE. AND NEITHER THE CITY, NOR THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS OTHER THAN THE AGENCY IS LIABLE THEREFOR. THE PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THE SERIES 2005 BONDS ARE PAYABLE SOLELY FROM TAX REVENUES ALLOCATED TO THE AGENCY FROM THE PROJECT AREA AND CERTAIN OTHER FUNDS PLEDGED THEREFOR UNDER THE INDENTURE. THE SERIES 2005 BONDS DO NOT CONSTITUTE AN INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. NONE OF THE MEMBERS OF THE AGENCY, THE CITY COUNCIL, OR ANY PERSONS EXECUTING THE SERIES 2005 BONDS ARE LIABLE PERSONALLY ON THE SERIES 2005 BONDS BY REASON OF THEIR ISSUANCE. THE AGENCY HAS NO TAXING POWER.

In consideration of the acceptance of the Series 2005 Bonds by those who shall hold the same from time to time, the Indenture constitutes a contract between the Agency and the Owners from time to time of the Series 2005 Bonds, and the covenants and agreements set forth therein to be performed on behalf of the Agency are for the equal and proportionate benefit, security and protection of all owners of the Series 2005 Bonds, the Series 2003 Bonds and the holders of any additional Parity Debt, without preference, priority or distinction as to security or otherwise of any of the Series 2005 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 in the Series 2005 Bonds or in the Indenture.

Outstanding Senior and Parity Debt

The Series 2005 Bonds are subordinate to the Agency's Central District Redevelopment Project, Senior Tax Allocation Refunding Bonds, Series 1992 (the "Senior Bonds"). The Senior Bonds are secured by a pledge of the Senior Bonds Tax Revenues of the Agency. The Indenture provides that so long as Bonds remain Outstanding, the Agency shall not issue or incur any obligations payable from Tax Revenues on a basis senior to the payment of debt service on the Series 2005 Bonds other than refunding bonds with respect to the Senior Bonds (and any refunding of such refunding bonds) which do not result in increased debt service in any Bond Year (as defined in the Senior Bonds Resolution). The Senior Bonds are outstanding in the principal amount of \$57,235,000 (as of February 1, 2005); with average annual debt service of approximately \$7,482,334.

The Series 2005 Bonds are being issued on a parity with the Agency's Series 2003 Bonds, which are outstanding as of the date hereof in the amount of \$112,950,000. The Agency may issue other debt, payable on a parity with or subordinate to the payment of debt service on the Series 2005 Bonds and the Series 2003 Bonds subject to the conditions set forth in the Indenture. See "—Additional Parity and Subordinate Debt."

Reserve Account

Under the Indenture, a Reserve Account is established and held by the Trustee and pledged to payment of the Series 2005 Bonds and any Parity Debt, including the Series 2003 Bonds. On the date of delivery of the Series 2005 Bonds, a portion of Series 2005 Bond proceeds will be used to purchase the Reserve Account Surety Policy for deposit into the Reserve Account, to satisfy the portion of the Reserve Requirement attributable to the Series 2005 Bonds.

"Reserve Requirement" is defined in the Indenture to mean, as of the date of calculation by the Agency, the lesser of (i) the amount of Maximum Annual Debt Service on the Bonds (excluding from the calculation thereof Parity Debt other than Bonds) and, (ii) 10% of the total of the proceeds of the Bonds (excluding from the calculation thereof any Parity Debt other than Bonds) or (iii) 125% of average Annual Debt Service on the Bonds (excluding from the calculation thereof Parity Debt other than Bonds); provided, that in no event shall the Agency, in connection with the issuance of additional Bonds, be obligated to deposit an amount in the Reserve Account which is in excess of the amount permitted by the applicable provisions of the Code to be so deposited from the proceeds of tax exempt bonds without having to restrict the yield of any investment purchased with any portion of such deposit, and that in the event such amount of any deposit into the Reserve Account is so limited, the Reserve Requirement shall, in connection with the issuance of such additional Bonds, be increased only by the amount of such deposit.

"Maximum Annual Debt Service" means, as of the date of calculation, the largest Annual Debt Service for the current or any future Bond Year, including payments on any Parity Debt, as certified in writing by the Agency to the Trustee. For purposes of such calculation, there shall be excluded the principal of any Bonds and any other Parity Debt, together with the interest to accrue thereon, in the event and to the extent that the proceeds of such Bonds and other Parity Debt are deposited in an escrow fund and held in cash or are invested solely in Permitted Investments and from which amounts may not be released to the Agency unless the amount of Tax Revenues for the current Fiscal Year (as evidenced in

the written records of the County) at least equal the requirements for issuance of Parity Debt under the Indenture. See “—Additional Parity and Subordinate Debt.”

“Annual Debt Service” means, for each Bond Year, the sum of (a) the interest payable on the Outstanding Bonds and other Parity Debt in such Bond Year, assuming that the Outstanding Bonds are retired as scheduled, (b) the principal amount of the Outstanding Serial Bonds and other Parity Debt payable by their terms in such Bond Year, and (c) the principal amount of the Outstanding Term Bonds scheduled to be paid or redeemed from mandatory sinking account payments in such Bond Year.

In the event that the amount on deposit in the Reserve Account at any time becomes less than the Reserve Requirement, the Trustee is required to notify the Agency of such fact and the Agency is required to transfer to the Trustee an amount sufficient to maintain the Reserve Requirement on deposit in the Reserve Account. If there shall then not be sufficient Tax Revenues to transfer an amount sufficient to maintain the Reserve Requirement on deposit in the Reserve Account, the Agency shall be obligated to continue making transfers as Tax Revenues become available in the Special Fund until there is an amount sufficient to maintain the Reserve Requirement on deposit in the Reserve Account. No such transfer and deposit need be made to the Reserve Account so long as there shall be on deposit therein a sum at least equal to the Reserve Requirement.

All money 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, in the event of any deficiency at any time in any of such accounts or for the retirement of all the Bonds then Outstanding, except that so long as the Agency is not in default, any amount in the Reserve Account in excess of the Reserve Requirement will be withdrawn from the Reserve Account semiannually on or before the fifth Business Day preceding each March 1 and September 1 by the Trustee and deposited in the Interest Account. All amounts in the Reserve Account on the Business Day preceding the final Interest Payment Date will be withdrawn from the Reserve Account and transferred either (i) to the Interest Account and the Principal Account, in such order, to the extent required to make the deposits then required to be made or, (ii) if the Agency shall have caused to be transferred to the Trustee an amount sufficient to make the deposits required, then, upon request of the Agency, to the Redevelopment Fund.

The Reserve Account may be satisfied with the acquisition of a financial instrument meeting the requirements of a “Qualified Reserve Account Credit Instrument” set forth in APPENDIX D—“SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.” “Qualified Reserve Account Credit Instrument” is defined to mean an irrevocable standby or direct-pay letter of credit or surety bond issued by a commercial bank or insurance company and deposited with the Trustee, provided that all of the following requirements are met at the time of acceptance thereof by the Trustee: (a) in the case of a commercial bank, the long-term credit rating of such bank is “AA” from S&P or “Aa” from Moody’s and, in the case of an insurance company, the claims paying ability of such insurance company is AAA from S&P or AAA from Moody’s or, if rated by A.M. Best & Company, is rated in the highest rating category by A.M. Best & Company; (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, the Principal Account or the Sinking Account for the purpose of making payments required pursuant to the Indenture.

The Agency will satisfy the Reserve Requirement with respect to the Series 2005 Bonds through the use of a surety bond to be provided by Ambac Assurance Corporation (the “Series 2005 Qualified Reserve Account Credit Instrument”) simultaneously with the issuance of the Series 2005 Bonds. The

Series 2005 Qualified Reserve Account Credit Instrument meets the requirements of a Qualified Reserve Account Credit Instrument set forth in the Indenture and described, in part, above. See APPENDIX D—“SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—The Reserve Account.”

Additional Parity and Subordinate Debt

Issuance of Parity Debt. In addition to the Series 2005 Bonds and the Series 2003 Bonds, the Agency may issue Parity Debt payable from Tax Revenues on a parity with the Series 2005 Bonds to finance redevelopment activities with respect to the Project in such principal amount as shall be determined by the Agency. See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Pledge of Revenues; Creation of Special Funds and Accounts” herein. The Agency may issue and deliver any such Parity Debt subject to the following specific conditions all of which are made conditions precedent to the issuance and delivery of such Parity Debt:

(a) No event of default under the Indenture, under any Parity Debt Instrument or under any Subordinate Debt Instrument shall have occurred and be continuing, and the Agency shall otherwise be in compliance with all covenants set forth in the Indenture;

(b) The Tax Revenues estimated to be received for the then current Fiscal Year, based on the most recent assessed valuation of property in the Project Area (excluding taxes attributable to a tax rate levied by a taxing agency after January 1, 1989 for the purpose of producing revenues in an amount sufficient to make annual repayments of the principal of and the interest on, any bonded indebtedness of such taxing agency), as evidenced in writing from the County Assessor or other appropriate official of the County, less the amount of debt service on the Senior Bonds for such Fiscal Year, shall be at least equal to 120% of Annual Debt Service, including annual debt service on the proposed Parity Debt, for each Fiscal Year; provided that in determining whether estimated Tax Revenues equal not less than 120% of Annual Debt Service for each Fiscal Year (and regardless of when such calculation is being made), in performing the calculation for each Fiscal Year commencing on and after July 1, 2014 (or, if later, the final maturity of the Senior Bonds) estimated Tax Revenues shall not be reduced by the amount of debt service on the Senior Bonds for the then current Fiscal Year;

(c) In the case of Parity Debt issued as additional Bonds under a Supplemental Indenture, the amount on deposit in the Reserve Account (and any subaccounts therein) shall be increased to the Reserve Requirement taking into account the additional Bonds to be issued;

(d) Principal with respect to such Parity Debt will be required to be paid on September 1 in any year in which such principal is payable;

(e) The aggregate amount of the principal of and interest on the Senior Bonds, all Outstanding Bonds, other outstanding Additional Parity and Subordinate Debt coming due and payable following the issuance of such Parity Debt shall not exceed the maximum amount of Tax Revenues permitted under the Plan Limit to be allocated and paid to the Agency following the issuance of such Parity Debt as shall be confirmed at the time of the issuance of such Parity Debt and as shall be thereafter confirmed at least annually by the Agency in a written accounting to the Trustee and the Series 2003 Insurer and any other Insurer. The Agency shall provide for the deposit of Tax Revenues into an escrow held by the Trustee and pledged to the payment of the Bonds and Parity Debt in the event and to the extent it determines, based on the annual calculation provided for in the preceding sentence, that remaining debt service on the Senior Bonds and the remaining debt service payable on the Bonds and Parity Debt, exceeds ninety-five percent (95%) of the amount of Tax Revenues then remaining to be allocated and paid to the Agency under the Plan Limit. The Agency shall apply amounts on deposit in such escrow solely to the purchase or redemption of the Senior Bonds, the Bonds or Parity Debt, or in the

event that the Agency delivers a Written Certificate of the Agency to the effect that the Plan Limit has been amended such that the remaining debt service on the Senior Bonds and the remaining debt service on the Bonds including any Parity Debt, no longer exceeds ninety-five percent (95%) of the amount of Tax Revenues then remaining to be allocated and paid to the Agency under the Plan Limit, the Trustee shall transfer amounts on deposit in such escrow to the Agency to be used for any lawful purpose; and

(f) The Agency shall deliver to the Trustee a Written Certificate of the Agency certifying that the conditions precedent to the issuance of such Parity Debt set forth in paragraphs (a), (b) and (e) above have been satisfied.

Issuance of Subordinate Debt. In addition to the Series 2005 Bonds, the Agency may issue or incur loans, advances or indebtedness (“Subordinate Debt”) which are either payable from, but not secured by a pledge of or lien upon, the Tax Revenues, or secured by a pledge of or lien upon the Tax Revenues which is expressly subordinate to the pledge of and lien upon the Tax Revenues for security of the Series 2005 Bonds, in such principal amount as shall be determined by the Agency. The Agency may issue or incur such Subordinate Debt subject to the following specific conditions precedent:

(a) If, and to the extent, such Subordinate Debt is payable from Tax Revenues within the then existing limitation on the amount of Tax Revenues allocable and payable to the Agency under the Redevelopment Plan, then the aggregate amount of the principal of and interest to accrue on all Outstanding Senior Bonds, Outstanding Bonds, Additional Parity and Subordinate Debt coming due and payable following the issuance of such Subordinate Debt shall not exceed the maximum amount of Tax Revenues permitted under the Plan Limit to be allocated and paid to the Agency following the issuance of such Subordinate Debt; and

(b) The Agency shall deliver to the Trustee a Written Certificate of the Agency certifying that the conditions precedent to the issuance of such Subordinate Debt set forth in the Indenture have been satisfied.

BOND INSURANCE

Bond Insurance Policy

General. Concurrently with the execution and delivery of the Series 2005 Bonds, Ambac Assurance Corporation (“Ambac Assurance” or the “Series 2005 Insurer”) will issue its Financial Guaranty Insurance Policy for the Series 2005 Bonds (the “Policy”). The Policy guarantees the scheduled payment of principal and interest with respect to the Series 2005 Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

Payment Pursuant to Financial Guaranty Insurance Policy. Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the “Financial Guaranty Insurance Policy”) relating to the Series 2005 Bonds effective as of the date of execution and delivery of the Series 2005 Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance 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 Series 2005 Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Agency (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Series 2005 Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance 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 Series 2005 Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Series 2005 Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Series 2005 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 Series 2005 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.

In the event the Trustee has notice that any payment of principal of or interest on a Certificate 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 in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does not insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance 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, redemption or acceleration premium.
3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of Series 2005 Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Series 2005 Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Certificate, appurtenant coupon, if any, or right to payment of principal or interest on such Certificate and will be fully subrogated to the surrendering Holder's rights to payment.

The Financial Guaranty Insurance Policy does not insure against loss relating to payments made in connection with the sale of Series 2005 Bonds at Auctions or losses suffered as a result of a Holder's inability to sell Series 2005 Bonds.

The Financial Guaranty Insurance Policy does not insure against loss relating to payments of the purchase price of Series 2005 Bonds upon tender by a registered owner thereof or any preferential transfer relating to payments of the purchase price of Series 2005 Bonds upon tender by a registered owner thereof.

In the event that Ambac Assurance 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. Ambac Assurance Corporation (“Ambac Assurance”) is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the Agency of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$8,069,000,000 (unaudited) and statutory capital of approximately \$5,015,000,000 (unaudited) as of September 30, 2004. Statutory capital consists of Ambac Assurance’s policyholders’ surplus and statutory contingency reserve. Standard & Poor’s Credit Markets Services, a Division of The McGraw-Hill Companies, Moody’s Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the obligor of the Series 2005 Bonds.

Ambac Assurance makes no representation regarding the Series 2005 Bonds or the advisability of investing in the Series 2005 Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under this heading “MUNICIPAL BOND INSURANCE POLICY.”

Available Information. The parent company of Ambac Assurance, 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 “SEC”). These reports, proxy statements and other information can be read and copied at the SEC’s public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC 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 SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the “NYSE”), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance’s financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance’s administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York 10004 and (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, 2003 and filed on March 15, 2004;
2. The Company’s Current Report on Form 8-K dated April 21, 2004 and filed on April 22, 2004;
3. The Company’s Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2004 and filed on May 10, 2004;

4. The Company's Current Report on Form 8-K dated July 21, 2004 and filed on July 22, 2004;
5. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2004 and filed on August 9, 2004;
6. The Company's Current Report on Form 8-K dated August 19, 2004 and filed on August 20, 2004;
7. The Company's Current Report on Form 8-K dated October 20, 2004 and filed on October 20, 2004;
8. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended September 30, 2004 and filed on November 9, 2004; and
9. The Company's Current Report on Form 8-K dated November 12, 2004 and filed on November 12, 2004.

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 in "Available Information."

TAX ALLOCATION FINANCING

Introduction

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

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

Property Tax Rate and Appropriation Limitations

Article XIII A of State Constitution. On June 6, 1978, California voters approved Proposition 13, which added Article XIII A to the California Constitution (“Article XIII A”). Article XIII A limits the amount of any *ad valorem* tax on real property to one percent of the full cash value thereof, except that additional *ad valorem* taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978 and (as a result of an amendment to Article XIII A approved by California voters on June 3, 1986) on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978 by two-thirds of the voters voting on such indebtedness. Article XIII A defines full cash value to mean “the county assessor’s valuation of real property as shown on the 1975/76 tax bill under ‘full cash value,’ or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment.” This full cash value may be increased at a rate not to exceed two percent per year to account for inflation.

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 various other minor or technical ways.

The Agency has no power to levy and collect taxes. Any further reduction in the tax rate or the implementation of any constitutional or legislative property tax de-emphasis will reduce Tax Revenues, and, accordingly, would have an adverse impact on the ability of the Agency to pay debt service on the Series 2005 Bonds.

Court Challenges to Article XIII A. There have been many challenges to Article XIII A of the State Constitution. In *Nordlinger v. Hahn*, a challenge relating to residential property, the United States Supreme Court held that the method of property tax assessment under Article XIII A did not violate the federal Constitution. 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.

Article XIII B of State Constitution. An initiative to amend the State constitution was approved on September 6, 1979 thereby adding Article XIII B to the California Constitution (“Article XIII B”). Under Article XIII B state and local governmental entities have an annual “appropriations limit” and are not permitted to spend certain moneys which are called “appropriations subject to limitation” (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the “appropriations limit.” Article XIII B does not affect the appropriations of moneys which are excluded from the definition of “appropriations subject to limitation,” including debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by the voters.

The California State Legislature, by Statutes of 1980, Chapter 1342 enacted a provision of the Redevelopment Law (Health and Safety Code Section 33678) providing that the allocation and payment of taxes to a redevelopment agency for the purpose of paying principal of or interest on loans, advances or indebtedness incurred for redevelopment activity as defined in the statute shall not be deemed the receipt by the Agency of proceeds of taxes levied by or on behalf of a redevelopment agency within the meaning or for the purpose of Article XIII B of the State Constitution, nor shall such portion of taxes be deemed receipt of proceeds of taxes by, or an appropriation subject to the limitation of, any other public body within the meaning or for the purposes of Article XIII B of the State Constitution or any statutory provision enacted in implementation of Article XIII B.

Unitary Property

Legislation enacted in 1986 (Chapter 1457) and 1987 (Chapter 921) provides that revenues derived from most utility property assessed by the State Board of Equalization (“Unitary Property”), commencing with the 1988/89 Fiscal Year, will be allocated as follows: (1) each jurisdiction, including the Project Area, will receive up to 102% of its prior year State-assessed revenue; and (2) if county-wide revenues generated from Unitary Property are less than the previous year’s revenues or greater than 102% of the previous year’s revenues, each jurisdiction will share the burden of the shortfall or excess revenues by a specified formula. This provision applies to all Unitary Property except railroads, whose valuation will continue to be allocated to individual tax rate areas. See also “LIMITATIONS ON TAX REVENUES—Taxation of Unitary Property.”

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 recordation 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.

Current tax payment practices by the County provide for payment to the Agency of Tax Revenues monthly throughout the fiscal year, with the majority of Tax Revenues derived from secured property paid to the Agency in mid-December and mid-April, and the majority of Tax Revenues derived from unsecured property paid to the Agency by mid-November. A final reconciliation is made after the close of the fiscal year to incorporate all adjustments to previously reported current year taxable values. The difference between the final reconciliation and Tax Revenues previously allocated to the Agency is allocated mid-August.

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

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 1.5% per month to the time of redemption and a \$15 Redemption Fee. If taxes are unpaid for a period of five years or more, the property is 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 1.5% per month accrues with respect to such taxes beginning the first day of the third month following the delinquency date.

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 January 1 tax lien date following the change and thus delayed the realization of increased property taxes from the new assessments for up to 14 months. As enacted, Chapter 498 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 January 1 lien date. To the extent such supplemental assessments occur within the Project Area, Tax Revenues may increase. See “THE CENTRAL DISTRICT PROJECT AREA.”

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 of a statement of indebtedness certified by the chief fiscal officer of the Agency for each redevelopment project that receives tax increment. The statement of indebtedness is required to contain the date on which any bonds were delivered, the principal amount, term, purpose and interest rate of such bonds and the outstanding balance and amount due on such bonds. Similar information must be given for each loan, advance or indebtedness that the Agency has incurred or entered into to be payable from tax increment.

This section also provides that the county auditor is limited in payment of tax increment to a redevelopment agency to the amounts shown on the Agency’s statement of indebtedness. The section further provides that the statement of indebtedness is *prima facie* evidence of the indebtedness of the Agency, but that the county auditor may dispute the amount of indebtedness shown on the statement in certain cases. Provision is made for time limits under which the dispute can be made by the county auditor as well as provisions for determination by the Superior Court in a declaratory relief action of the proper disposition of the matter. The issue in any such action shall involve only the amount of the indebtedness and not the validity of any contract or debt instrument, or any expenditures pursuant thereto. An exception is made for payments to a public agency in connection with payments by such public agency pursuant to a bond issue which shall not be disputed in any action under the section. The Series 2005 Bonds should be entitled to the protection of that portion of the statute so that they cannot be disputed by the county auditor.

Limitations on Indebtedness, Receipt of Tax Increment and Power of Eminent Domain

In 1976 the Legislature enacted AB 3674 (Statutes of 1976, Chapter 1337) which added Sections 33333.2 (later renumbered as Section 33333.4), 33334.1 and 33354.6 to the Redevelopment Law. While the effective date of AB 3674 was January 1, 1977, the new limitations contained in these sections, which are discussed below, are applicable to redevelopment plans adopted on or after October 1, 1976.

Section 33333.4 now requires redevelopment plans adopted on or after October 1, 1976 to contain a limit on the number of tax dollars which may be divided and allocated to a redevelopment agency pursuant to its redevelopment plan, a time limit on the establishing of loans, advances and indebtedness to

finance, in whole or in part, the redevelopment project and a time limit not to exceed twelve years for the commencement of eminent domain proceedings to acquire property within the Project Area.

Section 33334.1 requires a redevelopment plan adopted on or after October 1, 1976 to contain a limit on the amount of bonds or 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, a redevelopment agency must follow the procedures and be subject to the same restrictions as provided in the adoption of a new redevelopment plan.

Low and Moderate Income Housing Fund

Under Section 33334.2 of the Redevelopment Law, redevelopment agencies in California are generally required, unless certain annual findings are made, annually to set aside 20% of all property tax increment revenues allocated to the Agency pursuant to the Redevelopment Law and to deposit said revenues in a Low and Moderate Income Housing Fund (the “Housing Set-Aside”) to be used within the jurisdiction of the Agency to increase, improve, and preserve the community’s supply of low and moderate income housing. On December 11, 2001, the Agency adopted Resolution No. 01-85 C.M.S., which increased the Housing Set-Aside from 20% to 25% for those project areas in which the debt coverage ratio of the project area equals or exceeds 1.2%. The Resolution provides that the increase in the Housing Set-Aside is subordinate to all existing and future tax allocation bonded indebtedness the Agency may issue or incur for such project area, and that all Agency debt service shall be paid on a superior basis to the additional 5% housing set aside.

Assembly Bill 1290

Assembly Bill 1290 (being Chapter 942, Statutes of 1993) (“AB 1290”) was adopted by the California Legislature and became law on January 1, 1994. The enactment of AB 1290 created several significant changes in the Redevelopment Law, including the following:

(i) time limitations for redevelopment agencies to incur and repay loans, advances and indebtedness that are repayable from tax increment revenues. See “PROJECT AREA—Redevelopment Area” for a discussion of the time limitations;

(ii) limitations on the use of the proceeds of loans, advances and indebtedness for auto malls and other sales tax generating redevelopment activities, as well as for city and county administrative buildings. However, AB 1290 confirmed the authority of a redevelopment agency to make loans to rehabilitate commercial structures and to assist in the financing of facilities or capital equipment for industrial and manufacturing purposes;

(iii) provisions affecting the housing set-aside requirements of an agency, including severe limitations on the amount of money that is permitted to accumulate in the Agency’s housing set-aside fund. However, these limitations are such that an agency will be able (with reasonable diligence) to avoid the severe penalties for having “excess surplus” in its housing set-aside fund; and

(iv) provisions relating primarily to the formation of new redevelopment project areas, including (i) changes in the method of allocation of tax increment revenues to other taxing entities affected by the formation of redevelopment project areas, (ii) restrictions on the finding of “blight” for purposes of formation of a redevelopment project area and (iii) new limitations with respect to incurring and repaying debt and the duration of the new redevelopment plan.

AB 1290 also established a statutory formula for sharing tax increment for project areas established, or amended in certain respects, on or after January 1, 1994, which applies to tax increment revenues net of the housing set-aside. The first 25% of net tax increment generated by the increase in assessed value after the effective date of the amendment is required to be paid to affected taxing entities. In addition, beginning in the eleventh year of collecting tax increment, an additional 21% of the increment generated by increases in assessed value after the tenth year must be so paid. Finally, beginning in the thirty-first year of collecting tax increment, an additional 14% of the increment generated by increases in assessed value after the thirtieth year must be so paid. The first year for purposes of this statutory formula is fiscal year 2001-02.

The Agency is of the opinion that the provisions of AB 1290, including the time limitations provided in AB 1290, will not have an adverse impact on the payment of debt service on the Series 2005 Bonds.

Senate Bill 211

Senate Bill 211 (being Chapter 741, Statutes of 2001) (“SB 211”) was adopted by the California Legislature and became law on January 1, 2002. Among other things SB 211 authorizes a redevelopment agency that adopted a redevelopment plan on or before December 31, 1993, to amend that plan in accordance with specified procedures to extend its effectiveness and receive tax increment revenues with respect to the plan for not more than 10 years if specified requirements are met. If a plan is so amended, the requirement for allocating tax increment revenues to low and moderate income housing is increased from 20% to 30%. SB 211 also allows redevelopment agencies to amend redevelopment plans to eliminate the time limit for the establishment of loans, advances and indebtedness. However, such elimination will trigger statutory tax sharing with those taxing entities that do not have tax sharing agreements. Tax sharing will be calculated based on the increase in assessed valuation after the year in which the time limit would have otherwise become effective. The Agency has covenanted in the Indenture not to amend the Redevelopment Plan in a manner that would impair the Agency’s ability to pay debt service on the Bonds. The Agency adopted an ordinance on January 6, 2004, eliminating the time limit for the establishment of loans, advances and indebtedness as to the Project Area (excluding that portion of the Project Area added by Plan amendment on July 24, 2001).

CERTAIN RISKS TO BONDHOLDERS

The following information should be considered by prospective investors in evaluating the Series 2005 Bonds. However, the following does not purport to be an exhaustive listing of risks and other considerations that may be relevant to making an investment decisions with respect to the Series 2005 Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks.

Accuracy of Assumptions

To estimate the revenues available to pay debt service on the Series 2005 Bonds, the Agency has made certain assumptions with regard to the assessed valuation of taxable property in the Project Area, future tax rates, growth in tax revenues over time, percentage of taxes collected, the amount of funds available for investment and the interest rate at which those funds will be invested. See APPENDIX C—“REPORT OF THE FISCAL CONSULTANT.” The Agency believes these assumptions to be reasonable, but to the extent that the assessed valuation, the tax rates, the percentages collected, the amount of the funds available for investment or the interest rate at which they are invested, are less than the Agency’s assumptions, the Tax Revenues available to pay debt service on the Series 2005 Bonds will,

in all likelihood, be less than those projected herein. See “DEBT SERVICE COVERAGE PROJECTIONS.”

Reduction of Tax Revenues

Tax Revenues allocated to the Agency, which constitute the primary security for the Series 2005 Bonds, are determined by the incremental assessed value of taxable property in the Project Area, the current rate or rates at which property in the Project Area is taxed, and the percentage of taxes collected in the Project Area. Several types of events that are beyond the control of the Agency could occur and cause a reduction in available Tax Revenues. A reduction of taxable values of property in the Project Area or a reduction of the rate of increase in taxable values of property in the Project Area caused by economic or other factors beyond the Agency’s control (such as a successful appeal by a property owner for a reduction in a property’s assessed value, a reduction of the general inflationary rate, a reduction in value, or the destruction of property caused by natural or other disasters) could occur, thereby causing a reduction in the Tax Revenues that secure the Series 2005 Bonds. Such a reduction in Tax Revenues could have an adverse impact on the Agency’s ability to make timely payment of principal of and interest on the Series 2005 Bonds.

Moreover, in addition to the other limitations on Tax Revenues described under “LIMITATIONS ON TAX REVENUES,” the California electorate or Legislature could adopt a constitutional or legislative property tax decrease with the effect of reducing Tax Revenues payable to the Agency. There is no assurance that the California electorate or Legislature will not at some future time approve additional limitations that could reduce Tax Revenues and adversely affect the security of the Series 2005 Bonds.

Additionally, the Agency has no power to levy and collect property taxes. The receipt of tax revenues by the Agency is dependent on the timely payment of property taxes by landowners within the Project Area. Substantial delinquencies in the payment of property taxes on land in the Project Area by a large number of landowners could have an adverse effect on the Agency’s ability to make timely debt service payments on the Series 2005 Bonds secured by Tax Revenues derived from the Project Area. Tax revenues allocated to the Agency are distributed throughout the fiscal year in installments, with a first installment in January, a second installment in May, and a supplemental installment in June of the same fiscal year. The payments are adjusted to reflect actual collections.

Reductions in Unitary Values

As the result of the adoption of AB 454 (Chapter 921, Statutes of 1986), a portion of the County-wide unitary values assigned to public utilities was allocated to the Project Area. Approximately 0.5% of the Tax Revenues in the Project Area are attributable to such unitary values. Any substantial reduction in the values of public utility properties, either because of deregulation of a utility industry or for any other reason, will have an adverse impact on the amount of Tax Revenues. However, any such impact with respect to utility properties within the Project Area will be lessened because the impact will be spread on a County-wide basis. For further information concerning unitary values, see “LIMITATIONS ON TAX REVENUES—Property Tax Collection Procedures” and “—Unitary Taxation of Utility Property.”

Appeals to Assessed Values

There are two basic types of assessment appeals provided for under California law. The first type of appeal, commonly referred to as a base year assessment appeal, involves a dispute on the valuation assigned by the County Assessor immediately subsequent to an instance of a change in ownership or completion of new construction. If the base year value assigned by the County Assessor is reduced, the valuation of the property cannot increase in subsequent years more than two percent annually unless and

until another change in ownership and/or additional new construction activity occurs. The second type of appeal, commonly referred to as a Proposition 8 appeal, can result if factors occur causing a decline in the market value of the property to a level below the property's then current taxable value (escalated base year value). Pursuant to California law, a property owner may apply for a Proposition 8 reduction of the property tax assessment for such owner's property by filing a written application, in form prescribed by the State Board of Equalization, with the appropriate county board of equalization or assessment appeals board.

In the County, a property owner desiring a Proposition 8 reduction of the assessed value of such owner's property in any one year must submit an application to the Alameda County Assessment Appeals Board (the "Appeals Board"). Applications for any tax year must be submitted by September 15 of such tax year. Following a review of the application by the Alameda County Assessor's Office (the "County Assessor"), the County Assessor may offer to the property owner the opportunity to stipulate to a reduced assessment, or may confirm the assessment. If no stipulation is agreed to, and the applicant elects to pursue the appeal, the matter is brought before the Appeals Board (or, in some cases, a hearing examiner) for a hearing and decision. The Appeals Board generally is required to determine the outcome of appeals within two years of each appeal's filing date. Any reduction in the assessment ultimately granted applies only to the year for which application is made and during which the written application is filed. The assessed value increases to its pre-reduction level (escalated to the inflation rate of no more than two percent) following the year for which the reduction application is filed. However, the County Assessor has the power to grant a reduction not only for the year for which application was originally made, but also for the then current year and any intervening years as well. In practice, such a reduced assessment may and often does remain in effect beyond the year in which it is granted. See "LIMITATIONS ON TAX REVENUES—Property Tax Collection Procedures" and "THE CENTRAL DISTRICT PROJECT AREA—Assessment Appeals."

An appeal may result in a reduction to the County Assessor's original taxable value and a tax refund to the applicant property owner. A reduction in taxable values within the Project Area and the refund of taxes which may arise out of successful appeals by these owners will affect the amount of Tax Revenues.

Hazardous Substances

An additional environmental condition that may result in the reduction in the assessed value of property would be the discovery of a hazardous substance that would limit the beneficial use of taxable property within the Project Area. In general, the owners and operators of a property may be required by law to remedy conditions of the property relating to releases or threatened releases of hazardous substances. The owner or operator may be required to remedy a hazardous substance condition of property whether or not the owner or operator has anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the property within the Project Area be affected by a hazardous substance, could be to reduce the marketability and value of the property by the costs of remedying the condition.

Reduction in Inflation Rate

As described in greater detail below, Article XIII A of the California Constitution provides that the full cash value base of real property used in determining taxable value may be adjusted from year to year to reflect the inflation rate, not to exceed a two percent increase for any given year, or may be reduced to reflect a reduction in the consumer price index, comparable local data or any reduction in the event of declining property value caused by damage, destruction or other factors (as described above). Such measure is computed on a calendar year basis. Any resulting reduction in the full cash value base

over the term of the Series 2005 Bonds could reduce Tax Revenues. See “LIMITATIONS ON TAX REVENUES—Property Tax Rate Limitations-Article XIII A.”

Delinquencies

The Agency does not have any independent power to levy and collect property taxes. Any reduction in the tax rate or the implementation of any constitutional or legislative property tax decrease could reduce the Tax Revenues, and accordingly, could have an adverse impact on the ability of the Agency to repay the Series 2005 Bonds. Likewise, delinquencies in the payment of property taxes could have an adverse effect on the Agency’s ability to make timely debt service payments. The County has elected to follow the procedures of the Teeter Plan, pursuant to which it allocates property taxes to the Agency based on 100% of the tax levy, notwithstanding any delinquencies. However, there can be no assurance the County will continue such practice. See “CENTRAL DISTRICT PROJECT AREA—Teeter Plan.”

Investment Funds

All funds held by the Trustee under the Indenture are required to be invested in Permitted Investments as provided under the Indenture. See Appendix D attached hereto for a summary of the definition of Permitted Investments. All funds held by the Agency, including the Special Fund into which all Tax Increment Revenues are initially deposited, may be invested by the Agency in any investment authorized by law. See the audited financial statements of the Agency for the year ended June 30, 2004 attached hereto as Appendix B for a description of the Agency’s investment policy at June 30, 2004. All investments, including the Permitted Investments and those authorized by law from time to time for investments by municipalities, contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected and loss or delayed receipt of principal. The occurrence of these events with respect to amounts held under the Indenture or the Special Fund could have a material adverse affect on the security for the Series 2005 Bonds.

Bankruptcy and Foreclosure

The rights of the Owners of the Series 2005 Bonds and the enforceability of the obligation to make payments on the Series 2005 Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors’ rights under currently existing law or laws enacted in the future and may also be subject to the exercise of judicial discretion under certain circumstances. The opinions of Bond Counsel as to the enforceability of the obligation to make payments on the Series 2005 Bonds will be qualified as to bankruptcy and such other legal events. See APPENDIX E—“FINAL FORM OF BOND COUNSEL OPINION.”

Further, the payment of the tax increment revenues and the ability of the County to timely foreclose the line of a delinquent unpaid tax may be limited by bankruptcy, insolvency, or other laws generally affecting creditors’ rights or by the laws of the State relating to judicial foreclosure. Any delay in prosecuting superior court foreclosure proceedings would increase the likelihood of a delay or default in payment of the principal of and interest on the Series 2005 Bonds and the possibility of delinquent tax installments not being paid in full.

State Budget Deficit; ERAF

In connection with its approval of the budget for the 1992-93, 1993-94 and 1994-95 fiscal years, the State Legislature enacted legislation which, among other things, reallocated funds from redevelopment agencies to school districts by shifting a portion of each agency’s tax increment, net of

amounts due to other taxing agencies, to school districts for such fiscal years for deposit in the Education Revenue Augmentation Fund (“ERAF”). The amount required to be paid by a redevelopment agency under such legislation was apportioned among all of its redevelopment project areas on a collective basis, and was not allocated separately to individual project areas. Faced with a projected \$23.6 billion budget gap for Fiscal Year 2002-03, the State Legislature adopted and sent to the Governor of the State as urgency legislation AB 1768, requiring redevelopment agencies to pay into ERAF in Fiscal Year 2002-03 an aggregate amount of \$75 million. The Agency paid into ERAF in Fiscal Year 2002-03 approximately \$1,267,106 as its share of such \$75 million. See “STATUTORY LIMITATIONS ON PLEDGED TAX REVENUES.”

In 2003, the State Legislature adopted SB 1045 which required redevelopment agencies to make ERAF transfers in Fiscal Year 2003/04, based on a statewide aggregate transfer by redevelopment agencies of \$135 million. SB 1045 required the Agency to transfer approximately \$2,380,469 to ERAF in fiscal year 2003-04.

Due to continuing state budget problems, legislation was approved (SB 1096), which requires an ERAF shift of \$250 million for 2004-05 and 2005-06. As with previous ERAF shifts, the legislation requires that half of the shift be calculated on the basis of the gross tax increment of a project area and the other half on net revenues after tax sharing payments. The Agency’s ERAF contribution for 2004-05 is estimated at \$4,706,369. The ERAF obligation for Fiscal Year 2005-06 is anticipated to approximate the same amount, but will be derived from the tax increment revenues reported for Fiscal Year 2003-04 by the State Controller. The Agency expects to pay its ERAF obligation for Fiscal Year 2004-05 and 2005-06 from cash on hand and reserves. SB 1096 provides that the Agency’s ERAF payment obligations under SB 1096 are subordinate to the payment of debt service on the Series 2005 Bonds.

The Agency cannot predict whether the State Legislature will adopt legislation requiring other shifts of redevelopment property tax increment revenues in future fiscal years beyond 2005-06 to the State and/or to schools, whether by the ERAF mechanism or by other arrangement. Should such legislation be enacted, Tax Revenues available for payment of the Series 2005 Bonds may, in the future, be substantially reduced, and the Agency’s ability to pay debt service on the Series 2005 Bonds may be impaired.

Seismic Factors

The assessed valuation of properties in the Project Area could be substantially reduced as a result of a major earthquake proximate to the Project Area. There are several geological faults in the greater San Francisco Bay Area that have the potential to cause serious earthquakes which could result in damage to buildings, roads, bridges, and property within the Project Area. The Loma Prieta earthquake, which occurred in October 1989 along the San Andreas Fault, resulted in substantial damage to the infrastructure and property in the Project Area. In addition to the San Andreas Fault, faults that could affect the Agency include the Hayward Fault and the Calaveras Fault in the central and eastern portions of Alameda County. If there were to be an occurrence of severe seismic activity in the Project Area, there could be a negative impact on assessed values of taxable values of property in the Project Area and could result in a reduction in Tax Revenues. Such reduction of Tax Revenues could have an adverse effect on the Agency’s ability to make timely payments of debt service on the Series 2005 Bonds.

Loss of Tax Exemption

In order to maintain the exclusion from gross income for federal income tax purposes of the interest on the Series 2005 Bonds, the Agency has covenanted in the Indenture to comply with the applicable requirements of the Internal Revenue Code of 1986, as amended. The interest on any Series of

the Series 2005 Bonds could become includable gross income for purposes of federal income taxation retroactive to the date of issuance of such Series of the Series 2005 Bonds as a result of acts or omissions of the Agency in violation of this or other covenants in the Indenture applicable to the Series 2005 Bonds. The Series 2005 Bonds are not subject to redemption or any increase in interest rates should an event of taxability occur and will remain outstanding until maturity or prior redemption in accordance with the provisions contained in the Indenture. See “TAX MATTERS.”

Risk of Tax Audit

In December 1999, as a part of a larger reorganization of the Internal Revenue Service (the “IRS”), the IRS commenced operation of its Tax Exempt and Government Entities Division (the “TE/GE Division”), as the successor to its Employee Plans and Exempt Organizations division. The new TE/GE Division has a subdivision that is specifically devoted to tax-exempt bond compliance. Public statements by IRS officials indicate that the number of tax-exempt bond examinations is expected to increase significantly under the new TE/GE Division. There is no assurance that if an IRS examination of the Series 2005 Bonds was undertaken it would not adversely affect the market value of the Series 2005 Bonds. See “TAX MATTERS.” The Agency is not currently the subject of any ongoing audit nor has it been notified by the IRS regarding the possibility of any such audit.

Secondary Market

There can be no guarantee that there will be a secondary market for the Series 2005 Bonds or, if a secondary market exists, that the Series 2005 Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

LIMITATIONS ON TAX REVENUES

The Series 2005 Bonds are secured by a pledge of Tax Revenues attributable to the Project Area. The Agency does not have any independent power to levy and collect property taxes; accordingly, the amount of Tax Revenues available to the Agency for payment of the principal of and interest on the Series 2005 Bonds is affected by several factors, including but not limited to those discussed below. See also “CERTAIN RISKS TO BONDHOLDERS.”

Introduction

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

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the two percent annual adjustment (see “—Property Tax Rate Limitations-Article XIII A”) are allocated among the various jurisdictions in the “tax area” based upon their respective “situs.” Any such allocation made to a local agency continues as part of its allocation in future years.

Property Tax Rate Limitations-Article XIII A

Section 1(a) of Article XIII A of the California Constitution limits the maximum *ad valorem* tax on real property to one percent of full cash value (as defined in Section 2 of Article XIII A), to be collected by the counties and apportioned according to law. Section 1(b) of Article XIII A provides that the one percent limitation does not apply to *ad valorem* taxes to pay interest or redemption charges on (1) indebtedness approved by the voters prior to July 1, 1978, or (2) any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition. Section 2 of Article XIII A defines “full cash value” to mean “the county assessor’s valuation of real property as shown on the 1975-76 tax bill under full cash value or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment.” The full cash value may be adjusted annually to reflect inflation at a rate not to exceed two percent (2%) per year, or reduction in the consumer price index or comparable data for the area under taxing jurisdiction or reduced in the event of declining property value caused by substantial damage, destruction or other factors. Legislation enacted by the California Legislature to implement Article XIII A provides that notwithstanding any other law, local agencies may not levy any *ad valorem* property tax except to pay debt service on indebtedness approved by the voters as described above. Such legislation further provides that each county will levy the maximum tax permitted by Article XIII A of \$4.00 per \$100 of assessed valuation (based on the traditional practice of using 25% of full cash value as the assessed value for tax purposes). Beginning with the 1981-82 fiscal year, assessors in California no longer record property values on the tax rolls at the assessed value of 25% of market value and now record them at full market value. Consequently, the tax of \$4.00 per \$100 of assessed value is now expressed at \$1.00 per \$100 of taxable value.

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

In the June 1990 election, the voters of the State approved additional amendments to Article XIII A permitting the California Legislature to extend the replacement dwelling provisions applicable to persons over 55 to severally disabled homeowners for replacement dwellings purchased or newly constructed on or after June 5, 1990, and to exclude from the definition of “new construction” triggering reassessment improvements to certain dwellings for the purpose of making the dwelling more accessible to severely disabled persons. In the November 1990 election, the voters approved the amendment to Article XIII A to permit the State Legislature to exclude from the definition of “new construction”

seismic retrofitting improvements or improvements utilizing earthquake hazard mitigation technologies constructed or installed in existing buildings after November 6, 1990.

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

Property Tax Collection Procedures

The County assesses real and personal property values and collects and distributes secured and unsecured property taxes among the County, and the cities, school districts and other special districts located within the County area.

For each Fiscal Year, taxes are levied on taxable real and personal property situated in the County as of the preceding January 1. For assessments and collection purposes, property is classified either as “secured” or “unsecured,” and is listed accordingly on separate parts of the assessment roll. The “secured roll” is that part of the assessment roll containing State-assessed property and property secured by a lien on real property which is sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the “unsecured roll.”

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each Fiscal Year. If unpaid, such taxes become delinquent after December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payments. In addition, property on the secured roll with respect to which taxes are delinquent is declared to be in default on or about June 30 of such Fiscal Year. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a redemption penalty of one and one-half percent per month up to the time of redemption. If taxes are unpaid for a period of five years or more, the tax-defaulted property is declared to be subject to the Treasurer-Tax Collector’s power of sale and may be subsequently sold by the Treasurer-Tax Collector.

The “supplemental roll,” which was established by legislation in 1984, directs the County Assessor to reassess real property at market value upon completion of construction or a change of ownership. A property on the supplemental roll is eligible for billing 30 days after the reassessment and notification to the assessee. The resultant charge (or refund) is one-time levy on the increase (or decrease) in value for the period between the date of the change in ownership or completion of construction and the date of the next regular tax roll upon which the assessment is entered. Billings of supplemental assessments are made on a monthly basis and due on the date mailed. If mailed between the months of July and October, the first installment becomes delinquent on December 10th and the second on April 10th. If mailed within the months of November through June, the first installment becomes delinquent on the last day of the month following the month of billing and the second installment becomes delinquent on the last day of the fourth month following the date the first installment was delinquent.

State law exempts from assessed valuation \$7,000 of the full cash value of an owner-occupied residence, but this exemption does not result in any loss of revenue to local agencies, since an amount equivalent to the taxes which would have been payable on such exempt values is paid by the State. As of fiscal year 1984-85, the State reimbursement with respect to the business inventory exemption, which formerly had been in the amount of 50%, then 100%, was repealed. This subdivision for counties has been replaced by increased motor vehicles license fees.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid, on August 31. A 10% penalty attaches to delinquent taxes on property on the unsecured roll,

and an additional penalty of one and one-half percent per month begins to accrue beginning November 1. The taxing authority has four ways of collecting unsecured personal property taxes: (1) by filing a civil action against the taxpayer; (2) by 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) by filing a certificate of delinquency for recordation in the County Recorder's office, in order to obtain a lien on certain property of the taxpayer; and (4) by the seizure and sale of personal property, improvements or possessory interest belonging to the taxpayer. These collection methods can be used separately or jointly.

Appropriation Limitation^{3/4}Article XIII B

On November 6, 1979, California voters approved Proposition 4, the Gann Initiative, which added Article XIII B to the California Constitution. The principal effect of Article XIII B is to limit the annual appropriations of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted for changes in the cost of living, population and services rendered by the government entity. The "base year" for establishing such appropriation limit is fiscal year 1978-79 and the limit is to be adjusted annually to reflect changes in population, consumer prices and certain increases in the cost of services provided by these public agencies.

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

Effective September 30, 1980, the California Legislature added Section 33678 to the Redevelopment Law which provides that the allocation of taxes to a redevelopment agency for the purpose of paying principal of, or interest on, loans, advances, or indebtedness will not be deemed receipt by the Agency of proceeds of taxes levied by or on behalf of the Redevelopment Agency within the meaning of Article XIII B or any statutory provision enacted in implementation thereof.

The constitutionality of Section 33678 has been upheld by the Second and Fourth District Courts of Appeal in two decisions: *Bell Community Redevelopment Agency v. Woosley* and *Brown v. Community Redevelopment Agency of the City of Santa Ana*. The plaintiff in *Brown v. Community Redevelopment Agency of the City of Santa Ana* has petitioned the California Supreme Court for a hearing of this case.

Effective in Fiscal Year 1990/91, Proposition 113 and SB 88 (Chapter 60/90) modified the manner in which the appropriations limit is to be calculated and requires annual election of an inflation adjustment factor and a population factor. The annual inflation adjustment factor selected by the City for the 2004-05 year is growth in California Per Capita Income. The population factor chosen is growth within the City.

SB 2557

SB 2557, enacted in 1990 (Chapter 466, Statutes of 1990) 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 that are subject to a property tax administration charge. The County collects property tax administration costs from the Agency by deducting such costs from tax revenues prior to delivering such amounts to the Agency. For Fiscal Year 2003-04 the County's administrative fee was approximately \$305,967, which was approximately one percent of Fiscal Year 2003-04 gross tax increment revenues.

Proposition 218

On November 5, 1996, California voters approved Proposition 218—Voter Approval for Local Government Taxes—Initiative Constitutional Amendment. Proposition 218 added Articles XIII C and XIII D to the California Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges. The Series 2005 Bonds are secured by sources of revenues that are not subject to limitation by Proposition 218.

Taxation of Unitary Property

AB 2890 (Statutes of 1986, Chapter 1457) provides that, commencing with the fiscal year 1988-89, assessed value derived from State-assessed unitary property (consisting mostly of operational property owned by utility companies) is to be allocated county-wide as follows: (i) each tax rate area will receive the same amount from each assessed utility received in the previous fiscal year unless the applicable county-wide values are insufficient to do so, in which cash 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 percentage share of the excess unitary revenue generated from the application of the debt service tax rate to county-wide unitary taxable value. Further, each jurisdiction will receive a percentage share of revenue based on the jurisdiction's annual debt service requirements and the percentage of property taxes received by each jurisdiction from unitary property taxes. 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.

For Fiscal Year 2003-04, approximately \$2,348,000 of tax increment revenue allocable to the Agency with respect to the Project Area was attributable to unitary property.

Limitation of Tax Revenues From Certain Increased Tax Rates

An initiative to amend the California Constitution entitled "Property Tax Revenues—Redevelopment Agencies" was approved by California voters at the November 8, 1988 general election. This initiative amends the California Constitution to allow the California Legislature to prohibit redevelopment agencies from receiving any of the property tax revenue raised by increased property tax rates imposed by local governments to make payments on their bonded indebtedness. The initiative applies to tax rates levied to finance bonds approved by the voters on or after January 1, 1989. The Agency does not currently project receiving any tax revenues as a result of general obligation bonds which may have been approved on or after January 1, 1989.

Redevelopment Plan Limitations

Assembly Bill (“AB”) 1290 provides for the placement of time limits on the effectiveness of every redevelopment plan, and provides that after ten years from the termination date of a plan’s effectiveness, no redevelopment agency, subject to certain exceptions, will pay indebtedness or receive property taxes in connection therewith. AB 1290 does not affect the validity of any bond, indebtedness, or other obligation authorized prior to January 1, 1994, nor does it affect the right of an agency to receive property taxes to pay such indebtedness or other obligation.

Among other amendments to the Redevelopment Law, AB 1290 imposes time limits on existing redevelopment plans for the incurrence of indebtedness, the duration of the plan and the collection of tax increment revenues. The time limits imposed on AB 1290 apply individually to each plan as well as to specific territory added by amendments to a redevelopment plan. See “TAX ALLOCATION FINANCING—Senate Bill 211.” AB 1290 required the Agency to adopt such a time limit for the receipt of increment, which may not extend more than ten years beyond the duration of each redevelopment plan. Pursuant to AB 1290 which took effect January 1, 1994, the Agency amended its Redevelopment Plan for the Project Area to impose such tax time limits. The Law allows the further extension of these dates if certain findings can be made as to each of the plans. The Agency recently amended the Redevelopment Plan again to extend these limits. Accordingly, the time limit for Plan activities (for that portion of the Project Area included when the plan was adopted on June 12, 1969) is June 12, 2012 and the time limit to repay debt or receive property taxes is June 12, 2022. In addition, pursuant to Section 33333.6(e)(2)(B) of the Redevelopment Law, the Agency adopted an ordinance on January 6, 2004, eliminating the time limit for the establishment of loans, advances and indebtedness to most of the Project Area. For a small portion of the Project Area (approximately 14.86 acres) added by Plan amendment on July 24, 2001, the time limit for the establishment of loans, advances and indebtedness is July 24, 2021. For additional information regarding the time limits applicable to each territory within the Project Area, see “THE CENTRAL DISTRICT PROJECT AREA—Redevelopment Plan Limits.”

Pursuant to Senate Bill (“SB”) 690 (Chapter 639, Statutes of 1985), the Agency was also required to adopt a resolution setting forth a limit on the amount of tax increment the Agency may receive with respect to each of its redevelopment project areas. The maximum amount of tax increment revenue the Agency may receive from the Project Area has been established in the amount of \$1,348,862,000.

Through Fiscal Year 2003-04, the Agency has been allocated \$400,792,775 of tax increment revenue according to Agency and County records. Based on the projection of revenues over the life of the Project Area, the Agency will not reach its tax increment limit prior to the final maturity date of the Series 2005 Bonds. If, however, the Project Area sustains growth above the new development already incorporated in the projection of revenues in the Report of the Fiscal Consultant attached as APPENDIX C to this Official Statement, of over six percent (6%) per year for the remaining term of the Series 2005 Bonds, the Project Area will reach its tax increment limit before the final maturity date of the Series 2005 Bonds. In order to ensure that the tax increment cap is not reached prior to the payment in full of the Series 2005 Bonds, the Series 2003 Bonds and any Parity Debt, the Agency has covenanted in certain circumstances to deposit Tax Revenues not needed to pay scheduled debt service on the Series 2005 Bonds, the Series 2003 Bonds and any Parity Debt into an escrow pledged to the payment of debt service on the Series 2005 Bonds, the Series 2003 Bonds and any Parity Debt. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005 BONDS – Additional Parity and Subordinate Debt.”

For those tax increment revenues generated by that portion of the Project Area added by the 2001 Plan amendment, the Agency is subject to statutory pass-through requirements created by AB 1290. This area was initially eligible to receive tax increment revenue in Fiscal Year 2002.

Statement of Indebtedness

Under the Redevelopment Law, the Agency must file with the County Auditor a statement of indebtedness for the Project Area not later than the first day of October of each year. As described below, the statement of indebtedness controls the amount of tax increment revenue that will be paid to the Agency in each fiscal year.

Each statement of indebtedness is filed on a form prescribed by the State Controller and specifies, among other things: (i) the total amount of principal and interest payable on all loans, advances or indebtedness (the “Debt”), both over the life of the Debt and for the current fiscal year, and (ii) the amount of “available revenue” as of the end of the previous fiscal year. “Available revenue” is calculated by subtracting the total payments on Debt during the previous fiscal year from the total revenues (both tax increment revenues and other revenues) received during the previous fiscal year, plus any carry forward from the prior fiscal year. Available revenues include amounts held by the Agency and irrevocably pledged to the payment of Debt, but do not include amounts set aside for low and moderate income housing.

The County Auditor may only pay tax increment revenue to the Agency in any fiscal year to the extent that the total remaining principal and interest on all Debt exceeds the amount of available revenues as shown on the statement of indebtedness.

The statement of indebtedness constitutes *prima facie* evidence of the indebtedness of the Agency; however, the County Auditor may dispute the statement of indebtedness in certain cases. Section 33675 provides for certain time limits controlling any dispute of the statement of indebtedness, and allows for Superior Court determination of such a dispute in the event it cannot be resolved by the Agency and the County. Any such action may only challenge the amount of the Debt as shown on the statement, and not the validity of any Debt or related contract or the expenditures related thereto. No challenge can be made to payments to a Trustee in connection with a bond issue or payments to a public agency in connection with payment by that public agency with respect to a lease or bond issue.

Housing Set-Aside

Section 33334.2 and 33334.6 of the Redevelopment Law require the Agency to set aside not less than 20% of tax increment derived from the Project Area to be used for the purpose of increasing, improving and/or preserving the community’s supply of low and moderate income housing. Pursuant to Agency policy, the Agency currently deposits 25% of gross tax increment revenues in its Low and Moderate Income Housing Fund. Such funds are not Tax Revenues and are not pledged to the repayment of the Series 2005 Bonds. Pursuant to the Redevelopment Law, housing set-aside funds may be pledged to the repayment of bonds only to the extent proceeds of such bonds are used (or are used to refund bonds, the proceeds of which were used) to finance low and moderate income housing purposes. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2005 BONDS—Pledge and Allocation of Taxes” and “—Tax Revenues.” No portion of the Agency’s housing set-aside funds is pledged to the repayment of the Series 2005 Bonds.

Future Initiatives

Article XIII A, Article XIII B and certain other propositions affecting property tax levies 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.

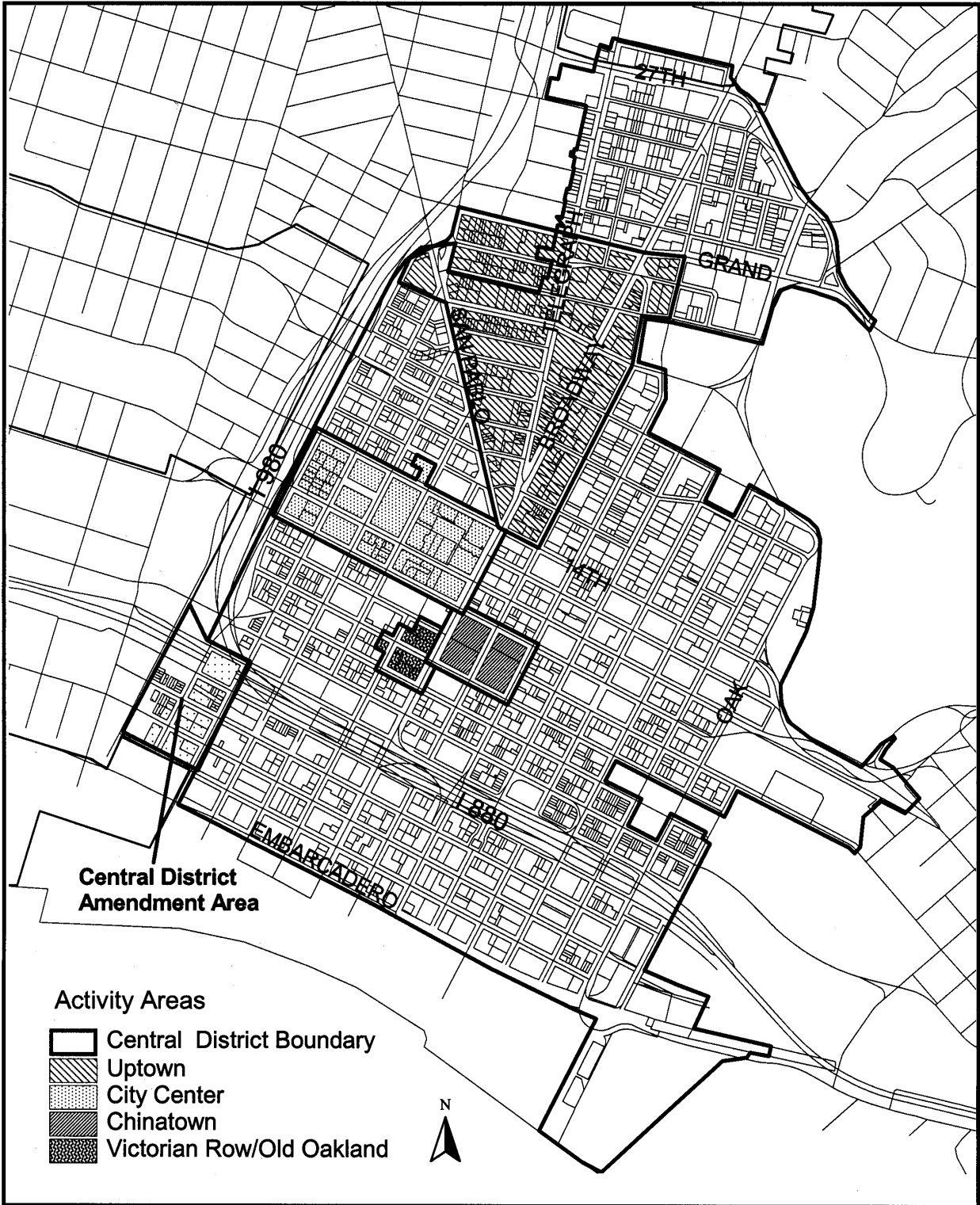
THE CENTRAL DISTRICT PROJECT AREA

General

The Project Area encompasses an area of approximately 828 acres, covering approximately 300 City blocks, including the entire Central Business District. The Project Area is the economic and transportation hub of the East Bay portion of the San Francisco-Oakland Metropolitan Area. It contains nearly 27 major office buildings of over 100,000 square feet each with approximately 10.5 million total square feet of rentable class A and B office space. For the third fiscal quarter of 2004, the class A and B buildings had a combined vacancy rate of approximately 12.9%, with the recently completed 555 City Center building expected to achieve 90% occupancy once tenants with existing executed leases are moved in.

The Project Area is at the heart of the BART transit system, having three stations located within its boundaries. More than 30 bus lines connect the Project Area with other parts of Oakland and nearby communities. Access to the Project Area is served by the John B. Williams Freeway (Interstate 980) and Interstate 880. Following is a map of the Project Area.

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Action Areas

Within the Project Area are four major redevelopment action areas: City Center, Chinatown, Old Oakland and the Retail Center (Uptown). These four areas surround the 48,000 square foot Oakland Convention Center-Marriott City Center Hotel Complex, which was developed with Agency financial assistance. The Agency is continuing with plans to develop housing and retail business in the Central District.

City Center. The City Center action-area is a major mixed-use, multi-purpose development on a 15-block site assembled by the Agency. It consists of five major elements: (i) six blocks which are developed, owned and/or managed by various developers as retail, office and other commercial developments, including the international headquarters for the Clorox Company and the recently completed 555 City Center building, a 470,000 square-foot office development by the Shorenstein Company; (ii) the two blocks developed by DWA-Fed Oak for the 700,000 gross square-foot Ronald V. Dellums Federal Building (the “Federal Building”); (iii) the City Center West Garage (a 1,452-space garage owned by the Agency); (iv) three blocks awaiting development: two under a Disposition and Development Agreement with the Shorenstein Company for 1.2 million square-feet of office space, and the third block awaiting development under a Disposition and Development Agreement with The Olson Company, for the development of 251 condominium units on the City Center T-10 Site (sold in September 2004 with construction scheduled to start in early 2005); and (v) the three blocks of Preservation Park (consisting primarily of office space leased to nonprofit organizations) plus Landmark Place (a half-block site built out with a 92-unit residential condominium complex, which was completed in January 2004 and which sold out in under four months). See also, “THE CENTRAL DISTRICT REDEVELOPMENT PROJECT—Largest Employers.”

Chinatown. The Chinatown action area is a multi-phased development on a four-block site assembled by the Agency. The first phase consisted of a six-story podium covering one city block, with the lower floors designed for commercial, retail and restaurant use and the upper floors for office use. Construction was completed in late 1982. The second phase consisted of the construction of Pacific Renaissance Plaza, which is a mixed-use development of 250 units of housing, 100,000 square feet of commercial space and 500 subsurface parking spaces. The last phase of this development consisted of the construction of the 162-room Courtyard by Marriott hotel which was completed in 2002 and the 88-unit Franklin 88 residential condominium project, including approximately 5,800 square feet of commercial space, and an Agency-owned 135-space public parking garage, which was completed in October 2004.

Old Oakland. Old Oakland, started in 1978, consists of the rehabilitation/restoration of eleven mid-to-late nineteenth century Victorian commercial structures. More recent redevelopment projects include Old Town Square, completed in 1998 (a 98-unit residential condominium project); Swan’s Market, completed in 2001 (a mixed-use project with 18 affordable rental housing units, 20 condominiums, 25,000 square feet of retail space and 17,000 square feet of office space), and Market Square, the first phase of which will be completed in 2005 (116 units) and the second phase of which is scheduled to start construction in 2005-06 (86 units).

Uptown. The Uptown Project, formerly the Retail Center Project, is in the site acquisition and planning stage. The Agency has entered into a Lease Disposition and Development Agreement with Uptown Partners, LLC, a single-purpose entity created by Forest City Residential West to develop 1,000 units of rental and for-sale housing in the Uptown area including 14,500 square feet of retail space. Other projects in the area include: the City Administration Complex, the Rotunda Building (187,000 square feet of office space and 57,000 square feet of commercial space), the Fox Theater maintenance and master

planning (including re-roofing, marquee, sign and lighting improvements), 17th Street and San Pablo Garage (a 325-space public parking garage that is planned for construction in 2004-05 by Rotunda Garage, LP), and Telegraph and Broadway streetscape improvements (improvements at 14th and Broadway are already completed), facade improvements and retail attraction.

Other Projects and Special Programs

In addition to working in the four action areas, the Agency has a number of projects scattered throughout the rest of the Central District. These projects include: (1) the State of California Office Building replacement of earthquake-damaged offices with 660,000 gross square feet of new office space, completed in 1996; (2) the University of California Office of the President Headquarters construction of a 225,000 square-foot office building, completed in 1998; (3) the Tribune Building - the renovation of a historic 90,000 square-foot office building which was completed in 2000; (4) the Bermuda Building - demolition of the blighted/earthquake-damaged building, completed in 2002, and the planned development of an approximately 200,000 square-foot office building which is underway and expected to be completed in 2007; and (5) the Broadway Auto Row Streetscape Improvements from Grand Avenue north, completed in 1999.

The Agency has also initiated the 10K Housing Initiative, Downtown Façade Improvement Programs, Downtown Tenant Improvement Program, Business Attraction, Marketing, Special Events, Community Restoration and Downtown Walking Patrol.

10K Housing. The main strategy of the Agency for downtown development for the past three years has been the implementation of Mayor Brown's 10K housing initiative to attract 10,000 new residents to the area. This goal translates to a target of developing 6,000 new residential units. Including the five Agency projects (Uptown, City Center T-10, Landmark Place, Franklin 88, Market Square and Swan's Market), there were 1,624 units completed, 239 units under construction, 1,580 units with planning approvals and 1,691 units with planning applications under the 10K Housing Initiative as of October 2004. These projects will provide 5,134 units or almost 86% of the 10K target.

Downtown Façade Improvement Program. The *Façade* Program offers up to \$20,000 in matching grants and free architectural assistance to property and/or business owners to remodel and improve the appearance of the exterior of buildings in designated areas within the Uptown, Downtown Historic Old Oakland, Chinatown and Lower Broadway districts. The program has provided matching grants to 90 completed projects and had 55 projects in development as of November 2004. Including completed projects and the projects in process, the Redevelopment Agency will spend \$2.3 million, which will leverage over \$11 million in improvements.

Downtown Tenant Improvement Program. The Tenant Improvement Program offers up to \$99,000 in matching grants (typically \$5 to \$10 per square foot) and free interior architectural assistance to lure retail, restaurants, arts and entertainment into vacant storefronts in designated areas of the Downtown: Telegraph, Broadway, Washington, San Pablo and 14th Street. Through September 2004, \$585,402 has been expended or encumbered in grants and an additional \$600,000 is being negotiated, and 17 projects are complete or in construction and an additional six projects are in the design or negotiation phase. Within the Project Area, 185 storefronts were identified, of which 46 were vacant. The projects that have been completed or are in process will decrease the retail vacancy rate by approximately 50%.

Recent Developments in the Project Area

In addition to the development projects directly sponsored by the Agency and listed above, there have been a number of major private projects including the following:

Residential Projects

The Essex	270-unit, 20-story luxury apartment building completed in 2001 and sold as individual condominiums in 2004
Sierra Lofts	229-unit condominium lofts completed in 2003 with sale of units through 2004
Scattered Sites	Midtown Lofts: 20 condominium units completed in May 2004; Telegraph Gateway: 45 condominium units completed in September 2004; 14th and Jackson: 45 condominium units for completion in 2005-06; 251 Alice: 30 condominium units for completion in 2005-06; and 380-388 12th: 10 condominium units for completion in 2005-06.

Controls, Land Use and Building Restrictions

The Central District Urban Renewal Plan (the “Plan”) designates five major use areas that cover the entire Redevelopment Project Area: commercial, civic and institutional, residential, general industrial and open space. The City’s General Plan, Planning Code, Municipal Code, and other City codes and ordinances apply throughout the Project Area.

The Plan provides for the establishment of rehabilitation, acquisition and activity areas within the Project Area in which the Agency is empowered to employ various urban renewal techniques, including eminent domain. Four such action areas (described earlier) have been established. The Agency also has general redevelopment powers, including eminent domain authority, outside of these designated areas throughout the Project Area.

Redevelopment Plan Limits

The Project Area is subject to the following limitations: (i) for activities within the territory added to the Project Area from June 12, 1979 to June 1, 2001, bonded indebtedness outstanding at any one time cannot exceed \$100 million and total tax increment collected cannot exceed \$75 million; (ii) cumulative gross tax increment cannot exceed \$1,348,862,000 (of which approximately \$400.8 million has been collected through June 30, 2004); (iii) the Redevelopment Plan terminates on June 12, 2012 (for territory within the Project Area prior to June 1, 2001); and (iv) the debt repayment limit is June 12, 2022 (for territory within the Project Area prior to June 1, 2001). For territory added to the Project Area by the Twelfth Amendment to the Plan adopted on July 24, 2001, the debt incurrence limit is July 24, 2021, the Redevelopment Plan limit is July 24, 2032, and the debt repayment/tax increment receipt limit is July 24, 2047. See also “LIMITATIONS ON TAX REVENUES – Redevelopment Plan Limitations.” Table 1 summarizes the Plan Limits for the Project Area, including the amendment area added by the amendment to the Plan adopted on July 24, 2001.

Table 1
Redevelopment Agency of the City of Oakland
Central District Redevelopment Project Area
Summary Plan Limits⁽¹⁾

	<u>Original Project Area</u>	<u>2001 Amendment Area</u>	<u>Total</u>
Adoption Date	June 12, 1969	July 24, 2001	
Time Limit for Debt Issuance	NONE	July 24, 2021	
Time Limit for Plan Activities	June 12, 2012	July 24, 2032	
Time Limit for Receipt of Tax Increment	June 12, 2022	July 24, 2047	
Maximum Tax Increment Collections	\$1.348 billion	N/A	\$1.348 billion
Acreage	813.50	14.86	828.36

⁽¹⁾ Does not set forth limitations with respect to the 1982 Amendment Area, which increased the Project Area by approximately 55 acres. The 1982 Amendment Area was initially exclusively government-owned, and thus generated no tax increment. Since then, two parcels have been conveyed to private owners, and in Fiscal Year 2003-04 they generated approximately \$400,000 in tax increment. Total tax increment collected from the 1982 Amendment Area cannot exceed \$75 million.

Historical and Current Tax Revenues

The Agency’s primary source of funds to make payments of principal of, premium, if any, and interest on the Senior Bonds, the Series 2003 Bonds and the Series 2005 Bonds is the Agency’s share of *ad valorem* property tax revenues which generally result from the completion of new real estate developments and a general reassessment of properties within the Project Area.

The purpose of redevelopment is to revitalize deteriorated or underdeveloped areas within a community. As new construction progresses, property values normally increase and the ultimate result is a proportionate increase in *ad valorem* property tax revenues.

The total taxable value of all properties within a given project area on the property assessment roll last equalized prior to the effective date of the ordinance adopting the redevelopment plan for such project area establishes a base from which increases in taxable value are computed. The original base so established for the Project Area was the 1968-1969 assessment roll. When assessment rolls were converted in California to reflect full value assessments, the base for the Project Area was also converted and is now actually maintained in the 1982-83 assessment roll of the County. Under the Redevelopment Law, property taxes levied based upon the amount shown on the base year assessment rolls will continue to be paid to and retained by all taxing agencies levying property taxes in the Project Area. Taxes levied by the respective taxing agencies on any increases in taxable value realized in the Project Area will be allocated to the Agency.

It should be understood that this procedure does not involve the levy of any additional taxes, but provides that revenues produced by the tax rates in effect from year to year shall be apportioned to the taxing agencies levying the taxes and to the Agency on the basis described above. After all loans, advances and other indebtedness, including interest, incurred by the Agency in connection with the Project Area have been paid, the tax revenues will be paid to and retained by the respective taxing

agencies in the normal manner. See also “CERTAIN RISKS TO BONDHOLDERS—Reduction in Taxable Values” and “—Levy and Collection of Taxes.”

Table 2 below presents the taxable value of all property within the Project Area for fiscal years ended June 30, 2001 through June 30, 2005.

Table 2
Redevelopment Agency of the City of Oakland
Central District Redevelopment Project Area
Property Taxable Values
(\$ in 000s)

	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>
<u>Gross Assessed value</u>					
County Secured Roll	\$2,105,493,697	\$2,216,291,670	\$2,578,802,969	\$2,742,905,320	\$2,909,415,672
County Unsecured Roll	<u>266,526,616</u>	<u>279,278,983</u>	<u>312,964,127</u>	<u>307,403,364</u>	<u>309,064,923</u>
Total Gross Assessed Values	\$2,372,020,313	\$2,495,570,653	\$2,891,767,096	\$3,050,308,684	\$3,218,480,595
<u>Less Exemptions</u>					
County Secured Roll	(\$271,188,283)	(\$113,643,485)	(\$146,743,950)	(\$242,013,115)	(\$239,886,273)
County Unsecured Roll	<u>(7,520,171)</u>	<u>(5,457,994)</u>	<u>(7,714,909)</u>	<u>(8,048,496)</u>	<u>(11,769,795)</u>
Total Exemptions	(\$278,708,454)	(\$119,101,479)	(\$154,458,859)	(\$250,061,611)	(\$251,656,068)
<u>Net Assessed Values</u>					
County Secured Roll	\$1,834,305,414	\$2,102,648,185	\$2,432,059,019	\$2,500,892,205	\$2,669,529,399
County Unsecured Roll	<u>259,006,445</u>	<u>273,820,989</u>	<u>305,249,218</u>	<u>299,354,868</u>	<u>297,295,128</u>
Total Net Assessed Values	\$2,093,311,859	\$2,376,469,174	\$2,737,308,237	\$2,800,247,073	\$2,966,824,527
<u>Base Year Values (1968-69)</u>					
Secured	\$214,110,703	\$214,110,703	\$214,110,703	\$214,110,703	\$214,110,703
Unsecured	<u>61,129,825</u>	<u>61,129,825</u>	<u>61,129,825</u>	<u>61,129,825</u>	<u>61,129,825</u>
Total Base Year Values	\$275,240,528	\$275,240,528	\$275,240,528	\$275,240,528	\$275,240,528
<u>Increase Over Base-Year Values</u>					
Secured	\$1,620,194,711	\$1,888,537,482	\$2,217,948,316	\$2,286,781,502	\$2,455,418,696
Unsecured	<u>197,876,620</u>	<u>212,691,164</u>	<u>244,119,393</u>	<u>238,225,043</u>	<u>236,165,303</u>
Total Increase in Values	\$1,818,071,331	\$2,101,228,646	\$2,462,067,709	\$2,525,006,545	\$2,691,583,999

Source: Alameda County Auditor-Controller.

Table 3 below reflects historical Tax Revenues received by the Central District Redevelopment Project Area based on fiscal years ending June 30, 2000, through June 30, 2004. To date, the County has paid to the Agency the full amount of Tax Revenues requested by the Agency, without regard to delinquencies in tax collection.

Table 3
Redevelopment Agency of the City of Oakland
Central District Redevelopment Project Area
Tax Revenues Received

	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>
Tax Revenues	\$ 20,682,991.91	\$ 22,388,396.39	\$26,031,942.07	\$30,651,221.09	\$30,915,736.33
State Unitary Tax	3,396,449.57	3,296,568.42	3,289,500.00	3,427,600.00	2,414,800.00
Subtotal	\$ 24,079,441.48	\$ 25,684,964.81	\$29,321,442.07	\$34,078,821.09	\$33,330,536.33
Less County Tax Administration Fees	(224,843.14)	(221,532.12)	(256,607.00)	(349,559.17)	(305,966.97)
Less Housing Set-Aside (20%)	(4,815,888.30)	(5,136,992.96)	(5,864,288.41)	(6,815,764.22)	(6,666,107.27)
Total Aggregate Tax Revenues Receipts	<u>\$ 19,038,710.04</u>	<u>\$ 20,326,439.73</u>	<u>\$23,200,546.66</u>	<u>\$26,913,497.70</u>	<u>\$26,358,462.09</u>

Source: *Alameda County Auditor-Controller.*

Principal Taxpayers

The following Table 4 lists the major taxpayers and type of business in the Project Area in terms of their 2004-05 assessed valuation:

Table 4
Redevelopment Agency of the City of Oakland
Central District Redevelopment Project Area
10 Largest Local Taxpayers

<u>Property Owner</u>	<u>Number of Parcels Owned</u>	<u>Type of Business</u>	<u>2004-05 Total Assessed Value</u>	<u>% of Total Assessed Value</u>
OCC Venture LLC ⁽¹⁾	9	Non-contiguous Commercial Office Buildings	\$197,942,820	6.67%
Kaiser Foundation Health Plan, Inc. ⁽¹⁾	5	Foundation Administration Offices/Parking	160,958,178	5.43%
1800 Harrison Foundation ⁽¹⁾	1	Commercial Office Building	110,439,090	3.72%
555 Twelfth Street Venture LLC ⁽¹⁾	1	Commercial Office Building	101,276,440	3.41%
Prentiss Properties Lake Merritt LLC ⁽¹⁾	5	Non-contiguous Commercial Office Buildings	91,957,405	3.10%
Clorox Company ⁽¹⁾	3	Commercial Office Buildings	90,521,728	3.05%
Webster Street Partners Limited ⁽¹⁾	3	Commercial Office Buildings	75,329,865	2.54%
SSR Western Multifamily LLC ⁽¹⁾	3	Non-contiguous, High Rise Multifamily Residential	62,154,005	2.09%
Essex Portfolio Limited Partnership	1	High Rise Multifamily Residential	51,869,353	1.75%
Simrock 2 180 Grand LLC	2	Commercial Office Buildings	46,371,325	1.56%
Top Ten Property Owner Totals:	<u>33</u>		<u>\$ 988,820,209</u>	<u>33.33%</u>

(1) Property owners with currently pending appeals. See “—Outstanding Appeals for Reduction of Assessed Valuation.”
Source: *Alameda County Assessor Secured Tax Rolls.*

Pending Appeals for Reduction of Assessed Valuation

Property tax values determined by the County Auditor-Controller may be subject to an appeal by the property owners. Assessment appeals are annually filed with the Assessment Appeals Board for a hearing and resolution. The resolution of an appeal may result in a reduction to the County Assessor's original taxable value and a tax refund to the applicant/property owner. The reduction in future Project Area taxable values and the refund of taxes affects all taxing entities, including the Agency. See APPENDIX C—"REPORT OF THE FISCAL CONSULTANT" for a discussion of assessment appeals within the Project Area.

In recent years, a number of taxpayers appeals have been filed in the City. These include taxpayers in the Project Area who have applied to the Alameda County Assessors Office for reductions in assessed value of their property. Eight of the ten largest local taxpayers owning property with an aggregate 2004-05 total assessed value of \$890,579,531 have filed requests for reductions. Table 5 lists the largest local taxpayers (see Table 4 above) who have filed such appeals, the assessed value of the property subject to appeal, the reduction requested and the status of the appeal.

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Table 5
Redevelopment Agency of the City of Oakland
Central District Redevelopment Project Area
Pending Appeals
As of December 1, 2004

<u>Property Owner</u>	<u>No. Parcels Owned</u>	<u>No. of Parcels Under Appeal</u>	<u>Assessed Valuation Under Appeal</u>	<u>Fiscal Year Appeal Valuation Request</u>
OCC Venture LLC	9	9	\$181,204,614	2003-04
Kaiser Foundation Health Plan, Inc.	5	1	81,384,336	2003-04
1800 Harrison Foundation	1	1	108,415,864	2003-04
555 Twelfth Street Venture LLC	1	1	91,810,447	2003-04
		1	3,786,900	2004-05
Prentiss Properties Lake Merritt LLC ⁽¹⁾	5	1	84,119,987	2003-04
		4	6,249,900	2004-05
Clorox Company ⁽²⁾	3	3	11,929,587	2003-04
Webster Street Partners Limited	3	1	4,995,599	2003-04
SSR Western Multifamily LLC	3	3	60,787,400	2003-04
Project Area value under appeal as a percentage of Project Area 2004-05 Value				40.97%
Estimated Loss in 2005-06 Assessed Value due to all pending assessment appeals				\$148,415,009 ⁽³⁾
Estimated 2005-06 Loss in Assessed Value as a percentage of projected Project Area Incremental Value				5.22%

⁽¹⁾ Owner is appealing land value only.

⁽²⁾ Owner is appealing fixture and personal property value only.

⁽³⁾ Estimated. Based on historical averages, the Fiscal Consultant estimates that 108 of the 179 pending appeals will result in a reduction in assessed value and that the reduction in value for those appeals that are allowed will be 20.24%.

Sources: *Alameda County Auditor-Controller and HdL Coren & Cone.*

Tax Rates

As discussed in the subsection “TAX ALLOCATION FINANCING—Property Tax Rate and Appropriation Limitations,” the property tax rate applicable within the Project Area is limited by the State Constitution to \$1 per \$100 of taxable property value plus the rate necessary to service certain indebtedness approved by the voters. See “CERTAIN RISKS TO BONDHOLDERS—Reduction in Assessed Value.”

Allocation of Taxes

The County Auditor-Controller is responsible for the aggregation of the taxable values assigned by the Assessor as of January 1st for property within the boundaries of the Project Area. This results in the reported total current-year Project Area taxable value, and becomes the basis of determining tax increment revenues due to the Agency. The County disburses secured, unsecured and utility tax

increment revenue to all redevelopment agencies in two annual installments. December and June, based on the surrendered roll value. Redevelopment agencies receive 100% of tax increment revenue allocations based on the surrendered roll without adjustment for assessment appeals or delinquencies occurring during the current year. Successful assessment appeals and delinquencies are reflected in the succeeding years' surrendered rolls. For discussion of pending appeals for reduction of assessed valuation in the Project Area, see "THE CENTRAL DISTRICT PROJECT AREA—Pending Appeals for Reduction in Assessed Valuation." Unitary roll and supplemental assessment revenue are paid annually in two installments in January and June.

Teeter Plan

The County has adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), as provided for in Section 4701 *et. seq.* of the State Revenue and Taxation Code. Under the Teeter Plan, each participating local agency, including cities, levying property taxes in its county may receive the amount of uncollected taxes credited to its fund in the same manner as if the amount credited had been collected. In return, the county would receive and retain delinquent payments, penalties and interest as collected, that would have been due to the local agency. However, although a local agency could receive the total levy for its property taxes without regard to actual collections, funded from a reserve established and held by the county for this purpose, the basic legal liability for property tax deficiencies at all times remains with the local agency.

The Teeter Plan is to remain in effect unless the County Board of Supervisors orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the Board of Supervisors receives a petition for its discontinuance joined in by resolutions adopted by two-thirds of the participating revenue districts in the County, in which event, the Board of Supervisors is to order discontinuance of the Teeter Plan effective at the commencement of the subsequent fiscal year. The Board of Supervisors may, by resolution adopted not later than July 15 of the fiscal year for which it is to apply, after holding a public hearing on the matter, discontinue the procedures under the Teeter Plan with respect to any tax levying agency in the county.

The City is not currently a participant in the Teeter Plan. However, tax increment revenue disbursements from the County to the Agency occur in a manner similar to the Teeter Plan. See "TAX ALLOCATION FINANCING—Property Tax Collection Procedures."

THE AGENCY

Members, Authority and Personnel

The Redevelopment Agency of the City of Oakland (the "Agency") was activated on October 11, 1956, by action of the Oakland City Council pursuant to the California Community Law. Effective December 31, 1975, the City Council declared itself to be the Agency. The members of the Agency include the President of the City Council, Ignacio De La Fuente as Chairperson of the Agency, and the other members of the City Council of the City of Oakland: Jane Brunner, Henry Chang, Jr., Desley Brooks, Nancy Nadel, Larry Reid, Jr. and Jean Quan. There is currently one vacancy on the Oakland City Council and among the Agency members.

Agency staff services are provided by City staff under a Cooperation Agreement between the Agency and the City entered into on July 1, 2004. Such support includes project management, real estate acquisition and disposition, relocation, engineering and planning, legal, financing and fiscal services.

Jerry Brown serves as Mayor and Chief Executive Officer of the Agency. He was elected to this position in 1998.

Deborah Edgerly serves as City Administrator and Agency Administrator. She was appointed to this position in 2004.

Cheryl Thompson serves as Assistant City Administrator. She was appointed to this position in 2004.

LaTonda Simmons serves as Interim City Clerk and Interim Secretary to the Agency. She was appointed to this position in January 2005.

William Noland serves as Director, Financial Services Agency and Treasurer of the Agency. He was appointed to this position in 2004.

John Russo serves as City Attorney and Agency Counsel. He was elected as City Attorney in March 2000, and was appointed as Agency Counsel in September 2000 and sworn in, January 2001.

Daniel Vanderpriem serves as Executive Director, Community and Economic Development Agency. He was appointed to this position in 2004.

Administration of the Agency's projects is a staff function within the City organization framework and has been the responsibility of the Community and Economic Development Agency.

Powers

All powers of the Agency are vested in its eight members. They are charged with the responsibility of eliminating blight through the process of redevelopment. Generally, this process is culminated when the Agency disposes of land for development by the private sector. In order to accomplish this the Agency has broad authority to acquire, develop, administer, sell or lease property, including the right of eminent domain and the authority to issue bonds and expend their proceeds.

Prior to disposing of land for redevelopment, the Agency must complete the process of acquiring and assembling the necessary sites, relocating residents and businesses, demolishing the deteriorated improvements, undertake environmental mitigation, grade and prepare the site for purchase, and in connection with any development can cause streets, highways and sidewalks to be constructed or reconstructed and public utilities to be installed.

Redevelopment in the State of California is carried out pursuant to the Community Redevelopment Law (Section 33000 *et seq.* of the Health and Safety Code). Section 33020 of the Law defines redevelopment as the planning, development, replanning, redesign, clearance, reconstruction or rehabilitation, or any combination of these, of all or part of a survey area and the provision of such residential, commercial, industrial, public or other structures or spaces as may be appropriate or necessary in the interest of the general welfare, including recreational and other facilities incidental or appurtenant to them.

The Agency may, out of the funds available to it for such purposes, pay for all or part of the value of the land and the cost of buildings, facilities, structures or other improvements to be publicly owned and operated to the extent that such improvements are of benefit to the project area and no other reasonable means of financing is available.

The Agency must sell or lease remaining property within a project area for redevelopment by others in strict conformity with the redevelopment plan, and may specify a period within which such redevelopment must begin and be completed.

In accordance with these criteria the Agency has adopted Redevelopment Plans in designated project areas that authorize the use of the redevelopment process and procedures.

Agency Finances

The Agency's audited financial statements for the fiscal year ending June 30, 2004, are found in APPENDIX B.

TAX MATTERS

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however, to the qualifications set forth below, under existing law, the interest on the Series 2005 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the Agency comply with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Series 2005 Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The Agency has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Series 2005 Bonds.

If the initial offering price to the public (excluding bond houses and brokers) at which a Series 2005 Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which each Series 2005 Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes.

Under the Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the Series 2005 Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straightline interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Series 2005 Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Series 2005 Bond. The Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Series 2005 Bonds who purchase the Series 2005 Bonds after the initial offering of a substantial amount of such maturity. Owners of such Series 2005 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2005 Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a

sale or other disposition, and the treatment of accrued original issue discount on such Series 2005 Bonds under federal individual and corporate alternative minimum taxes.

Under the Code, original issue premium is amortized on an annual basis over the term of the Series 2005 Bonds (said term being the shorter of the applicable maturity date of the Series 2005 Bonds or the call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the Series 2005 Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Series 2005 Bond is amortized each year over the term to maturity of the Series 2005 Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straightline interpolations between compounding dates). Amortized Series 2005 Bond premium is not deductible for federal income tax purposes. Owners of Premium Series 2005 Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such Series 2005 Bonds.

In the further opinion of Bond Counsel, interest on the Series 2005 Bonds is exempt from California personal income taxes.

The form of Bond Counsel's opinion to be delivered on the date of issuance of the Series 2005 Bonds is set forth in APPENDIX E hereto.

Owners of the Series 2005 Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Series 2005 Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Series 2005 Bonds other than as expressly described above.

CERTAIN LEGAL MATTERS

The validity of the Series 2005 Bonds and certain other legal matters are subject to the approving legal opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. A copy of the proposed form of Bond Counsel's opinion is contained in APPENDIX E to this Official Statement, and the final opinion will be made available to the owners of the Series 2005 Bonds at the time of delivery of the Series 2005 Bonds. Certain legal matters will be passed upon for the Agency by the City Attorney of the City, as Agency Counsel, Oakland, California and for the Authority by the City Attorney of the City of Oakland in his capacity as Authority Counsel, Oakland, California and for the Underwriters by Nixon Peabody LLP, San Francisco, California. Bond Counsel and Underwriters' Counsel will receive compensation that is contingent upon the sale and delivery of the Series 2005 Bonds. Neither Bond Counsel nor Underwriters' Counsel undertakes any responsibility for the accuracy, completeness or fairness of this Official Statement.

THE AUTHORITY

The Oakland Joint Powers Financing Authority was created by a Joint Exercise of Powers Agreement (the "Agreement") by and between the Agency and the City. The Agreement was entered into pursuant to the provisions of Articles 1 through 4, Chapter 5, Division 7, Title 1 of the California Government Code (the "JPA Law"). The Authority was created for the purpose of assisting the financing or refinancing of certain public capital facilities within the City.

Under the JPA Law, the Authority has the power to purchase bonds issued by a local agency at public or negotiated sale and may sell such bonds to public or private purchasers at a public or negotiated sale. The Series 2005 Bonds are not obligations of the Authority.

ABSENCE OF MATERIAL LITIGATION

No material litigation is pending, with service of process having been accomplished or, to the knowledge of the Agency, threatened, concerning the validity of the Series 2005 Bonds, the corporate existence of the Agency, or the title of the officers of the agency who will execute the Series 2005 Bonds as to their respective offices. The Agency will furnish to Underwriters of the Series 2005 Bonds a certificate of the Agency as to the foregoing as of the time of the original delivery of the Series 2005 Bonds.

FINANCIAL ADVISOR

Public Financial Management, Inc., San Francisco, California, has served as Financial Advisor to the Agency with respect to the sale of the Series 2005 Bonds. The Financial Advisor has assisted the Agency in the review of this Official Statement and in other matters relating to the planning, structuring, execution and delivery of the Series 2005 Bonds. The Financial Advisor has not independently verified any of the data contained herein or conducted a detailed investigation of the affairs of the Agency to determine the accuracy or completeness of this Official Statement. Due to their limited participation, the Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained herein. The Financial Advisor will receive compensation from the Agency contingent upon the sale and delivery of the Series 2005 Bonds.

CONTINUING DISCLOSURE

The Agency has covenanted in the Continuing Disclosure Certificate for the benefit of the holders and beneficial owners of the Series 2005 Bonds to provide, or cause to be provided, Annual Reports relating to the Agency each year by not later than the date which is 270 days following the end of the fiscal year, commencing with the report for the 2003-04 Fiscal Year and to provide Material Event Notices. The Annual Reports and Material Event Notices will be filed with each National Repository and with each then existing State Repository, if any. Currently, there is no State Repository. In lieu of filing the Annual Reports and any Material Event Notices with each National Repository and each State Repository, the Agency may file any Annual Report or Material Event Notice with the CPO. The covenants set forth in the Continuing Disclosure Certificate of the Agency have been made in order to assist the Underwriters in complying with Rule 15c2-12(b)(5). The specific nature of the information to be contained in the Annual Reports and in Material Event Notices is set forth in APPENDIX G—“FORM OF CONTINUING DISCLOSURE CERTIFICATE” attached hereto.

The Agency has never failed to comply in all material respects with any previous undertaking with regard to Rule 15c2-12(b)(5) to provide Annual Reports or Material Event Notices.

UNDERWRITING

The Series 2005 Bonds will be sold to the Authority and concurrently resold by the Authority to the underwriters of the Series 2005 Bonds (the “Underwriters”) under a bond purchase agreement among the Agency, the Authority and the Underwriters (the “Purchase Contract”), at a price equal to \$47,474,009.19 which represents the principal amount of the Series 2005 Bonds, plus an original issue premium of \$3,386,570.55, less an Underwriters’ discount of \$272,561.36. The initial public offering prices of the Series 2005 Bonds may be changed from time to time by the Underwriters. The Purchase Contract for the Series 2005 Bonds among the Agency, the Authority and the Underwriters provides that the Underwriters will purchase all the Series 2005 Bonds if any are purchased and that the obligation to make such purchase is subject to certain terms and conditions set forth in the Purchase Contract including, among others, the approval of certain legal matters by counsel.

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APPENDIX A

CERTAIN INFORMATION CONCERNING THE CITY OF OAKLAND

General Information

Overview. The City of Oakland (the “City”) is located in the County of Alameda (the “County”) on the east side of San Francisco Bay, approximately seven miles from downtown San Francisco via the San Francisco-Oakland Bay Bridge. The City ranges from industrialized lands bordering the Bay on the west to suburban foothills in the east. Formerly the industrial heart of the Bay Area, the City has developed into a financial, commercial and governmental center. The City is also the hub of an extensive transportation network, which includes a freeway system and the western terminals of major railroads and trucking firms, as well as one of the largest container-ship ports in the United States. The City supports an expanding international airport and rapid-transit lines that connect it with most of the Bay Area. The City is the seat of government for the County and is the eighth most populous city in the State of California (the “State”).

City Government. The City was incorporated as a town in 1852 and as a city in 1854, and became a charter city in 1889. The Charter provides for the election, organization, powers and duties of the legislative branch, known as the City Council; the powers and duties of the executive and administrative branches; fiscal and budgetary matters, personnel administration, franchises, licenses, permits, leases and sales; employees’ pension funds; and the creation and organization of the Port of Oakland (the “Port”). An eight-member City Council, seven of whom are elected by district and one of whom is elected on a city-wide basis, governs the City. The Mayor is not a member of the City Council but is the City’s chief elective officer. The Mayor and Council members serve four-year terms staggered at two-year intervals. The City Auditor is elected for a four-year term at the same time as the Mayor. The City Attorney is elected to a four-year term, two years following the election of the Mayor.

The Mayor appoints a City Administrator who is subject to confirmation by the City Council. The City Administrator is responsible for daily administration of City affairs and preparation of the annual budget for the Mayor to submit to the City Council. Subject to civil service regulations, the City Administrator appoints all City employees who are not elected officers of the City and the City Clerk, who is also subject to City Council confirmation.

On November 3, 1998, the voters amended the City’s charter by approving ballot Measure X. Measure X, scheduled to sunset if not approved by the voters on or before the November 2004 election, created the Mayor-Council form of government (the “Strong Mayor”), provided a two-term limit for the Mayor, instituted a requirement for voter approval for increases to City Council compensation, and provided for the election of the City Attorney. On March 2, 2004, the voters approved Measure P, retaining the Strong Mayor form of government and elected City Attorney and providing, among other things, that no person may be elected Mayor for more than two consecutive terms.

The City provides a full range of services contemplated by statute or charter, including those functions delegated to cities under State law. These services include public safety (police and fire), sanitation and environmental health enforcement, recreational and cultural activities, public improvements, planning, zoning and general administrative services.

Budget Process. The City’s Adopted Policy Budget for Fiscal Years 2003-2005 was approved on June 19, 2003, and a mid-cycle review was conducted in June 2004. To preserve core programs and services and to minimize the necessity for employee layoffs or service reductions, the City has utilized

strategies that reduce the cost of doing business and raise certain fees and fines. At the core of the budget is restructuring and streamlining of City government to maximize the efficient delivery of services while minimizing reductions in such services.

The City's budget is developed on the Generally Accepted Accounting Principles ("GAAP") basis (modified accrual for governmental funds and accrual for proprietary and pension trust funds). The City Charter requires that the City Council adopt a balanced budget by June 30, preceding the start of the fiscal year on July 1. The City's budget cycle is a two-year process that promotes long-term decision making, increases funding stability and allows for greater performance evaluation. In advance of each two-year cycle, the City Manager and Agency heads conduct internal budget hearings to develop budget proposals for presentation to the Mayor. Within 60 to 90 days before the end of the prior two-year cycle, the Mayor submits the proposed two-year budget to the City Council and formal public budget hearings are scheduled. Upon conclusion of the public hearings, the City Council may make adjustments and/or revisions. The City Council adopts the City's operating budget on or before June 30. It contains appropriations for all funds and two-year appropriations for the five-year Capital Improvements Program.

As part of the two-year budget process, the City has designated specific criteria for mid-cycle (end of year one) review and/or revisions in Federal and State mandates, significant changes in mid-year revenue projections and any full cost-covered program changes. Additionally, one-third of any year-one surplus in the General Fund will roll forward to year two, one-third to programs, and one-third to the General Fund balance.

The City Council employs an independent certified public accountant who examines books, records, inventories, and reports of all officers and employees who receive, control, handle or disburse public funds, and those of any other employees or departments as the City Council directs. These duties are performed both annually and upon request. The City's independent auditor for Fiscal Year 2001-2002 was KPMG LLP. The City's independent auditor for Fiscal Year 2002-2003 was Macias, Gini & Company, LLP, who is also serving as auditor for Fiscal Year 2003-2004.

Within a reasonable period following the fiscal year end, the accountant submits the final audit to the City Council. The City then publishes the financial statements as of the close of the fiscal year.

Investment Policy

The authority to invest the City's pooled moneys (the "Operating Pooled Portfolio"), consisting of Government Funds, Proprietary Funds and Fiduciary Funds (each as described herein) is derived from Council Resolution No. 56127, which delegates to the Director, Finance and Management Agency/Treasurer the authority to invest these funds within the guidelines of Section 53600 *et seq.* of the Government Code of the State of California (the "Code"). The Code also directs the City to present an annual investment policy for confirmation to the City Council. The City Council adopted a policy for Fiscal Year 2004-2005 on June 15, 2004. The Investment Policy may be revised by the City Council at any time.

The objectives of the Investment Policy are to preserve capital, to provide adequate liquidity to meet cash disbursements of the City and to reduce overall portfolio risks while maintaining market average rates of return.

Current Investment Portfolio

The City currently maintains approximately \$232 million in operating funds, excluding capital, debt service funds, special revenue funds and pension trust funds. The Operating Pooled Portfolio is

composed of different types of investment securities and is invested in accordance with the Investment Policy. The composition of the securities comprising the Operating Pooled Portfolio, including the average term and days to maturity, is provided below as of November 30, 2004. As of November 30, 2004, the City maintained approximately 25.66% of the Operating Pooled Portfolio in investments that mature in one year or less.

**City of Oakland
Operating Pooled
Portfolio Master Summary
November 30, 2004**

--Yield to Maturity--

<u>Investments</u>	<u>Book Value</u>	<u>Percent of Portfolio</u>	<u>Average Term Days</u>	<u>Days to Mat./Call</u>	<u>360 Equivalent</u>	<u>365 Equivalent</u>
Federal Agency Issues – Coupon	\$172,634,256.03	74.27	1,305	955	2.929	2.970
Federal Agency Issues – Discount	2,959,235.00	1.27	263	89	1.910	1.936
LAIF Bond Proceeds	18,092,292.24	6.92	1	1	1.479	1.500
Medium Term Notes	12,283,050.00	5.23	465	402	2.363	2.396
Money Market	11,310,000.00	4.87	1	1	1.844	1.670
Local Agency Investment Funds	12,000,000.00	5.16	1	1	1.913	1.940
Certificates of Deposit	199,000.00	0.09	183	19	1.649	1.672
Commercial Paper - Discount	4,961,238.89	2.13	142	57	1.943	1.970

Source: City of Oakland, Finance and Management Agency

Fitch Inc. (“Fitch”) has assigned a managed fund credit rating of “AAA” and a market risk rating of “V-1+” to the City’s Operating Pooled Portfolio. Fitch’s managed fund credit ratings are an assessment of the overall credit quality of a fund’s portfolio. Ratings are based on an evaluation of several factors, including credit quality and diversification of assets in the portfolio, management strength and operational capabilities. Fitch managed fund market risk ratings are an assessment of relative market risks and total return stability in the portfolio. Market risk ratings are based on, but not limited to, analysis of interest rate, derivative, liquidity, spread and leverage risk. Fitch’s managed fund credit and market risk ratings are based on information provided to Fitch by the City. Fitch does not verify the underlying accuracy of this information. These ratings do not constitute recommendations to purchase, sell or hold any security.

Financial Obligations

The City has never defaulted on the payment of principal or interest on any of its indebtedness or lease obligations.

General Obligation Debt. As of June 30, 2004, the City had outstanding a total of \$232,045,000 aggregate principal amount of general obligation bonds. The bonds are general obligations of the City; the City is obligated to levy ad valorem taxes upon all property that is within the City and which is subject to taxation by the City, for the payment of principal and interest on the following bonds:

\$50,000,000 City of Oakland General Obligation Bonds, Series 1992A (Measure I). By a measure passed on July 15, 1992 by 74.3% of the voters, the City received authorization to issue \$50 million general obligation bonds for enhancement of the City's emergency response capabilities, and for seismic reinforcement of infrastructure and essential public facilities.

\$15,000,000 City of Oakland General Obligation Bonds, Series 1995B (Measure K). Issued on March 1, 1995, the 1995B Measure K Bonds represented the second series of bonds issued under the 1990 authorization of Measure K. Bond proceeds were used for the purchase of Vista Madera Stables, construction of the West Oakland Senior Center, Chinese Gardens, Tassaforanga Gym and Woodminster Cascades, maintenance and improvements at the Oakland Museum and Raimondi Field, and the Oakland Zoo.

\$45,420,000 City of Oakland General Obligation Bonds, Series 1997A (Measure I). On November 5, 1996, the electorate authorized this bond issue, for the purpose of financing life enrichment improvements on various City-owned properties. These improvements include the repair, construction, acquisition and improvement of certain libraries, recreation centers and playing fields, the Oakland Zoo, the Oakland Museum and the Chabot Observatory and Science Center (now known as the "Chabot Space & Science Center").

\$22,250,000 City of Oakland General Obligation Bonds, Series 1997C (Measure K). On April 1, 1997, the 1997C Measure K Bonds were the third series of bonds issued under the 1990 Measure K authorization. These bonds have been used for open space acquisition, Oakland Zoo development projects and other site development projects.

\$10,750,000 City of Oakland General Obligation Bonds, Series 2000D (Measure K). On July 20, 2000, the 2000D Measure K Bonds were the fourth series of bonds issued under the 1990 authorization of Measure K and utilized the remainder of this authorization. These bonds were used to expand, develop, and rehabilitate park and recreation facilities.

\$9,000,000 City of Oakland General Obligation Bonds, Series 2000E (Measure K). On July 11, 2000, the 2000E Measure K Bonds were issued to refund the Series 1991A bonds issued under 1990 Measure K authorization.

\$38,000,000 City of Oakland General Obligation Bonds, Series 2002A (Measure G). On March 5, 2002, the electorate authorized the issuance of \$59 million in general obligation bonds. The purpose of the bonds is to acquire, renovate, improve, construct and finance existing and additional educational facilities for the Oakland Museum of California, the Oakland Zoo and the Chabot Space & Science Center. The City issued the first series on November 6, 2002, in the amount of \$38 million. The Oakland Zoo will expend 40% of proceeds of the authorized bonds on the acquisition and construction of new exhibit areas, including, but not limited to the New Children's Zoo and the Wild California Exhibit. The Oakland Museum of California will expend 40% of the proceeds of the authorized bonds on architectural and structural improvements to its landmark building, enhancing visitor access, and increasing the

educational facilities. The Chabot Science & Space Center will expend 20% of the proceeds of the authorized bonds on the acquisition and construction of a new education facility and additional observation deck space.

\$71,450,000 City of Oakland General Obligation Bonds, Series 2003A (Measure DD). On November 5, 2002, at the City's General Municipal Election the electorate approved an initiative measure authorizing the issuance of \$198,250,000 in general obligation bonds to finance, acquire, rehabilitate and construct improvements to recreational facilities, Lake Merritt, the Oakland Estuary, creeks, and Lake Merritt Channel. On August 6, 2003, \$71,450,000 of Series 2003A, Measure DD Bonds were issued.

Short-Term Obligations. The City implemented a short-term financing program in 1981 to finance general fund temporary cash flow deficits during the fiscal year (July 1 through June 30). The City has issued short-term notes for each of the last 12 fiscal years, including the issuance of \$65,000,000 Tax and Revenue Anticipation Notes for the fiscal year ending June 30, 2005. The City has never defaulted on the payment of any of these notes.

Lease Obligations. As of June 30, 2004, the City had outstanding a total of \$443 million aggregate principal amount of lease revenue bonds. The bonds are limited obligations of the City. The City is NOT obligated to levy ad valorem taxes for the payment of principal and interest on such bonds.

\$52,300,000 Variable Rate Demand Certificates of Participation (Certain Capital Improvement Projects) 1985 Series. On December 1, 1985, the City entered into various simultaneous agreements to finance the acquisition and construction of capital improvements on City property, such as traffic control devices, street resurfacing, parking lots, garages and the rehabilitation of various lease payments to the Civic Improvement Corporation. The leased assets are a portion of the City's sewer system.

\$39,408,025 City of Oakland Additional Certificates for Refunding of Participation (Oakland Museum), 1992 Series A. On May 15, 1992, the proceeds of the certificates were used to defease the outstanding Certificates of Participation 1987 Series A, which were issued in the amount of \$35,310,000, which in turn refunded and defeased the 1982 Municipal Improvement Revenue Bonds and provided new money for the Redevelopment Agency to acquire the Museum and its improvements from Oakart Associates Limited Partnership.

Under an amended and restated lease agreement, which provides for the sublease of the Museum by the City, the City has agreed to make lease payments to the Agency through maturity of the certificates in 2012. The Certificates are Aaa/AAA rated by Moody's Investors Services ("Moody's") and Standard and Poor's Ratings Services, A Division of the Mc-Graw Hill Companies, Inc. ("S&P"), respectively, as a result of the bond insurance policy provided by AMBAC Indemnity Corporation.

On March 12, 2002, the City refunded all of the 1992 Series A Certificates maturing on April 1, 2012 (and thereafter), with its \$16,295,000 of Refunding Certificates of Participation (Oakland Museum) 2002 Series A.

\$197,700,000 Oakland-Alameda County Coliseum Authority Lease Revenue Bonds (Oakland Coliseum Project) 1995 Series. The 1995 bonds were issued by the Authority to finance improvements to the Coliseum stadium, and to cover relocation costs for the National Football League team, the Oakland Raiders.

These bonds are a joint and several obligation of both the City and the County of Alameda; each entity has covenanted to budget and appropriate one-half of the annual lease payments.

On May 20, 2000, the Authority refunded the 1995 Series B bonds with its Lease Revenue Bonds (Oakland Coliseum Project) 2000 Refunding Series C (Tax-Exempt) bonds in the amount of \$150,800,000 and 2000 Refunding Series D (Taxable) bonds in the amount of \$50,500,000 (of which \$95,950,000 remains currently outstanding). The 1995 Series A Bonds were defeased in May 2003. The securities purchased to defease these bonds were held in escrow by a trustee and used to call all outstanding bonds on February 1, 2004. In addition, the Authority substituted letters of credit issued by the Bank of New York and the California State Teachers' Retirement System with a letters of credit issued by the Canadian Imperial Bank of Commerce and the California State Teachers' Retirement System for the Series 2000C Bonds, and Wachovia Bank delivered a letter of credit for the Series 2000D Bonds.

\$140,000,000 Oakland-Alameda County Coliseum Authority Lease Revenue Bonds (Oakland Coliseum Arena Project), 1996 Series A. The 1996 bonds were issued by the Authority to finance the costs of constructing the arena located at the Coliseum complex as well as other payments and costs associated with the retention of the Golden State Warriors to play basketball at the arena.

The bonds are comprised of \$70,000,000 Series A-1 Variable Rate Lease Revenue Bonds (Taxable) (Series A-1) and \$70,000,000 Series A-2 Variable Rate Lease Revenue Bonds (Taxable) (Series A-2). On July 26, 2001, the Authority substituted an irrevocable direct pay letter of credit relating to the Series A-1 bonds issued severally and not jointly by The Bank of New York and California State Teachers' Retirement System and an irrevocable direct pay letter of credit relating to the Series A-2 bonds issued severally and not jointly by The Bank of New York and Allied Irish Banks, p.l.c., New York Branch.

The Series A-1 bonds have been assigned long-term ratings of "Aa2", "AA-" and "AA" and short-term ratings of "VMIG 1", "A-1+" and "F1+" by Moody's, S&P and Fitch, respectively. The Series A-2 bonds have been assigned long-term ratings of "Aa3", "A+" and "AA-" and short-term ratings of "VMIG 1", "A-1" and "F1+" by Moody's, S&P and Fitch, respectively.

These bonds are a joint and several obligation of both the City and the County; each entity has covenanted to budget and appropriate one-half of the annual lease payments.

\$103,945,000 Oakland Joint Powers Financing Authority Lease Revenue Bonds (Oakland Administration Buildings), Series 1996. These bonds were issued to finance, design, construct, rehabilitate and equip two buildings and a civic plaza that are at the heart of the administrative complex of the City of Oakland for a total project cost of \$102 million. These bonds were defeased in June 2004 (see \$58,600,000 Series A-1 and \$58,600,000 Series A-2 Oakland Joint Powers Financing Authority Lease Revenue Refunding Bonds (Oakland Administration Buildings), 2004 (Auction Rate Securities below).

\$187,500,000 Oakland Joint Powers Financing Authority, 1998 Series A-1/A-2. The 1998 bonds were issued by the Joint Powers Authority on August 3, 1998, to refund the City of Oakland's Special Refunding Revenue Bonds (Pension Financing), Series 1998 A. The bonds were sold in a variable-rate mode, in two series: \$131,500,000 Series A-1 and \$56,000,000 Series A-2, both with a final maturity of August 1, 2021. The bonds are limited obligations of the Authority, payable by base rental payments for the right to use and possession of a portion of the City's sewer system.

The City entered into a \$170,000,000 forwarding-starting, floating-to-fixed "synthetic-fixed-rate" swap with Goldman Sachs, which commenced on July 31, 1998 and terminates on July 31, 2021. The swap entitled the City to receive variable rate payments equal to the Bond Market Association Municipal Swap Index (the "BMA Index) in exchange for a fixed rate payment to Goldman Sachs. The notional value of the swap declines in accord with the outstanding principal on the bonds.

On March 27, 2003, the City changed the index on which the swap is based from the BMA Index to 65% of the 1-month London Interbank Offer Rate (LIBOR) and entered into an Amended and Revised Confirmation with GS Financing Products, U.S., L.P. As a result of the change in the index, the City received an up-front payment, which partially compensates the City for assuming a potentially greater basis risk.

\$134,890,000 Oakland Joint Powers Financing Authority Lease Revenue Refunding Bonds (Oakland Convention Centers), Series 2001. The Oakland Joint Powers Financing Authority issued \$134,890,000 Lease Revenue Refunding Bonds (Oakland Convention Centers), Series 2001 on May 23, 2001. This issue was used to redeem and defease the \$149,825,000 California Statewide Communities Development Authority, 1992 Lease Revenue Bonds (City of Oakland Convention Centers Project).

\$16,295,000 City of Oakland Refunding Certificates of Participation (Oakland Museum) 2002 Series A. The 2002 Series A Certificates were issued on March 12, 2002. The proceeds of the 2002 Series A Certificates were applied to fund an escrow to refund and legally defease all \$15,900,000 of the aggregate principal amount of the outstanding Refunding Certificates of Participation (Oakland Museum) 1992 Series A maturing April 1, 2012 and to pay costs of issuance. Since completion of this financing, \$7,223,025 of the 1992 A Certificates remain outstanding and are payable from Lease Payments on a parity with the 2002 Series A Certificates.

\$58,600,000 Series A-1 and \$58,600,000 Series A-2 Oakland Joint Powers Financing Authority Lease Revenue Refunding Bonds (Oakland Administration Buildings), Series 2004 (Auction Rate Securities). The 2004 Bonds were issued by the Oakland Joint Powers Financing Authority on June 10, 2004, to refund and defease all of the Authority's outstanding Lease Revenue Bonds (Oakland Administration Buildings) Series 1996 which were issued to finance a portion of the design, construction, rehabilitation, and equipping of two buildings that are part of the administrative center of the City of Oakland, finance certain public capital projects of the City, pay the premium for a financial guaranty insurance policy and a debt service reserve surety bond, and pay certain of the costs of issuance.

The City has entered into two interest rate swap agreements with Bank of America, N.A. and UBS AG relating to the 2004 Series A-1 Bonds and the 2004 Series A-2 Bonds, respectively, to create a synthetic fixed interest rate until August 1, 2026, for Base Rental Payments corresponding to the \$117,600,000 initial principal amounts of each Series of the 2004 A Bonds.

The bonds, insured by AMBAC Assurance Corporation and rated Aaa/AAA, by Moody's and S&P, respectively, are limited obligations of the Authority payable solely from lease revenues paid by the City, as lessee, to the Authority, as lessor.

Pension Obligation Bonds. *\$436,289,659.15 City of Oakland, Taxable Pension Obligation Bonds, Series 1997.* On February 1, 1997, the City issued Taxable Pension Obligation Bonds Series 1997, Sub-Series A, comprised of \$393,790,000 of current interest bonds and \$26,705,000 of capital appreciation bonds and Sub-Series B in the amount of \$15,795,000 current interest bonds. The proceeds of the bonds were used to fund (1) a portion of the current balance of the City's Unfunded Actuarial Accrued Liability (UAAL) for retirement benefits to members of the Oakland Police and Fire Retirement System (PFRS), (2) a portion of the City's current normal contribution to PFRS for the fiscal year ended June 30, 1997, and (3) costs of issuance of the bonds. A portion of these bonds were refunded by the City's Taxable Pension Obligation Bonds, Series 2001.

\$195,636,449.10 City of Oakland, Taxable Pension Obligation Bonds, Series 2001. On October 17, 2001, The City of Oakland issued \$195,636,449.10 Taxable Pension Obligation Bonds, Series 2001. The Series 2001 Bonds were issued (1) to provide funds to purchase for cancellation and to legally

defeas a portion of the City's outstanding Taxable Pension Obligation Bonds, Series 1997 and (2) to pay costs of issuance. The issuance of the Series 2001 Bonds was part of a plan of finance undertaken by the City to extend the maturity of the Bonds to reduce annual debt service on the 1997 Bonds and to minimize the need for the City to use general fund revenues to pay such debt service on the 1997 and 2001 Bonds.

Other Long-Term Borrowings. \$2,020,000 *City of Oakland 1994 Refunding Improvement Bonds Medical Hill Parking Assessment District, Series 3.* In April 1994, the City issued these ten-year bonds to defeas the City of Oakland Medical Hill Parking Assessment District Refunding Bonds dated March 2, 1989. The bonds are rated Aaa/AAA by Moody's and S&P and are insured by MBIA. The bonds are rated Aaa/AAA by Moody's and Standard and Poor's and are insured by MBIA. The original bonds were issued to finance the construction of a parking garage to serve facilities in the Medical Hill Area. The refunding bonds are payable from assessments levied against property owners in the Medical Hill District. In the event of continuing delinquencies in the payment of any property owner's installments, the City, in the absence of any other bidder, is obligated to purchase the delinquent property owner's property at a delinquent assessment sale and pay delinquent and future installments of assessments and interest thereon until the land is resold or redeemed. The final debt service payment for these bonds is in September 2004; the bonds' reserve fund currently contains a sufficient balance to satisfy this payment.

\$7,255,000 *Oakland Joint Powers Financing Authority Reassessment Revenue Bonds Series 1999.* The bonds were issued by the Authority for the purpose of refunding the City of Oakland Limited Obligation Improvement Bonds Fire Area Utility Underground Assessment District No. 1 1994-1, Series 1994A and Series 1994B (Taxable) and the City of Oakland Limited Obligation Improvement Bonds Assessment District No. 1994-2 (Rockridge Area Water Improvements), Series 1994.

Estimated Direct And Overlapping Debt

Contained within the City are numerous overlapping local agencies providing public services. These local agencies have outstanding bonds issued in the form of general obligation, lease revenue, certificates of participation, and special assessment bonds. The direct and overlapping debt of the City as of January 1, 2005, according to California Municipal Statistics, Inc., is shown below. The City makes no assurance as to the accuracy of the following table, and inquiries concerning the scope and methodology of procedures carried out to complete the information presented should be directed to California Municipal Statistics, Inc. Self-supporting revenue bonds, tax allocation bonds and non-bonded capital lease obligations are excluded from this debt statement.

CITY OF OAKLAND
Statement of Direct and Overlapping Debt, as of January 1, 2005

2004-05 Assessed Valuation: \$29,642,053,558
 Redevelopment Incremental Valuation: 5,248,555,311
 Adjusted Assessed Valuation: \$24,393,498,247

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 1/1/05</u>
East Bay Municipal Utility District	20.656%	\$ 813,846
East Bay Municipal Utility District, Special District No. 1	52.479	21,159,533
East Bay Regional Park District	10.755	15,738,329
Chabot-Las Positas Community College District	1.415	1,415,000
Peralta Community College District	55.081	80,517,406
Berkeley and Castro Valley Unified School Districts	0.005 & 0.147	71,491
Oakland Unified School District	99.996	310,956,540
San Leandro Unified School District	13.414	6,426,818
City of Oakland	100.	229,500,000 (1)
City of Oakland 1915 Act Bonds	100.	7,330,000
City of Emeryville 1915 Act Bonds	4.183	<u>501,542</u>
TOTAL GROSS DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$674,430,505
Less: East Bay Municipal Utility District (100% self-supporting)		<u>813,846</u>
TOTAL NET DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$673,616,659

<u>DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>		
Alameda County and Coliseum Authority General Fund Obligations	18.285%	\$ 119,262,815
Alameda County Pension Obligations	18.285	56,109,934
Alameda County Board of Education Public Facilities Corporation	18.285	419,641
Alameda-Contra Costa Transit District Certificates of Participation	21.804	4,521,059
Chabot-Las Positas Community College District General Fund Obligations	1.415	118,789
Oakland Unified School District Certificates of Participation	99.996	27,033,919
San Leandro Unified School District Certificates of Participation	13.414	259,561
Castro Valley Unified School District Certificates of Participation	0.147	2,470
City of Oakland and Coliseum Authority General Fund Obligations	100.	576,178,025
City of Oakland Pension Obligations	100.	<u>366,494,842</u>
TOTAL DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$1,150,401,055

GROSS COMBINED TOTAL DEBT \$1,824,831,560 (2)
 NET COMBINED TOTAL DEBT \$1,824,017,714

(1) Excludes tax allocation bonds to be sold.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2004-05 Assessed Valuation:

Direct Debt (\$229,500,000).....0.77%
 Total Gross Direct and Overlapping Tax and Assessment Debt.....2.27%
 Total Net Direct and Overlapping Tax and Assessment Debt.....2.27%

Ratios to Adjusted Assessed Valuation:

Combined Direct Debt (\$1,172,172,867)4.81%
 Gross Combined Total Debt7.48%
 Net Combined Total Debt.....7.48%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/04: \$187,276

Property Taxation

Ad Valorem Property Taxes. City property taxes are assessed and collected by the County of Alameda (the “County”) at the same time and on the same rolls as are County, school and special district property taxes. The County is permitted under State law to pass on costs for certain services provided to local government agencies including the collection of property taxes. The County imposed a fee on the City of approximately 0.54% of taxes collected for tax collection services provided in Fiscal Year 2003-2004.

Assessed Valuations: All property is assessed using full cash value as defined by Article XIII A of the State Constitution. State law provides exemptions from ad valorem property taxation for certain classes of property such as churches, colleges, nonprofit hospitals and charitable institutions.

Future assessed valuation growth allowed under Article XIII A (new construction, certain changes of ownership, 2% inflation) will be allocated on the basis of “situs” among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and schools will share the growth of “base” revenues from the tax rate area. Each year’s growth allocation becomes part of each agency’s allocation in the following year. The availability of revenue from growth in tax bases to such entities may be affected by the establishment of redevelopment agencies which, under certain circumstances, may be entitled to revenues resulting from the increase in certain property values.

The passage of Assembly Bill 454 in 1987 changed the manner in which unitary and operating nonunitary property is assessed by the State Board of Equalization. The legislation deleted the formula for the allocation of assessed value attributed to such property and imposed a State-mandated local program requiring the assignment of the assessment value of all unitary and operating non-unitary property in each county of each State assessee other than a regulated railway company. The legislation established formulas for the computation of applicable county-wide rates for such property and for the allocation of property tax revenues attributable to such property among taxing jurisdictions in the county beginning in Fiscal Year 1988-89. This legislation requires each County to issue each State assessee, other than a regulated railway company, a single tax bill for all unitary and operating nonunitary property.

The following table represents a five-year history of assessed valuations in the City:

**City of Oakland
Assessed Valuations¹
(in \$000s)**

<u>Fiscal Year</u>	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total</u>
2000-01	\$18,453,636	\$62,398	\$2,574,565	\$21,090,599
2001-02	20,529,197	53,823	2,719,940	23,302,960
2002-03	22,468,401	49,548	2,655,756	25,173,705
2003-04	24,592,384	66,993	2,755,382	27,414,759
2004-05	26,812,360	79,048	2,750,645	29,642,053

¹ Net of exemptions other than homeowners' exemptions
Source: Alameda County Auditor-Comptroller.

Tax Levies, Collections and Delinquencies. Taxes are levied for each fiscal year on taxable real and personal property which is situated in the City as of the preceding January 1. A supplemental roll is developed when property changes hands or new construction is completed that produces additional revenue.

Secured property taxes are due on November 1 and March 1 and become delinquent, if not paid by December 10 and April 10, respectively. A 10% penalty attaches to any delinquent payment for secured roll taxes. In addition, property on the secured roll with respect to which taxes are delinquent becomes tax-defaulted. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a redemption penalty to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to auction sale by the County Tax Collector.

In the case of unsecured property taxes, a 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue beginning November 1 of the fiscal year, and a lien is recorded against the assessee. The taxing authority has four ways of collecting unsecured personal property taxes: (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 specific property of the taxpayer; (3) filing a certificate of delinquency for recordation in the County Recorder's Office in order to obtain a lien on specified property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

Each county levies (except for levies to support prior voter-approved indebtedness) and collects all property taxes for property falling within that county's taxing boundaries.

The following table represents a five-year history of the secured tax levy and of uncollected amounts in the City:

**City of Oakland
Secured Tax Levy
and Amounts Uncollected
(in \$000s)**

<u>Year Uncollected</u>	<u>Secured Tax Levy</u>	<u>Amount Uncollected as of June 30</u>	<u>Percent as of June 30</u>
2000	\$117,765	\$6,757	5.74%
2001	117,129	6,257	5.34
2002	128,354	7,076	5.51
2003	132,331	7,359	5.56
2004	151,546	7,350	4.85

Source: Alameda County Auditor-Controller

Tax Rates. The City is divided into thirty-three Tax Rate Areas. A twelve-year history of the property tax rates received by the City and the County of Alameda is shown below.

**City of Oakland
Property Tax Rates**

<u>Fiscal Year Ended June 30</u>	<u>City of Oakland</u>	<u>Alameda County</u>	<u>Others¹</u>	<u>Total</u>
1994 ²	0.4690	0.1555	0.6224	1.2469
1995	0.4643	0.1597	0.6169	1.2409
1996	0.4627	0.1595	0.6412	1.2634
1997	0.4468	0.1575	0.6412	1.2455
1998	0.4932	0.1567	0.6434	1.2933
1999	0.4568	0.1570	0.6370	1.2508
2000	0.5059	0.1570	0.6151	1.2780
2001	0.4694	0.1570	0.6775	1.3039
2002	0.4856	0.1570	0.6817	1.3243
2003	0.4625	0.1570	0.6845	1.3040
2004	0.5054	0.1570	0.6761	1.3385
2005	0.4777	0.1570	0.6710	1.3057

¹ "Others" includes: County-wide Tax, Oakland Unified School District, Peralta Community College District, Bay Area Rapid Transit District, East Bay Regional Park District, East Bay Municipal Utility District, and the Oakland Knowland Park & Zoo.

² Educational Revenue Augmentation Fund Shift began in 1994.

Sources: Alameda County, Office of the Auditor-Controller and City of Oakland, Financial Services Agency

Principal Property Taxpayers

A summary of the City's Fiscal Year 2004-2005 largest secured taxpayers is presented below:

City of Oakland Top Ten Taxpayers, 2004 – 2005¹

	Property Owner	Type of Business	2003-04 Assessed Valuation	Percentage of Total Local Secured Valuation ²
1.	OCC (Oakland City Ctr.) Venture LLC	Office Building	\$197,942,820	0.74%
2.	Prentiss Properties Acquisition Partners/Prentiss Properties Lake Merritt LLC	Office Building	131,109,990	0.49
3.	Kaiser Foundation Health Plan	Office Building	124,064,347	0.46
4.	Kaiser Center	Office Building	114,481,609	0.43
5.	1800 Harrison Foundation	Office Building	110,439,090	0.41
6.	KSL Claremont Resort Inc.	Hotel	105,439,090	0.39
7.	LMP I LLC	Office Building	101,636,154	0.38
8.	555 Twelfth Street, Venture LLC	Office Building	101,276,440	0.38
9.	Clorox Company	Office Building	90,520,920	0.34
10.	Webster Street Partners	Office Building	75,329,865	0.28
	Subtotal – Top Ten		\$1,152,451,291	4.29%
	All Others		25,659,908,797	95.71
	TOTAL:		\$26,812,360,088	100.00%

¹ Net of Exemptions.

² Represents 2004-05 Local Secured Assessed Valuation (net of exemptions other than homeowners exemptions).

Source: California Municipal Statistics

Financial and Accounting Information

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped into eight generic fund types and three broad fund categories as follows:

Government Funds

General Fund. The General Fund is the general operating fund of the City. It accounts for normal recurring activities traditionally associated with governments which are not required to be accounted for in another fund. These activities are funded principally by property taxes, sales and use taxes, business and utility taxes, interest and rental income, charges for services and federal and State grants. Government Funds consist of the following:

Special Revenue Funds. Special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds. Debt service funds are used to account for the accumulation of resources to be used for, and the payment of the principal of and interest on general long-term debt and related costs.

Capital Projects Funds. Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds, special assessment funds and trust funds).

Special Assessment Funds. Special assessment funds are used to account for the financing of public improvements or services deemed to benefit the properties against which special assessments are levied.

Proprietary Funds

Enterprise Funds. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Funds. Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis.

Fiduciary Funds

Trust and Agency Funds. Trust and agency funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. These include the pension trust, expendable trust and agency funds. Operation of the pension trust funds are accounted for and reported in the same manner as the proprietary fund types. Operations of expendable trust funds are accounted for in essentially the same manner as governmental fund types. Agency funds are custodial in nature and do not involve measurement of results of operations.

All government funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Taxpayer-assessed income, gross receipts and other taxes are considered “measurable” when in the hands of intermediary collecting governments and are recognized as revenue at that time. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. The exception to this general rule is that principal and interest on general long-term debt is recognized when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are incurred.

General Fund Revenues and Expenditures

The following table describes revenues and expenditures for the General Fund Group for five fiscal years. The City's fiscal year ends on June 30.

Development of the Fiscal Year 2003-04 budget began by comparing the City's General Purpose Fund (GPF) revenue base to the GPF expenditures necessary to maintain the prior year's level of service. The result was a projected \$37.5 million shortfall. The City implemented several budget-cutting strategies to bridge this gap.

They included reducing the cost of doing business by eliminating 191 positions (mostly vacant), implementing a Citywide monthly shutdown of City business and facilities (later replaced by employee contributions towards their enhanced pension benefit), to save an estimated \$3 million in the GPF by placing our fire stations on a rotating closure schedule to reduce overtime (i.e. the "flexible deployment program"), and raising fees and fines to generate approximately \$7 million in revenue.

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**City of Oakland
Revenues and Expenditures
General Fund Group
(in \$000s)**

Fiscal Year Ending June 30:	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u> (Unaudited)
<i>Revenues</i>					
Taxes ¹	\$282,322	\$314,731	\$313,519	\$337,781	\$341,973
Licenses and Permits	9,088	11,418	11,738	13,074	14,153
Traffic Fines and Various	14,129	16,150	12,277	18,543	26,817
Interest Income	10,019	6,530	11,442	16,996	4,371
Revenue from Current Services	36,506	40,962	48,442	51,708	56,883
Grant Revenue	7,265	5,385	2,842	1,794	2,147
Other Revenue, incl. Transfers	8,813	11,056	14,025	17,927	16,845
Annuity Income	<u>--</u>	<u>--</u>	<u>16,568</u>	<u>15,851</u>	<u>15,329</u>
Total Revenues	\$368,142	\$406,232	\$434,899	\$473,674	\$478,518
<i>Expenditures</i>					
General Government ²	\$41,245	\$44,110	\$47,219	\$44,251	\$51,671
Public Safety ³	190,782	207,392	225,407	238,568	247,568
Public Works ⁴	25,050	24,185	26,052	23,261	27,475
Life Enrichment ⁵	31,749	37,149	36,320	37,526	41,359
Economic and Community Development ⁶	18,954	20,288	22,512	26,701	20,152
Other ⁷	23,462	33,112	28,889	21,353	20,975
Transfers/other sources and uses	<u>581</u>	<u>364</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total Expenditures	\$331,823	\$366,600	\$386,399	\$391,660	\$409,200
Excess of Revenues and Other Sources over Expenditures and Other Uses	\$36,319	\$39,362	\$48,500	\$82,014	\$69,318

¹ Includes property, state and local taxes.

² Includes elected and appointed officials, general governmental agencies and administrative services.

³ Includes police and fire services.

⁴ Includes Parks and Recreation, Library, Museum, Aging and Health, and Human Services.

⁶ Includes Planning and Building, Housing and Neighborhood Development, and Economic Development and Employment.

⁷ Includes capital outlays and certain debt service charges: does not include rent payable on lease obligations.

Source: City of Oakland, Financial and Management Agency

Labor Relations

City employees are represented by seven labor unions and associations, identified in the table below, the largest one being the Service Employees International Union (Local 790) Full-Time, which represents approximately 40% of all City employees. Approximately 95% of all City employees are covered by negotiated agreements, as detailed below. Memoranda of Understanding effective July 1, 2002, were entered into with all non-sworn employee organizations. The City has never experienced an employee work stoppage. Pursuant to the Meyers-Milas-Brown Act (California Government Code Section 3500 et seq.), the City continues to meet and confer with the exclusive bargaining representatives of the City employees.

**City of Oakland
Labor Relations
(As of June 30, 2004)**

<u>Employee Organization/Bargaining Unit</u>	<u>Number of Employees</u>	<u>Contract Termination</u>
International Association of Firefighters (Local 557)	474	6/30/07
International Brotherhood of Electrical Workers (Local 1245)	25	6/30/08
International Federation of Professional and Technical Engineers (Local 21)/Units A, W, and F	496	6/30/08
IFPTE, Local 21 Units H (Supervisors) & M (Managers)	428	6/30/08
IFPTE, Local 21 (Deputy City Attorneys)	29	6/30/08
Oakland Police Officers Association	735	6/30/06
Service Employees International Union (Local 790)/full-time	1530	6/30/08
Service Employees International Union (Local 790)/part-time	1440	6/30/08
Ranger Association	21	6/30/06
Deputy Attorney IV & Special Counsel Association	7	6/30/05

Source: City of Oakland, Office of Personnel Resource Management

Retirement Programs

The Police and Fire Retirement System (“PFRS”) is a defined benefit plan administered by a seven-member Board of Trustees (the “Retirement Board”). The PFRS is a closed plan and covers uniformed employees hired prior to July 1, 1976. The Retirement Board is composed of the Mayor of the City; one active member of the Police Department, or a retired member elected by the active and retired members of the Police Department if no active member of the Police Department is elected to serve on the Retirement Board one active member of the Fire Department, or a retired member of the Fire Department elected by the active and retired members of the Fire Department if no active member of the Fire Department is elected to serve on the Retirement Board a life insurance executive of a local office; a senior officer of a local bank; a community representative and a Police-Fire retired member who shall be elected from the retired members of the Fire Department for a first three year term commencing the first day of the month next following his or her election, and from the retired members of the Police department for the next successive three-year term, and, thereafter, alternately from the retirement rolls of each of said departments for successive three-year terms.

As of June 30, 2004, PFRS covered 3 current employees and 1,395 retired employees. In November 2000, the voters of the City amended the City Charter to give active members of the Retirement System the option to terminate their membership and transfer to the California Public Employees’ Retirement System (“PERS”) upon certain conditions, including the Retirement Board authorizing a transfer to PERS of funds held by the Retirement System representing City and employee contributions to the Retirement System for each member who exercises such option to transfer. Active members of PFRS decided on October 13, 2001, whether to transfer. As a result, 104 members transferred to PERS.

Effective July 1, 1976, the City began providing for and funding an amount equal to the annual normal service cost of all PFRS participants and the amortization of unfunded actuarial accrued liability (“UAAL”) as of that date over a forty-year period. On June 7, 1988, voters approved a City measure to extend the amortization period of the unfunded benefits to fifty years, ending in 2026. In accordance with these voter-approved measures, the City annually levies an *ad valorem* tax (the “Tax Override”) on all

property within the City subject to taxation by the City to help fund the UAAL. For Fiscal Year 2004, the City has levied an *ad valorem* property tax at the rate of 0.1575 for this purpose.

The City's annual contribution to PFRS is determined by calculating the total pension liability for public safety employees under both PFRS and PERS. The amount to be contributed to both plans will be such that the unfunded liabilities for PFRS and PERS will be extinguished by 2026. Contributions to PERS are deducted and the difference is contributed to PFRS.

For the fiscal year ended June 30, 2004, contributions to PFRS totaling \$21,581 (no employer contributions; all \$21,581 contributed by employees) were made in accordance with actuarially determined contribution requirements. Through the Series 1997 Bond financing in Fiscal Year 1996-97, the City made a payment of \$417,072,300 to PFRS to offset a portion of its then UAAL for the 14-year period ending June 30, 2011. The City's actuaries do not make an allocation of the contribution amount between normal cost and the UAAL because the PFRS plan is closed. An actuarial valuation on the PFRS benefit plan is conducted every two years with the most recent complete valuation conducted for the period ended June 30, 2004

The Oakland Municipal Employees Retirement System ("OMERS") is administered by the City and covers zero active nonuniformed employees hired prior to September 1, 1970 who have not elected to transfer to the PERS as well as 96 retired employees. For the fiscal year ended June 30, 2004, the City, in accordance with actuarially determined contribution requirements, did not make contributions to OMERS as the plan is fully funded.

PERS is a defined benefit plan administered by the State and covers all nonuniformed employees except those who have not elected to transfer from OMERS and all uniformed employees hired after June 30, 1976.

For accounting purposes, employees covered under PERS are classified as either miscellaneous employees or safety employees. City miscellaneous employees and City safety employees are required to contribute 8% and 9%, respectively, of their annual salary to PERS. The City's contribution rates for the fiscal year ending June 30, 2004 was 15.042% for miscellaneous employees. On October 13, 2001, the collective bargaining agreement for safety employees was amended to allow the transfer of 104 PFRS firefighters to PERS and to provide 3.0% at 55 retirement benefits for fire department members. As a result of the amendments, the City's contribution for safety employees was increased from 8.488% to 29.828%. The City pays the entire amount of its employees contribution rate for miscellaneous and safety employees, including the annual contribution of 8% and 9% to PERS.

PERS uses an actuarial method which takes into account those benefits that are expected to be earned in the future as well as those already accrued. PERS also uses the level percentage of payroll method to amortize any unfunded actuarial liabilities. The amortization period of the unfunded actuarial liability ends June 30, 2026.

Economic Highlights

The City, located immediately east of San Francisco, across the San Francisco–Oakland Bay Bridge, lies at the heart of the East Bay. The City occupies approximately 53.8 square miles, is served by both Interstate 80 and Interstate 880, and boasts a world-class seaport. Oakland is a strategic location for

companies seeking to move goods and ideas through air, water, land or cyberspace. In 2002, the City was rated by Forbes as the 8th best city for business in the nation.¹

As the 19th largest metropolitan economy in the United States², the City has a diverse mix of traditional and new economy companies. Companies are attracted to the City's quality of life, comparatively low business costs, extensive fiber-optic infrastructure, vast inter-modal network, and a highly skilled labor pool—ranked the 8th most educated in the nation.³

Housing Development. For a discussion of the City's 10K Housing Initiative, see "THE CENTRAL DISTRICT PROJECT AREA – General – 10K Housing" in this Official Statement.

Commercial Development. In addition to the action areas and other special programs described in "THE CENTRAL DISTRICT PROJECT AREA – General" in this Official Statement, the following projects are currently under development in the City:

- The Fruitvale BART Transit Village is a mixed-use development which opened in May 2004. The project offers 38,000 square feet of retail space, 47 residential units including 10 affordable units, a child development facility, a new Cesar Chavez Public Library, a new medical clinic, a multipurpose senior center, and 114,500 square feet of office lease space. Leasing activities are underway for the retail and office spaces.

- The Oakland Coliseum Intercity Amtrak Station Project consists of the construction of a passenger platform along the existing Amtrak/Capitol Corridor passenger rail route located between the Coliseum Stadium and the Coliseum BART station. The new pedestrian ramp will connect the passenger platform to the existing Coliseum-BART pedestrian bridge. Total project cost is approximately \$6.6 million. Construction began in July 2004 and is expected to be completed by summer 2005.

- The Coliseum Lexus of Oakland Dealership consists of a 26,000 square-story building with mezzanine to serve as a showroom, offices, and an auto service center that opened in November 2002. An approximately four-acre parcel located immediately north of the Lexus development at Oakport and Hassler was sold to the Hendrick Auto Group for construction of an approximately 21,000 square foot Infiniti dealership. This project is under construction and is expected to be completed in spring 2005.

Commerce/Transportation

Oakland International Airport (the "Airport") will spend approximately \$500 million over the next three years on the first phase of its terminal development program, including a five gate-expansion of Terminal 2 with a new concourse, concessions and waiting areas, a 6,000-space parking garage, and new utilities. The Terminal 2 expansion is expected to be complete by fall 2006. The second phase of the total \$1.6 billion program will include a new two-level consolidated terminal building with a central concessions court and a two-tiered roadway system, which will be implemented as the Airport evaluates its financial capability.

¹ Forbes/Milken Institute List of Best Places for Business and Careers, Forbes, May 27, 2002.

² U.S. Metro Economics: The Engines of America's Growth, DRI-WEFA, June 2002.

³ 2002 U.S. Census

The Airport completed portions of the 98th Avenue/Doolittle Road intersection reconstruction, including a new underpass into the Airport. This project is part of the Airport's expansion program that will eventually widen the 98th Avenue/Airport Access Road into a six-lane parkway between the Airport, Bay Farm Island (Alameda) and Interstate 880.

The Airport is one of the few airports in the country and the only one in the Bay Area whose utilization has grown in the post-September 11, 2001 environment. The Airport saw a 7.5% increase in passenger traffic in 2001, serving 11.4 million passengers, and by the end of 2004 it is expected that approximately 14 million passengers will have used the Airport. The Airport is served by 16 airlines with more than 200 (daily nonstop) flights to 38 domestic and international destinations, including Atlanta, New York, Washington, D.C., Hawaii and Mexico.

The Port of Oakland (the "Port"), which holds a 98% share of Northern California's container freight market, continued construction in Fiscal Year 2003 on projects to boost maritime capacity, improve intermodal rail connections, and deepen berths and channels. A two-berth marine terminal opened in 2001, and a three-berth terminal opened in fiscal year 2003, for a total of 270 acres of shipping terminals. The Port also dedicated an 85-acre near-dock joint intermodal rail terminal to provide enhanced freight rail access to the harbor area. Finally, the Port embarked on the construction phase of a project to deepen the shipping channel and berths to 50 feet. On August 21, 2004, one of the world's largest container ships and the first 8,000 twenty-foot-equivalent (a "TEU") ship arrived at the Port. Largely due to its increased intermodal and maritime capacities, the Port is receiving more interest as a first port of call from a growing number of shipping lines.

In conjunction with its maritime developments, the Port completed construction of the 37-acre Middle Harbor Shoreline Park and a 180-acre shallow water habitat restoration. These projects, which opened to the public in September 2004, expand waterfront access and enjoyment of opportunities for residents of Oakland and the Bay Area.

More than \$1 billion in real estate and waterfront development is in progress at the Port, including a 185,000 square-foot marketplace, to be called California Harvest Hall, that will be the centerpiece of a \$300 million redevelopment project in Jack London Square on Oakland's Embarcadero. Other planned development includes a conference center hotel and spa, a state-of-the art movie theatre complex, and additional restaurants and parking facilities.

Population

The Demographic Research Unit of the California Department of Finance estimated the City's population on January 1, 2004, at 411,600. This figure represents 27.48% of the corresponding County figure and 1.14% of the corresponding State figure. The City's population has grown over 20% in the twenty-four years since 1980. The following table illustrates the City's population relative to the population of Alameda County and the State of California.

Population

Year	City of Oakland	County of Alameda	State of California
1980	339,337	1,105,379	23,667,902
1990	371,100	1,276,702	19,473,000
1991	378,200	1,294,700	30,321,000
1992	378,200	1,310,500	30,982,000
1993	379,700	1,326,300	31,552,000
1994	381,400	1,338,400	31,952,000
1995	381,400	1,344,200	31,910,000
1996	383,900	1,356,300	32,223,000
1997	389,700	1,375,900	32,609,000
1998	397,800	1,408,100	33,252,000
1999	399,900	1,433,800	33,773,000
2000	402,100	1,454,300	34,336,000
2001	402,700	1,465,000	34,431,000
2002	406,800	1,481,900	35,049,000
2003	408,500	1,487,700	35,612,000
2004	411,600	1,498,000	36,144,000

Sources: California State Department of Finance (estimates as of January 1)

Employment

The following table shows the labor patterns in the City, the State of California, and the United States for the past five years.

**City of Oakland, State of California and United States
Civilian Labor Force, Employment, and Unemployment
June 2000 through June 2004**

Year and Area	Labor Force	Employment	Unemployment	Unemployment Rate
June 2000				
City	192,270	182,100	10,170	5.3%
State	16,958,600	16,083,800	874,800	5.2
United States	140,757,000	135,183,000	5,574,000	4.0
June 2001				
City	196,870	182,340	14,530	7.4
State	17,181,800	16,275,700	906,100	5.3
United States	141,354,000	134,932,000	6,422,000	4.5
June 2002				
City	202,340	179,780	22,560	11.2
State	17,397,200	16,216,700	1,180,600	6.8
United States	142,476,000	134,053,000	8,423,000	5.9
June 2003				
City	200,650	177,930	22,720	11.3
State	17,486,500	16,288,300	1,198,000	6.9
United States	148,117,000	138,468,000	9,649,000	6.5
June 2004				
City	199,070	180,220	18,850	9.5
State	17,683,000	16,555,400	1,127,900	6.4
United States	148,478,000	139,861,000	8,616,000	5.8

Source: California State Employment Development Department and U.S. Department of Labor, Bureau of Labor Statistics. United States figures as of December of each year.

Major Employers. As an integral part of the Bay Area, the City of Oakland benefits from the wide variety of job opportunities available throughout the area. Summarized below are the City's largest private and public employers as of June 30, 2004.

**Top Ten Public Employers
(as of June 30, 2004)**

<u>Employer</u>	<u>Type of Organization</u>	<u>Number of Employees*</u>
U.S. Federal Government (Civilian)	Government Operations	10,300
Oakland Unified School District	Education	7,000
County of Alameda	Government Operations	6,360
City of Oakland	Government Operations	4,600
State Agencies (1515 Clay Street)	Government Operations	3,000
Highland Hospital	Hospital Services	2,200
CAL-Trans	Public Transportation	2,100
University of California (Office of the President)	Education	2,000
East Bay Municipal Utility District	Utility/Water/Wastewater	1,900
United States Post Office	Mail Services	950

* *Approximate figures*

Sources: Alameda County, Economic Development Alliance for Business; Dun & Bradstreet; State of California, Employment Development Department; City of Oakland, Financial and Management Agency.

**Top Ten Private Employers
(as of June 30, 2004)**

<u>Employer</u>	<u>Type of Organization</u>	<u>Number of Employees*</u>
Kaiser Permanente	Health Services	6,610
Southwest Airlines	Air Transportation	2,410
Alta-Bates Summit Medical Center	Health Services	2,400
Oakland Children's Hospital Medical Center	General Medical Surgical Hospital	2,340
Federal Express Corporation	Air Courier Services	2,210
United Parcel Service	Courier Services	1,550
Clorox Company	Household Products	1,340
SBC Pacific Bell	Utility	1,540
Mills College	Education	840
Safeway Grocers	Food Service	730

* *Approximate figures*

Sources: Alameda County, Economic Development Alliance for Business; Dun & Bradstreet; City of Oakland, Financial and Management Agency

Commercial Activity

A five-year history of total taxable transactions for the City is shown in the following table.

City of Oakland Taxable Transactions 1999-2003

<u>Year</u>	<u>Total Sales</u>
1999	\$3,812,000,000
2000	3,591,000,000
2001	4,038,000,000
2002	3,783,000,000
2003	3,773,000,000

Source: Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2003

Construction Activity

A five-year history of building permits and valuation (including electrical, plumbing, and mechanical permits) appears in the following table.

City of Oakland Building Permits and Valuations 2000-2004

<u>Year</u>	<u>Number of Permits Issued</u>	<u>Authorized New Dwelling Units</u>	<u>Residential Valuation (In Thousands)</u>	<u>Nonresidential Valuation (In Thousands)</u>
2000	16,725	542	\$272,170	\$195,270
2001	16,879	954	138,570	481,635
2002	15,805	757	317,792	165,731
2003	15,910	930	170,527	260,000
2004	16,424	857	268,600	156,699

Source: Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2003, for 2000-2003 and City of Oakland Community and Economic Development Agency for 2004.

Median Household Income

Effective Buying Income (“EBI”) is defined as personal income less personal income tax and non-tax payments, such as fines, fees, or penalties. Median household EBI for the City is shown in the table below.

City of Oakland and Alameda County Median Household Effective Buying Income 2000-2004 Median EBI

<u>Year</u>	<u>City of Oakland</u>	<u>Alameda County</u>	<u>California</u>	<u>United States</u>
2000	\$38,602	50,631	44,464	39,129
2001	37,003	49,797	42,493	38,190
2002	39,567	54,076	43,532	38,365
2003	37,095	49,574	42,484	38,035
2004	37,558	50,431	42,924	38,201

Source: “Survey of Buying Power,” Sales and Marketing Management Magazine

Litigation

The City is involved in certain litigation and disputes relating to its various operations. Upon the basis of information presently available, the City Attorney believes that there are substantial defenses to such litigation.

Oakland Raider Litigation. On September 29, 1997, the City, the County of Alameda and the Oakland Alameda County Coliseum Authority (the “Authority”), collectively known as the “East Bay Entities,” filed suit against the Oakland Raiders and A.D. Football, Inc. (collectively “Raider Management”) for breach of contract, declaratory relief and interference with prospective economic advantage.

Raider Management filed a cross-complaint seeking the right to rescind the Master Agreement and seeking damages for breaches of the Master Agreement and for fraudulent inducement. The Authority prevailed on its declaratory relief claims that the Raiders were contractually obligated to remain in Oakland for the term of the contract. In a series of decisions, the court has ruled that (1) Raider Management cannot rescind or terminate the lease; (2) the East Bay Entities do not have claims for damages and (3) Raider Management does not have claims for damages against the City, the County or the Authority. The court later dismissed the City and the County of Alameda from the case on the basis that Raider Management failed to comply with the California Torts Claims Act.

On March 24, 2003, trial began on Raider Management’s claims for damages of \$1.1 billion for fraudulent inducement against the Oakland-Alameda County Coliseum Authority and one of its former directors. The trial resulted in a \$34,000,000 verdict in favor of Raider Management and against the Authority. The former Authority Director, who the City had agreed to indemnify, was not found liable.

The Authority’s motion for a judgment notwithstanding the verdict was denied on November 18, 2003. The Authority has appealed the judgment against it and the Raiders have appealed the verdicts against it. The trial court stayed the judgments pending appeal and the Raiders filed a motion to set aside the stay. In May 2004, the Court of Appeals denied the Raiders’ motion to set aside the stay of the action. It is too early to assess whether the City will have to contribute funds to the Authority if the Court of Appeals upholds the trial court verdicts.

Business Tax Litigation. In Kaiser Aluminum & Chemical v. City of Oakland, Alameda County Superior Court Case No. 822752-0, Kaiser sought a refund of \$2,963,875 for business taxes based upon gross rental receipts that it paid on its own behalf to its lessor for the 1994 through 2001 tax years. Kaiser alleged that the City's Business Tax Ordinance violates the commerce clause in that it is internally inconsistent, and does not fairly apportion the business activity of out-of-City landlords. Cross motions for summary judgment and summary adjudication were denied. The City prevailed at trial, which began on October 2, 2002. The Court of Appeals affirmed the trial court's decision on October 28, 2004.

APPENDIX B

**REDEVELOPMENT AGENCY AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

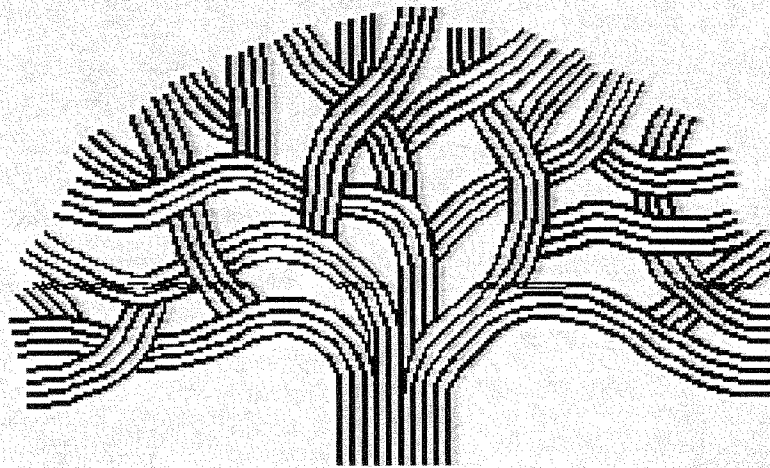
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REDEVELOPMENT AGENCY

of the

CITY OF OAKLAND

(A BLENDED COMPONENT UNIT OF THE CITY OF OAKLAND)



**Basic Financial Statements
and
Supplementary Information**

Fiscal Year Ended June 30, 2003

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

FINANCIAL REPORT

PROJECT TEAM

William E. Noland
Interim Director
Finance and Management Agency

Gregoria M. Torres
Acting Controller

AUDIT/FINANCIAL STATEMENT COORDINATOR

Ace Tago, *Acting Assistant Controller*

FINANCIAL STATEMENT PREPARATION

Financial Statement Leaders

Ming Emperador

Myrna Bangloy

Rony Yambao

Accounting Team (GL & ORA)

Myrna Bangloy
Mercy David
Bruce Levitch
Rony Yambao

Ernie Calilung
George Emperador
Norma Torres
Theresa Woo

Esther Concepcion
Ming Emperador
David Warner

CLERICAL SUPPORT

Novette G. Flores, *Administrative Assistant*

SPECIAL ASSISTANCE

Katano Kasaine

Kathleen Larson

Donna Treglown

SPECIAL ASSISTANCE – DEPARTMENTS & OFFICES

City Manager's Office

City Attorney's Office
Community & Economic Development Agency

FMA-Treasury Division

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
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June 30, 2003

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Macias, Gini & Company LLP
Certified Public Accountants and
Management Consultants

Mt. Diablo Plaza
2175 N. California Boulevard
Suite 645
Walnut Creek, CA 94596-3565

925•274•0190
925•274•3819 FAX
www.maciasgini.com



WILLIAMS, ADLEY & COMPANY, LLP
Certified Public Accountants
Management Consultants

INDEPENDENT AUDITORS' REPORT

To the Members of the Redevelopment Agency
of the City of Oakland, California:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Redevelopment Agency of the City of Oakland (Agency), a component unit of the City of Oakland, California, as of and for the year ended June 30, 2003, 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 Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Agency as of June 30, 2003, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2003, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis, as listed in the accompanying table of contents, is not a required part of the basic financial statements of the Agency, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

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

Macias, Gini & Company LLP
Certified Public Accountants

Walnut Creek, California
December 22, 2003

Williams, Alley & Company, LLP
Certified Public Accountants

Oakland, California
December 22, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Redevelopment Agency of the City of Oakland ("Agency") Annual Financial Report presents a narrative overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with the additional information contained in the Agency's financial statements and related footnotes.

FINANCIAL HIGHLIGHTS

- The Agency's total fund balance was \$222,915,921 at June 30, 2003, a 48% increase compared to the prior fiscal year. Fund balance consisted of Reserved for Property Held for Resale of \$71,924,690, Reserved for Approved Capital Projects/Activities of \$148,999,705, and Unreserved amount for \$1,991,526.
- For the fiscal year ended June 30, 2003, the Agency's revenues for governmental funds were \$69,518,080 compared to \$62,596,147 for the prior fiscal year, an increase of 11%. The revenues consists of the following: Tax Increment of \$48,435,895; Interest on Pooled Cash and Investments of \$3,817,452; Rents and Reimbursements of \$6,503,639, Gain from Sale of Land of \$6,867,024, and Other Income of \$3,894,070, which consists primarily of loan repayments.
- The Agency's total spending program for the fiscal year ended June 30, 2003 was \$57,518,050, of which \$43,879,024 was for redevelopment and housing projects, and \$13,639,026 was for debt service payments and costs of issuance for the Central District Subordinated Tax Allocation Bonds, Series 2003 and Coliseum Area Tax Allocation Bonds, Series 2003. Total spending represents an increase of 25% compared to the prior fiscal year.
- During the year, the Agency issued loans for \$10,446,170 for the Affordable Housing Program and \$4,765,060 for project developments. The Agency received loan repayments of \$2,307,184, offset by the increase in allowance for uncollectible accounts in small business loans for \$292,982.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to introduce the Agency's basic financial statements. The Agency's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements.

Government-wide Financial Statements

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

The *statement of net assets* presents information on all of the Agency's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether or not the financial position of the Agency is improving or deteriorating.

The *statement of activities* presents information showing how the Agency's net assets changed during the most recent fiscal year. All changes in net assets are reported on the accrual basis as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues pertaining to uncollected taxes.

The government-wide financial statements distinguish functions of the Agency that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Agency include general community and economic development. The Agency does not engage in any business-type activities.

The government-wide financial statements include the operations of the various redevelopment areas and low and moderate housing program.

Fund financial statements. The fund financial statements are designed to report information about groupings of related accounts, which are used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Agency are governmental funds.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Agency's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund

statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Agency maintains eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances for the Central District Fund, Coliseum Fund, Low and Moderate Housing Fund, and the Tax Allocation Debt Fund, all of which are considered to be major funds. Data from the remaining funds are combined in a single, aggregated presentation. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements immediately following the notes to the basic financial statements in this report.

Notes to the basic financial statements. The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19-34 of this report.

Other information. In addition to the basic financial statements and accompanying notes, the combining statements referred to earlier in connection with other nonmajor governmental funds are presented immediately following the footnotes.

Government-wide Financial Analysis

The Agency's financial statements are presented under the reporting model required by the Governmental Accounting Standards Board Statement No. 34 (GASB 34), Basic Financial Statements-and Management's Discussion and Analysis (MD&A) – for State and Local Governments. All of the Agency's activities are governmental; therefore, business-type activities are not reported.

Net Assets Governmental Activities

	June 30	
	2003	2002
Current and other assets	\$ 221,918,932	\$ 179,035,436
Property held for resale	<u>71,924,690</u>	<u>66,774,622</u>
Total assets	<u>293,843,622</u>	<u>245,810,058</u>
Long-term liabilities	302,103,779	266,941,051
Other liabilities	<u>12,429,935</u>	<u>11,559,129</u>
Total liabilities	<u>314,533,714</u>	<u>278,500,180</u>
Net assets (deficit)		
Restricted for:		
Urban redevelopment and housing	238,187,429	72,611,900
Unrestricted (deficit)	<u>(258,877,521)</u>	<u>(152,523,051)</u>
Total net deficit	<u>\$ (20,690,092)</u>	<u>\$ (32,690,122)</u>

Analysis of Net Assets

Net assets may serve over time as a useful indicator of an agency's financial position. In the case of the Agency, liabilities exceeded assets by \$(20,690,092) at the close of the most recent fiscal year.

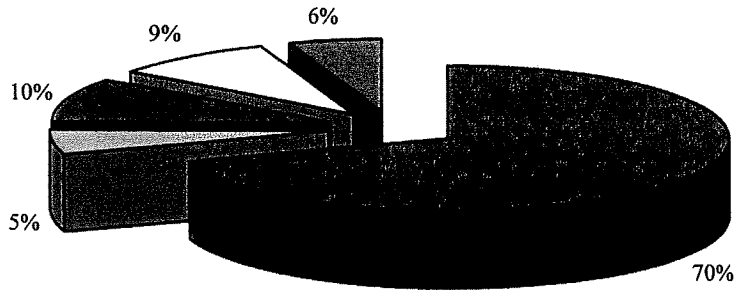
As of the end of the fiscal year, the Agency had restricted net assets of \$238,187,429. These are comprised of an investment of \$71,924,690 in Community Development (Property held for resale). The Agency uses Property Held for Resale to provide services to citizens; consequently, these assets are not available for future spending. An additional portion of the Agency's net assets represents resources that are subject to external restrictions on how they may be used; \$108,757,784 restricted for urban redevelopment projects and \$57,504,955 restricted for low and moderate housing. Also, the Agency had a deficit in unrestricted net assets of (\$258,877,521).

Governmental activities. Governmental activities decreased the Agency's net deficit by 37% (\$20,690,092) compared to the prior fiscal year net deficit as restated of (\$32,690,122). Key elements of this decrease are as follows:

Changes in Net Assets Governmental Activities

	June 30	
	2003	2002
Revenues:		
Program revenues:		
Charges for services	\$ 6,503,639	\$ 6,048,692
General revenues:		
Property tax increment	48,435,895	41,315,359
Investment income	3,817,452	7,448,396
Gain on sale of land	6,867,024	3,619,978
Other	<u>3,894,070</u>	<u>4,163,722</u>
Total revenues	<u>69,518,080</u>	<u>62,596,147</u>
Expenses:		
Urban redevelopment and housing	43,879,024	32,923,676
Interest on long-term debt	<u>13,639,026</u>	<u>12,120,642</u>
Total expenses	<u>57,518,050</u>	<u>45,044,318</u>
Increase (decrease) in net assets	12,000,030	17,551,829
Net deficit beginning of year (as restated)	<u>(32,690,122)</u>	<u>(50,241,951)</u>
Net deficit end of year	<u>\$ (20,690,092)</u>	<u>\$ (32,690,122)</u>

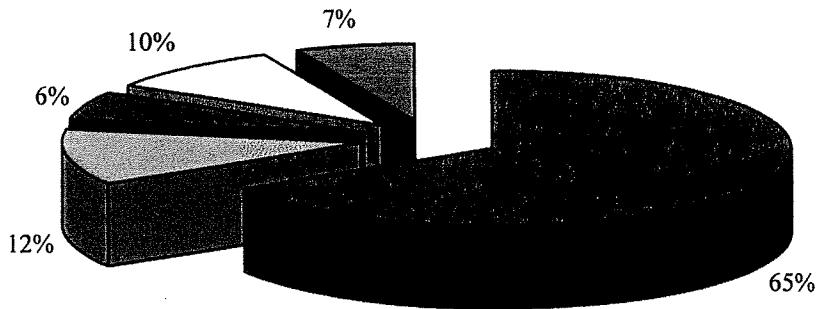
**Redevelopment Agency of Oakland
Sources of Revenue
For FY 2002-03**



- Property Tax Increment
- Investment income
- Proceeds from sale of land
- Charges For Services
- Loan repayment and Reimbursements

Total Revenues \$69,518,080

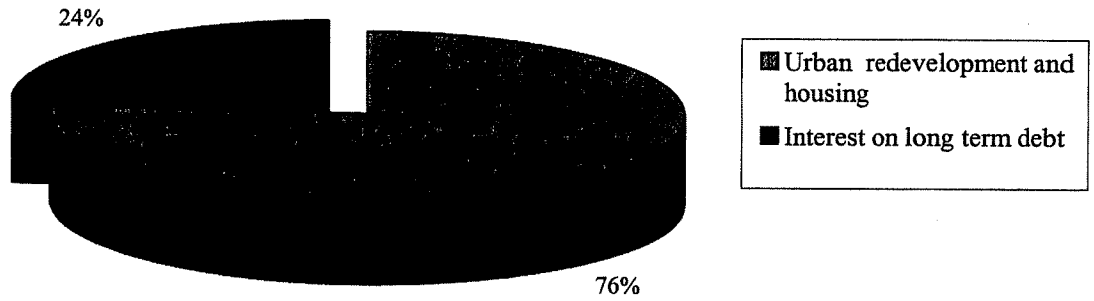
**Redevelopment Agency of Oakland
Sources of Revenue
For FY 2001-02**



- Property Tax Increment
- Investment income
- Proceeds from sale of land
- Charges For Services
- Loan repayment and Reimbursements

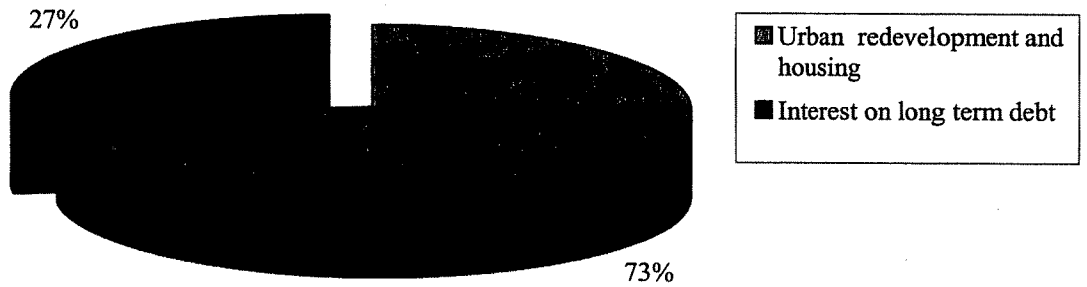
Total Revenues \$62,596,147

**Redevelopment Agency of Oakland
Functional Expenses
For FY 2002-03**



Total Expenditures \$57,518,050

**Redevelopment Agency of Oakland
Functional Expenses
For FY 2001-02**



Total Expenditures \$45,044,318

Analysis of Changes in Net Assets. The revenues in governmental activities for the Agency exceeded expenses by \$12,000,030 for the fiscal year ended June 30, 2003. This represents a decrease in net assets of 32% compared to the fiscal year ended June 30, 2002, as restated. See Note 11 for further details.

The charts in the preceding pages illustrate the proportional distribution of revenues by source and expenses by function compared to the previous year. Revenues totaled \$69,518,080 while expenditures totaled \$57,518,050 for the fiscal year ended June 30, 2003 compared to \$62,596,147 and \$45,044,318 respectively for the fiscal year ended June 30, 2002.

Revenues improved over the previous fiscal year by \$6.9 million or 11%. Property tax increment revenues account for the majority of the increase due to strong growth in net valuation as a result of solid improvements in redevelopment activities. Investment income and other revenues both dropped by 34% due to lower rates of return fueled by economic slowdown. Gain on the sale of land increased by 90% due to sale by the Agency of two prime properties in downtown Oakland.

Government wide expenditures increased by \$12.5 million or 28% primarily attributable to the increase in urban redevelopment and housing activities and the bond interest and issuance costs resulting from the defeasance of certain tax allocation bonds.

Financial Analysis of the Government's Funds

The Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

As of June 30, 2003, the Agency's governmental funds reported combined ending fund balances of \$222,915,921, a net increase of 22% or \$39,827,185 compared to the prior year's fund balances (as restated, see Note 12 for further details). The net increase is represented by: (1) a 17% (\$7.1 million) increase in property tax increment collections attributed to improved property valuations in the redevelopment project areas; (2) a one-time increase of 90% (\$3.2 million) from a gain on the sale of Agency land; and (3) an infusion of \$25,000,000 in new capital project funds as a result of refunding certain Agency tax allocations bond issues. The combined fund balances of \$222,915,921 is distributed as follows: 61% for the Central District Project area; 14% for the Low Moderate Housing Project area; 14% for the Coliseum Project area; 11% for other Redevelopment Project areas; and .5% for Debt Service.

Budgetary Data

Meaningful Agency budgetary data are not presented in the financial statements for capital projects and debt service funds because budgetary allocations are fiscal year specific while Agency project implementation may involve several fiscal years to complete.

Capital Assets and Debt Administration

Capital assets. The Agency does not have any Capital Assets.

Long-term debt. At June 30, 2003, the Agency had total long-term debt outstanding of \$302,103,779, an increase of 14% over the previous fiscal year. The increase was primarily due to the refunding of the tax allocation bonds for the Central District in the principal amount of \$120,605,000 and the Coliseum project area in the amount of \$23,085,000. The refunding was to defease certain bond issues outstanding, to provide financing for the acquisition and construction of projects in these two redevelopment areas, to fund a debt service account, and to pay for bond issuance costs.

Bond Ratings

The Agency's bond ratings at June 30, 2003 are as follows:

	Insured By	Rating	Balance Outstanding
Tax allocation*	FGIC/MBIA/AMBAC	AAA/Aaa/A-	\$ 206,835,000
Housing set-aside revenue bonds	MBIA	AAA/AAA/Aaa	39,395,000
General obligation bonds	Not rated by Agency		<u>430,000</u>
Total			<u>\$ 246,660,000</u>

*Coliseum Area Redevelopment Tax Allocation Bonds Series 2003 totaling \$23,085,000 are not insured because the issue carries an A rating and insurance costs would have increased the cost of issuance significantly. All ratings were done by Fitch, Standard & Poor's and Moody's Investors Service.

Long-term liability activity for the year ended June 30, 2003, is comprised of the following:

	<u>FY 2003</u>	<u>FY 2002</u>
Tax allocation		
bonds payable	\$ 206,835,000	\$ 180,630,000
Housing Set-Aside		
Revenue Bonds	39,395,000	39,395,000
General Obligation		
Bond	<u>430,000</u>	<u>465,000</u>
SUBTOTAL	246,660,000	220,490,000
Deferred amounts, net	8,767,150	—
Advances from City		
of Oakland	<u>46,676,629</u>	<u>45,669,013</u>
TOTAL	<u>\$ 302,103,779</u>	<u>\$ 266,159,013</u>

Requests for Information

This financial report is designed to provide a general overview of the Redevelopment Agency of the City of Oakland's finances for all those with an interest in the Agency's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance and Management Agency, Accounting Division, City of Oakland, 150 Frank H. Ogawa Plaza, Suite 6353, Oakland, California 94612-2093.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Statement of Net Assets

June 30, 2003

ASSETS

Cash	\$	100
Pooled cash and investments		92,358,183
Tax increment receivable		3,209,365
Accrued interest receivable		387,600
Accounts receivable, (net of allowance for uncollectible account of \$200,000)		59,807
Due from primary government		21,711,192
Due from other government		1,122,699
Notes receivable, (net of allowance for uncollectible account of \$783,927)		42,543,389
Property held for resale		71,924,690
Restricted cash and investments with fiscal agent		55,866,372
Restricted cash in bank		1,424,036
Deferred charge - bond issuance costs		3,236,189
		<hr/>
TOTAL ASSETS	\$	<u>293,843,622</u>

See accompanying notes to the basic financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Statement of Net Assets

June 30, 2003

LIABILITIES

Accrued interest payable	\$ 5,414,446
Accrued liabilities	3,570,130
Due to primary government	2,594,743
Due to other government	198,271
Deposits	520,064
Other liabilities	132,281
Noncurrent liabilities (net of unamortized refunding losses and premiums):	
Due within one year	22,277,325
Due in more than one year	<u>279,826,454</u>
TOTAL LIABILITIES	<u>314,533,714</u>

NET ASSETS (DEFICIT)

Restricted for:	
Urban redevelopment projects and housing	238,187,429
Unrestricted (deficit)	<u>(258,877,521)</u>
TOTAL NET DEFICIT	<u>\$ (20,690,092)</u>

See accompanying notes to the basic financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Statement of Activities
For the year ended June 30, 2003

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u> <u>Charges for Services</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
Governmental Activities:			
Urban redevelopment and housing	\$ 43,879,024	\$ 6,503,639	\$ (37,375,385)
Interest on long-term debt	<u>13,639,026</u>	<u>-</u>	<u>(13,639,026)</u>
Total governmental activities	<u>\$ 57,518,050</u>	<u>\$ 6,503,639</u>	(51,014,411)
General Revenues:			
Property tax increment			48,435,895
Investment income			3,817,452
Gain on the sale of land			6,867,024
Other			<u>3,894,070</u>
Total general revenues			<u>63,014,441</u>
Change in net assets			12,000,030
Net deficit beginning of year (as restated - see Note 11)			<u>(32,690,122)</u>
Net deficit at end of year			<u>\$ (20,690,092)</u>

See accompanying notes to the basic financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Balance Sheet Governmental Funds June 30, 2003

	Capital Projects			Nonmajor Governmental Funds	Debt Service	Total Governmental Funds
	Central District	Coliseum	Low and Moderate Housing		Tax Allocation Debt	
ASSETS						
Cash	\$ -	\$ -	\$ -	\$ 100	\$ -	\$ 100
Pooled cash and investments-						
Accrued interest receivable	-	-	-	462,290	-	462,290
Investments	-	-	-	91,895,893	-	91,895,893
Less-Other funds interests	-	-	-	(92,358,183)	-	(92,358,183)
Equity in pooled cash and investments	46,745,279	18,627,565	12,886,822	12,120,350	1,978,167	92,358,183
Tax increment receivable	1,657,633	749,345	597,004	192,272	13,111	3,209,365
Accrued interest receivable	66,983	-	298,919	21,698	-	387,600
Accounts receivable, net	1,415	-	-	58,392	-	59,807
Due from primary government	19,790,076	-	1,653,602	267,514	-	21,711,192
Due from other government	-	6,173	-	1,116,526	-	1,122,699
Notes receivable, net	3,722,773	-	36,873,556	1,947,060	-	42,543,389
Property held for resale	60,847,350	1,275,000	1,047,132	8,755,208	-	71,924,690
Restricted cash and investments						
with fiscal agent	25,142,993	14,152,840	16,043,270	-	527,269	55,866,372
Restricted cash in bank	60,592	-	-	1,363,444	-	1,424,036
TOTAL ASSETS	<u>\$ 158,035,094</u>	<u>\$34,810,923</u>	<u>\$69,400,305</u>	<u>\$ 25,842,564</u>	<u>\$ 2,518,547</u>	<u>\$ 290,607,433</u>

See accompanying notes to the basic financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Balance Sheet Governmental Funds June 30, 2003

	Capital Projects			Nonmajor Governmental Funds	Debt Service	Total Governmental Funds
	Central District	Coliseum	Low and Moderate Housing		Tax Allocation Debt	
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accrued interest payable	\$ -	\$ -	\$ -	\$ -	\$ 1,463,882	\$ 1,463,882
Accrued liabilities	540,509	2,501,555	17,202	510,864	-	3,570,130
Due to primary government	1,300,648	584,717	489,354	220,024	-	2,594,743
Due to other government	198,271	-	-	-	-	198,271
Deposits	503,000	-	4,284	12,780	-	520,064
Deferred revenue	20,175,462	193,313	38,527,158	303,097	13,111	59,212,141
Other liabilities	101,000	-	-	31,281	-	132,281
TOTAL LIABILITIES	<u>22,818,890</u>	<u>3,279,585</u>	<u>39,037,998</u>	<u>1,078,046</u>	<u>1,476,993</u>	<u>67,691,512</u>
FUND BALANCES						
Reserved for property held for resale	60,847,350	1,275,000	1,047,132	8,755,208	-	71,924,690
Reserved for approved capital projects/activities	74,368,854	30,256,338	29,315,175	14,017,784	1,041,554	148,999,705
Unreserved	-	-	-	1,991,526	-	1,991,526
TOTAL FUND BALANCES	<u>135,216,204</u>	<u>31,531,338</u>	<u>30,362,307</u>	<u>24,764,518</u>	<u>1,041,554</u>	<u>222,915,921</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 158,035,094</u>	<u>\$34,810,923</u>	<u>\$69,400,305</u>	<u>\$ 25,842,564</u>	<u>\$ 2,518,547</u>	

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

Long-term assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	3,236,189
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds	59,212,141
Long-term liabilities, including bonds payable and unamortized bond premiums, are not due and payable in the current period and, therefore, are not reported in the funds	<u>(306,054,343)</u>

Net deficit of governmental activities

\$ (20,690,092)

See accompanying notes to the basic financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2003

	Capital Projects				Debt Service	Total Governmental Funds
	Central District	Coliseum	Low Moderate Housing	Nonmajor Governmental Funds	Tax Allocation Debt	
REVENUES						
Tax increment	\$ 34,078,821	\$11,371,347	\$ -	\$ 2,864,474	\$ -	\$ 48,314,642
Interest on restricted cash and investments	64,519	58,494	384,504	-	281,375	788,892
Interest on pooled cash and investments	1,245,542	530,324	346,069	412,613	77,610	2,612,158
Net increase in fair value of pooled cash and investments	275,895	12,639	33,339	52,587	-	374,460
Interest on notes receivable	585,148	-	30,343	2,619	-	618,110
Rents and reimbursements	3,249,561	-	-	3,254,078	1,173,715	7,677,354
Gain from sale of land	2,478,000	-	-	4,389,024	-	6,867,024
Other	3,981,779	61,500	239,999	140,487	-	4,423,765
TOTAL REVENUES	<u>45,959,265</u>	<u>12,034,304</u>	<u>1,034,254</u>	<u>11,115,882</u>	<u>1,532,700</u>	<u>71,676,405</u>
EXPENDITURES						
Current:						
Urban redevelopment and housing	16,620,188	11,542,100	16,927,195	8,784,766	310,449	54,184,698
Debt Service:						
Payment on advances	1,137,376	6,900,000	-	-	-	8,037,376
Retirement of long-term debt	-	-	-	-	9,713,200	9,713,200
Payment to refunded bond escrow agent	-	-	-	-	6,557,617	6,557,617
Interest	-	-	-	463,570	8,832,670	9,296,240
Bond issuance costs	2,959,562	425,987	-	-	-	3,385,549
TOTAL EXPENDITURES	<u>20,717,126</u>	<u>18,868,087</u>	<u>16,927,195</u>	<u>9,248,336</u>	<u>25,413,936</u>	<u>91,174,680</u>
Excess (deficiency) of revenues over expenditures	25,242,139	(6,833,783)	(15,892,941)	1,867,546	(23,881,236)	(19,498,275)
OTHER FINANCING SOURCES (USES)						
Refunding bonds issued	120,605,000	-	-	-	-	120,605,000
Tax allocation bonds issued	-	23,085,000	-	-	-	23,085,000
Proceeds from advances	7,067,227	1,208,987	-	-	-	8,276,214
Premium on refunding bonds	11,627,992	-	-	-	-	11,627,992
Payment to refunded bond escrow agent	(104,268,746)	-	-	-	-	(104,268,746)
Transfers in	1,701,010	-	12,078,661	625,424	18,298,016	32,703,111
Transfers out	(23,328,190)	(3,468,261)	(3,458,318)	(1,097,333)	(1,351,009)	(32,703,111)
TOTAL OTHER FINANCING SOURCES (USES)	<u>13,404,293</u>	<u>20,825,726</u>	<u>8,620,343</u>	<u>(471,909)</u>	<u>16,947,007</u>	<u>59,325,460</u>
Change in fund balances	38,646,432	13,991,943	(7,272,598)	1,395,637	(6,934,229)	39,827,185
Fund balances at beginning of year (as restated, see Note 12)	96,569,772	17,539,395	37,634,905	23,368,881	7,975,783	183,088,736
FUND BALANCES AT END OF YEAR	<u>\$ 135,216,204</u>	<u>\$31,531,338</u>	<u>\$ 30,362,307</u>	<u>\$ 24,764,518</u>	<u>\$ 1,041,554</u>	<u>\$222,915,921</u>

See accompanying notes to the basic financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Governmental Funds

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances

to the Statement of Activities

Year ended June 30, 2003

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

Net change in fund balances - total governmental funds	<u>\$ 39,827,185</u>
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	728,603
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of long-term debt consumes the current financial resources of governmental funds. These transactions, however, have no effect on net assets. The governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This is the net effect of these differences in the treatment of long-term debt and related items.	(31,939,799)
Changes in accrued interest on bonds payable	(4,577,906)
Some expenditures reported in the governmental funds pertain to the establishment of deferred revenue to offset long-term pass through loans when the loan funds are disbursed, thereby reducing fund balance. In the government-wide statements, however, the issuance of long-term pass through loans does not affect the statement of activities.	<u>7,961,947</u>
Change in net assets of governmental activities	<u>\$ 12,000,030</u>

See accompanying notes to the basic financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2003

(1) ACTIVITIES OF THE REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

The Redevelopment Agency (Agency), a blended component unit of the City of Oakland (City), was activated on October 11, 1956, for the purpose of redeveloping certain areas of the City designated as project areas. The Agency is included as a blended component unit in the City's basic financial statements because the Agency's governing body is the same as the City Council. Its principal activities are the acquisition of real property for the purpose of removing or preventing blight, providing for the construction of improvements thereon and the rehabilitation and restoration of existing properties.

In addition, the Agency finances numerous low and moderate-income housing projects throughout the City.

The principal sources of funding for the Agency's activities have been:

- Bond issues, notes and other financing sources;
- Advances, loans and grants-in-aid from the City;
- Property tax revenue attributable to increases in the assessed valuations in the associated project areas;
- Grants received from the U.S. Department of Housing and Urban Development under the Urban Renewal Program, Neighborhood Development Program and Community Development Block Grant Program (through the City), as well as Section 312 rehabilitation loans; and
- Grants from other agencies, including the State of California and the Metropolitan Transportation Commission.

Generally, funding from bond issues, notes, loans and City advances are eventually repayable from incremental property tax revenue. The Agency has entered into repayment agreements with the City or is obligated to do so under the terms of these other funding agreements. The amount of incremental property tax revenue received is dependent upon the local property tax assessments and rates, which are outside of the control of the Agency. Accordingly, the length of time that will be necessary to repay the City is not readily determinable.

The Agency currently has the following projects: Central District (which is segmented into several action areas including Chinatown, City Center, Uptown and City Hall Plaza); Coliseum; Acorn; Broadway/MacArthur/San Pablo; and Other Projects (Oak Center; Stanford/Adeline; Oak Knoll; and Oakland Army Base). The Oak Center and Stanford/Adeline projects are substantially

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2003

complete.

The Central District Redevelopment Project, which generates the greatest tax revenue for the Agency, provides for the development and rehabilitation of commercial and residential structures for approximately 200 blocks of Oakland's downtown area. At 6,764 acres, the Coliseum Redevelopment Project is physically the largest adopted project area and provides for the development and rehabilitation of significant industrial, commercial, and residential areas in Oakland.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-wide and fund financial statements

The government-wide financial statements (the statement of net assets and the statement of activities) report all the activities of the Agency. The effect of interfund activity has been removed from these statements. The activities of the Agency are governmental in nature, which normally are supported by taxes and intergovernmental transfers.

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 rents and charges for use of property owned by the Agency. Taxes and other items not properly included as program revenues are reported instead as general revenues.

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 the related cash flows. Property taxes are recognized as revenue in the year for which they are levied.

The Agency's 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. The Agency considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as claims related to claims and judgments, are recorded only when the payment is due.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2003

Property taxes and interest associated with the current fiscal period, using the modified accrual basis of accounting as described above, are all considered being susceptible to accrual and so have been recognized as revenues of the current fiscal period. The Agency considers property tax revenues to be available for the year levied if they are collected within 60 days of the end of the current fiscal period. All other revenues are considered to be measurable and available only when the Agency receives the cash.

The Agency reports the following major governmental funds:

Central District Fund – The Central District Fund accounts for the financial resources and the costs of acquisition, construction, improvement and management of commercial and residential facilities in the Central District Project area.

Coliseum Fund – The Coliseum Fund accounts for the financial resources and the costs of acquisition, construction and improvement of commercial, industrial, residential and airport related facilities in the Coliseum Project area.

Low and Moderate Housing Fund – The Low and Moderate Housing Fund accounts for 20% and 5% set aside from all tax increments received, as mandated by State law and the Oakland Redevelopment Agency board respectively. The fund also accounts for the proceeds from the Subordinated Housing Set Aside Revenue Bonds. These funds are used to increase, improve and preserve the supply of housing within the City of Oakland available at affordable housing cost to persons or families of low and moderate income.

Tax Allocation Debt Service Fund – The Tax Allocation Debt Service Fund accounts for the accumulation of resources for, and the payment of general long-term obligation principal, interest and related costs.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB).

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

Investments

The Agency's investments are stated at fair value. Fair value has been obtained by using market quotes as of June 30, 2003, and reflects the values as if the Agency were to liquidate the securities on that date.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2003

Money market investments with maturities of one year or less have been stated at amortized cost.

In the fund statement, investment earnings are accrued as they become measurable and available.

Pooled Cash and Investments

Income on pooled assets is allocated to the individual fund based on the fund's average daily balance in relation to total pooled assets.

Restricted Cash and Investments with Fiscal Agents

Proceeds from debt and other funds, which are restricted for the payment of debt or for use in approved projects and held by fiscal agents by agreement, are classified as restricted assets.

Restricted Cash in Bank

Rental revenues received from the University of California Office of the President (UCOP), Ice Rink, Preservation Park facilities, Rotunda parking lot and City Center Garage West, which are restricted for the operation of each of the facilities, are classified as restricted.

Property Held for Resale

Property held for resale is acquired as part of the Agency's redevelopment program. These properties are both residential and commercial. Costs of developing and administering Agency projects are charged to capital outlay expenditures as incurred.

A primary function of the redevelopment process is to prepare land for specific private development.

For financial statement presentation, property held for resale is stated at the lower of estimated cost or estimated conveyance value. Estimated conveyance value is management's estimate of net realizable value of each property parcel based on its current intended use.

Property held for resale may, during the period it is held by the Agency, generate rental or operating income. This income is recognized as it is earned in the Agency's Statement of Activities and generally is recognized in the Agency's governmental funds in the same period depending on when the income becomes available on a modified accrual basis of accounting.

The Agency does not depreciate property held for resale, as it is the intention of the Agency to only hold the property for a short period of time until it can be resold for development.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2003

Fund Equity

In the fund financial statements, governmental funds report reservation 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.

The Agency in its fund financial statements has reserved fund balance as follows:

Reserved for debt service – To comply with debt covenants, these monies are set aside and held by a fiscal agent for future payment of debt service principal and interest.

Reserved for property held for resale – To account for assets acquired with certain funds granted to the Agency not available for appropriation.

Reserved for approved capital projects/activities – To account for assets set aside that have been committed to a specific use by contractual agreement or Agency resolution.

Unreserved - Designated for future capital projects/activities – To reflect those amounts specifically designated for projects/activities by official action of the Agency.

Tax Increment Revenue

Incremental property tax revenues represent taxes collected on the redevelopment areas from the excess of taxes levied and collected over that amount which was levied and collected in the base year (the year of project inception) property tax assessment.

Budgetary Data

The Agency operates on a project basis and each of the capital project funds is for individual redevelopment areas consisting of several individual projects. Because comparison with financial results for a specific period would not be meaningful, budgetary data are not presented in the financial statements for capital project and debt service funds. All of the Agency's budgets are approved by the Agency's governing board. Unexpended budget appropriations are carried forward to the next year.

Deferred Revenue

Deferred revenue is that for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met in fund statements. The Agency typically records deferred revenue in the governmental fund financial statements related to notes receivable arising from developers' financing arrangement and long term receivables.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2003

Long-term Obligations

In the government-wide statement of net assets, long-term debt and other long-term obligations are reported as liabilities. Bond premium, discount and deferred refunding losses, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium, discount and deferred refunding losses. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt service issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Estimates

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

(3) RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of Certain Differences between the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Assets

The governmental funds balance sheet includes a reconciliation between fund balances – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of the (\$306,054,343) difference are as follows:

Long-term debt	\$ (302,103,779)
Accrued interest payable	<u>(3,950,564)</u>
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (306,054,343)</u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2003

Explanation of Certain Differences between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental funds statement of revenues, expenditures and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The details of the \$(31,939,799) difference are as follows:

Debt issued or incurred:	
Principal issuance	\$ (143,690,000)
Proceeds from advances	(8,276,214)
Premium on bonds issuance	(11,627,992)
Bond issuance costs	3,385,549
Payments:	
Retirement of long-term debt	9,713,200
Payment to bond escrow agent	110,826,363
Payment on advances	7,494,176
Amortization of bond issuance costs	(149,360)
Amortization of premium on bond issuance	488,516
Amortization of deferred amount on refunding	<u>(104,037)</u>
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (31,939,799)</u>

Another element of that reconciliation states that “Governmental funds report expenditures pertaining to the establishment of certain deferred credits related to long-term loans made. These deferred credits are not reported on the statement of net assets and, therefore, the corresponding expense is not reported on the statement of activities.” The details of this \$7,961,947 difference are as follows:

Reduction in notes receivable	\$ (728,603)
Reduction in deferred credits	<u>8,690,550</u>
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$7,961,947</u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2003

(4) CASH AND INVESTMENTS

The Agency maintains a common cash and investment pool for use by all funds. Each fund's portion of this pool is classified in the governmental funds balance sheet as equity in pooled assets.

Agency investments are categorized by type to give an indication of the level of custodial credit risk assumed at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Agency or its agent in the Agency's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Agency's name. Category 3 includes uninsured and unregistered investments with the securities held by the counterparty or its trust department or agent but not in the Agency's name. All other investments not evidenced by securities that exist in physical or book form are shown as non-categorized. The Agency had no Category 2 or 3 investments as of June 30, 2003.

At June 30, 2003, cash and investments were categorized as follows:

	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Risk Category</u>
Cash	\$ <u>100</u>	\$ —	
Restricted cash in bank	\$ <u>1,424,036</u>	\$ —	
Restricted cash and investments with fiscal agents:			
Commercial paper	\$ 7,969,350	\$ —	1
U.S. treasury	—	3,000,000	1
Local Agency Investment Funds	—	16,356,943	—
Government money market mutual funds	<u>28,540,079</u>	<u>—</u>	—
TOTAL	<u>\$ 36,509,429</u>	<u>\$ 19,356,943</u>	
Pooled cash and investments:			
Cash	\$ 1,426,292	\$ —	—
Commercial paper	11,980,901	—	1
U.S. federal agency	—	44,927,059	1
Money market mutual funds	11,585,278	—	—
Local Agency Investment Fund	<u>—</u>	<u>22,438,653</u>	—
TOTAL	<u>\$ 24,992,471</u>	<u>\$ 67,365,712</u>	

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2003

Total agency cash and investments as of June 30, 2003, are as follows:

	Equity in Pooled Cash and Investments	Restricted Cash and Investments With Fiscal Agent	Restricted Cash in Bank	Total Governmental Funds
Central District	\$ 46,745,279	\$ 25,142,993	\$ 60,592	\$ 71,948,864
Coliseum	18,627,565	14,152,840	—	32,780,405
Low and moderate housing	12,886,822	16,043,270	—	28,930,092
Tax allocation debt	1,978,167	527,269	—	2,505,436
Nonmajor governmental fund	<u>12,120,350</u>	<u>—</u>	<u>1,363,444</u>	<u>13,483,794</u>
TOTAL	<u>\$ 92,358,183</u>	<u>\$ 55,866,372</u>	<u>\$ 1,424,036</u>	<u>\$ 149,648,591</u>

Money market and commercial paper investments with maturities of one year or less have been stated at amortized cost. The amortized cost of these investments approximates fair value as of June 30, 2003.

The fair value of investments is based on quotes obtained as of June 30, 2003. The current year increase of \$57,966 resulting from current year changes in fair values in pooled investment is reflected in the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds and government-wide Statement of Activities.

California Government Code requires collateral for demand deposits and certificates of deposit at 110% of all deposits not covered by federal deposit insurance. Since the Agency uses only authorized public depositories, all funds deposited with financial institutions are fully insured or collateralized by securities held by the Agency or its agent in the Agency's name.

California statutes authorize Agency officials to invest funds in United States bonds and obligations, guaranteed United States agency issues, bank certificates of deposit, bankers' acceptances, repurchase agreements and prime commercial paper issues.

The Local Agency Investment Fund (LAIF), a voluntary program created by statute, began in 1977 as an investment alternative for California's local governments and special districts. This program offers participating agencies the opportunity to participate in a major portfolio which daily invests hundreds of millions of dollars, using the investment expertise of the Treasurer's Office investment staff at no additional cost to the taxpayer. All securities are purchased under the authority of the Government Code Section 16430 and 16480.4.

As of June 30, 2003, the Agency's investment in LAIF is \$38,795,596. The total amount invested by all public agencies in LAIF on that date is \$55,587,336,494. Of that amount, \$97.7% is invested in non-derivative financial products and 2.3% in structured notes and asset-backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2003

consists of five members as designated by State Statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis that is different than the fair value of the Agency's position in the pool.

(5) NOTES RECEIVABLE

Notes receivable consisted of advances to developers of various Agency housing and redevelopment projects. These advances are evidenced by promissory notes. A summary of notes receivable at June 30, 2003, follows:

	Central District	Low and Moderate Housing	Nonmajor Governmental Funds	Total Governmental Funds
Housing development projects	\$ —	\$ 37,068,935	\$ —	\$37,068,935
Development loans	2,818,000	—	1,947,060	4,765,060
Small business loans	<u>1,493,321</u>	<u>—</u>	<u>—</u>	<u>1,493,321</u>
Gross notes receivables	4,311,321	37,068,935	1,947,060	43,327,316
Less: Allowance for uncollectible accounts	<u>(588,548)</u>	<u>(195,379)</u>	<u>—</u>	<u>(783,927)</u>
Net notes receivable	<u>\$ 3,722,773</u>	<u>\$ 36,873,556</u>	<u>\$ 1,947,060</u>	<u>\$42,543,389</u>

(6) PROPERTY HELD FOR RESALE

A summary of changes in property held for resale follows:

	July 1, 2002	Purchases	Sales	June 30, 2003
Property held for resale	<u>\$66,774,622</u>	<u>\$7,853,690</u>	<u>\$2,703,622</u>	<u>\$71,924,690</u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2003

(7) INTERFUND TRANSFERS

	Transfers In				Total Governmental Funds
	Central District	Low and Moderate Housing	Tax Allocation Debt	Nonmajor Governmental Funds	
Transfers out:					
Central District	\$	\$ 8,519,705	\$ 14,808,485	\$ —	\$ 23,328,190
Coliseum	—	2,842,837	—	625,424	3,468,261
Low and Moderate Housing	350,001	—	3,108,317	—	3,458,318
Tax Allocation Debt	1,351,009	—	—	—	1,351,009
Nonmajor Governmental Funds	—	716,119	381,214	—	1,097,333
TOTAL	<u>\$ 1,701,010</u>	<u>\$ 12,078,661</u>	<u>\$ 18,298,016</u>	<u>\$ 625,424</u>	<u>\$ 32,703,111</u>

The Central District, Low & Moderate Housing, and Nonmajor Governmental funds transferred funds to the Tax Allocation Debt Service fund for payment of principal and interest on the tax allocation debt. The transfer to the Central District funds of \$1,351,009 from Tax Allocation Debt Service fund represents excess cash as a result of the defeasance of four subordinated tax allocations bonds. The transfers to Low and Moderate Housing funds, as reflected above, represent the 20% tax increment allocation in accordance with sections 33334.2 and 33334.3 of the California Community Redevelopment Law plus an additional 5% as mandated by City Council Resolution. The transfer of \$625,424 to non-major governmental funds from Coliseum represents the 10% school set aside based from tax increments received in the Coliseum project area, net of the housing set aside and the AB1290 mandatory pass through. The transfer from Low and Moderate Housing Fund to Central District Fund is for repayment of Henry Robinson Multi Service Center as provided in the adopted budget for fiscal year 2003.

(8) LONG-TERM DEBT

General Long-Term Obligations

On January 1, 2003, the Agency issued \$120,605,000 in Central District Subordinated Tax Allocation Bonds, Series 2003 (Series 2003 Bonds). The net proceeds, which included a premium of \$11,627,992, were used for the following purposes: (1) \$104,268,746 (after payment of \$2,970,211 for the underwriter's discount and costs of issuance) were used to advance refund the Agency's Central District Redevelopment Project Area Tax Allocation Bonds, Series 1989A, the Subordinated Tax Allocation Refunding Bonds, Series 1992A, the Subordinated Tax Allocation Bonds, Series 1993A, and the Subordinated Tax Allocation Bonds, Series 1995A; and (2) \$24,994,034 were deposited to the project fund for certain capital projects. Proceeds in the amount of \$104,268,746 and residual cash balances of \$6,557,617 related to the old debt were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the old debt. As a result, the debt listed above is considered defeased and the liabilities have been removed from the financial statements. Cumulatively, the defeased bonds had an outstanding balance of

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2003

\$90,968,436 at June 30, 2003.

Although the refunding resulted in the recognition of a deferred accounting loss of \$2,476,363 for the fiscal year ended June 30, 2003, the Agency in effect reduced its aggregate debt service payments by approximately \$12,719,958 over the next 19 years and obtained a net economic gain (difference between the present values of the old and new debt service payments) of \$6,795,060.

On January 9, 2003, the Agency issued \$23,085,000 in Coliseum Area Redevelopment Project Tax Allocation Bonds, Series 2003, (Coliseum Series 2003 Bonds) to finance the acquisition and construction of certain redevelopment projects. The total Project Area currently includes 8,156 parcels of commercial, industrial, airport, recreational, institutional, low and medium-high density residential, and vacant land uses in an area totaling approximately 6,764 acres. The Agency currently plans to use the Series 2003 Bond proceeds for improvements to various transportation and infrastructure projects, as well as the construction of a mixed-use development project and the repayment of certain obligations to the City.

Long-term liability activity for the year ended June 30, 2003, was as follows:

	Restated Beginning Balance	Additions	Deductions	Ending Balance	Due within One Year
Tax Allocation Bonds	\$ 180,630,000	\$ 143,690,000	\$(117,485,000)	\$ 206,835,000	\$ 9,740,000
Housing Set-Aside Revenue Bonds	39,395,000	—	—	39,395,000	1,325,000
General Obligation Bond	<u>465,000</u>	<u>—</u>	<u>(35,000)</u>	<u>430,000</u>	<u>40,000</u>
Total Bonds Payable	220,490,000	143,690,000	(117,520,000)	246,660,000	11,105,000
Less deferred amounts:					
Issuance premiums	—	11,627,992	(488,516)	11,139,476	—
Refunding loss	<u>—</u>	<u>(2,476,363)</u>	<u>104,037</u>	<u>(2,372,326)</u>	<u>—</u>
Subtotal	220,490,000	152,841,629	(117,904,479)	255,427,150	11,105,000
Advances from City of Oakland	<u>45,669,013</u>	<u>9,044,992</u>	<u>(8,037,376)</u>	<u>46,676,629</u>	<u>11,172,325</u>
TOTAL	<u>\$ 266,159,013</u>	<u>\$ 161,886,621</u>	<u>\$(125,941,855)</u>	<u>\$ 302,103,779</u>	<u>\$ 22,277,325</u>

The restated beginning balance for Tax Allocation Bonds above includes \$6,194,559 of accreted interest related to the Central District Refunding Bonds, Series 1989A. See Note 11 for further details.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2003

The restricted beginning balance for advances above includes \$32,746,236 which was previously recorded as due to primary government.

	Maturity	Interest Rates	Balance at June 30, 2003
TAX ALLOCATION BONDS			
Acorn Refunding Series 1988:			
Term bonds	2003-2007	7.40%	\$ <u>1,325,000</u>
Central District Senior Tax Allocation Refunding Series 1992:			
Serial bonds	2004-2008	5.65%-6.00%	25,910,000
Term bonds	2009-2014	5.50%	<u>35,910,000</u>
			<u>61,820,000</u>
Central District Subordinated Tax Allocation Bonds Series 2003:			
Serial bonds	2003-2005	3.00%	10,525,000
Term bonds	2006-2008	4.00%	9,245,000
Term bonds	2009-2011	5.00%	12,970,000
Term bonds	2012-2019	5.50%	<u>87,865,000</u>
			<u>120,605,000</u>
Coliseum Area Tax Allocation Bonds Series 2003:			
Term bonds	2004-2008	2.50%-4.00%	2,045,000
Term bonds	2009-2013	3.40%-4.30%	2,440,000
Term bonds	2014-2018	4.50%-4.90%	3,035,000
Term bonds	2019-2022	5.00%-5.125%	3,045,000
Term bonds	2023-2033	5.25%	<u>12,520,000</u>
			<u>23,085,000</u>
TOTAL TAX ALLOCATION BONDS			206,835,000
GENERAL OBLIGATION BOND-Tribune Tower		2011	430,000
SUBORDINATED HOUSING SET-ASIDE REVENUE BONDS			
Series 2000T:			
Serial bonds	2004-2005	7.39%	2,750,000
Term bonds	2006-2011	7.82%	11,160,000
Term bonds	2012-2016	7.93%	14,065,000
Term bonds	2017-2019	8.03%	<u>11,420,000</u>
TOTAL SUBORDINATED HOUSING SET-ASIDE REVENUE BONDS			<u>39,395,000</u>
TOTAL BONDS PAYABLE			<u>\$246,660,000</u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2003

Advances from City to the Redevelopment Agency

The City has made various advances to the Agency for redevelopment projects. The advances are payable principally from future tax increment revenues. \$13,148,355 of the advances bear interest at 6% per annum and is a long-term obligation to the City. There is no set repayment schedule for this debt. Payments to the City are contingent upon the availability of funds from the Oak Center project.

Bond Indentures

There are a number of limitations and restrictions contained in the various bond indentures. The Agency believes it is in compliance with all significant limitations and restrictions.

Annual Future Payments

The following table presents the Agency's aggregate annual amount of principal and interest payments required to amortize the outstanding debt service payments as of June 30, 2003.

Year ending June 30,	Governmental Activities	
	Principal	Interest
2004	\$ 11,105,000	\$ 14,066,523
2005	9,830,000	13,396,271
2006	10,325,000	12,876,173
2007	10,920,000	12,300,855
2008	11,165,000	11,674,298
2009-2013	64,290,000	48,195,737
2014-2018	77,700,000	27,127,233
2019-2023	38,805,000	5,670,161
2024-2028	4,810,000	2,681,438
2029-2034	<u>7,710,000</u>	<u>1,276,538</u>
TOTAL	<u>\$ 246,660,000</u>	<u>\$ 149,265,227</u>

The Agency issued Certificates of Participation to fund the acquisition of the Oakland Museum. The debt is secured by the Museum's building and the annual lease payments made by the City of Oakland to fund the debt service. As of June 30, 2003, there were two series of certificates outstanding with an aggregate principal amount payable of \$25,830,536. The Agency is not obligated to make the debt payments. The Agency has, therefore, not recorded either the Museum as an asset or the related debt. The City has recorded both the Museum and the debt on its government-wide statement of net assets.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2003

(9) TRANSACTIONS WITH THE CITY OF OAKLAND

The Agency and the City are closely related but are separate legal entities. The City Council members serve as the governing board for the Agency. The Agency does not have employees nor does it have administrative facilities separate from the City. A substantial portion of the Agency's expenditures represents reimbursement to the City for both the services of employees and the use of City facilities. For the fiscal year ended June 30, 2003, the Agency reimbursed the City \$10,805,883 for these expenditures.

In addition, the City provides advances and loans for the Agency debt service payments and other redevelopment projects. The Agency has entered into repayment agreements to reimburse the City for all amounts advanced and, loaned to the Agency. In accordance with these agreements, the Agency reimbursed the City \$11,553,178 for the fiscal year ended June 30, 2003.

(10) COMMITMENTS AND CONTINGENCIES

As of June 30, 2003, the Agency has entered into contractual commitments of approximately \$5,473,307 for materials and services relating to various projects. These commitments and future costs will be funded by currently available funds, tax increment revenue and other sources.

At June 30, 2003, the Agency was committed to fund \$4,350,185 in loans and had issued \$1,648,600 in letters of credit in connection with several low and moderate income housing projects. These commitments were made to facilitate the construction of low and moderate income housing within the City of Oakland.

The Agency is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. Liabilities of the Agency are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

The Agency initiated a lawsuit in eminent domain to acquire certain real property located at 2150 Franklin Street on June 28, 1998. The initial verdict resulted in the Agency having to pay \$3.5 million to the owners of the property. The Agency appealed the \$3.5 million judgement to the California Superior Court, but on March 10, 2003, the appeals court issued its decision sustaining the trial court judgment. During fiscal year 2002, the Agency entered into a land lease with a developer who paid \$3.6 million for the property. The Agency deposited \$3.5 million of these funds with the State of California's Office of the Treasurer's State Condemnation Fund. The Agency increased its deposit with the State Condemnation Fund by another \$995,000 to cover accrued interest on the initial judgment amount. The Agency still owes approximately \$395,000 in pre-appeal litigation expenses and costs, which it intends to deposit with the condemnation fund in July of 2003. Lastly, the Agency is responsible for approximately \$124,000 in appeal litigation fees

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Notes to Basic Financial Statements

June 30, 2003

to the opposing party, which will be directly remitted to the defendants.

The State of California adopted legislation mandating that local government shifts a portion of their property tax revenue share to the Educational Revenue Augmentation Fund (ERAF) to support public schools. For fiscal year 2003-04, the Agency included in its Adopted Budget an ERAF shift of \$2,870,864.

(11) RESTATEMENT OF NET ASSETS

The Agency's net deficit at the beginning of the year ended June 30, 2003, has been adjusted to correct an error in recording accreted interest.

Total net deficit at June 30, 2002, as previously reported	\$ (26,495,563)
Adjustment to accreted interest related to Central District Refunding Bonds, Series 1989A	<u>(6,194,559)</u>
Total net deficit at July 1, 2002, as restated	<u>\$ (32,690,122)</u>

(12) RESTATEMENT OF FUND BALANCE

The Agency's fund balance at the beginning of the year end June 30, 2003, has been adjusted to correct an error in recording long-term amounts due to the primary government.

Total fund balance at June 30, 2002, as previously reported	\$ 150,342,500
Adjustment to amounts due to the primary government	<u>32,746,236</u>
Total fund balance at July 1, 2002, as restated	<u>\$ 183,088,736</u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2003

	<u>Acorn</u>	<u>Broadway/ MacArthur</u>	<u>Other Projects</u>	<u>Redevelopment Planning Fund/ West Oakland</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS					
Cash	\$ -	\$ -	\$ -	\$ 100	\$ 100
Pooled cash and investments-					
Accrued interest receivable	-	-	-	462,290	462,290
Investments	-	-	-	91,895,893	91,895,893
Less-Other funds interests	-	-	-	(92,358,183)	(92,358,183)
Equity in pooled cash and investments	731,363	791,414	8,599,282	1,998,291	12,120,350
Tax increment receivable	25,006	91,722	75,544	-	192,272
Accrued interest receivable	-	-	-	21,698	21,698
Accounts receivable, net	30,000	-	28,392	-	58,392
Due from primary government	-	-	-	267,514	267,514
Due from other government	1,102,020	-	14,506	-	1,116,526
Notes receivable, net	-	-	1,947,060	-	1,947,060
Property held for resale	2,970,000	-	5,785,208	-	8,755,208
Restricted cash in bank	-	-	1,363,444	-	1,363,444
TOTAL ASSETS	<u>\$ 4,858,389</u>	<u>\$ 883,136</u>	<u>\$ 17,813,436</u>	<u>\$ 2,287,603</u>	<u>\$ 25,842,564</u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2003

	<u>Acorn</u>	<u>Broadway/ MacArthur</u>	<u>Other Projects</u>	<u>Redevelopment Planning Fund/ West Oakland</u>	<u>Total Nonmajor Governmental Funds</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accrued liabilities	\$ 173,056	\$ 212,181	\$ 116,751	\$ 8,876	\$ 510,864
Due to primary government	2,997,931	48,619	130,066	13,408	3,190,024
Deposits	12,250	-	530	-	12,780
Deferred revenue	16,423	18,036	1,126	267,512	303,097
Other liabilities	-	-	25,000	6,281	31,281
TOTAL LIABILITIES	<u>3,199,660</u>	<u>278,836</u>	<u>273,473</u>	<u>296,077</u>	<u>4,048,046</u>
FUND BALANCES					
Reserved for property held for resale	2,970,000	-	5,785,208	-	8,755,208
Reserved for approved capital projects/activities	-	604,300	11,754,755	-	12,359,055
Unreserved	(1,311,271)	-	-	1,991,526	680,255
TOTAL FUND BALANCES	<u>1,658,729</u>	<u>604,300</u>	<u>17,539,963</u>	<u>1,991,526</u>	<u>21,794,518</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 4,858,389</u>	<u>\$ 883,136</u>	<u>\$ 17,813,436</u>	<u>\$ 2,287,603</u>	<u>\$ 25,842,564</u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the year ended June 30, 2003

	<u>Acorn</u>	<u>Broadway/ MacArthur</u>	<u>Other Projects</u>	<u>Redevelopment Planning Fund/ West Oakland</u>	<u>Total Nonmajor Governmental Funds</u>
REVENUES					
Tax increment	\$ 966,080	\$ 1,060,904	\$ 837,490	\$ -	\$ 2,864,474
Interest on pooled cash and investments	37,984	10,818	282,600	81,211	412,613
Net increase in fair value of pooled cash and investments	9,566	4,123	38,898	-	52,587
Interest on notes receivable	-	-	-	2,619	2,619
Rents and reimbursements	1,102,020	-	2,152,058	-	3,254,078
Proceeds from sale of land	-	-	4,389,024	-	4,389,024
Other	-	7,455	38,109	94,923	140,487
TOTAL REVENUES	<u>2,115,650</u>	<u>1,083,300</u>	<u>7,738,179</u>	<u>178,753</u>	<u>11,115,882</u>
EXPENDITURES					
Urban redevelopment and housing	575,178	418,697	7,043,053	747,838	8,784,766
Debt Service:					
Interest	463,570	-	-	-	463,570
TOTAL EXPENDITURES	<u>1,038,748</u>	<u>418,697</u>	<u>7,043,053</u>	<u>747,838</u>	<u>9,248,336</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,076,902	664,603	695,126	(569,085)	1,867,546
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	625,424	-	625,424
Transfers out	(622,734)	(265,226)	(209,373)	-	(1,097,333)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(622,734)</u>	<u>(265,226)</u>	<u>416,051</u>	<u>-</u>	<u>(471,909)</u>
CHANGE IN FUND BALANCES	454,168	399,377	1,111,177	(569,085)	1,395,637
FUND BALANCES AT BEGINNING OF YEAR (as restated)	<u>1,204,561</u>	<u>204,923</u>	<u>16,428,786</u>	<u>2,560,611</u>	<u>20,398,881</u>
FUND BALANCES AT END OF YEAR	<u>\$ 1,658,729</u>	<u>\$ 604,300</u>	<u>\$ 17,539,963</u>	<u>\$ 1,991,526</u>	<u>\$ 21,794,518</u>

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Macias, Gini & Company LLP
Certified Public Accountants and
Management Consultants

Mt. Diablo Plaza
2175 N. California Boulevard
Suite 645
Walnut Creek, CA 94596-3565
925•274•0190
925•274•3819 FAX
www.maciasgini.com



WILLIAMS, ADLEY & COMPANY, LLP
Certified Public Accountants
Management Consultants

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

To the Members of the Redevelopment Agency
of the City of Oakland, California:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Redevelopment Agency of the City of Oakland (Agency) as of and for the year ended June 30, 2003, and have issued our report thereon dated December 22, 2003, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated December 22, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions include those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller's Office and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, the results of our tests did disclose instances of noncompliance that are required to be reported under the *Guidelines for Compliance Audits of California Redevelopment Agencies*, which are described in the accompanying schedule of findings as finding nos. 03-1 through 03-3.

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

This report is intended solely for the information and use of the finance and management committee, Agency management, and the State Controller's Office, and is not intended to be and should not be used by anyone other than these specified parties.

Macias, Gini & Company LLP
Certified Public Accountants

Walnut Creek, California
December 22, 2003

Williams, Atley & Company, LLP
Certified Public Accountants

Oakland, California
December 22, 2003

Redevelopment Agency of the City of Oakland
Schedule of Findings
June 30, 2003

Finding No. 03-1: State Redevelopment Agency Compliance Requirements - Financial Disclosure and Reporting (Submission of Reports to State Controller)

Pursuant to California Health & Safety Code, Section 33080.1, the Agency is required to submit the following reports to its legislative body and the State Controller no later than six months following the end of its previous fiscal year:

- Independent Auditor's Report on Financial Statements
- Independent Auditor's Report on Legal Compliance
- Annual Report of Financial Transactions of Community Redevelopment Agencies
- Housing Activities Report
- Blight Progress Report
- Property Report
- Loan Report

The Blight Progress Report was not submitted. The other six reports were not filed in a timely manner.

Recommendation

We recommend that the Agency establish policies and procedures to ensure that all required reports are prepared and submitted in a timely manner.

Management's Response

The delay in filing the Agency's annual reports to the State Controller for fiscal year 2001-02 was due primarily to the implementation for the first time of GASB 34's massive conversion requirements. Management plans to comply with reporting requirements for fiscal year 2002-03 and future years.

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Redevelopment Agency of the City of Oakland
Schedule of Findings
June 30, 2003

Finding No. 03-3: State Redevelopment Agency Compliance Requirements – Affordable Housing (Housing Assistance)

Pursuant to Section 33413(b) of the California Health & Safety Code, the Agency is required to (within ten years) produce additional affordable housing units over the duration of the project area plan (for project areas created or expanded after 1975).

The requirement applies to all new residential construction, substantially rehabilitated multi-family units, and agency-assisted substantially rehabilitated single-family units made available within a given redevelopment project area. The requirement is 30 percent for agency-developed units (assisted with non-housing fund monies) and 15 percent for non-agency developed units. Furthermore, 50% of agency-developed units must be set-aside for very low-income households, while 40% of non-agency developed units must be set-aside for very low-income households.

We were unable to determine how many units of affordable housing the Agency was required to produce for the year ended June 30, 2003, because the Agency does not have a system to track related construction and rehabilitation.

Recommendation

We recommend that the Agency develop a system to track the construction and rehabilitation of all new residential construction, substantially rehabilitated multi-family units and agency assisted substantially rehabilitated single family units as defined at Section 33413(b) of the California Health & Safety Code. This may be achieved by monitoring building permits or other evidence of construction in a given project area.

Management's Response

The City's building permit tracking system does not accurately track the above housing reporting requirements due to technical deficiencies in the system's data gathering capabilities based on dwelling types and geographical parameters. Management agrees with the finding and plans on reviewing its current system to ascertain what modifications and resources are needed in order to meet the Oakland Redevelopment Agency's reporting requirements.

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Appendix C

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

CENTRAL DISTRICT REDEVELOPMENT PROJECT

Subordinated Tax Allocation Bonds, Series 2005

PROJECTED TAXABLE VALUES AND ANTICIPATED TAX INCREMENT REVENUES

January 18, 2005

I. Introduction

The Redevelopment Agency of the City of Oakland (the Agency), located in Alameda County, California (the County), is proposing to issue its Central District Redevelopment Project Subordinated Tax Allocation Bonds, Series 2005 (the Bonds) secured by the tax increment revenues generated from the Central District Redevelopment Project (herein referred to as Central District) including the territory added by the Twelfth Amendment (herein referred to as Annex). Taken together Central District and Annex are referred to in this report as the Project Area. The Agency is issuing the Bonds to finance certain redevelopment activities within or to the benefit of the Project Area; and to pay the costs associated with the issuance of the Bonds.

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

The purpose of this Fiscal Consultant's Report is to examine the current fiscal year and project for the subsequent nine fiscal years the amount of Tax Revenue to be received by the Agency from the Project Area. For purposes of this report, Tax Revenues are Gross Tax Increment Revenue and Unitary Revenues less SB 2557 County Administrative charges, the Housing Set-Aside Requirement and Statutory Tax Sharing Payments.

Debt Service payments on the Bonds are subordinate to debt service payments for the Agency's Central District Redevelopment Project, Senior Tax Allocation Bonds, Series 1992 (the Senior Bonds) and on parity with the pledge to secure other bonds and parity debt (the Parity Debt) issued pursuant to the terms of the Indenture including the Agency's previously issued Central District Redevelopment Project Subordinated Tax Allocation Bonds, Series 2003, currently outstanding in the amount of \$112,950,000. All Tax Revenues in excess of the amounts required for payment of debt service on the Senior Bonds will be utilized equally for payment of debt service on the Bonds and the Agency's Parity Debt. Tax Revenues from the Project Area will be pledged to the payment of debt service on the Bonds and the Parity Debt. As a result of our

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research, we project the Tax Revenue for the Project Area to be as shown in the table below (000's omitted):

**Table A
Projected Tax Revenues**

Fiscal Year	Gross Revenue	Housing Set-Aside Requirement ¹	County Admin. Charges	Statutory Tax Sharing	Tax Revenue
2004-05	\$34,103	\$ 6,821	\$314	\$ 466	\$26,503
2005-06	36,008	7,202	331	877	27,598
2006-07	37,312	7,462	343	1,157	28,349
2007-08	38,014	7,603	350	1,309	28,753
2008-09	38,731	7,746	356	1,464	29,165
2009-10	39,461	7,892	363	1,621	29,585
2010-11	40,206	8,041	370	1,781	30,013
2011-12	40,964	8,193	377	1,944	30,451
2012-13	41,738	8,348	384	60	32,946
2013-14	42,526	8,505	391	64	33,566

Tax Revenues reflect the Agency's revenues after provision for fees, Housing Set-Aside Requirement and tax sharing obligations that are superior to debt service. These projections are based on assumptions determined by our review of the taxable value history of the Project Area and the property tax assessment and property tax apportionment procedures of Alameda County. Future year assessed values and Tax Revenues are projections based upon the assumptions described in this Report, and are not guaranteed as to accuracy and this Report is not to be construed as a representation of such by HdL Coren & Cone.

II. The Project Areas

The City Council of the City of Oakland adopted the Central District Urban Renewal Plan (the Plan) on June 12, 1969 and amended it by Ordinance No. 10822 on December 16, 1986 to incorporate limits on receipt of tax increment revenue. Central District was subsequently amended or supplemented by the adoption of ordinances on January 21, 1971, May 29, 1973, December 16, 1975, December 12, 1978, June 12, 1979, August 3, 1982, October 2, 1984, June 11, 1985, March 27, 1990, February 18, 1997, October 27, 1998, December 20, 1994 and July 24, 2001. The Amendment approved by Ordinance No. 10256 on August 3, 1982 added territory to the original boundaries of the Central District (the 1982 Added Area). The parcels within the territory that was added by this amendment were, at that time, all owned by state and federal governmental agencies. Annex was adopted on July 24, 2001 and added an additional 14.86 acres of new territory to Central District. The Annex was eligible to receive tax increment revenue for the first time in Fiscal-Year 2002-03; however, no assessed value was reported for

¹ The Housing Set-Aside Requirement is reflective of only the legally required 20% Set-Aside. The Agency voluntarily sets aside an additional 5% of Gross Revenues. This additional amount is subordinate to debt service on the Bonds. See Section V.

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Annex by the Auditor-Controller for that fiscal year. The first fiscal year for which revenue was allocated was 2003-04.

A. Land Use

The following table illustrates the breakdown of land uses and valuations in the Project Area by assessed value for Fiscal Year 2004-05. The land use categories are based on the lien date tax roll for Fiscal Year 2004-05. Unsecured and State Board of Equalization assessed values are assigned to parcels already accounted for in other categories.

**Table B
Project Area Land Use Categories**

Category	Parcels	Net Taxable Value	%
Residential	1,889	\$619,301,826	20.84%
Commercial	1,250	\$1,810,723,682	60.93%
Industrial	327	\$177,347,672	5.97%
Recreational	35	\$2,401,269	0.07%
Institutional	44	\$5,412,613	0.18%
Vacant	109	\$54,325,801	1.83%
Government Owned - Taxable	1	\$1,144,817	0.04%
Exempt	239	\$0	0.00%
Secured Non-Unitary Utilities		\$2,582,081	0.09%
Unsecured		\$298,729,465	10.05%
Total Value:	3,894	\$2,971,969,226	100.00%

Both Central District and Annex contain a number of vacant parcels. Central District's 95 vacant parcels total 14.55 acres in size according to information supplied by the Assessor on the tax rolls. The tax rolls list a total of 0.97 acres for Annex's 14 vacant parcels.

B. Redevelopment Plan Limits

In accordance with the Law, redevelopment plans adopted after October 1, 1976 are required to include a limitation on the number of tax increment dollars that may be allocated to the Agency, and a time limit on the establishment of indebtedness to be repaid with tax increment. In addition, if the plan authorizes the issuance of tax allocation bonds, a limit on the amount of bonded indebtedness that may be outstanding at one time must be included.

For those redevelopment plans adopted prior to October 1, 1976 that did not contain these limits, the legislative body was required to amend the redevelopment plans by ordinance not later than December 31, 1986. The amendment was required to include provisions to limit the number of tax increment dollars that could be allocated to the agency pursuant to the plan, to establish a time limit to create debt to be repaid with tax increment, and to limit the commencement of eminent domain.

Chapter 942, Statutes of 1993, established further limits on redevelopment plans. Chapter 942 restricted the life span of redevelopment plans adopted prior to 1994. The time limit for establishing indebtedness was limited to 20 years from the adoption of the redevelopment plan or January 1, 2004, whichever was later. The life of the existing redevelopment plans was limited

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to 40 years from the date of adoption or January 1, 2009, whichever is later. Finally, a redevelopment agency is restricted from paying indebtedness with tax increment beyond 10 years after its redevelopment plan expires except to fund deferred Housing Set-Aside Requirements and to repay indebtedness incurred prior to January 1, 1994.

The territory added to the original boundaries of the Central District Urban Renewal Plan (the Plan) on August 3, 1982 possesses its own tax increment limit of \$75 million but the time limits required by law are identical to those of the original area. Because the added area consists almost exclusively of government owned buildings and, until two years ago, produced no tax increment revenue, for purposes of this report we have included this area within Central District.

Pursuant to Chapter 942, on December 20, 1994 the Agency adopted Ordinance No. 11762 for the purpose of amending Central District to add time limits to conform to the provisions of Chapter 942. On July 24, 2001, the Plan was further amended by the adoption of Ordinance No. 12348 C.M.S. This ordinance extended the plan expiration to June 12, 2009. Accordingly, the Plan for Central District was to terminate on June 12, 2009 and the last date to repay debt with tax revenue was established as June 12, 2019. Certain expenditures with respect to deferred Housing Set-Aside Requirements will continue past Plan expiration. The last date for establishment of new debt was established as January 1, 2004.

On January 6, 2004, the City Council adopted Ordinance No. 12570 that, in accordance with the Law, amended the redevelopment plan and eliminated the time limit on establishment of new indebtedness (see Section VI Legislation). On July 20, 2004, the City Council adopted Ordinance No. 12617 C.M.S. that, in accordance with the Law as amended by Senate Bill 1045 (see Section VI Legislation), extended by one year the termination date of the redevelopment plan and by extension the last date to repay indebtedness. Legislation adopted in connection with the State's budget provided that the termination dates of redevelopment plans with less than 20 years remaining may be extended by one year for each of the two ERAF payments that redevelopment agencies are obligated to make under other provisions of the budget legislation. The Agency is in the process of scheduling hearings for implementing such amendments. For the purposes of this report, we have assumed that the Agency will make the ERAF payments required by the current statutes and that the amendments extending the life of Central District by two years will be approved.

The Plan limits the Agency to the receipt of \$1,348,862,000 in tax increment revenue over the life of the Plan within the portion of Central District adopted on June 12, 1969. As indicated above, the tax increment limit for that portion of the Central District adopted on August 3, 1982 is \$75 million. Through Fiscal Year 2003-04, the Agency has been allocated \$400,792,775 of tax increment revenue according to Agency and County records. This is inclusive of those small amounts that may have been allocated from properties within the 1982 Added Area. Based on the projection of revenues over the life of the Project Area, Central District will not reach its tax increment limit before reaching the last date to repay debt from tax increment revenue. If, however, Central District sustains growth above that new development already incorporated in the projection of revenues of over 6 percent per year for the remaining period within which Central District may repay indebtedness, it will reach its tax increment limit before reaching its last date to repay indebtedness.

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Annex is subject to the limitations defined in the Law for project areas adopted after January 1, 1994. Under the Law, project areas adopted after January 1, 1994 terminate their effectiveness not more than 30 years from the date of their adoption. Loans, advances and other forms of indebtedness may not be repaid beyond 45 years following the date of adoption of the redevelopment plan. Except for certain expenditures from the Housing Fund, redevelopment plans adopted after January 1, 1994 may not establish any new debt to be repaid from tax increment revenue beyond 20 years from the date of adoption and eminent domain proceedings may not be initiated beyond 12 years from the adoption date. Redevelopment plans adopted after January 1, 1994 are not required to have limits on the amount of tax increment revenues that may be received annually or over the life of the plan.

Annex's effectiveness will terminate on July 24, 2031 and after July 24, 2046 indebtedness may no longer be repaid from tax increment revenue. New debt for Annex may not be established after July 24, 2021 and no eminent domain actions may be initiated after July 24, 2013.

III. Project Area Assessed Values

A. Assessed Values

Taxable values are prepared and reported by the County Auditor-Controller each fiscal year and represent the aggregation of all locally assessed properties, which are part of the Project Area. The assessments are assigned to Tax Rate Areas (TRA) that are coterminous to the boundaries of the Project Area. The historic reported taxable values for the Project Area were reviewed in order to ascertain the rate of taxable property valuation growth over the current year and the most recent nine fiscal years beginning with 1993-94 (see Table 3).

Central District declined in value from 1995-96 through 1996-97 by \$160.7 million. This was a reduction of 9.93% of Central District's total value. Since 1996-97, Central District has steadily added assessed value and 2004-05 values are over \$1 billion higher than the values for 1995-96. Since 1996-97 Central District has grown in assessed value by \$1,234,236,924 (71.2%). This growth has been almost entirely the result of increases in assessed value on the secured tax roll. Unsecured assessed values have increased since 1996-97 by \$24,504,081 (9.0%) despite significant reductions in unsecured improvement values in 2000-01. Secured values have increased over this same period by \$1,209,732,843 (88.9%). Improvement value on the secured tax roll has led the way by increasing \$1,022,321,234 (83.9%) since 1996-97. The information outlined above is based on the lien date tax rolls as provided by the Alameda County Assessor.

Annex became eligible to receive tax increment revenue for the first time in 2003-04 and had positive incremental value of \$23,685,062 in that fiscal year. Annex experienced a decline in value for 2004-05 of \$3,889,823 (9.86%). This decline in value was almost entirely within the improvement value on the secured tax roll and was attributable to reductions in value on two parcels owned by OTAC Block 24 LLC. These parcels were reduced in value for 2004-05 by a combined total of \$5,921,310 that was partially offset by increases in value on other parcels within Annex.

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B. Top Ten Taxable Property Owners

A review of the top ten taxable property owners in the Project Area for Fiscal Year 2004-05 was conducted. A list of the top ten property owners for the Project Area component areas and the number of parcels attributed to each owner, are presented on Tables 4 for each projection. None of the top taxpayers within Annex are among the top taxpayers of the Project Area. The secured and unsecured value of these parcels is compared to the full taxable assessed value of the Project Area component project areas. On Tables 4a, the values of properties owned by the top ten taxpayers are compared to the incremental taxable value within each component project area.

The top property owner within Central District is the OCC Venture LLC with a taxable value of \$197,942,820 on nine parcels owned. These parcels contain office buildings of five stories or more. The combined secured taxable value of Central District's top ten taxpayers totals \$951,904,914 that is 35.66% of the total secured taxable value. The combined unsecured taxable value of the top ten taxpayers totals \$36,915,295 or 12.42% of Central District's total unsecured taxable value. Central District's top ten taxpayer taxable secured and unsecured value together total \$988,820,209 or 33.33% of all taxable value. Because Central District is in the downtown area, the majority of the top taxpayers own property that is in commercial and/or industrial use. Residential uses within Central District are, for the most part, multifamily, high-density residential properties. The values controlled by the top ten taxpayers make up 38.77% of the secured incremental value, 15.63% of the unsecured incremental value and 36.74% of the total incremental value.

The top property owner within Annex is the OTAC Block 24 LLC with a taxable value of \$17,381,810 on two parcels owned. These parcels contain office buildings containing 120,000 square feet of telecommunications facilities. The combined secured taxable value of Annex's top ten taxpayers totals \$32,238,676 that is 94.9% of the total secured taxable value. The combined unsecured taxable value of the top ten taxpayers totals \$997,498 or 61.4% of Annex's total unsecured taxable value. Annex's top ten taxpayer taxable secured and unsecured value together total \$33,236,174 or 93.4% of all taxable value. The values controlled by the top ten taxpayers make up 165.1% of the secured incremental value, 369.3% of the unsecured incremental value and 167.9% of the total incremental value.

IV. Tax Allocation and Disbursement

A. Property Taxes

The taxable values of property are established each year on the property tax lien date. The lien date is January 1 for state and locally assessed property. Real Property reflects the reported assessed values for secured and unsecured land and improvements. Pursuant to Article XIII A of the State Constitution the value of locally assessed Real Property may only be increased up to two percent annually to reflect inflation. The inflation factor used for 2004-05 was 1.867 percent and the State Board of Equalization has not yet determined the inflation factor for 2005-06. We have projected the inflation rate for all future fiscal years at two percent. Real Property values are also permitted to increase as a result of a change of ownership or new construction. Utility property assessed by the State Board of Equalization may be revalued annually and such

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assessments are not subject to the inflation limitations of Article XIII A. The taxable value of Personal Property is also established on the lien dates and is not subject to the annual two percent limit of locally assessed Real Property.

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

B. Supplemental Assessments

Chapter 498 of the Statutes of 1983 provides for the reassessment of property upon a change of ownership or completion of new construction. Such reassessment is referred to as the Supplemental Assessment. It is determined by applying the current year's tax rate to the amount of increase in a property's value and prorating the resulting property taxes to reflect the portion of the tax year remaining as determined by the date of the change in ownership or completion of new construction. Supplemental Assessments become a lien against Real Property. Since 1984-85 revenues derived from Supplemental Assessments have been allocated to redevelopment agencies and taxing entities in the same manner as regularly collected property taxes. The receipt of Supplemental Tax Revenues by taxing entities typically follows the change of ownership by a year or more. Within the Project Area, the Agency received \$3,289,500 in Supplemental Revenue for 2001-02. The Project Area produced \$3,427,600 in Supplemental Revenue for 2002-03 and \$2,414,800 for 2003-04. We have **not** included projected amounts of revenue that could result from Supplemental Assessments in our projections.

C. Tax Rates

Tax rates will vary from area to area within the State, as well as within a community and a project area. The tax rate for any particular parcel is based upon the jurisdictions levying the tax rate for the area where the parcel is located. The tax rate consists of the General Levy Rate of \$1.00 per \$100 of taxable values and the Override Tax Rate. The Override Tax Rate is that portion of the tax rate that exceeds the General Levy Tax Rate in order to pay voter-approved indebtedness or contractual obligations that existed prior the enactment of Proposition XIII. The tax rate for secured property is annually adjusted to reflect the Override Tax Rate levied for the current year. The tax rate for unsecured property is set at the previous year's tax rate on secured property.

A Constitutional amendment approved in June 1983 allows the levy of Override Tax Rates to repay indebtedness for the acquisition and improvement of real property, upon approval by a two-thirds vote. A subsequent amendment of the Constitution prohibits the allocation of Override taxes to redevelopment agencies for repayment of indebtedness approved by the voters after December 31, 1988. The Override Tax Rates typically decline each year as a result of (1) increasing property values (which would reduce the Override Rate needed to be levied to meet debt service) and (2) the eventual retirement of debt over time. Within the Project Area, three Override Tax Rates have been approved after December 31, 1988. These tax rates are for the Oakland Unified School District, the Peralta Community College District and the City of

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Oakland. These portions of the Override Tax Rate have been omitted from the calculation of projected revenue.

A Tax Rate Area consists of a geographic area where the taxes on all property are levied by the same taxing entities at the same rate. The projections are based on the 2004-05 tax rates. All of the tax rate areas within the Project Area have the same tax rate. The components of the tax rate that are applied to secured value in the Project Area for 2004-05 are as follows:

Table C		Termination
2004-05 Tax Rate		Date
General Levy	1.0000	
Oakland U.S.D. EC 16090	.0001	2012
East Bay Regional Park 1	.0057	2027
EBMUD Special District 1	.0076	2015
City of Oakland	<u>.1575</u>	<u>2026</u>
Total RDA Eligible Tax Rate:	1.1709	
<u>Non-RDA Eligible Tax Rates</u>		
Oakland U.S.D. Bonds	.0666	
Peralta Community College Dist.	.0208	
City of Oakland	<u>.0474</u>	
Total Tax Rate:	<u><u>1.3057</u></u>	

The Override Rate approved by voters before 1989 and levied by the City of Oakland is authorized for long term funding of pension funds and has been authorized through 2026. The Override Tax Rate levied by the East Bay Regional Parks District will not be retired until 2027. The EBMUD Special District override rate will be retired in 2015 and will no longer exist after Fiscal Year 2014-15. The Oakland Unified School District EC 16090 bonds will be retired and will no longer exist after Fiscal Year 2011-12. We have incorporated the appropriate retirement dates of these Override Tax Rates in the projection and for those years after the retirement dates have assumed the combined RDA eligible portion of the Override Tax Rates for the City of Oakland and the East Bay Regional Parks and general levy tax rate constant at \$1.1632 for the balance of our projections.

D. Allocation of Taxes

Taxes are due in two equal installments. Installments of taxes levied upon secured property become delinquent on December 10 and April 10. Taxes on unsecured property are due March 1 and become delinquent August 31. The County disburses Tax Increment Revenue to all redevelopment agencies in two equal installments that are typically made in December and April of each fiscal year.

In accordance with Revenue and Taxation Code Section 4701ff, the County utilizes an alternative method for the distribution of tax revenue to taxing agencies known as the Teeter Plan. Under this method, the taxing entities, including redevelopment agencies in Alameda County receive 100 percent of the taxes levied on the extended tax roll subject to correction, cancellation and refunds. The tax revenues of the Agency are not subject to revenue loss due to

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delinquencies or gains due to redemption of unpaid taxes. Counties utilizing the Teeter Plan are required to maintain a fund in an amount determined by the code that is to be used to cover losses that may occur as a result of property tax delinquencies.

E. Assessment Appeals

A review of the assessment appeal history in the Project Area was conducted. Since Fiscal Year 1997-98 there have been 567 assessment appeals filed within the Project Area. Of the appeals filed, 234 assessment appeals (41.27%) have been allowed with a reduction in value, 154 assessment appeals (27.16%) have been denied, and 179 assessment appeals remain pending as of August 9, 2004, the last date for which we have data from Alameda County. The pending appeals have a combined assessed value of \$1,215,631,710 under appeal and include assessment appeals of value for 1999-00 through 2004-05. It is unclear exactly how much of this value is at risk because many of the owners have not entered owner opinions of value. Of the appeals that were allowed over the period examined, the average reduction in value was 20.24%. None of the pending appeals involve properties within Annex.

Among the top ten taxpayers, OCC Venture LLC, Kaiser Foundation Health Plan Inc., Prentice Properties Acquisition Partnership, 1800 Harrison Foundation, 555 Twelfth Street Venture LLC, Clorox Company, Sodalite and SSR Western Multifamily LLC have currently pending appeals. The table below summarizes the reductions in value sought by these top taxpayers.

**Table D
Assessment Appeals Summary**

Property Owner	Value under <u>Appeal</u>	Owners Opinion <u>of Value</u>	Requested % <u>Reduction</u>
OCC Venture LLC	\$181,204,614	\$84,000,000	53.64%
Kaiser Foundation Health Plan Inc.	110,855,943	81,964,597	26.06%
Prentiss Properties Acquisition Partnership	128,715,276	79,000,000	38.62%
1800 Harrison Foundation	108,415,864	82,000,000	24.37%
555 Twelfth Street Venture LLC	91,810,447	35,000,000	61.88%
Clorox Company	10,351,489	6,760,596	34.69%
Sodalite	4,995,599	1,300,000	73.98%
SSR Western Multifamily LLC	60,787,400	29,700,000	51.14%

Based on historical averages, we estimate that 52 of the currently pending appeals will be allowed with a reduction in value and that the total reduction in value will be \$37,689,690. We further estimate that this reduction in value will affect the assessed value for Fiscal Year 2003-04. This estimated loss in assessed value represents approximately 1.37% of the projected Project Area assessed value for 2003-04. The data discussed above is summarized in the table below.

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Table E
Assessment Appeals Impact Calculation

	<u>Total Appeals</u>	<u>Allowed</u>	<u>Denied</u>	<u>Pending</u>
Number of Appeals	567	234	154	179
% of Resolved Appeals		60.31%	39.69%	
Average Reduction		(20.24%)		
Appealed Value Pending				\$1,215,631,710
Est. No. Allowed				108
Est. Value Reduction				(\$148,415,009)

F. Allocation of State Assessed Unitary Taxes

Legislation enacted in 1986 (Chapter 1457) and 1987 (Chapter (921) established the current methodology for the distribution of tax revenues derived from utility property assessed by the State Board of Equalization (SBE), other than railroads. Tax revenues derived from unitary property that is assessed by the SBE is accumulated in a single Tax Rate Area for the County. Tax revenues are then distributed to each taxing entity in the County in the following manner: (1) each taxing entity will receive the same amount as in the previous year plus increases of up to two percent; (2) if utility tax revenues are insufficient to provide the same amount as in the previous year, each taxing entity's share would be reduced pro-rata county wide; and (3) any increase in revenue above two percent would be allocated in the same proportion as the taxing entity's local secured and taxable values are to the local secured taxable values of the County.

To administer the allocation of unitary tax revenues to redevelopment agencies, the County no longer includes the taxable value of utilities as part of the reported taxable values of the project area. As a result the base year value of project areas was reduced by the amount of utility value that existed originally in the base year value. The County Auditor-Controller remitted \$3,540,151 in unitary revenue to Central District for 2002-03 and \$2,347,743 in 2003-04. The amount of unitary revenue to be allocated to Central District for 2004-05 has not yet been determined by the Auditor-Controller. We have, therefore, assumed that the utility tax revenue will remain constant in future years at the amount remitted in 2003-04. No unitary revenue is expected to be allocated to Annex.

G. County Collection Charges

Chapter 466 allows counties to recover charges for property tax administration in an amount equal to their 1989-90 property tax administration costs, as adjusted annually. Within this report, these charges are referred to as the SB 2557 Administrative Fees. For Fiscal Year 2003-04, the amount of the County collection charge attributed to Central District was \$305,967, which was 0.92 percent of 2003-04 Gross Revenues. For Fiscal Year 2003-04, the amount of the County collection charge attributed to Annex was \$2,620, which was 0.92 percent of 2003-04 Gross Revenues. The Auditor-Controller has not yet established the County Collection Charge for 2004-05. For purposes of these projections, we have assumed that the County will continue to charge the Agency for property tax administration and that such charge will remain at the same percentage of Gross Revenue as was charged in 2003-04.

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V. Low and Moderate Income Housing Set-Aside

Section 33334.6 of the Law requires redevelopment agencies to set aside 20 percent of all tax increment revenues from project areas adopted prior to January 1, 1977 into a low and moderate income housing fund (the Housing Set-Aside Requirement). Sections 33334.2 and 33334.3 of the Law require redevelopment agencies to fund a Housing Set-Aside Requirement for those project areas adopted after December 31, 1976. The Agency can reduce the Housing Set-Aside Requirement if it annually makes certain prescribed determinations that are consistent with the housing element of the general plan. These findings are: (1) that no need exists in the community to improve or increase the supply of low and moderate income housing or (2) some stated percentage less than 20 percent of the tax increment is sufficient to meet the housing need. In order to make findings (1) or (2), the Agency's finding must be consistent with the housing element of the community's general plan, including its share of the regional housing needs of very low income households and persons and families of low or moderate income. While such findings were made by the Agency relative to Central District in prior years, no such findings have been made in recent years. No such findings have been made by the Agency relative to Annex.

On December 11, 2001, the Agency adopted Resolution No. 01-85 C.M.S., that increased the amount of Tax Increment Revenue to be set-aside in the Housing Fund from the 20 percent required in the Law to 25 percent for all of the Agency's project areas that have debt service coverage ratios of 1.2 percent. The resolution provides that this increase in the set-aside amount is subordinate to all existing and future tax allocation bonded indebtedness. This projection of revenue assumes that the Housing Set-Aside Requirement will continue to be fulfilled at 20 percent of the Gross Revenue from the Project Area and that the additional set-aside of 5 percent of Gross Revenue will be fulfilled within Central District in accordance with the requirements of the adoptive resolution. We have not projected the 5 percent additional set-aside as being withheld for Annex due to the question of whether it will meet the 1.2 percent coverage requirement of Resolution No. 01-85 C.M.S.

VI. Legislation

SB 211 was signed into law as Chapter 741, Statutes of 2001. This legislation has two main impacts on the limits contained in an agency's redevelopment plan. First, the City may eliminate the time limit to establish indebtedness in project areas adopted prior to January 1, 1994 by ordinance. When a plan is so amended, existing tax sharing agreements will continue unaffected and certain statutory tax sharing for entities without tax sharing agreements will commence in the fiscal year following year when the time limit is exceeded. (See Section VII A below). Second, an agency may extend the time limit for plan effectiveness and repayment of debt for up to ten years if it can make certain specified findings. These changes could potentially impact time limits in the Project Area Redevelopment Plan by eliminating or extending these limits. Project areas that have been adopted after January 1, 1994 may only extend the limitation on incurring new debt by making specific findings. On January 6, 2004, the City Council adopted Ordinance No. 12570 C.M.S. eliminating the limit on incurrence of indebtedness for Central District. This amendment did not affect Annex.

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

From 1994-95 through 2001-02, state budgets were adopted with no additional shifting of tax increment from redevelopment agencies. The State Budget for 2002-03 required a shift of \$75 million of tax increment statewide from redevelopment agencies to ERAF to meet a budget shortfall. AB 1768 (Chapter 1127, Statutes of 2002) was enacted by the Legislature and signed by the Governor and, based upon the methodology provided in the 2002-03 budget, the shift requirement for the Agency was \$1,267,072. This requirement was for Fiscal Year 2002-03 only. This amount did not impact the Agency's ability to fulfill its debt service obligations. This shift of revenue is an obligation of the Agency and not of any particular project area. The Agency was permitted to satisfy this obligation with any legally available funds. The Agency made the required payment to the County by the required deadline of May 10, 2003.

As part of the State's 2003-04 budget legislation, SB 1045 (Chapter 260, Statutes of 2003) requires redevelopment agencies statewide to contribute \$135 million to local County Education Revenue Augmentation Funds (ERAF) which reduces the amount of State funding for schools. This transfer of funds is limited to Fiscal Year 2003-04. The amount of revenue that was transferred by the Agency to Alameda County for 2003-04 is \$2,380,469. The Agency made this payment to the County by the May 10, 2004 deadline.

Under the Law as amended by SB 1045, the Agency was authorized to use a simplified methodology to amend Central District redevelopment plans to extend by one year the effectiveness of the plan and the time during which the Commission may repay debt with tax increment revenues. In addition, the amount of this payment and the ERAF payments made in prior years may be deducted from the amount of Central District cumulative tax increment revenues. The City Council adopted Ordinance 12617 C.M.S. on July 20, 2004. By its approval of this ordinance, the City Council extended by one year the effective life of Central District redevelopment plan and the period within which the Agency may repay indebtedness from tax increment revenues. The limits used in the projection reflect this extension and they have been incorporated into the projection of tax revenue.

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The State's budget for 2004-05 was approved by the legislature and signed by the Governor. Senate Bill 1096 is a trailer bill that deals with local government. Based on SB 1096, redevelopment agencies will lose \$250 million to ERAF in each of the next two fiscal years using the same formula as was used for 2003-04. Annual payments will continue to be due on May 10 of each fiscal year. As in previous years, payments may be made from any available funds other than the Housing Fund. If an agency is unable to make a payment, it may borrow up to 50 percent of the current year housing set-aside amount, however, the borrowed amount must be repaid to the Housing Fund within 10 years of the last ERAF payment (May 10, 2006).

For redevelopment plans with less than ten years of effectiveness remaining from June 30, 2005, the plans may be extended by one year for each year that an ERAF payment is made. For redevelopment plans with 10 to 20 years of effectiveness remaining after June 30, 2005, the plans may be extended by one year for each year that an ERAF payment is made if the City Council finds that the Agency is in compliance with specified state housing requirements. These requirements are: 1) that the Agency is setting aside 20 percent of gross tax increment revenue; 2) housing implementation plans are in place; 3) replacement housing and inclusionary housing requirements are being met; and, 4) no excess surplus exists. If a redevelopment plan has more than 20 years of effectiveness remaining after June 30, 2005, it may not be extended. Central District is eligible to have its termination date extended for each of the ERAF payments required by this legislation. The Agency is in the process of adopting these extensions. Their approval has been assumed in the projections.

In order to make such extensions of redevelopment plan effectiveness, the City Council must amend the redevelopment plan by ordinance after noticed public hearing and after making the finding that revenue paid to ERAF would "otherwise have been used to pay the costs of programs, projects, and activities necessary to carry out the goals and objectives of the redevelopment plan." ERAF payment amounts authorized under this legislation will not count against the Project Area tax increment limits. If an agency's limit on incurring new indebtedness expired on or before January 1, 2004, this time limit may be extended to July 1, 2006 for the sole purpose of making these ERAF payments without incurring tax sharing payment obligations under Section 33607.5 of the Law. ERAF payments are subordinate to new and existing repayment obligations for bonded indebtedness.

The Agency's portion of the statewide ERAF requirement for 2004-05 is \$4,706,369. It is assumed that the 2005-06 payment will be approximately the same amount. Because these payments are a general obligation of the Agency and not a pledge of Tax Revenues, we have not reflected the ERAF payments in our projections. In addition to the ERAF provisions described above, the Agency cannot predict whether the State Legislature will enact any other legislation requiring additional or increased future shifts of tax increment revenues to the State and/or to schools, whether through an arrangement similar to ERAF or by other arrangements, and, if so, the effect on future Tax Revenues.

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VII. Tax Sharing Obligations

The Agency has not entered into any tax sharing agreements in connection with the Central District. As the result of the Agency's elimination of the time limit on incurrence of indebtedness for Central District, the Agency is obligated to make statutory tax sharing payments. Tax sharing payments will be made to all taxing entities in accordance with the three-tiered formulas for statutory tax sharing payments required of those project areas adopted after January 1, 1994. Since the former time limit on incurrence of new debt for these project areas was January 1, 2004, these statutory tax-sharing payments will begin in the current fiscal year, 2004-05 and will use the valuation for 2003-04 as the adjusted base year. According to the Law, these statutory tax sharing payments will continue through the fiscal year within which Central District's redevelopment plan activities terminate. As a result, for the final ten years that Central District is permitted to repay indebtedness with tax revenue, there will be no statutory tax sharing payment requirement.

Beginning in 2004-05 and using Central District's 2003-04 assessed values as a base value, the Agency is obligated to pay the combined taxing entities 25% of the revenue generated by Central District's annual incremental value net of the Housing Set-Aside Requirement. The second and third tiers of statutory tax sharing payments will not be initiated before the termination of the redevelopment plan activities.

Within Annex, these statutory tax sharing payments began in 2003-04, the first year that Annex received Tax Increment Revenue. The Agency is obligated to pay all taxing entities on a prorated basis 25% of the revenue generated by Annex's annual incremental value net of the Housing Set-Aside Requirement. Beginning in 2013-14 and using the Project Area's 2012-13 assessed values as a base value for the second tier of statutory tax sharing payments, the Agency will additionally be obligated to pay the taxing entities 21% of the revenue generated by Annex's annual second tier of incremental value net of the Housing Set-Aside Requirement. The third tier of statutory tax sharing payments is initiated in Fiscal Year 2032-33 and using the sub-area's 2031-32 assessed values as a base value, the Agency will additionally be obligated to pay the taxing entities 14% of the revenue generated by Annex's annual third tier of incremental value net of the Housing Set-Aside Requirement.

VIII. Recent Court Decisions

Santa Ana Decision

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

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assessed value of taxable property in the project area based on inflation growth (the 2% Property Tax Increase).

Former Section 33676(a)(2) was repealed as part of major revisions made to the Law pursuant to the Reform Act of 1993 (AB 1290). The changes to the Law contained in AB1290 were effective as of January 1, 1994. The Court of Appeals affirmed the lower court ruling that due to an amendment to former Section 33676(a) that was adopted in 1984 and became effective on January 1, 1985, school and community college districts were to automatically receive the 2% Property Tax Increase even without adopting the appropriate resolution prior to the adoption of a redevelopment plan. Central District was adopted before Section 33676(a)(2) was incorporated in the Law and Annex was adopted after this section of the Law was repealed. This decision does not, therefore, impact the Project Area.

Seal Beach Decision

In a Minute Order issued on November 2, 2001 in County of Orange v. Orange County Assessment Appeals Board No. 3, case no. 00CC03385, the Orange County Superior Court held that where a home's taxable value did not increase for two years, due to a flat real estate market, the Orange County assessor violated the two percent inflation adjustment provision of Article XIII A, when the assessor tried to "recapture" the tax value of the property by increasing its assessed value by 4% in a single year. The assessors in all California counties, including Alameda County, use a similar methodology in raising the taxable values of property beyond 2% in a single year. The State Board of Equalization has approved this methodology for increasing assessed values.

The Superior Court ruling was appealed by the Orange County Assessor and oral arguments before Division 3 of the 4th District Court of Appeals in Santa Ana were heard on January 7, 2004. On March 26, 2004, the Fourth Appellate District of the of the Court of Appeal of the State of California ruled that under Proposition 13 the base year of real property on which the inflation factor is figured remains the original purchase price or assessment at the time of new construction even though the taxable value may be reduced by general deflation or natural disaster. On May 5, 2004, the respondent filed a petition to the California Supreme Court for review of the decision published by the Court of Appeal. On July 21, 2004, the California Supreme Court denied the petition to review the decision by the Court of Appeal. This action concluded the legal review of this case.

IX. New Development

Substantial additional value will be added to the values for Fiscal Year 2005-06 due to transfers of ownership on parcels within Central District. These transfers of ownership have been confirmed by the recordation of grant deeds or other documentation filed with the Alameda County Recorders Office and occurred between the January 1, 2004 lien date and November 30, 2004. The amount added to the Project Area valuation for 2005-06 is \$90,911,665. This includes 67 condominiums sold as part of the Essex condominium at 1 Lakeside Drive and 100 condominiums in a condominium project at 311 Oak Street. There continues to be very active

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development of residential units within Central District. Completion and sale of the remaining units at the Essex is expected to add \$49.2 million in new value. The Mid-Town Lofts development is expected to add \$6.8 million and an additional 50 units at the Telegraph Gateway development is expected to add \$13.5 million in new value. Additional developments are either underway or will be underway soon.

X. Trended Taxable Value Growth

Growth in real property land and improvement values have been limited to an assumed rate of growth of real property taxable values of two percent annually as allowed under Article XIII A of the State Constitution. A two percent growth rate has been assumed because it is the maximum inflationary growth rate permitted by law and this rate of growth has been achieved in all but four years since 1981. The years in which less than two percent growth was realized were 1983-84 (1.0%), 1995-96 (1.19%), 1996-97 (1.11%) and 1999-00 (1.85%) and 2004-05 (1.867%). If in future years the growth of taxable value in the project area is less than two percent, the resultant Tax Increment Revenues would be reduced.

HdL Coren & Cone make no representation that taxable values will actually grow at two percent. Future values will also be affected by changes of ownership and new construction not reflected in our projections. In addition, the values of property previously reduced in value due to assessment appeals based on reduced market values could increase more than two percent when real estate values increase more than two percent (see Section IV A above). Seismic activity and environmental conditions such as hazardous substances that are not anticipated in this report might also impact property taxes and Tax Increment Revenue. HdL Coren & Cone makes no representation that taxable values will actually grow at the rate projected. Anticipated revenues could be adjusted as a result of unidentified assessment appeal refunds, other Assessor corrections discussed previously, or unanticipated increases or decreases in property tax values. Estimated valuations from developments included in this analysis are based upon our understanding of the general practices of the Alameda County Assessor and Auditor-Controller's Office. General assessment practices are subject to policy changes, legislative changes, and the individual appraiser's judgment. While we believe our estimates to be reasonable, taxable values resulting from actual appraisals may vary from the amounts assumed in the projections.

Oakland Central District 2004/FCR 2004 ds 2

Oakland Redevelopment Agency
Central District Redevelopment Project and 2002 Annex
PROJECTION OF INCREMENTAL VALUE AND TAX INCREMENT REVENUE

1/18/05

(000s Omitted)

Summary Table

		Taxable Value		Gross Tax	Housing	SB 2557	Statutory Tax Sharing Payments			Tax	Added Housing	Net Tax
		Total	Over Base				Revenue	Set-Aside	County Admin.			
1	2004-05	3,002,400	2,711,379	34,103	(6,821)	(314)	(466)	0	0	26,503	(1,694)	24,809
2	2005-06	3,167,550	2,876,529	36,008	(7,202)	(331)	(877)	0	0	27,598	(1,788)	25,810
3	2006-07	3,280,739	2,989,717	37,312	(7,462)	(343)	(1,157)	0	0	28,349	(1,853)	26,496
4	2007-08	3,342,637	3,051,616	38,014	(7,603)	(350)	(1,309)	0	0	28,753	(1,888)	26,865
5	2008-09	3,405,773	3,114,752	38,731	(7,746)	(356)	(1,464)	0	0	29,165	(1,923)	27,241
6	2009-10	3,470,172	3,179,150	39,461	(7,892)	(363)	(1,621)	0	0	29,585	(1,959)	27,625
7	2010-11	3,535,858	3,244,837	40,206	(8,041)	(370)	(1,781)	0	0	30,013	(1,996)	28,017
8	2011-12	3,602,859	3,311,838	40,964	(8,193)	(377)	(1,944)	0	0	30,451	(2,034)	28,417
9	2012-13	3,671,199	3,380,178	41,738	(8,348)	(384)	(60)	0	0	32,946	(2,072)	30,874
10	2013-14	3,740,907	3,449,885	42,526	(8,505)	(391)	(62)	(2)	0	33,566	(2,111)	31,455
11	2014-15	3,812,008	3,520,987	43,330	(8,666)	(399)	(64)	(3)	0	34,198	(2,151)	32,048
12	2015-16	3,884,532	3,593,510	44,149	(8,830)	(406)	(66)	(5)	0	34,843	(2,191)	32,652
13	2016-17	3,958,506	3,667,484	45,008	(9,002)	(414)	(68)	(7)	0	35,518	(2,233)	33,285
14	2017-18	4,033,959	3,742,938	45,886	(9,177)	(422)	(70)	(8)	0	36,208	(2,277)	33,931
15	2018-19	4,110,922	3,819,900	46,781	(9,356)	(430)	(72)	(10)	0	36,912	(2,321)	34,591
16	2019-20	4,189,423	3,898,402	47,694	(9,539)	(439)	(74)	(12)	0	37,631	(2,366)	35,264
17	2020-21	4,269,495	3,978,474	48,625	(9,725)	(447)	(76)	(14)	0	38,363	(2,412)	35,951
18	2021-22*	4,351,168	4,060,147	49,575	(9,915)	(456)	(78)	(15)	0	39,110	(2,459)	36,651
19	2022-23	50,433	34,653	403	(81)	(4)	(81)	(17)	0	221		221
20	2023-24	51,424	35,644	415	(83)	(4)	(83)	(19)	0	226		226
21	2024-25	52,435	36,654	426	(85)	(4)	(85)	(21)	0	231		231
22	2025-26	53,466	37,686	438	(88)	(4)	(88)	(23)	0	236		236
23	2026-27	54,518	38,737	451	(90)	(4)	(90)	(25)	0	241		241
24	2027-28	55,591	39,810	463	(93)	(4)	(93)	(27)	0	246		246
25	2028-29	56,685	40,904	476	(95)	(4)	(95)	(30)	0	251		251
26	2029-30	57,801	42,020	489	(98)	(4)	(98)	(32)	0	257		257
27	2030-31	58,939	43,159	502	(100)	(5)	(100)	(34)	0	263		263
28	2031-32	60,100	44,320	516	(103)	(5)	(103)	(36)	0	268		268
29	2032-33	61,285	45,504	529	(106)	(5)	(106)	(39)	0	274		274
30	2032-33	62,493	46,712	543	(109)	(5)	(109)	(41)	(2)	278		278
31	2033-34	63,725	47,944	558	(112)	(5)	(112)	(43)	(3)	283		283
32	2034-05	64,982	49,201	572	(114)	(5)	(114)	(46)	(5)	287		287
33	2035-36	66,264	50,483	587	(117)	(5)	(117)	(48)	(6)	292		292
34	2036-37	67,571	51,791	602	(120)	(6)	(120)	(51)	(8)	297		297
35	2037-38	68,905	53,125	618	(124)	(6)	(124)	(53)	(10)	302		302
36	2038-39	70,266	54,485	634	(127)	(6)	(127)	(56)	(12)	307		307
37	2039-40	71,653	55,873	650	(130)	(6)	(130)	(59)	(14)	312		312
38	2040-41	73,069	57,288	666	(133)	(6)	(133)	(62)	(15)	317		317
39	2041-42	74,512	58,732	683	(137)	(6)	(137)	(64)	(17)	322		322
40	2042-43	75,985	60,204	700	(140)	(6)	(140)	(67)	(19)	327		327
41	2043-44	77,487	61,706	718	(144)	(7)	(144)	(70)	(21)	333		333
42	2044-45	79,019	63,239	736	(147)	(7)	(147)	(73)	(23)	338		338
43	2045-46	80,582	64,801	754	(151)	(7)	(151)	(76)	(25)	344		344
				774,240	(154,848)	(7,123)	(14,134)	(1,191)	(180)	596,764	(37,729)	559,035

* Central District Redevelopment Project's ability to repay indebtedness ends in 2021-22. East Annex revenue only is represented thereafter.

Oakland Redevelopment Agency Central District Project Area

Projection of Incremental Taxable Value & Tax Increment Revenue

(000's Omitted)

1/18/05

Table 1

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
Taxable Values (1)										
Real Property (2)	2,781,873	2,946,329	3,058,810	3,119,986	3,182,386	3,246,034	3,310,954	3,377,173	3,444,717	3,513,611
Personal Property (3)	<u>184,951</u>	<u>184,951</u>	<u>184,951</u>	<u>184,951</u>	<u>184,951</u>	<u>184,951</u>	<u>184,951</u>	<u>184,951</u>	<u>184,951</u>	<u>184,951</u>
Total Projected Value	2,966,825	3,131,281	3,243,761	3,304,937	3,367,337	3,430,985	3,495,905	3,562,124	3,629,668	3,698,562
Taxable Value over Base	275,241	2,691,584	2,856,040	2,968,521	3,029,697	3,092,096	3,155,744	3,220,665	3,286,884	3,354,427
Gross Tax Increment Revenue (4)	31,523	33,420	34,716	35,411	36,119	36,840	37,576	38,326	39,090	39,869
Unitary Tax Revenue (5)	<u>2,348</u>	<u>2,348</u>	<u>2,348</u>	<u>2,348</u>	<u>2,348</u>	<u>2,348</u>	<u>2,348</u>	<u>2,348</u>	<u>2,348</u>	<u>2,348</u>
Gross Revenues	33,871	35,768	37,064	37,758	38,466	39,188	39,924	40,673	41,438	42,217
LESS										
SB 2557 Admin. Fee (6)	(312)	(329)	(341)	(347)	(354)	(361)	(367)	(374)	(381)	(388)
Housing Set Aside Requirement (7)	(6,774)	(7,154)	(7,413)	(7,552)	(7,693)	(7,838)	(7,985)	(8,135)	(8,288)	(8,443)
Tier 1 Statutory Tax Sharing Payments (8)	(419)	(829)	(1,108)	(1,258)	(1,411)	(1,566)	(1,725)	(1,886)	0	0
Tier 2 Statutory Tax Sharing Payments (8)	0	0	0	0	0	0	0	0	0	0
Tax Revenues	26,366	27,456	28,203	28,601	29,008	29,423	29,847	30,279	32,769	33,385
Added Housing Set-Aside (7)	(1,694)	(1,788)	(1,853)	(1,888)	(1,923)	(1,959)	(1,996)	(2,034)	(2,072)	(2,111)
Net Tax Revenue	<u>24,672</u>	<u>25,668</u>	<u>26,349</u>	<u>26,713</u>	<u>27,085</u>	<u>27,464</u>	<u>27,851</u>	<u>28,245</u>	<u>30,697</u>	<u>31,274</u>

- (1) Taxable values as reported by Alameda County.
- (2) Real property consists of land and improvements. Increased for new development (see Table 5) and for inflation at 2% annually. Real Property values for 2005-06 and 2006-07 include transfers of ownership between the lien date and equalization date and new development (see Table 5). Values for 2005-06 are reduced by \$148,415,009 for estimated losses in value due to 108 projected successful assessment appeals.
- (3) Personal property is held constant at 2004-05 level.
- (4) Projected Gross Tax Increment is based upon incremental taxable values factored against an assumed Project tax rate and adjusted for indebtedness approved by voters after 1988. Assumed future tax rates decline to \$1.1632 per \$100 of taxable value over 11 years
- (5) Unitary Revenue is held constant at 2003-04 level.
- (6) County Administration fee is estimated at 0.92% of Gross Revenue.
- (7) Housing Set Aside Requirement is calculated at 20% of Gross Revenue. The Agency has at its own election chosen to set aside an additional 5% of Gross Revenue into the Housing Fund. This Added Housing Set-Aside is subordinate to payment of debt service on the Bonds.
- (8) The last date to incur new debt was established as January 1, 2004 by Ordinance No. 11762 CMS pursuant to the Law. This limit was eliminated pursuant to Ordinance No. 12570 CMS. The elimination of this limit triggers the initiation of statutory tax sharing payments. On January 1, 2004 the original Project Area time limit to incur new debt will be exceeded. Beginning in fiscal year 2004-05 and using the 2003-04 Project Area value as the base level of value, Taxing Entities will begin to receive their shares of 25% of total tax increment revenue net of housing set aside. In addition, in year 11 Taxing Entities receive 21% of tax revenue on incremental value above the year 10 value net of housing set aside. The City is considered a taxing entity and may opt to receive its share of the first tier of this pass through amount. These payments are subordinate to debt service payments incurred prior to the original limit being exceeded. The statutory tax sharing payments described above must only be paid by the Agency until the termination date of redevelopment plan effectiveness. The final ten years that the Agency may repay indebtedness from tax increment revenue are not impacted.

Oakland Redevelopment Agency

Central District Project Area

1/18/05

PROJECTION OF INCREMENTAL VALUE AND TAX INCREMENT REVENUE

(000s Omitted)

Table 2

		Total	Taxable Value Over Base	Gross Tax Revenue (1)	Housing Set-Aside	SB 2557 County Admin.	Statutory Tax Sharing Payments (2)		Tax Revenues	Added Housing Set-Aside	Net Tax Revenues
		Taxable Value	275,241				Tier 1 Payments	Tier 2 Payments			
1	2004-05	2,966,825	2,691,584	33,871	(6,774)	(312)	(419)	0	26,366	(1,694)	24,672
2	2005-06	3,131,281	2,856,040	35,768	(7,154)	(329)	(829)	0	27,456	(1,788)	25,668
3	2006-07	3,243,761	2,968,521	37,064	(7,413)	(341)	(1,108)	0	28,203	(1,853)	26,349
4	2007-08	3,304,937	3,029,697	37,758	(7,552)	(347)	(1,258)	0	28,601	(1,888)	26,713
5	2008-09	3,367,337	3,092,096	38,466	(7,693)	(354)	(1,411)	0	29,008	(1,923)	27,085
6	2009-10	3,430,985	3,155,744	39,188	(7,838)	(361)	(1,566)	0	29,423	(1,959)	27,464
7	2010-11	3,495,905	3,220,665	39,924	(7,985)	(367)	(1,725)	0	29,847	(1,996)	27,851
8	2011-12	3,562,124	3,286,884	40,673	(8,135)	(374)	(1,886)	0	30,279	(2,034)	28,245
9	2012-13	3,629,668	3,354,427	41,438	(8,288)	(381)	0	0	32,769	(2,072)	30,697
10	2013-14	3,698,562	3,423,322	42,217	(8,443)	(388)	0	0	33,385	(2,111)	31,274
11	2014-15	3,768,834	3,493,594	43,011	(8,602)	(396)	0	0	34,013	(2,151)	31,863
12	2015-16	3,840,512	3,565,272	43,821	(8,764)	(403)	0	0	34,654	(2,191)	32,462
13	2016-17	3,913,623	3,638,383	44,669	(8,934)	(411)	0	0	35,325	(2,233)	33,091
14	2017-18	3,988,197	3,712,956	45,537	(9,107)	(419)	0	0	36,011	(2,277)	33,734
15	2018-19	4,064,262	3,789,021	46,422	(9,284)	(427)	0	0	36,710	(2,321)	34,389
16	2019-20	4,141,848	3,866,607	47,324	(9,465)	(435)	0	0	37,424	(2,366)	35,058
17	2020-21	4,220,986	3,945,745	48,245	(9,649)	(444)	0	0	38,152	(2,412)	35,740
18	2021-22	4,301,707	4,026,466	49,184	(9,837)	(452)	0	0	38,894	(2,459)	36,435
				<u>754,579</u>	<u>(150,916)</u>	<u>(6,942)</u>	<u>(10,202)</u>	<u>0</u>	<u>586,520</u>	<u>(37,729)</u>	<u>548,791</u>

(1) Project Area can receive no revenue after 6/12/20 under limits revised by SB 1045 amendment. Under the statutes adopted with the 2004-05 state budget, the Agency can extend the termination of plan effectiveness by one year for each of the two ERAF payments authorized under the bill. The Agency has assumed that the payments required for 2005 and 2006 and has amended the Plan to make available the revenue shown for 2020-21 and 2021-22.

(2) The termination date of the redevelopment plan has been extended by two years as outlined above so the statutory tax sharing payments are required for 2010-11 and 2011-12.

**Oakland Redevelopment Agency
Central District Project Area**

Historical Assesed Values

Table 3

1/18/05

	Base Year 1968-69	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03 (2)	2003-04	2004-05
<i>Secured (1)</i>											
Land	213,472,420	441,308,806	430,053,378	436,393,138	427,918,827	442,449,591	479,129,299	518,629,695	561,384,436	579,647,602	640,078,427
Improvements	638,283	1,347,144,944	1,219,132,020	1,227,909,359	1,231,002,337	1,355,976,801	1,562,377,101	1,642,873,915	1,980,249,319	2,133,246,755	2,241,453,254
Personal Property	0	79,804,502	60,437,274	64,848,844	79,160,975	69,600,755	63,987,297	54,788,060	37,169,214	30,010,963	27,883,991
Exemptions	0	(242,214,397)	(249,826,116)	(263,511,941)	(270,203,345)	(270,023,156)	(271,188,283)	(113,643,485)	(146,743,950)	(242,013,115)	(239,886,273)
Total Secured	214,110,703	1,626,043,855	1,459,796,556	1,465,639,400	1,467,878,794	1,598,003,991	1,834,305,414	2,102,648,185	2,432,059,019	2,500,892,205	2,669,529,399
<i>Unsecured</i>											
Land	0	25,574,889	25,599,647	32,564,358	34,524,552	35,264,212	12,991,470	13,008,000	17,678,883	18,505,952	18,191,334
Improvements	0	106,759,102	139,561,141	143,518,281	152,562,248	155,740,568	86,060,521	86,470,008	124,108,292	118,063,737	122,036,631
Personal Property	61,129,825	140,557,166	114,643,304	145,308,822	149,361,308	146,664,981	167,474,625	179,800,975	171,176,952	170,833,675	168,836,958
Exemptions	0	(5,645,968)	(7,013,045)	(9,676,787)	(4,208,235)	(7,604,137)	(7,520,171)	(5,457,994)	(7,714,909)	(8,048,496)	(11,769,795)
Total Unsecured	61,129,825	267,245,189	272,791,047	311,714,674	332,239,873	330,065,624	259,006,445	273,820,989	305,249,218	299,354,868	297,295,128
GRAND TOTAL	275,240,528	1,893,289,044	1,732,587,603	1,777,354,074	1,800,118,667	1,928,069,615	2,093,311,859	2,376,469,174	2,737,308,237	2,800,247,073	2,966,824,527
Incremental Value		1,618,048,516	1,457,347,075	1,502,113,546	1,524,878,139	1,652,829,087	1,818,071,331	2,101,228,646	2,462,067,709	2,525,006,545	2,691,583,999
% Growth			-9.93%	3.07%	1.52%	8.39%	10.00%	15.57%	17.17%	2.56%	6.60%

Source: County of Alameda.

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

(2) Secured exemption amount has been adjusted from the lien date value. Kaiser Foundation (APN 008 -0637-008-06) was mistakenly given an exemption of \$80,427,138 that is being corrected as an escaped assessment.

Oakland Redevelopment Agency
Central District Project Area
TOP TEN TAXABLE PROPERTY OWNERS
As Compared to Total Assessed Value

For Fiscal Year 2004-05

1/18/05

Table 4

	Secured			Unsecured			Total		Use Code
	Taxable Value	Parcels	% of Sec. AV	Taxable Value	Parcels	% of Unsec. AV	Taxable Value	% of Total Value	
1. OCC Venture LLC [Owner has pending appeals on parcels]	\$197,942,820	9	7.41%	\$0	0	0.00%	\$197,942,820	6.67%	Non-contiguous Commercial Office Buildings
2. Kaiser Foundation Health Plan Inc. [Owner has pending appeals on parcels]	\$124,064,347	5	4.65%	\$35,595,526	15	11.97%	\$159,659,873	5.38%	Foundation Administrative Offices/Parking
3. Prentiss Properties Acquisition Partnersh [Owner has pending appeals on parcels]	\$127,418,399	10	4.77%	\$9,759	1	0.00%	\$127,428,158	4.30%	Non-contiguous Commercial Office Buildings
4. 1800 Harrison Foundation [Owner has pending appeals on parcels]	\$110,439,090	1	4.14%	\$0	0	0.00%	\$110,439,090	3.72%	Commercial Office Building
5. 555 Twelfth Street Venture LLC [Owner has pending appeals on parcels]	\$101,276,440	1	3.79%	\$0	0	0.00%	\$101,276,440	3.41%	Commercial Office Building
6. Clorox Company [Owner has pending appeals on parcels]	\$90,521,728	3	3.39%	\$0	0	0.00%	\$90,521,728	3.05%	Commercial Office Buildings
7. Sodalite [Owner has pending appeals on parcels]	\$75,329,865	3	2.82%	\$0	0	0.00%	\$75,329,865	2.54%	Commercial Office Buildings
8. SSR Western Multifamily LLC [Owner has pending appeals on parcels]	\$62,154,005	3	2.33%	\$0	0	0.00%	\$62,154,005	2.09%	Non-contiguous, High Rise Multifamily Residential
9. Danielle N. Laurent Trust	\$51,869,353	1	1.94%	\$0	0	0.00%	\$51,869,353	1.75%	High Rise Multifamily Residential
10. Simrock 2 180 Grand LLC	<u>\$46,367,125</u>	<u>2</u>	1.74%	<u>\$4,200</u>	<u>1</u>	0.00%	<u>\$46,371,325</u>	1.56%	Commercial Office Buildings
Top Ten Property Owner Totals:	\$987,383,172	38		\$35,609,485	17		\$1,022,992,657		
Project Area Total Assessed Values:	\$2,669,529,399		36.99%	\$297,295,128		11.98%	\$2,966,824,527	34.48%	

Oakland Redevelopment Agency
Central District Project Area
TOP TEN TAXABLE PROPERTY OWNERS
As Compared to Incremental Assessed Value
For Fiscal Year 2004-05

1/18/05

Table 4a

	Secured			Unsecured			Total		Use Code
	Value	Parcels	% of Inc. AV	Value	Parcels	% of Inc. AV	Value	% of Inc. Value	
1. OCC Venture LLC [Owner has pending appeals on parcels]	\$197,942,820	9	8.06%	\$0	0	0.00%	\$197,942,820	7.35%	Non-contiguous Commercial Office Buildings
2. Kaiser Foundation Health Plan Inc. [Owner has pending appeals on parcels]	\$124,064,347	5	5.05%	\$35,595,526	15	15.07%	\$159,659,873	5.93%	Foundation Administrative Offices/Parking
3. Prentiss Properties Acquisition Partnership [Owner has pending appeals on parcels]	\$127,418,399	10	5.19%	\$9,759	1	0.00%	\$127,428,158	4.73%	Non-contiguous Commercial Office Buildings
4. 1800 Harrison Foundation [Owner has pending appeals on parcels]	\$110,439,090	1	4.50%	\$0	0	0.00%	\$110,439,090	4.10%	Commercial Office Building
5. 555 Twelfth Street Venture LLC [Owner has pending appeals on parcels]	\$101,276,440	1	4.12%	\$0	0	0.00%	\$101,276,440	3.76%	Commercial Office Building
6. Clorox Company [Owner has pending appeals on parcels]	\$90,521,728	3	3.69%	\$0	0	0.00%	\$90,521,728	3.36%	Commercial Office Buildings
7. Sodalite [Owner has pending appeals on parcels]	\$75,329,865	3	3.07%	\$0	0	0.00%	\$75,329,865	2.80%	Commercial Office Buildings
8. SSR Western Multifamily LLC [Owner has pending appeals on parcels]	\$62,154,005	3	2.53%	\$0	0	0.00%	\$62,154,005	2.31%	Non-contiguous, High Rise Multifamily Residential
9. Danielle N. Laurent Trust	\$51,869,353	1	2.11%	\$0	0	0.00%	\$51,869,353	1.93%	High Rise Multifamily Residential
10. Simrock 2 180 Grand LLC	<u>\$46,367,125</u>	<u>2</u>	1.89%	<u>\$4,200</u>	<u>1</u>	0.00%	<u>\$46,371,325</u>	1.72%	Commercial Office Buildings
Top Ten Property Owner Totals:	\$987,383,172	38		\$35,609,485	17		\$1,022,992,657		
Project Area Incremental Values:	\$2,455,418,696		40.21%	\$236,165,303		15.08%	\$2,691,583,999	38.01%	

Oakland Redevelopment Agency
Central District Project Area
 New Development

1/18/05

Table 5

000's omitted

<u>Real Property</u>	<u>Sq. Ft./ # Units</u>	<u>Unit Value</u>	<u>Total Value</u>	<u>Less Existing</u>	<u>Value Added</u>	<u>Start</u>	<u>Complete</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
The Essex (1 Lakeside Drive)	203	\$498,000.00	\$101,094,000	\$51,869,353	\$49,225		Summer 2005	\$0	\$12,306	\$36,918	\$0	\$0
Mid-Town Lofts Development	26	\$453,000.00	\$11,778,000	\$5,030,169	\$6,748		Summer 2005	\$0	\$2,227	\$4,454	\$0	\$0
Telegraph Gateway Development	50	\$324,000.00	\$16,200,000	\$2,703,932	\$13,496		Summer 2005	\$0	\$3,374	\$10,122	\$0	\$0
	0	\$0.00	\$0	\$0	\$0			\$0	\$0	\$0	\$0	\$0
	0	\$0.00	\$0	\$0	\$0			\$0	\$0	\$0	\$0	\$0
	0	\$0.00	\$0	\$0	\$0			\$0	\$0	\$0	\$0	\$0
	0	\$0.00	\$0	\$0	\$0			\$0	\$0	\$0	\$0	\$0
	0	\$0.00	\$0	\$0	\$0			\$0	\$0	\$0	\$0	\$0
	0	\$0.00	\$0	\$0	\$0			\$0	\$0	\$0	\$0	\$0
Transferred Parcels @ 1 Lakeside Drive	67	Lump Sum	\$30,870,995	\$0	\$30,871			\$0	\$30,871	\$0	\$0	\$0
Transferred Parcels @ 311 Oak Street	100	Lump Sum	\$47,534,018	\$29,450,928	\$18,083			\$0	\$18,083	\$0	\$0	\$0
Transferred Parcel Value Changes	115	Lump Sum	\$96,718,991	\$54,761,421	\$41,957,570				\$41,958	\$0	\$0	\$0
Total Real Property:			\$304,196,004	\$143,815,803	\$160,380			\$108,819	\$51,494	\$0	\$0	\$0
					Adj. Annually for Inflation @	2%			\$53,554	\$0	\$0	\$0

Oakland Redevelopment Agency
Central District Project Area - 2002 Annex
Projection of Incremental Taxable Value & Tax Increment Revenue
(000's Omitted)

1/18/05

Table 1

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
Taxable Values (1)										
Real Property (2)	34,694	35,387	36,095	36,817	37,553	38,305	39,071	39,852	40,649	41,462
Personal Property (3)	882	882	882	882	882	882	882	882	882	882
Total Projected Value	35,576	36,270	36,978	37,699	38,436	39,187	39,953	40,734	41,531	42,344
Taxable Value over Base	15,781	19,795	20,489	21,197	21,919	22,655	23,406	24,172	24,954	25,751
Gross Tax Increment Revenue (4)	232	240	248	256	265	273	282	291	300	309
Unitary Tax Revenue (5)	0	0	0	0	0	0	0	0	0	0
Gross Revenues	232	240	248	256	265	273	282	291	300	309
LESS										
SB 2557 Admin. Fee (6)	(2)	(2)	(2)	(2)	(2)	(3)	(3)	(3)	(3)	(3)
Housing Set Aside Requirement (7)	(46)	(48)	(50)	(51)	(53)	(55)	(56)	(58)	(60)	(62)
Tier 1 Statutory Tax Sharing Payments (8)	(46)	(48)	(50)	(51)	(53)	(55)	(56)	(58)	(60)	(62)
Tier 2 Statutory Tax Sharing Payments (8)	0	0	0	0	0	0	0	0	0	(2)
Tier 3 Statutory Tax Sharing Payments (8)	0	0	0	0	0	0	0	0	0	0
Tax Revenues	137	142	146	151	156	161	167	172	177	181

- (1) Taxable values as reported by Alameda County.
- (2) Real property consists of land and improvements. Increased for new development (see Table 5) and for inflation at 2% annually.
- (3) Personal property is held constant at 2004-05 level.
- (4) Projected Gross Tax Increment is based upon incremental taxable values factored against an assumed Project tax rate and adjusted for indebtedness approved by voters after 1988. Assumed future tax rates decline to \$1.1632 per \$100 of taxable value over 11 years
- (5) No Unitary Revenue is expected to be allocated to the 2002 Annex.
- (6) County Administration fee is estimated at 0.92% of Gross Revenue.
- (7) Housing Set Aside Requirement is calculated at 20% of Gross Revenue.
- (8) All Taxing Entities receive their shares of 25% of total tax increment revenue net of housing set aside. In addition, beginning with year 11 Taxing Entities receive 21% of tax revenue on incremental value above the year 10 value net of housing set aside. After year 30, Taxing Entities receive 14% of tax revenue on incremental value above the year 30 assessed value net of housing set aside. For purposes of calculating when the second and third tiers of pass through take effect, year 1 does not occur until the first year that the Agency receives tax increment (2004-05). The City is entitled to receive its share of the pass Tier 1 through amount at its election. Tier 2 payments will be initiated in fiscal year 2014-15 and Tier 3 payments will be initiated in fiscal year 2033-34.

Oakland Redevelopment Agency
Central District Project Area - 2002 Annex
PROJECTION OF INCREMENTAL VALUE AND TAX INCREMENT REVENUE

1/18/05

(000s Omitted)

Table 2

	Total Taxable Value	Taxable Value Over Base	Gross Tax Revenue	Housing Set-Aside	SB 2557 County Admin.	Statutory Tax Sharing Payments			Tax Revenues
		15,781				Tier 1 Payments	Tier 2 Payments	Tier 3 Payments	
1 2004-05	35,576	19,795	232	(46)	(2)	(46)	0	0	137
2 2005-06	36,270	20,489	240	(48)	(2)	(48)	0	0	142
3 2006-07	36,978	21,197	248	(50)	(2)	(50)	0	0	146
4 2007-08	37,699	21,919	256	(51)	(2)	(51)	0	0	151
5 2008-09	38,436	22,655	265	(53)	(2)	(53)	0	0	156
6 2009-10	39,187	23,406	273	(55)	(3)	(55)	0	0	161
7 2010-11	39,953	24,172	282	(56)	(3)	(56)	0	0	167
8 2011-12	40,734	24,954	291	(58)	(3)	(58)	0	0	172
9 2012-13	41,531	25,751	300	(60)	(3)	(60)	0	0	177
10 2013-14	42,344	26,564	309	(62)	(3)	(62)	(2)	0	181
11 2014-15	43,174	27,393	319	(64)	(3)	(64)	(3)	0	185
12 2015-16	44,019	28,239	328	(66)	(3)	(66)	(5)	0	189
13 2016-17	44,882	29,102	339	(68)	(3)	(68)	(7)	0	193
14 2017-18	45,762	29,982	349	(70)	(3)	(70)	(8)	0	198
15 2018-19	46,660	30,879	359	(72)	(3)	(72)	(10)	0	202
16 2019-20	47,575	31,795	370	(74)	(3)	(74)	(12)	0	207
17 2020-21	48,509	32,729	381	(76)	(4)	(76)	(14)	0	211
18 2021-22	49,462	33,681	392	(78)	(4)	(78)	(15)	0	216
19 2022-23	50,433	34,653	403	(81)	(4)	(81)	(17)	0	221
20 2023-24	51,424	35,644	415	(83)	(4)	(83)	(19)	0	226
21 2024-25	52,435	36,654	426	(85)	(4)	(85)	(21)	0	231
22 2025-26	53,466	37,686	438	(88)	(4)	(88)	(23)	0	236
23 2026-27	54,518	38,737	451	(90)	(4)	(90)	(25)	0	241
24 2027-28	55,591	39,810	463	(93)	(4)	(93)	(27)	0	246
25 2028-29	56,685	40,904	476	(95)	(4)	(95)	(30)	0	251
26 2029-30	57,801	42,020	489	(98)	(4)	(98)	(32)	0	257
27 2030-31	58,939	43,159	502	(100)	(5)	(100)	(34)	0	263
28 2031-32	60,100	44,320	516	(103)	(5)	(103)	(36)	0	268
29 2032-33	61,285	45,504	529	(106)	(5)	(106)	(39)	0	274
30 2032-33	62,493	46,712	543	(109)	(5)	(109)	(41)	(2)	278
31 2033-34	63,725	47,944	558	(112)	(5)	(112)	(43)	(3)	283
32 2034-05	64,982	49,201	572	(114)	(5)	(114)	(46)	(5)	287
33 2035-36	66,264	50,483	587	(117)	(5)	(117)	(48)	(6)	292
34 2036-37	67,571	51,791	602	(120)	(6)	(120)	(51)	(8)	297
35 2037-38	68,905	53,125	618	(124)	(6)	(124)	(53)	(10)	302
36 2038-39	70,266	54,485	634	(127)	(6)	(127)	(56)	(12)	307
37 2039-40	71,653	55,873	650	(130)	(6)	(130)	(59)	(14)	312
38 2040-41	73,069	57,288	666	(133)	(6)	(133)	(62)	(15)	317
39 2041-42	74,512	58,732	683	(137)	(6)	(137)	(64)	(17)	322
40 2042-43	75,985	60,204	700	(140)	(6)	(140)	(67)	(19)	327
41 2043-44	77,487	61,706	718	(144)	(7)	(144)	(70)	(21)	333
42 2044-45	79,019	63,239	736	(147)	(7)	(147)	(73)	(23)	338
43 2045-46	80,582	64,801	754	(151)	(7)	(151)	(76)	(25)	344
			19,661	(3,932)	(181)	(3,932)	(1,191)	(180)	10,244

**Oakland Redevelopment Agency
Central District Project Area - 2002 Annex**

1/18/05

Historical Assesed Values

Table 3

	Base Year 2002-03	2002-03	2003-04	2004-05
<i>Secured (1)</i>				
Land	14,426,460	0	8,566,676	8,686,722
Improvements	0	0	29,140,942	25,140,950
Personal Property	0	0	135,740	164,245
Exemptions	0	0	(39,613)	(40,353)
Total Secured	14,426,460	0	37,803,745	33,951,564
<i>Unsecured</i>				
Land	0	0	31,599	32,188
Improvements	0	0	1,022,239	874,063
Personal Property	1,354,242	0	608,181	718,126
Exemptions	0	0	0	0
Total Unsecured	1,354,242	0	1,662,019	1,624,377
GRAND TOTAL	15,780,702	0	39,465,764	35,575,941

Incremental Value
% Growth

	23,685,062	19,795,239
		-9.86%

Source: County of Alameda.

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

**Oakland Redevelopment Agency
Central District Project Area - 2002 Annex**

TOP TEN TAXABLE PROPERTY OWNERS

As Compared to Total Assessed Value

For Fiscal Year 2004-05

1/18/05

Table 4

	Secured			Unsecured			Total		Use Code
	Taxable Value	Parcels	% of Sec. AV	Taxable Value	Parcels	% of Unsec. AV	Taxable Value	% of Total Value	
1. OTAC Block 24 LLC [Owner has pending appeals on parcels]	\$17,381,810	2	51.20%	\$0	0	0.00%	\$17,381,810	48.86%	120,000 Sq. Ft. Telecommunications Center
2. Merritt Two Limited Partnership	\$8,510,154	1	25.07%	\$0	0	0.00%	\$8,510,154	23.92%	Saf Keep Self Storage (1,053 units)
3. Allen and Jane Kimball	\$2,400,000	2	7.07%	\$0	0	0.00%	\$2,400,000	6.75%	Industrial and Warehousing
4. Paco Financial Inc.	\$1,636,546	1	4.82%	\$0	0	0.00%	\$1,636,546	4.60%	Industrial and Warehousing
5. Carlo & Marie F. Diruocco	\$1,038,567	1	3.06%	\$0	0	0.00%	\$1,038,567	2.92%	Industrial and Warehousing
6. E. D. Coat Inc.	\$163,079	4	0.48%	\$526,990	1	32.44%	\$690,069	1.94%	Zinc and Cadmium Plating Plant
7. Gerald F. Rossi	\$459,344	3	1.35%	\$26,002	0	1.60%	\$485,346	1.36%	Industrial and Warehousing, Vacant Land
8. Michael B. Delaney & Cynthia Kuebel	\$331,067	1	0.98%	\$0	0	0.00%	\$331,067	0.93%	Single Family Home
9. Michael Jenzeh Trust	\$318,109	1	0.94%	\$0	0	0.00%	\$318,109	0.89%	Commercial Office Building
10. Mr. Espresso, A California Corporation	<u>\$0</u>	<u>0</u>	0.00%	<u>\$444,506</u>	<u>2</u>	27.36%	<u>\$444,506</u>	1.25%	Coffee and Espresso Machine Importing and Sales
Top Ten Property Owner Totals:	\$32,238,676	16		\$997,498	3		\$33,236,174		
Project Area Total Assessed Values:	\$33,951,564		94.95%	\$1,624,377		61.41%	\$35,575,941	93.42%	

**Oakland Redevelopment Agency
Central District Project Area - 2002 Annex**

**TOP TEN TAXABLE PROPERTY OWNERS
As Compared to Incremental Assessed Value
For Fiscal Year 2004-05**

1/18/05

Table 4a

	Secured			Unsecured			Total		Use Code
	Value	Parcels	% of Inc. AV	Value	Parcels	% of Inc. AV	Value	% of Inc. Value	
1. OTAC Block 24 LLC [Owner has pending appeals on parcels]	\$17,381,810	2	89.02%	\$0	0	0.00%	\$17,381,810	87.81%	120,000 Sq. Ft. Telecommunications Center
2. Merritt Two Limited Partnership	\$8,510,154	1	43.59%	\$0	0	0.00%	\$8,510,154	42.99%	Saf Keep Self Storage (1,053 units)
3. Allen and Jane Kimball	\$2,400,000	2	12.29%	\$0	0	0.00%	\$2,400,000	12.12%	Industrial and Warehousing
4. Paco Financial Inc.	\$1,636,546	1	8.38%	\$0	0	0.00%	\$1,636,546	8.27%	Industrial and Warehousing
5. Carlo & Marie F. Diruocco	\$1,038,567	1	5.32%	\$0	0	0.00%	\$1,038,567	5.25%	Industrial and Warehousing
6. E. D. Coat Inc.	\$163,079	4	0.84%	\$526,990	1	195.08%	\$690,069	3.49%	Zinc and Cadmium Plating Plant
7. Gerald F. Rossi	\$459,344	3	2.35%	\$26,002	0	9.63%	\$485,346	2.45%	Industrial and Warehousing, Vacant Land
8. Michael B. Delaney & Cynthia Kuebel	\$331,067	1	1.70%	\$0	0	0.00%	\$331,067	1.67%	Single Family Home
9. Michael Jenzeh Trust	\$318,109	1	1.63%	\$0	0	0.00%	\$318,109	1.61%	Commercial Office Building
10. Mr. Espresso, A California Corporation	<u>\$0</u>	<u>0</u>	0.00%	<u>\$444,506</u>	<u>2</u>	164.55%	<u>\$444,506</u>	2.25%	Coffee and Espresso Machine Importing and Sales
Top Ten Property Owner Totals:	\$32,238,676	16		\$997,498	3		\$33,236,174		
Project Area Incremental Values:	\$19,525,104		165.11%	\$270,135		369.26%	\$19,795,239	167.90%	

Oakland Redevelopment Agency
Central District Project Area - 2002 Annex
 New Development

1/18/05

Table 5

000's omitted

<u>Real Property</u>	<u>Sq. Ft./ # Units</u>	<u>Unit Value</u>	<u>Total Value</u>	<u>Less Existing</u>	<u>Value Added</u>	<u>Start</u>	<u>Complete</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
	0	\$0.00	\$0	\$0	\$0			\$0	\$0	\$0	\$0	\$0
	0	\$0.00	\$0	\$0	\$0			\$0	\$0	\$0	\$0	\$0
	0	\$0.00	\$0	\$0	\$0			\$0	\$0	\$0	\$0	\$0
	0	\$0.00	\$0	\$0	\$0			\$0	\$0	\$0	\$0	\$0
	0	\$0.00	\$0	\$0	\$0			\$0	\$0	\$0	\$0	\$0
	0	\$0.00	\$0	\$0	\$0			\$0	\$0	\$0	\$0	\$0
	0	\$0.00	\$0	\$0	\$0			\$0	\$0	\$0	\$0	\$0
	0	\$0.00	\$0	\$0	\$0			\$0	\$0	\$0	\$0	\$0
	0	\$0.00	\$0	\$0	\$0			\$0	\$0	\$0	\$0	\$0
	0	\$0.00	\$0	\$0	\$0			\$0	\$0	\$0	\$0	\$0
	0	\$0.00	\$0	\$0	\$0			\$0	\$0	\$0	\$0	\$0
Transferred Parcel Value Changes	<u>0</u>	Lump Sum	\$0	\$0	\$0			\$0	\$0	\$0	\$0	\$0
Total Real Property:			\$0	\$0	\$0			\$0	\$0	\$0	\$0	\$0
						Adj. Annually for Inflation @	2%			\$0	\$0	\$0

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APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a brief summary of certain provisions of the Indenture of Trust dated as of January 1, 2003, between the Redevelopment Agency of the city of Oakland and BNY Western Trust Company, as succeeded by The Bank of New York Trust Company, N.A., as trustee (the "Trustee"), as amended and supplemented by the First Supplemental Indenture of Trust, dated as of February 1, 2005, between the Agency and the Trustee, that are not otherwise described in the text of this Official Statement. Such summary is not intended to be definitive, and reference is made to the actual documents (copies of which may be obtained from the Agency) for the complete terms thereof.

Definitions

Except as otherwise defined in this summary, the terms previously defined in this Official Statement have the respective meanings previously given. In addition, the following terms have the following meanings when used in this summary:

"Agency" means the Redevelopment Agency of the City of Oakland, a public body corporate and politic duly organized and existing under the Law.

"Annual Debt Service" means, for each Bond Year, the sum of (a) the interest payable on the Outstanding Bonds and other Parity Debt in such Bond Year, assuming that the Outstanding Serial Bonds are retired as scheduled and that the Outstanding Term Bonds are redeemed from mandatory sinking account payments as scheduled, (b) the principal amount of the Outstanding Serial Bonds and other Parity Debt payable by their terms in such Bond Year, and (c) the principal amount of the Outstanding Term Bonds scheduled to be paid or redeemed from mandatory sinking account payments in such Bond Year.

"Bonds" means the Series 2003 Bonds, the Series 2005 Bonds and any Parity Debt issued as bonds pursuant to a Supplemental Indenture.

"Bond Counsel" means (a) Jones Hall, A Professional Law Corporation, or (b) any other attorney or firm of attorneys appointed by or acceptable to the Agency, of nationally-recognized experience in the issuance of obligations the interest on which is excludable from gross income for federal income tax purposes under the Code.

"Bond Year" means any twelve-month period beginning on September 2 in any year and ending on the next succeeding September 1, both dates inclusive, except that, with respect to the Series 2003 Bonds, the first Bond Year shall begin on the Closing Date with respect to the Series 2003 Bonds and end on September 1, 2003, and, with respect to the Series 2005 Bonds, the first Bond Year shall begin on the Closing Date with respect to the Series 2005 Bonds and end on September 1, 2005.

"Business Day" means a day of the year on which banks in the State of California, are not required or permitted to be closed and on which the New York Stock Exchange is not closed.

"City" means the City of Oakland, California, a municipal corporation and chartered city duly organized and existing under the Constitution and laws of the State.

"Closing Date" means the date on which a series of Bonds are delivered by the Agency to the original purchaser thereof.

"Code" means the Internal Revenue Code of 1986 as in effect on the date of issuance of the Series 2003 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 Series 2003 Bonds, together with applicable proposed, temporary and final regulations promulgated, and applicable official public guidance published, under the Code.

"Continuing Disclosure Certificate" means, with respect to the Series 2003 Bonds, that certain Continuing Disclosure Certificate relating to the Series 2003 Bonds, executed by the Agency, as originally executed and as it may be amended from time to time in accordance with the terms thereof, and with respect to the Series 2005 Bonds, that certain Continuing Disclosure Certificate relating to the Series 2005 Bonds executed by the Agency, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

"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 Bonds, including but not limited to printing expenses, bond insurance premiums, rating agency fees, filing and recording fees, initial fees and charges and first annual administrative fee of the Trustee and fees and expenses of its counsel, fees, charges and disbursements of attorneys, financial advisors, accounting firms, consultants and other professionals, fees and charges for preparation, execution and safekeeping of the Bonds, administrative costs of the Agency and the City incurred in connection with the issuance of the Bonds, and any other cost, charge or fee in connection with the original issuance of the Bonds.

"Costs of Issuance Fund" means the account by that name established and held by the Trustee pursuant to the Indenture.

"County" means the County of Alameda, a county duly organized and existing under the laws of the State.

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

"Defeasance Obligations" means any of the following which, at the time of investment, are in compliance with the City's investment policies then in effect (provided that the Trustee shall be entitled to rely upon any investment direction from the Agency as conclusive certification to the Trustee that investments described therein are in compliance with the City's investment policies then in effect and, provided further, that the prior written consent of the Series 20023 Insurer and any other Insurer shall be required for the use of Defeasance Obligations described in (d), (e) and (f) for the purposes set forth in the defeasance provisions described under the caption "Defeasance of Bonds":):

- (a) Cash;
- (b) Federal Securities;
- (c) The interest component of Resolution Funding Corporation strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form;
- (d) Pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by S&P;

(e) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself): (i) direct obligations or fully guaranteed certificates of beneficial ownership of the U.S. Export-Import Bank; (ii) certificates of beneficial ownership of the Farmers Home Administration; (iii) Federal Housing Administration debentures; (iv) participation certificates of the General Services Administration; (v) Federal Financing Bank bonds and debentures; (vi) guaranteed mortgage-backed bonds or guaranteed pass-through obligations of the Government National Mortgage Association; (vii) guaranteed Title XI financings of the U.S. Maritime Administration; and (viii) project notes, local authority bonds, new communities debentures and U.S. public housing notes and bonds of the U.S. Department of Housing and Urban Development; and

(f) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities only as stripped by the agency itself): (i) senior debt obligations of the Federal Home Loan Bank System; (ii) participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation; (iii) mortgaged-backed securities and senior debt obligations of Fannie Mae; (iv) senior debt obligations of the Student Loan Marketing Association; (v) obligations of the Resolution Funding Corporation; and (vi) consolidated system-wide bonds and notes of the Farm Credit System.

"Fair Market Value" means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm's length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of section 1273 of the Code) and, otherwise, the term "Fair Market Value" means the acquisition price in a bona fide arm's length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Code, (iii) the investment is a United States Treasury Security--State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) any commingled investment fund in which the Agency and related parties do not own more than a ten percent (10%) beneficial interest therein if the return paid by the fund is without regard to source of the investment.

"Federal Securities" means any direct, noncallable general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America and CATS and TGRS), or obligations the payment of principal of and interest on which are directly or indirectly guaranteed by the United States of America.

"First Supplement" means the First Supplemental Indenture of Trust, dated as of February 1, 2005, by and between the Agency and the Trustee, as the same may be amended from time to time in accordance with the terms of the Series 2003 Indenture.

"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 to the Trustee in writing as its official fiscal year period.

"Indenture" means the Series 2003 Indenture, as supplemented and amended by the First Supplement, and as it may be further supplemented or amended by any Supplemental Indenture entered into pursuant to the provisions thereof.

"Independent Accountant" means any accountant or firm of such accountants duly licensed or registered or entitled to practice as such under the laws of the State, appointed by 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 Consultant" means any consultant or firm of such consultants appointed by the Agency (who may be an underwriter of bonds of the Agency or the City), and who, or each of whom:

- (a) is judged by the Agency to have experience in matters relating to the collection 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;
- 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.

"Insurer" means the provider of a municipal bond or financial guaranty insurance policy with respect to an issue of Bonds other than the Series 2003 Bonds.

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

"Interest Payment Date" means each March 1 and September 1, commencing March 1, 2003, for so long as any of the Bonds remain Outstanding under the Indenture.

"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.

"Maximum Annual Debt Service" means, as of the date of calculation, the largest Annual Debt Service for the current or any future Bond Year, including payments on any Parity Debt, as certified in writing by the Agency to the Trustee. For purposes of such calculation, there shall be excluded the principal of any Bonds and other Parity Debt, together with the interest to accrue thereon, in the event and to the extent that the proceeds of such Bonds and other Parity Debt are

deposited in an escrow fund and are held in cash or are invested solely in Permitted Investments and from which amounts may not be released to the Agency unless the amount of Tax Revenues for the current Fiscal Year (as evidenced in the written records of the County), at least equal the requirements for issuance of Parity Debt under the Indenture.

"Moody's" means Moody's Investors Service and its successors.

"Outstanding", when used as of any particular time with reference to Bonds, means (subject to the applicable 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, but not including any Bonds paid by the Series 2003 Insurer or by any other Insurer, as provided in 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 the Indenture.

"Owner" or "Bondowner" means, with respect to any Bond, the person in whose name the ownership of such Bond shall be registered on the Registration Books.

"Parity Debt" means any additional loans, advances or other indebtedness issued or incurred by the Agency on a parity with the Bonds pursuant to the Indenture.

"Parity Debt Instrument" means any Supplemental Indenture or other instrument providing for the issuance or incurrence of Parity Debt.

"Participating Underwriter" has the meaning ascribed thereto in the Continuing Disclosure Certificate.

"Permitted Investments" means any of the following which at the time of investment are in compliance with the City's investment policies then in effect (provided that the Trustee shall be entitled to rely upon any investment direction from the Agency as conclusive certification to the Trustee that the investments described therein are in compliance with the City's investment policies then in effect), but only to the extent that the same are acquired at Fair Market Value:

(a) Federal Securities;

(b) The interest component of Resolution Funding Corporation strips which have been stripped by request to the Federal Reserve Bank of New York in book-entry form;

(c) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself): (i) direct obligations or fully guaranteed certificates of beneficial ownership of the U.S. Export-Import Bank; (ii) certificates of beneficial ownership of the Farmers Home Administration; (iii) Federal Housing Administration debentures; (iv) participation certificates of the General Services Administration; (v) Federal Financing Bank bonds and

debentures; (vi) guaranteed mortgage-backed bonds or guaranteed pass-through obligations of the Government National Mortgage Association; (vii) guaranteed Title XI financings of the U.S. Maritime Administration; and (viii) project notes, local authority bonds, new communities debentures and U.S. public housing notes and bonds of the U.S. Department of Housing and Urban Development;

- (d) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities only as stripped by the agency itself): (i) senior debt obligations of the Federal Home Loan Bank System; (ii) participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation; (iii) mortgaged-backed securities and senior debt obligations of Fannie Mae; (iv) senior debt obligations of the Student Loan Marketing Association; (v) obligations of the Resolution Funding Corporation; and (vi) consolidated system-wide bonds and notes of the Farm Credit System;
- (e) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of at least "AAAm-G", "AAAm" or "AAm", and a rating by Moody's of "Aaa", "Aa1" or "Aa2" (such funds may include funds for which the Trustee, its affiliates, parent or subsidiaries provide investment advisory or other management services);
- (f) Certificates of deposit (including those of the Trustee, its parent and its affiliates) secured at all times by collateral described in (a) or (b) above, which have a maturity not greater than one year from the date of investment and which are issued by commercial banks, savings and loan associations or mutual savings banks whose short-term obligations are rated "A-1+" or better by S&P and "Prime-1" by Moody's, which collateral must be held by a third party and provided that the Trustee must have a perfected first security interest in such collateral;
- (g) Certificates of deposit, savings accounts, deposit accounts or money market deposits (including those of the Trustee and its affiliates) which are fully insured by FDIC, including BIF and SAIF or which are issued by any bank the obligations of which are rated at least "A" by Moody's and S&P;
- (h) Investment agreements, including guaranteed investment contracts, forward purchase agreements, reserve fund put agreements and collateralized investment agreements with banks, insurance companies or other financial institutions rated "A" or better by S&P and Moody's (or guaranteed by an entity rated "A" or better by S&P and Moody's);
- (i) Commercial paper rated "Prime-1" by Moody's and "A-1+" or better by S&P;
- (j) Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest rating categories assigned by such agencies;
- (k) Federal funds or bankers acceptances with a maximum term of one year of any bank which an unsecured, uninsured and unguaranteed obligation rating of "Prime-1" or "A3" or better by Moody's, and "A-1+" by S&P;

- (l) The Local Agency Investment Fund which is administered by the California Treasurer for the investment of funds belonging to local agencies within the State of California, provided for investment of funds held by the Trustee, the Trustee is entitled to make investments and withdrawals in its own name as Trustee; and
- (m) Shares in a California common law trust (including the California Asset Management Program) established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State of California which invests exclusively in investments permitted by Section 53601 of Title 5, Division 2, Chapter 4 of the Government Code of the State of California, as it may be amended.

"Plan Limit" means the limitation contained in the Redevelopment Plan on the number of dollars of taxes which may be divided and allocated to the Agency pursuant to the Redevelopment Plan, as such limitation is prescribed by Section 33333.4 of the Law.

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

"Project Area" means the territory within the Redevelopment Project, as described in the Redevelopment Plan.

"Qualified Reserve Account Credit Instrument" means an irrevocable standby or direct-pay letter of credit, insurance policy or surety bond issued by a commercial bank or insurance company and deposited with the Trustee, provided that all of the following requirements are met at the time of acceptance thereof by the Trustee: (a) in the case of a commercial bank, the long-term credit rating of such bank is at least "AA" from S&P or "Aa" from Moody's and, in the case of an insurance company, the claims paying ability of such insurance company is "AAA" from S&P or "Aaa" from Moody's or, if rated by A.M. Best & Company, is rated in the highest rating category by A.M. Best & Company; (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; (d) the Trustee is authorized pursuant to the terms of such letter of credit or surety bond to draw under the Indenture an amount equal to any deficiencies which may exist from time to time in the Interest Account or the Principal Account for the purpose of making payments required pursuant to the Indenture; and (e) such letter of credit, insurance policy or surety bond otherwise meets the requirements described under the heading "Additional Provisions Relating to Qualified Reserve Account Credit Instruments" below.

"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 created under the Indenture and held by the Trustee pursuant to the Indenture.

"Redevelopment Plan" means the redevelopment plan for the Central District Redevelopment Project of the Agency in Oakland, California, titled "Central District Urban Renewal Plan," heretofore adopted and approved as the Redevelopment Plan for the Project, and as amended and restated by Ordinance No. 12348 adopted by said Council on July 24, 2001, together with all further amendments thereto hereafter made in accordance with the Law.

"Redevelopment Project" means the Oakland Central District Redevelopment Project as described in the Redevelopment Plan.

"Report" means a document in writing signed by an Independent Redevelopment 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 said consultant to express an informed opinion with respect to the subject matter referred to in the Report.

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

"Reserve Requirement" means, as of the date of calculation by the Agency, the lesser of (i) the amount of Maximum Annual Debt Service on the Bonds (excluding from the calculation thereof Parity Debt other than Bonds), (ii) ten percent (10%) of the total of the proceeds of the Bonds (excluding from the calculation thereof Parity Debt other than Bonds) and (iii) one hundred and twenty five percent (125%) of average Annual Debt Service on the Bonds (excluding from the calculation thereof Parity Debt other than Bonds); provided, that in no event shall the Agency, in connection with the issuance of additional Bonds, be obligated to deposit an amount in the Reserve Account which is in excess of the amount permitted by the applicable provisions of the Code to be so deposited from the proceeds of tax-exempt bonds without having to restrict the yield of any investment purchased with any portion of such deposit and, that in the event such amount of any deposit into the Reserve Account is so limited, the Reserve Requirement shall, in connection with the issuance of such additional Bonds, be increased only by the amount of such deposit.

"S&P" means Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, and its successors.

"Senior Bonds" means the Agency's Central District Redevelopment Project Senior Tax Allocation Refunding Bonds, Series 1992, and any obligations issued on a parity therewith as provided in the Senior Bonds Resolution.

"Senior Bonds Resolution" means the Resolution of the Agency adopted on June 3, 1986, entitled "Resolution of the Redevelopment Agency of the City of Oakland Authorizing the Issuance and Prescribing the Terms, Conditions and Form of \$91,555,000 Principal Amount of Redevelopment Project Tax Allocation Refunding Bonds, Series 1986," as amended and supplemented by the Resolution of the Agency adopted on July 28, 1992, entitled "First Supplemental and Amendatory Resolution of the Redevelopment Agency of the City of Oakland Authorizing the Issuance and Prescribing the Agency of the City of Oakland Central District Redevelopment Project Senior Tax Allocation Refunding Bonds, Series 1992," and as it may be further amended from time to time, and pursuant to which the Senior Bonds were issued.

"Serial Bonds" means all Bonds other than Term Bonds.

"Series 2005 Bonds" means, the Agency's Central District Redevelopment Project Subordinated Tax Allocation Bonds, Series 2005 issued in the initial principal amount of \$44,360,000.

"Series 2005 Bond Insurance Policy" means the financial guaranty insurance policy issued by the Series 2005 Insurer insuring the payment when due of the principal of and interest on the Series 2005 Bonds as provided therein.

"Series 2005 Costs of Issuance Fund" means the fund by that name established and held by the Trustee pursuant to First Supplement.

"Series 2005 Insurer" means Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company.

"Series 2005 Qualified Reserve Account Credit Instrument" means the surety bond issued by the Series 2005 Insurer pursuant to the Series 2005 Reserve Account Agreement for the credit of the Reserve Account as provided therein and subject to the limitations set forth therein.

"Series 2005 Reserve Account Agreement" means the Guaranty Agreement, dated the Closing Date, by and between the Agency and the Insurer, relating to the Series 2005 Qualified Reserve Account Credit Instrument.

"Series 2003 Bonds" means the Redevelopment Agency of the City of Oakland Central District Redevelopment Project Subordinated Tax Allocation Bonds, Series 2003.

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

"Series 2003 Insurer" means Financial Guaranty Insurance Company, doing business in California as FGIC Insurance Company, a New York Stock Insurance Company or any successor thereto.

"Series 2003 Policy Costs" shall have the meaning assigned to that term in the Series 2003 Reserve Account Agreement.

"Series 2003 Qualified Reserve Account Credit Instrument" means the Municipal Bond Debt Service Reserve Fund Policy issued by the Series 2003 Insurer.

"Series 2003 Reserve Account Agreement" means the Debt Service Reserve Fund Policy Agreement dated as of January 9, 2003, between the Agency and the Series 2003 Insurer.

"Special Fund" means the fund by that name established and held by the Agency.

"State" means the State of California.

"Subordinate Debt" means any loans, advances 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 expressly subordinate to the pledge of and lien upon the Tax Revenues under the Indenture for the security of the Bonds.

"Subordinate Debt Instrument" means any instrument providing for the issuance of Subordinate Debt.

"Supplemental Indenture" means any resolution, agreement or other instrument 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.

"Tax Revenues" means all taxes annually allocated within the Plan Limit and paid to the Agency with respect to the Project Area pursuant to Article 6 of Chapter 6 (commencing with Section 33670) of the Law and Section 16 of Article XVI of the Constitution of the State, or pursuant to other applicable State laws, and as provided in the Redevelopment Plan, and all payments, subventions and reimbursements, if any, to the Agency specifically attributable to ad valorem taxes lost by reason of tax exemptions and tax rate limitations; but excluding all other amounts of such taxes (if any) (i) required to be deposited into the Low and Moderate Income Housing Fund of the Agency pursuant to Section 33334.2 of the Law for increasing and improving the supply of low and moderate income housing, (ii) amounts payable by the State to the Agency under and pursuant to Chapter 1.5 of Part 1 of Division 4 of Title 2 (commencing with Section 16110) of the California Government Code, and (iii) amounts payable by the Agency pursuant to Sections 33607.5 and 33607.7 of the Law, except and to the extent that any amounts so payable are payable on a basis subordinate to the payment of debt service on the Bonds.

"Tax Revenues Certificate" means a Written Certificate of the Agency identifying, among other things, the amount of Tax Revenues received or estimated to be received by the Agency in the then current Fiscal Year.

"Term Bonds" means that portion of any Bonds payable from mandatory sinking account payments.

"Written Request of the Agency" or "Written Certificate of the Agency" means a request or certificate, in writing signed by the Treasurer of the Agency or her or his designee, or by any other officer of the Agency or the City duly authorized by the Agency for that purpose.

Establishment of Funds and Accounts; Flow of Funds

Each of the following funds and accounts are established pursuant to the Indenture:

- (a) Costs of Issuance Fund,
- (b) Redevelopment Fund,
- (c) Special Fund,
- (d) Debt Service Fund,
- (e) Interest Account,
- (f) Principal Account,
- (g) Reserve Account, and
- (h) Redemption Account.

Costs of Issuance Fund. 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 with respect to the Series 2003 Bonds upon submission of a Written Request of the Agency stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund. On the date which is six (6) months following the Closing Date with respect to the Series 2003 Bonds, or upon the earlier Written Request of the Agency, all amounts (if any) remaining in the Costs of Issuance Fund shall be withdrawn therefrom by the Trustee and transferred to the Redevelopment Fund.

Series 2005 Costs of Issuance Fund. The moneys in the Series 2005 Costs of Issuance Fund shall be used and withdrawn by the Trustee from time to time to pay the Costs of Issuance with respect to the Series 2005 Bonds upon submission of a Written Request of the Agency stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund. On the earlier of July 1, 2005, or the date of receipt by the Trustee of a Written Request of the Agency, all amounts (if any) remaining in the Series 2005 Costs of Issuance Fund shall be withdrawn therefrom by the Trustee and be transferred to the Agency for deposit in the Redevelopment Fund.

Redevelopment Fund. The moneys in the Redevelopment Fund shall be maintained separate and apart from other moneys of the Agency. The moneys on deposit in the Redevelopment Fund shall be used in the manner provided by the Law solely for the purpose of aiding in financing the Redevelopment Project, including, without limitation, the payment of any unpaid Costs of Issuance. The Agency covenants that no funds on deposit in the Redevelopment Fund shall be applied for any purpose not authorized by the Law.

Special Fund; Deposit of Tax Revenues. There is established in the Indenture another special fund known as the "Special Fund", which is held by the Agency and which is in the Indenture referred to as the "Special Fund". Subject to the provisions of the Senior Bonds Resolution regarding the application of Tax Revenues, the Agency shall transfer all of the Tax Revenues received in any Bond Year to 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 for deposit in such Bond Year (i) for deposit into the Interest Account, the Principal Account, the Reserve Account and the Redemption Account in such Bond Year and, if applicable, and (ii) with respect to any Parity Debt other than additional Bonds pursuant to the applicable Parity Debt Instrument. If the amount of Tax Revenues available in such Bond Year shall be insufficient to deposit the full amount required to be deposited pursuant to subsections (i) and (ii) of this paragraph, then the Agency shall transfer such Tax Revenues for deposit pro rata based on the full amounts required to be so deposited.

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 shall be released from the pledge, security interest and lien under the Indenture for the security of the Bonds and any additional Parity Debt and may be applied by the Agency for any lawful purpose of the Agency, including but not limited to the payment of Subordinate Debt, or the payment of any amounts due and owing to the United States of America as rebate under the Indenture. Prior to the payment in full of the principal of and interest and redemption premium (if any) on the Bonds and the payment in full of all other amounts payable under the Indenture and under any Supplemental Indenture or Parity Debt Instrument, 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 and in any Supplemental Indenture or Parity Debt Instrument.

Debt Service Fund; Deposit of Amounts by Trustee. There is established a 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, as provided in the Indenture, shall be transferred by the Agency to the Trustee in the following amounts, at the following times, and deposited by the Trustee in the following respective special accounts, which are established in the Debt Service Fund, and in the following order of priority:

- (a) Interest Account. On or before the third (3rd) Business Day preceding each Interest Payment Date, 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 contained in the Interest Account on that date, will be equal to the aggregate amount of the interest becoming due and payable on the Outstanding Bonds on such Interest Payment Date. No such transfer and deposit need be made to the Interest Account if the amount contained therein is at least equal to the interest to become due on the next succeeding Interest Payment Date upon all of the Outstanding Bonds. All moneys in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds redeemed prior to maturity pursuant to the Indenture).

(b) Principal Account. On or before the third (3rd) Business Day preceding September 1 in each year, 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 contained in the Principal Account, will be equal to the principal becoming due and payable on the Outstanding Serial Bonds and Outstanding Term Bonds, including pursuant to mandatory sinking account redemption, on the next September 1. No such transfer and deposit need be made to the Principal Account if the amount contained therein is at least equal to the principal to become due on the next September 1 on all of the Outstanding Serial Bonds and Term 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 Serial Bonds and the Term Bonds, including by mandatory sinking account redemption, as the same shall become due and payable.

(c) Reserve Account. In the event that the amount on deposit in the Reserve Account at any time becomes less than the Reserve Requirement, the Trustee shall promptly notify the Agency of such fact. Promptly upon receipt of any such notice, the Agency shall transfer to the Trustee an amount sufficient to maintain the Reserve Requirement on deposit in the Reserve Account. If there shall then not be sufficient Tax Revenues to transfer an amount sufficient to maintain the Reserve Requirement on deposit in the Reserve Account, the Agency shall be obligated to continue making transfers as Tax Revenues become available in the Special Fund until there is an amount sufficient to maintain the Reserve Requirement on deposit in the Reserve Account. No such transfer and deposit need be made to the Reserve Account so long as there shall be on deposit therein a sum at least equal to the Reserve Requirement. All money in the Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of making transfers to the Interest Account and the Principal Account in such order of priority, in the event of any deficiency at any time in any of such accounts or for the retirement of all the Bonds then Outstanding, except that so long as the Agency is not in default under the Indenture, any amount in the Reserve Account in excess of the Reserve Requirement shall be withdrawn from the Reserve Account semiannually on or before the fifth (5th) Business Days preceding each March 1 and September 1 by the Trustee and deposited in the Interest Account. All amounts in the Reserve Account on the Business Day preceding the final Interest Payment Date shall be withdrawn from the Reserve Account and shall be transferred either (i) to the Interest Account and the Principal Account, in such order, to the extent required to make the deposits then required to be made pursuant to the Indenture or, (ii) if the Agency shall have caused to be transferred to the Trustee an amount sufficient to make all of the deposits required by the Indenture, then, at the Written Request of the Agency, to the Redevelopment 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: (i) a Qualified Reserve Account Credit Instrument, and (ii) an opinion of Bond Counsel stating that

neither the release of such funds nor the acceptance of such Qualified Reserve Account Credit Instrument will cause interest on the Series 2003 Bonds or any other Bonds the interest on which is excluded from gross income of the owners thereof for federal income tax purposes to become includable in gross income for purposes of federal income taxation. Upon tender of such items to the Trustee, and upon delivery by the Agency to the Trustee of written calculation of the amount permitted to be released from the Reserve Account (upon which calculation the Trustee may conclusively rely), the Trustee shall transfer such funds from the Reserve Account to the Agency to be deposited in the Redevelopment Fund and used for the purposes thereof. The Trustee shall comply with all documentation relating to a Qualified Reserve Account Credit Instrument as shall be required to maintain such Qualified Reserve Account Credit Instrument in full force and effect and as shall be required to receive payments under the Indenture in the event and to the extent required to make any payment when and as required under this subsection (c). Upon the expiration of any Qualified Reserve Account Credit Instrument, the Agency shall either (i) 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 an amount of funds equal to the Reserve Requirement, to be derived from the first available Tax Revenues. If the Qualified Reserve Account Credit Instrument is in the form of a letter of credit and the Agency has not renewed or replaced such letter of credit two weeks prior to its expiration or termination, the Trustee shall draw on such letter of credit in full and deposit the proceeds of such draw in the Reserve Account. If the Reserve Requirement is being maintained partially in cash and partially with a Qualified Reserve Account Credit Instrument, the cash shall be first used to meet any deficiency which may exist from time to time in the Interest Account or the Principal Account for the purpose of making interest and principal payments required pursuant to the Indenture. If the Reserve Requirement is being maintained with two or more Qualified Reserve Account Credit Instruments, any draw to meet a deficiency which may exist from time to time in the Interest Account or the Principal Account for the purpose of making payments of interest and principal required pursuant to the Indenture shall be pro-rata with respect to each such instrument.

In the event that a Qualified Reserve Account Credit Instrument is available to be drawn upon for only one particular issue of Bonds, a separate subaccount in the Reserve Account may be established for such issue, and the calculation of the Reserve Requirement with respect to all other Bonds shall exclude the debt service on such issue of Bonds. Additionally, the Reserve Account may be maintained in the form of one combined Reserve Account or in the form of one more separate sub-accounts which are established for the purpose of holding the proceeds of separate issues of Bonds in conformity with applicable provisions of the Code to the extent directed by the Agency in writing to the Trustee.

(d) Redemption Account. On or before the Business Day preceding any date on which Bonds are to be redeemed pursuant to the Indenture, the Trustee shall withdraw from the Debt Service Fund any amount transferred by the Agency for deposit in the Redemption Account, such amount being the amount required to pay the principal of and premium, if any, on the Bonds to be redeemed on such date pursuant to the Indenture or a similar provision of a Supplemental Indenture. 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 such Bonds to be redeemed pursuant to the Indenture or a similar provision of a Supplemental Indenture on the date set for such redemption. Interest due on such Bonds to be redeemed on the date set for redemption shall, if applicable, be paid from funds available therefor in the Interest Account. Notwithstanding the foregoing, at any time prior to giving notice of redemption of any such Bonds, the Trustee may, at

the direction of the Agency, apply amounts deposited or otherwise to be deposited in the Redemption Account to the purchase of such Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest on such Bonds, which is payable from the Interest Account) as shall be directed by the Agency.

Claims Upon the Series 2003 Bond Insurance Policy

The following provisions apply to claims upon the Series 2003 Bond Insurance Policy with respect to the Bonds and apply to payments by and to the Series 2003 Insurer:

(a) If, on the third day preceding any Interest Payment Date for the Series 2003 Bonds there is not on deposit with the Trustee sufficient moneys available to pay all principal of and interest on the Series 2003 Bonds due on such date, the Trustee shall immediately notify the Series 2003 Insurer and State Street Bank and Trust Company, N.A., New York, New York or its successor as its Fiscal Agent (the "Fiscal Agent") of the amount of such deficiency. If, by said Interest Payment Date, the Agency has not provided the amount of such deficiency, the Trustee shall simultaneously make available to the Series 2003 Insurer and to the Fiscal Agent the registration books for the Series 2003 Bonds maintained by the Trustee. In addition:

(i) The Trustee shall provide the Series 2003 Insurer with a list of the Owners of the Series 2003 Bonds entitled to receive principal or interest payments from the Series 2003 Insurer under the terms of the Series 2003 Bond Insurance Policy relating to the Series 2003 Bonds and shall make arrangements for the Series 2003 Insurer and its Fiscal Agent (1) to mail checks or drafts to Owners of the Series 2003 Bonds entitled to receive full or partial interest payments from the Series 2003 Insurer and (2) to pay principal of the Series 2003 Bonds surrendered to the Fiscal Agent by the Owners of the Series 2003 Bonds entitled to receive full or partial principal payments from the Series 2003 Insurer; and

(ii) The Trustee shall, at the time it makes the registration books available to the Series 2003 Insurer pursuant to (1) above, notify Owners of the Series 2003 Bonds entitled to receive the payment of principal of or interest on the Series 2003 Bonds from the Series 2003 Insurer (1) as to the fact of such entitlement, (2) that the Series 2003 Insurer will remit to them all or part of the interest payments coming due subject to the terms of the Series 2003 Bond Insurance Policy relating to the Series 2003 Bonds, (3) that, except as provided in paragraph (b) below, in the event that any Owner of a Series 2003 Bond is entitled to receive full payment of principal from the Series 2003 Insurer, such Owner of a Series 2003 Bond must tender his Series 2003 Bond executed in the name of the Series 2003 Insurer, and (4) that, except as provided in paragraph (b) below, in the event that such Owner of a Series 2003 Bond is entitled to receive partial payment of principal from the Series 2003 Insurer, such Owner of a Series 2003 Bond must tender his Series 2003 Bond for payment first to the Trustee, which shall note on such Series 2003 Bond the portion of principal paid by the Trustee, and then, with an acceptable form of assignment executed in the name of the Series 2003 Insurer, to the Fiscal Agent, which will then pay the unpaid portion of principal to the Owner of the Series 2003 Bonds subject to the terms of the Series 2003 Bond Insurance Policy.

(b) In the event that the Trustee has notice that any payment of principal of or interest on a Series 2003 Bond has been recovered from an Owner of a Series 2003 Bond 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 shall, at the time it provides notice to the Series 2003 Insurer, notify all Owners of Series 2003 Bonds that in the event that any such Owner's payment is so recovered, such Owner will be entitled to payment

from the Series 2003 Insurer to the extent of such recovery, and the Trustee shall furnish to the Series 2003 Insurer its records evidencing the payments of principal of and interest on the Series 2003 Bonds which have been made by the Trustee and subsequently recovered from Owners of the Series 2003 Bonds, and the dates on which such payments were made.

(c) The Series 2003 Insurer shall, to the extent it makes payment of principal of or interest on the Series 2003 Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Series 2003 Bond Insurance Policy relating to the Series 2003 Bonds and, to evidence such subrogation, (A) in the case of subrogation as to claims for past due interest, the Trustee shall note the Series 2003 Insurer's rights as subrogee on the registration books maintained by the Trustee upon receipt from the Series 2003 Insurer of proof of the payment of interest thereon to the Owners of the Series 2003 Bonds and (B) in the case of subrogation as to claims for past due principal, the Trustee shall note the Series 2003 Insurer's right as subrogee on the registration books for the Series 2003 Bonds maintained by the Trustee upon receipt of proof of the payment of principal thereof to the Owners of such Series 2003 Bonds. Notwithstanding anything in the Indenture or the Series 2003 Bonds to the contrary, the Trustee shall make payment of such past due interest and past due principal directly to the Series 2003 Insurer to the extent that the Series 2003 Insurer is a subrogee with respect thereto.

Provisions Relating to the Series 2003 Qualified Reserve Account Credit Instrument.

(a) Notwithstanding anything in the Indenture to the contrary, in the event that amounts on deposit in the Reserve Account are required to be withdrawn to pay the principal of (including pursuant to mandatory sinking fund redemption) and interest on the Series 2003 Bonds, if and to the extent that cash is on deposit in the Reserve Account, all such cash shall be used (or investments purchased with such cash shall be liquidated and the proceeds applied as required in the Indenture) prior to any drawing being made under the Series 2003 Qualified Reserve Account Credit Instrument, and the repayment of Series 2003 Policy Costs shall be made prior to the replenishment of any such cash amounts and shall enjoy the same priority as the obligation to maintain and refill the Reserve Account. Additionally, if in addition to the Series 2003 Qualified Reserve Account Credit Instrument any other surety bond, insurance policy or letter of credit (an "Additional Qualified Reserve Account Credit Instrument") is provided, drawings under the Series 2003 Qualified Reserve Account Credit Instrument and such Additional Qualified Reserve Account Credit Instrument, and repayment of the Series 2003 Policy Costs and reimbursements of amounts due in connection with the Additional Qualified Reserve Account Credit Instrument shall be made on a pro rata basis (calculated by reference to the maximum amounts available to be drawn thereunder) after applying all available cash and Investment Securities on deposit in the Reserve Account and prior to the replenishment of any such cash draws, respectively.

(b) To the extent that a drawing is made on the Series 2003 Qualified Reserve Account Credit Instrument, the Agency shall repay such draw and related expenses as provided in the Series 2003 Reserve Account Agreement (notwithstanding anything to the contrary set forth in the Indenture). Such draw and related expenses shall bear interest at a rate equal to the lower of (i) the prime rate of JPMorgan Chase Bank in effect from time to time plus 2% per annum and (ii) the highest rate permitted by law. Repayment of Policy Costs shall be in an amount equal to 1/12 of the aggregate of Policy Costs related to a draw on the Series 2003 Qualified Reserve Account Credit Instrument.

(c) If the Agency fails to pay any Series 2003 Policy Costs in accordance with the provisions of the Series 2003 Reserve Account Agreement, the Series 2003 Insurer shall be entitled to exercise any and all remedies available at law or under the Indenture or the Series

2003 Reserve Account Agreement other than (i) acceleration of the maturity of the Series 2003 Bonds or (ii) remedies which would adversely affect the Owners of the Series 2003 Bonds.

(d) The Indenture shall not be deemed discharge until all Series 2003 Policy Costs shall have been paid in full.

(e) As security for the Agency's repayment obligations with respect to the Series 2003 Reserve Account Agreement, the Series 2003 Insurer, as provider of the Series 2003 Qualified Reserve Account Credit Instrument, is hereby granted a security interest in the Tax Revenues and amounts held by the Trustee under the Indenture, which security interest shall be subordinate to the security interest granted to the Owners of the Series 2003 Bonds (including the Series 2003 Bond Insurer) and on a parity with the security interest granted to the provider of an Additional Qualified Reserve Account Credit Instrument.

(f) In determining whether the Agency complies with the Parity Debt test set forth in the Indenture in connection with the incurrence of Parity Debt, there shall also be taken into account any Series 2003 Policy Costs then due and payable, provided that there need be only one times coverage with respect thereto. Additionally, in the event that any Series 2003 Policy Costs are past due and owing, no additional Series of Bonds may be issued without the consent of the Series 2003 Insurer, as provider of the Series 2003 Qualified Reserve Account Credit Instrument.

(g) The Trustee shall ascertain the necessity for a claim upon the Series 2003 Qualified Reserve Account Credit Instrument and provide the Series 2003 Insurer, as the provider thereof, in accordance with the provisions of the Series 2003 Qualified Reserve Account Credit Instrument, at least two (2) days prior to the applicable Interest Payment Date.

Rights of Series 2003 Insurer; Consent or Approval of the Series 2003 Insurer

(a) The following provisions shall govern, notwithstanding anything to the contrary set forth in the Indenture. The rights granted to the Series 2003 Insurer under the Indenture to request, consent to or direct any action are rights granted to the Series 2003 Insurer in consideration of its issuance of the Series 2003 Bond Insurance Policy. In this regard, the Series 2003 Insurer is a third party beneficiary of the Indenture. Any exercise by the Series 2003 Insurer of such rights is merely an exercise of the Series 2003 Insurer's contractual rights and shall not be construed or deemed to be taken for the benefit or on behalf of the Owners of the Series 2003 Bonds. With respect to Events of Default under the Indenture, the consent of the owners of the Series 2003 Bonds shall not be required in addition to consent of the Series 2003 Insurer where the Series 2003 Insurer was granted such right of consent.

(b) The Series 2003 Insurer shall be deemed to be the sole owner of the Series 2003 Bonds insured by it for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the owners of the Series 2003 Bonds insured by it are entitled to take pursuant to the Indenture. Except as otherwise provided in the Indenture, no contract shall be entered into or action taken by which the rights of the Series 2003 Insurer or the security or sources of payment for the Series 2003 Bonds may be impaired or prejudiced, except upon obtaining the prior written consent of the Series 2003 Insurer.

(c) The rights of the Series 2003 Insurer to direct or consent to Agency, Trustee or Bondowner actions under the Indenture shall be suspended during any period in which the Series 2003 Insurer is in default in its payment obligations under the Series 2003 Bond Insurance Policy (except to the extent of amounts previously paid by the Series 2003 Insurer and due and owing to the Series 2003 Insurer) and shall be of no force or effect in the event the Series 2003 Bond Insurance Policy is no longer in effect or the Series 2003 Insurer asserts that the Series

2003 Bond Insurance Policy is not in effect or the Series 2003 Insurer shall have provided written notice that it waives such rights.

(d) The Series 2003 Insurer shall be deemed to be the Owner of all Series 2003 Bonds insured under the Series 2003 Bond Insurance Policy for the following purposes and provided that the Series 2003 Insurer is not on default under the terms of the Series 2003 Bond Insurance Policy, during the following times under the Indenture: (a) at all times for the purpose of the execution and delivery of a Supplemental Indenture relating to any amendment, change or modification of the Indenture where the consent of the Bondowners is required; (b) at all times with respect to the initiation by the Bondowners of any action to be taken under the Indenture by the Trustee at the request of such Bondowners, which under the Indenture requires the written approval or consent of or permits initiation by the owners of a specified principal amount of Series 2003 Bonds then Outstanding; and (c) following the occurrence of an Event of Default for all other purposes.

(e) The Agency shall, to the extent permitted by law, pay or reimburse the Series 2003 Insurer for any and all charges, fees, costs and expenses which the Series 2003 Insurer may reasonably pay or incur in connection with the pursuit of any remedies under the Indenture or the enforcement of the Indenture or otherwise afforded by law or equity other than resulting from the failure of the Series 2003 Insurer to honor its obligations under the Series 2003 Bond Insurance Policy. The Series 2003 Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of the Indenture.

(f) Payments required to be made to the Series 2003 Insurer shall be payable solely from Tax Revenues and other amounts pledged under the Indenture and shall be paid (i) prior to an Event of Default after required deposits to the Revenue Fund and (ii) on and after an Event of Default, with respect to amounts other than principal and interest on the Series 2003 Bonds, on a priority immediately following payments to the Trustee for expenses

(g) The Series 2003 Insurer shall be deemed to be a party in interest under the Indenture and as a party entitled to (i) notify the Agency, the Trustee or any applicable receiver of the occurrence of an Event of Default and (ii) request the Trustee or receiver to intervene in judicial proceedings that could affect the Series 2003 Bonds or the security therefor. The Trustee or receiver shall be required to accept notice of default from the Series 2003 Insurer.

(h) The Series 2003 Insurer shall be provided with the following information:

(i) Notice of any drawing upon or deficiency due to market fluctuation in the amount, if any, on deposit in the Reserve Account;

(ii) Notice of the redemption, other than pursuant to mandatory sinking fund redemption, of any of the Series 2003 Bonds, or the advance refunding of the Series 2003 Bonds, including the principal amount, maturities and CUSIP numbers thereof;

(iii) Notice of any material events pursuant to Rule 15c2-12 under the Securities Exchange Act of 1934; and

(iv) Such additional information as the Series 2003 Insurer may reasonable request from time to time.

Additional Provisions Relating to Qualified Reserve Account Credit Instruments.

Unless otherwise waived by the Series 2003 Insurer in writing, but only for so long as either the Series 2003 Bond Insurance Policy or the Series 2003 Qualified Reserve Account

Credit Instrument is in effect and the Series 2003 Insurer is not in default thereunder, the following criteria shall apply to the delivery of any Qualified Reserve Account Credit Instrument, other than the Series 2003 Qualified Reserve Account Credit Instrument:

(i) The Qualified Reserve Account Credit Instrument must be issued by a company licensed to issue a Qualified Reserve Account Credit Instrument, and the claims paying ability of the issuer thereof shall be rated "AAA" or "Aaa" by S&P or Moody's, respectively.

(ii) If the Qualified Reserve Account Credit Instrument is issued by an entity other than a municipal bond insurer, the form and substance of such instrument and the issuer thereof shall be approved by the Series 2003 Insurer.

(iii) If the Qualified Reserve Account Credit Instrument is an unconditional irrevocable letter of credit, the issuer thereof shall be rated at least "AA" by S&P. The letter of credit shall be payable in one or more draws upon presentation by the beneficiary of a sight draft accompanied by its certificate that it then holds insufficient funds to make a required payment of principal or interest on the Bonds. The draws shall be payable within two days of presentation of the sight draft. The letter of credit shall be for a term of not less than three years. The issuer of the letter of credit shall be required to notify the Agency and the Trustee, not later than 30 months prior to the stated expiration date of the letter of credit, as to whether such expiration date shall be extended, and if so, shall indicate the new expiration date.

(iv) If such notice indicates that the expiration date of the letter of credit shall not be extended, the Agency shall deposit in the Reserve Account an amount sufficient to cause the cash or Permitted Investments on deposit in the Reserve Account together with any other Qualified Reserve Account Credit Instrument, to equal the Reserve Requirement on all outstanding Bonds, such deposit to be paid in equal installments on at least a semi-annual basis over the remaining term of the letter of credit, unless such letter of credit is replaced by a Qualified Reserve Account Credit Instrument meeting the requirements in any of (i) through (iii) above. The letter of credit shall permit a draw in full not less than two weeks prior to the expiration or termination of such letter of credit if the letter of credit has not been replaced or renewed.

(v) The use of any Qualified Reserve Account Credit Instrument shall be subject to receipt of an opinion of counsel acceptable to the Series 2003 Insurer and in form and substance satisfactory to the Series 2003 Insurer as to the due authorization, execution, delivery and enforceability of such instrument in accordance with its terms, subject to applicable laws affecting creditors' rights generally, and, in the event the issuer of such Qualified Reserve Account Credit Instrument is not a domestic entity, an opinion of foreign counsel in form and substance satisfactory to the Series 2003 Insurer. In addition, the use of an irrevocable letter of credit shall be subject to receipt of an opinion of counsel acceptable to the Series 2003 Insurer and in form and substance satisfactory to the Series 2003 Insurer to the effect that payments under such letter of credit would not constitute avoidable preferences under Section 547 of the U.S. Bankruptcy Code or similar state laws with avoidable preference in the event of the filing of a petition for relief under the U.S. Bankruptcy Code or similar state laws or against the issuer of the bonds (or any other account party under the letter of credit).

(vi) The obligation to reimburse the issuer of a Qualified Reserve Account Credit Instrument for any fees, expenses, claims or draws upon such Qualified Reserve Account Credit Instrument shall be subordinate to the payment of debt service on the Bonds. The right of the issuer of a Qualified Reserve Account Credit Instrument to

payment or reimbursement of its fees and expenses shall be subordinated to cash replenishment of the Reserve Account, and, subject to the second succeeding sentence, its right to reimbursement for claims or draws shall be on a parity with the cash replenishment of the Reserve Account. The Qualified Reserve Account Credit Instrument shall provide for a revolving feature under which the amount available thereunder will be reinstated to the extent of any reimbursement of draws or claims paid. If the revolving feature is suspended or terminated for any reason, the right of the issuer of the Qualified Reserve Account Credit Instrument to reimbursement will be further subordinated to cash replenishment of the Reserve Account to an amount equal to the difference between the full original amount available under the Qualified Reserve Account Credit Instrument and the amount then available for further draws or claims. If (a) the issuer of a Qualified Reserve Account Credit Instrument becomes insolvent or (b) the issuer of a Qualified Reserve Account Credit Instrument defaults in its payment obligations thereunder or (c) the claims-paying ability of the issuer of the insurance policy or surety bond falls below a S&P "AAA" or a Moody's "Aaa" or (d) the rating of the issuer of the letter of credit falls below a S&P "AA", the obligation to reimburse the issuer of the Qualified Reserve Account Credit Instrument shall be subordinate to the cash replenishment of the Reserve Account.

(vii) If (a) the revolving reinstatement feature described in the preceding paragraph is suspended or terminated or (b) the rating of the claims paying ability of the issuer of the surety bond or insurance policy falls below a S&P "AAA" or a Moody's "Aaa" or (c) the rating of the issuer of a Qualified Reserve Account Credit Instrument in the form of a letter of credit falls below a S&P "AA", the Agency shall either (i) deposit into the Reserve Account an amount sufficient to cause the cash or permitted investments on deposit in the Reserve Account to equal the Reserve Account Requirement on all outstanding Bonds, such amount to be paid over the ensuing five years in equal installments deposited at least semi-annually or (ii) replace such instrument with a surety bond, insurance policy or letter of credit meeting the requirements in any of (i) through (iii) above within six months of such occurrence. In the event (a) the rating of the claims-paying ability of the issuer of the surety bond or insurance policy falls below "A" or (b) the rating of the issuer of the letter of credit falls below "A" or (c) the issuer of the Qualified Reserve Account Credit Instrument defaults in its payment obligations or (d) the issuer of the Qualified Reserve Account Credit Instrument becomes insolvent, the Agency shall either (1) deposit into the Reserve Account an amount sufficient to cause the cash or permitted investments on deposit in the Reserve Account to equal to Reserve Account Requirement on all outstanding Bonds, such amount to be paid over the ensuing year in equal installments on at least a monthly basis or (2) replace such instrument with a surety bond, insurance policy or letter of credit meeting the requirements in any of (i) through (iii) above within six months of such occurrence.

(viii) Where applicable, the amount available for draws or claims under the Qualified Reserve Account Credit Instrument may be reduced by the amount of cash or permitted investments deposited in the Reserve Account pursuant to clause (1) of the preceding subparagraph (vi).

(ix) If the Agency selects the above described alternatives to a cash-funded Reserve Account, any amounts owed by the Agency to the issuer of such Qualified Reserve Account Credit Instrument as a result of a draw thereon or a claim thereunder, as appropriate, shall be included in any calculation of debt service under the Indenture for any purpose, including, for example, the Parity Debt test.

(x) The Trustee shall ascertain the necessity for a claim or draw upon the Qualified Reserve Account Credit Instrument and provide notice to the issuer of the

Qualified Reserve Account Credit Instrument in accordance with its terms not later than two days (or such longer period as may be necessary depending on the permitted time period for honoring a draw under the Qualified Reserve Account Credit Instrument) prior to each interest payment date.

(xi) Cash on deposit in the Reserve Account shall be used (or investments purchased with such cash shall be liquidated and the proceeds applied as required) prior to any drawing on any Qualified Reserve Account Credit Instrument. If and to the extent that more than one Qualified Reserve Account Credit Instrument is deposited in the Reserve Account, drawings thereunder and repayments of costs associated therewith shall be made on a pro rata basis, calculated by reference to the maximum amount available thereunder.

(xii) In the event of a conflict between the provisions described under the caption "Establishment of Funds and Accounts; Flow Funds - Debt Service Fund; Deposit of Amounts by Trustee - Reserve Account" and the provisions described in (i) through (xi) above regarding the delivery of and provisions relating to a Qualified Reserve Account Credit Instrument, the provisions described in (i) through (xi) above shall comply.

Rights Under Series 2005 Bond Insurance Policy.

So long as the Series 2005 Bond Insurance Policy remains in force and effect, the Trustee shall comply with all of the provisions thereof which are required to be complied with to ensure timely payment of the principal and interest on the Series 2005 Bonds when due.

(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 established under the Indenture to pay the principal of or interest on the Series 2005 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 Series 2005 Insurer. Such notice shall specify the amount of the anticipated deficiency, the Series 2005 Bonds to which such deficiency is applicable and whether such Series 2005 Bonds will be deficient as to principal or interest, or both. If the Trustee has not so notified the Series 2005 Insurer at least one (1) Business Day prior to an Interest Payment Date, the Series 2005 Insurer will make payments of principal or interest due on the Series 2005 Bonds on or before the first (1st) Business Day next following the date on which the Series 2005 Insurer has received notice of nonpayment from the Trustee.

(b) The Trustee shall, after giving notice to the Series 2005 Insurer as provided in (a) above, make available to the Series 2005 Insurer and, at the Series 2005 Insurer's direction, to The Bank of New York, in New York, New York, as insurance trustee for the Series 2005 Insurer or any successor insurance trustee (the "Insurance Trustee"), the Registration Books and all records relating to the Funds and Accounts maintained under the Indenture.

(c) The Trustee shall provide the Series 2005 Insurer and the Insurance Trustee with a list of the Owners of Series 2005 Bonds entitled to receive principal or interest payments from the Series 2005 Insurer under the terms of the Series 2005 Bond Insurance Policy, and shall make arrangements with the Insurance Trustee (i) to mail checks or drafts to the Owners of the Series 2005 Bonds entitled to receive full or partial interest payments from the Series 2005 Insurer and (ii) to pay principal upon all Series 2005 Bonds surrendered to the Insurance Trustee by the Owners of Series 2005 Bonds entitled to receive full or partial principal payments from the Series 2005 Insurer.

(d) The Trustee shall, at the time it provides notice to the Series 2005 Insurer under (a) above, notify the Owners of Series 2005 Bonds entitled to receive the payment of principal or interest thereon from the Series 2005 Insurer (i) as to the fact of such entitlement, (ii) that the Series 2005 Insurer will remit to them all or a part of the interest payments next coming due upon proof of the Owner's entitlement to interest payments and delivery to the Insurance Trustee, in form satisfactory to the Insurance Trustee, of an appropriate assignment of the Owner's right to payment, (iii) that should they be entitled to receive full payment of principal from the Series 2005 Insurer, they must surrender their Series 2005 Bonds (along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee to permit ownership of such Series 2005 Bonds to be registered in the name of the Series 2005 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 Series 2005 Insurer, they must surrender their Series 2005 Bonds for payment thereon first to the Trustee who shall note on such Series 2005 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) If the Trustee has notice that any payment of principal of or interest on a Series 2005 Bond which has become Due for Payment and which is made to an Owner by or on behalf of the Authority has been deemed a preferential transfer and theretofore recovered from its Owner under 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 shall, at the time the Series 2005 Insurer is notified pursuant to (a) above, notify all Owners that in the event that any Owner's payment is so recovered, such Owner will be entitled to payment from the Series 2005 Insurer to the extent of such recovery if sufficient funds are not otherwise available, and the Trustee shall furnish to the Series 2005 Insurer its records evidencing the payments of principal of and interest on the Series 2005 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 Series 2005 Insurer under the Indenture, the Series 2005 Insurer shall, to the extent it makes payment of principal of or interest on Series 2005 Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Series 2005 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 Series 2005 Insurer's rights as subrogee on the Registration Books upon receipt from the Series 2005 Insurer of proof of the payment of interest thereon to the Owners of the Series 2005 Bonds, and (ii) in the case of subrogation as to claims for past due principal, the Trustee shall note the Series 2005 Insurer's rights as subrogee on the Registration Books upon surrender of the Series 2005 Bonds by the Owners thereof together with proof of the payment of principal thereof.

Rights of Series 2005 Insurer; Consent or Approval of the Series 2005 Insurer.

The following provisions shall govern, notwithstanding anything to the contrary set forth in the Indenture:

(a) Any provision of the Indenture expressly recognizing or granting rights in or to the Series 2005 Insurer may not be amended in any manner which affects the rights of the Series 2005 Insurer under the Indenture without the prior written consent of the Series 2005 Insurer.

(b) For so long as the Series 2005 Insurer is not in default under the Series 2005 Bond Insurance Policy, the Series 2005 Insurer shall be deemed to be the sole Owner of the Series 2005 Bonds insured by it for the purpose of exercising any voting rights or privilege or giving any consent or direction or taking any other action that the Owners of the Series 2005 Bonds insured by it are entitled to take pursuant to the provisions of the Indenture relating to the Trustee, events of defaults and remedies and amendments to the Indenture, and the Series 2005 Insurer's consent shall be required for the following purposes: (i) execution and delivery of any supplemental Indenture (other than a supplemental Indenture adopted solely for the purpose of issuing Parity Debt), (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 requires Bondowner consent.

(c) Any reorganization or liquidation plan with respect to the Agency must be acceptable to the Series 2005 Insurer. In the event of any reorganization or liquidation, the Series 2005 Insurer shall have the right to vote on behalf of all Bondowners who hold Series 2005 Bonds absent a default by the Series 2005 Insurer under the Series 2005 Bond Insurance Policy.

(d) Anything in the Indenture to the contrary notwithstanding, upon the occurrence and continuance of an event of default as defined in the Indenture, the Series 2005 Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Owners of the Series 2005 Bonds or the Trustee for the benefit of the Owners of the Series 2005 Bonds under the Indenture, including, without limitation: (i) the right to accelerate the principal of the Series 2005 Bonds as described in the Indenture, and (ii) the right to annul any declaration of acceleration, and the Series 2005 Insurer shall also be entitled to approve all waivers of events of defaults.

(e) While the Series 2005 Bond Insurance Policy is in effect, the Agency shall furnish to the Series 2005 Insurer (to the attention of the Surveillance Department, unless otherwise indicated):

(i) as soon as practicable after the filing thereof, a copy of any financial statement of the Agency, a copy of any audit and annual report of the Agency and a copy of the annual report and any other report given pursuant to the Series 2005 Continuing Disclosure Certificate;

(ii) a copy of any notice to be given to the Owners of the Series 2005 Bonds, including, without limitation, notice of any redemption of or defeasance of Series 2005 Bonds, and any certificate rendered pursuant to the Indenture relating to the security for the Series 2005 Bonds; and

(iii) such additional information it may reasonably request.

The Agency or the Trustee, as appropriate, shall notify the Series 2005 Insurer of any failure of the Agency to provide relevant notices, certificates, or filings.

The Agency will permit the Series 2005 Insurer to discuss the affairs, finances and accounts of the Agency or any information the Series 2005 Insurer may reasonably request regarding the security for the Series 2005 Bonds with appropriate officers of the Agency. The Agency or the Trustee, as appropriate, will permit the Series 2005 Insurer to have access to and to make copies of all books and records relating to the Series 2005 Bonds at any reasonable time.

The Series 2005 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 Series 2005 Insurer shall be deemed a default under the Indenture; provided, however, that if compliance cannot occur without 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 Series 2005 Bonds.

Notwithstanding any other provision of the Indenture, the Agency shall immediately notify the Series 2005 Insurer if at any time there are insufficient moneys to make any payments of principal and/or interest as required and immediately upon the occurrence of any event of default under the Indenture.

(f) Notwithstanding any other provision of the Indenture, in the event of principal and/or interest due on the Series 2005 Bonds shall be paid by the Series 2005 Insurer pursuant to the Series 2005 Bond Insurance Policy, the Series 2005 Bonds shall remain outstanding for all purposes and not be considered paid by the Agency, and the assignment and pledge of Tax Revenues under the Indenture and all covenants, agreements and other obligations of the Agency to the Owners of the Series 2005 Bonds shall continue to exist and shall run to the benefit of the Series 2005 Insurer, and the Series 2005 Insurer shall be subrogated to the rights of such Owners.

(g) To the extent that the Indenture confers upon or gives or grants to Series 2005 Insurer any right, remedy or claim under or by reason of the Indenture, the Series 2005 Insurer is hereby explicitly recognized 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..

(h) Nothing in the Indenture expressed or implied is intended or shall be construed to confer upon, or to give or grant to, any person or entity, other than the Agency, the Trustee, the Series 2003 Insurer, the Series 2005 Insurer, any other Insurer insuring Bonds other than the Series 2003 Bonds or the Series 2005 Bonds, and the Owners of the Bonds, any right, remedy or claim under or by reason of the Indenture or any covenant, condition or stipulation thereof, and all covenants, stipulations, promises and agreements in the Indenture contained by and on behalf of the Agency shall be for the sole and exclusive benefit of the Agency, the Trustee, the Series 2003 Insurer, the Series 2005 Insurer, any other Insurer insuring Bonds other than the Series 2003 Bonds or the Series 2005 Bonds, and the Owners of the Bonds.

(i) The Agency may acquire, or cause the Trustee to acquire, the following Defeasance Obligations with respect to the Series 2005 Bonds without the consent of the Series 2005 Insurer:

- (i) Cash; and
- (ii) Federal Securities (other than CATS and TGRS).

(j) The Agency may not acquire, or cause the Trustee to acquire, the following Defeasance Obligations with respect to the Series 2005 Bonds without the prior written consent of the Series 2005 Insurer:

(i) The interest component of Resolution Funding Corporation strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form;

(ii) Pre-refunded municipal bonds rated "Aaa" by Moody's or "AAA" by S&P;

(iii) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself): (i) direct obligations or fully guaranteed certificates of beneficial ownership of the U.S. Export-Import Bank; (ii) certificates of beneficial ownership of the Farmers Home Administration; (iii) Federal Housing Administration debentures; (iv) participation certificates of the General Services Administration; (v) Federal Financing Bank bonds and debentures; (vi) guaranteed mortgage-backed bonds or guaranteed pass-through obligations of the Government National Mortgage Association; (vii) guaranteed Title XI financings of the U.S. Maritime Administration; and (viii) project notes, local authority bonds, new communities debentures and U.S. public housing notes and bonds of the U.S. Department of Housing and Urban Development; and

(iv) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities only as stripped by the agency itself): (i) senior debt obligations of the Federal Home Loan Bank System; (ii) participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation; (iii) mortgaged-backed securities and senior debt obligations of Fannie Mae; (iv) senior debt obligations of the Student Loan Marketing Association; (v) obligations of the Resolution Funding Corporation; and (vi) consolidated system-wide bonds and notes of the Farm Credit System.

Further, the Agency may not acquire, or cause the Trustee to acquire, CATS or TGRS as Defeasance Obligations with respect to the Series 2005 Bonds without the prior written consent of the Series 2005 Insurer.

(k) The Agency may acquire, or cause the Trustee to acquire, the following Permitted Investments without the consent of the Series 2005 Insurer:

(i) Federal Securities (other than CATS or TGRS);

(ii) The interest component of Resolution Funding Corporation strips which have been stripped by request to the Federal Reserve Bank of New York in book-entry form;

(iii) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself): (i) direct obligations or fully guaranteed certificates of beneficial ownership of the U.S. Export-Import Bank; (ii) certificates of beneficial ownership of the Farmers Home Administration; (iii) Federal Housing Administration debentures; (iv) participation certificates of the General Services Administration; (v) Federal

Financing Bank bonds and debentures; (vi) guaranteed mortgage-backed bonds or guaranteed pass-through obligations of the Government National Mortgage Association; (vii) guaranteed Title XI financings of the U.S. Maritime Administration; and (viii) project notes, local authority bonds, new communities debentures and U.S. public housing notes and bonds of the U.S. Department of Housing and Urban Development;

(iv) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities only as stripped by the agency itself): (i) senior debt obligations of the Federal Home Loan Bank System; (ii) participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation; (iii) mortgaged-backed securities and senior debt obligations of Fannie Mae; (iv) senior debt obligations of the Student Loan Marketing Association; (v) obligations of the Resolution Funding Corporation; and (vi) consolidated system-wide bonds and notes of the Farm Credit System;

(v) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of at least "AAAm-G," or and a rating by Moody's of "Aaa" (such funds may include funds for which the Trustee, its affiliates, parent or subsidiaries provide investment advisory or other management services);

(vi) Certificates of deposit (including those of the Trustee, its parent and its affiliates) secured at all times by collateral described in (a) or (b) above, which have a maturity not greater than one year from the date of investment and which are issued by commercial banks, savings and loan associations or mutual savings banks whose short-term obligations are rated "A-1+" or better by S&P and "Prime-1" by Moody's, which collateral must be held by a third party and provided that the Trustee must have a perfected first security interest in such collateral;

(vii) Commercial paper rated "Prime-1" by Moody's and "A-1+" or better by S&P;

(viii) Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in the highest rating category assigned by such agencies;

(ix) Federal funds or bankers acceptances with a maximum term of one year of any bank which an unsecured, uninsured and unguaranteed obligation rating of "Prime-1" or better by Moody's, and "A-1+" by S&P;

(x) The Local Agency Investment Fund which is administered by the California Treasurer for the investment of funds belonging to local agencies within the State of California, provided for investment of funds held by the Trustee, the Trustee is entitled to make investments and withdrawals in its own name as Trustee; and

(xi) Shares in a California common law trust (including the California Asset Management Program) established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State of California which invests exclusively in investments permitted by Section 53601 of Title 5, Division 2, Chapter 4 of the Government Code of the State of California, as it may be amended.

(l) The Agency may not acquire, or cause the Trustee to acquire, the following Permitted Investments without the prior written consent of the Series 2005 Insurer:

(i) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of "AAm," and a rating by Moody's of "Aa1" or "Aa2" (such funds may include funds for which the Trustee, its affiliates, parent or subsidiaries provide investment advisory or other management services);

(ii) Certificates of deposit, savings accounts, deposit accounts or money market deposits (including those of the Trustee and its affiliates) which are fully insured by FDIC, including BIF and SAIF or which are issued by any bank the obligations of which are rated at least "A" by Moody's and S&P;

(iii) Investment agreements, including guaranteed investment contracts, forward purchase agreements, reserve fund put agreements and collateralized investment agreements with banks, insurance companies or other financial institutions rated "A" or better by S&P and Moody's (or guaranteed by an entity rated "A" or better by S&P and Moody's);

(iv) Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in the second highest rating categories assigned by such agencies; and

(v) Federal funds or bankers acceptances with a maximum term of one year of any bank which an unsecured, uninsured and unguaranteed obligation rating of "A3" or better by Moody's, and "A-1+" by S&P.

Further, the Agency may not acquire, or cause the Trustee to acquire, CATS or TGRS as Permitted Investments without the prior written consent of the Series 2005 Insurer.

Provisions Relating to the Series 2005 Qualified Reserve Account Credit Instrument

As long as the Series 2005 Qualified Reserve Account Credit Instrument with respect to the Series 2005 Bonds shall be in full force and effect, or amounts are owed under the Series 2005 Reserve Account Agreement, the Agency and the Trustee agrees to comply with the following provisions:

(i) In the event and to the extent that moneys on deposit in the Special Fund, the Debt Service Fund, the Principal Account and the Interest Account, plus all cash on deposit in and credited to the Reserve Account in excess of the moneys of the Series 2005 Qualified Reserve Account Credit Instrument with respect to the Series 2005 Bonds, 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 Series 2005 Insurer of a demand for payment in the form attached to the Series 2005 Qualified Reserve Account Credit Instrument as Attachment I (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 Series 2005 Bonds as specified in the Demand for Payment presented by the Trustee to the General Counsel of the Series 2005 Insurer, the

Series 2005 Insurer will make a deposit for 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 Series 2005 Qualified Reserve Account Credit Instrument; 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 Series 2005 Qualified Reserve Account Credit Instrument, includes amounts available under a letter of credit, insurance policy, surety bond or other such fund instrument (the "Additional Funding Instrument"), draws on the Series 2005 Qualified Reserve Account Credit Instrument and the Additional Funding Instrument shall be made on a pro rata basis to fund the insufficiency.

(ii) The Trustee shall, after submitting to Series 2005 Insurer the Demand for Payment as provided in (i) above, make available to Series 2005 Insurer all records relating to the Funds and Accounts maintained under the Indenture.

(iii) The Trustee shall, upon receipt of moneys received from the draw on the Series 2005 Qualified Reserve Account Credit Instrument, as specified in the Demand for Payment, credit the Reserve Account to the extent of moneys received pursuant to such Demand.

(iv) The Reserve Account shall be replenished in the following priority: (i) principal and interest on the Series 2005 Qualified Reserve Account Credit Instrument and on the Additional Funding Instrument shall be paid from first available Tax Revenues on a pro rata basis; (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 2005 Qualified Reserve Account Credit Instrument and the Additional Funding Instrument, shall be deposited from next available Tax Revenues.

Investment of Funds

Moneys in the Debt Service Fund, the Interest Account, the Principal Account, the Reserve Account, the Redemption Account and the Costs of Issuance Fund shall be invested by the Trustee in Permitted Investments as directed by the Agency in the Written Request of the Agency filed with the Trustee, except that moneys in the Reserve Account shall not be invested in Permitted Investments having a maturity of more than five (5) years, unless any such Permitted Investment is described in clause (h) of the definition thereof. In the absence of any such Written Request of the Agency, the Trustee shall invest any such moneys in Permitted Investments described in clause (e) of the definition thereof, which by their terms mature prior to the date on which such moneys are required to be paid out under the Indenture. The Trustee shall be entitled to rely conclusively upon the written instructions of the Agency directing investments in Permitted Investments as to the fact that each such investment is permitted by the laws of the State, and shall not be required to make further investigation with respect thereto. With respect to any restrictions set forth in the above list which embody legal conclusions (e.g., the existence, validity and perfection of security interests in collateral), the Trustee shall be entitled to rely conclusively on an opinion of counsel or upon a representation of the provider of such Permitted Investment obtained at the Agency's expense. Moneys in the Special Fund and the Redevelopment Fund may be invested by the Agency in any obligations in which the Agency is legally authorized to invest its funds, including, in the case of the Series 2005 Account of the Redevelopment Fund, Permitted Investments. Obligations purchased as an investment of moneys in any fund shall be deemed to be part of such fund or account. All interest or gain derived from the investment of amounts in any of the funds or accounts held by the Trustee under the Indenture shall be deposited in the Interest Account; *provided, however*, that all interest or gain from the investment of amounts in the Reserve Account shall be deposited by the Trustee in the

Interest Account only to the extent not required to cause the balance in the Reserve Account to equal the Reserve Requirement. The Trustee may act as principal or agent in the acquisition or disposition of any investment and may impose its customary charges therefor. The Trustee shall incur no liability for losses arising from any investments made at the direction of the Agency or otherwise made in accordance with this provision. For investment purposes only, the Trustee may commingle the funds and accounts established under the Indenture, but shall account for each separately.

Issuance of Parity Debt

In addition to the Series 2003 Bonds and the Series 2005 Bonds, the Agency may, by Supplemental Indenture, issue additional bonds or incur other loans, advances or indebtedness payable from Tax Revenues on a parity with the Series 2003 Bonds and the Series 2005 Bonds to finance redevelopment activities with respect to the Redevelopment Project in such principal amount as shall be determined by the Agency. The Agency may issue and deliver any such Parity Debt subject to the following specific conditions all of which are made conditions precedent to the issuance and delivery of such Parity Debt:

(a) No event of default under the Indenture, under any Parity Debt Instrument or under any Subordinate Debt Instrument shall have occurred and be continuing, and the Agency shall otherwise be in compliance with all covenants set forth in the Indenture;

(b) The Tax Revenues estimated to be received for the then current Fiscal Year, based on the most recent assessed valuation of property in the Project Area (excluding taxes attributable to a tax rate levied by a taxing agency after January 1, 1989 for the purpose of producing revenues in an amount sufficient to make annual repayments of the principal of, and the interest on, any bonded indebtedness of such taxing agency), as evidenced in writing from the County Assessor or other appropriate official of the County, less the amount of debt service on the Senior Bonds for such Fiscal Year, shall be at least equal to one hundred twenty percent (120%) of Annual Debt Service, including debt service on the proposed Parity Debt, during each Fiscal Year, provided that in determining whether Tax Revenues equal not less than one hundred twenty percent (120%) of Annual Debt Service for each Fiscal Year (and regardless of when such calculation is being made), in performing the calculation for each Fiscal Year commencing on and after July 1, 2014 (or, if later, the final maturity of the Senior Bonds), estimated Tax Revenues shall not be reduced by the amount of debt service on the Senior Bonds for the then current Fiscal Year;

(c) In the case of Parity Debt issued as additional Bonds under a Supplemental Indenture, the amount on deposit in the Reserve Account (and any subaccounts therein) shall be increased to the Reserve Requirement taking into account the additional Bonds to be issued;

(d) Principal with respect to such Parity Debt will be required to be paid on September 1 in any year in which such principal is payable;

(e) The aggregate amount of the principal of and interest on the Senior Bonds, all Outstanding Bonds, other outstanding Parity Debt and Subordinate Debt coming due and payable following the issuance of such Parity Debt shall not exceed the maximum amount of Tax Revenues permitted under the Plan Limit to be allocated and paid to the Agency following the issuance of such Parity Debt as shall be confirmed at the time of the issuance of such Parity Debt and as shall be thereafter confirmed at least annually by the Agency in a written accounting to the Trustee and the Series 2003 Insurer and any other Insurer. The Agency shall provide for the deposit of Tax Revenues into an escrow

held by the Trustee and pledged to the payment of the Bonds and Parity Debt in the event and to the extent it determines, based on the annual calculation provided for in the preceding sentence, that remaining debt service on the Senior Bonds and the remaining debt service payable on the Bonds and Parity Debt exceeds ninety-five percent (95%) of the amount of Tax Revenues then remaining to be allocated and paid to the Agency under the Plan Limit. The Agency shall apply amounts on deposit in such escrow solely to the purchase or redemption of the Senior Bonds, the Bonds or Parity Debt, or, in the event that the Agency delivers a Written Certificate of the Agency to the effect that the Plan Limit has been amended such that the remaining debt service on the Senior Bonds, and the remaining debt service on the Bonds including any Parity Debt, no longer exceeds ninety-five percent (95%) of the amount of Tax Revenues then remaining to be allocated and paid to the Agency under the Plan Limit, the Trustee shall transfer amounts on deposit in such escrow to Agency to be used for any lawful purpose; and

(f) The Agency shall deliver to the Trustee a Written Certificate of the Agency certifying that the conditions precedent to the issuance of such Parity Debt set forth in subsections (a), (b) and (e) above have been satisfied.

Issuance of Subordinate Debt

The Agency may issue or incur Subordinate Debt in such principal amount as shall be determined by the Agency. The Agency may issue or incur such Subordinate Debt subject to the following specific conditions precedent:

(a) If, and to the extent, such Subordinate Debt is payable from Tax Revenues within the then existing limitation on the amount of Tax Revenues allocable and payable to the Agency under the Redevelopment Plan, then the aggregate amount of the principal of and interest to accrue on all outstanding Senior Bonds, Outstanding Bonds, Parity Debt and Subordinate Debt coming due and payable following the issuance of such Subordinate Debt shall not exceed the maximum amount of Tax Revenues permitted under the Plan Limit to be allocated and paid to the Agency following the issuance of such Subordinate Debt; and

(b) The Agency shall deliver to the Trustee a Written Certificate of the Agency certifying that the conditions precedent to the issuance of such Subordinate Debt set forth in paragraph (a) above have been satisfied.

Certain Other Covenants of the Agency

Limitation on Additional Indebtedness; Against Encumbrances. The Agency covenants that, so long as the Bonds are Outstanding, the Agency 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 (i) refunding bonds with respect to the Senior Bonds (and any refunding of such refunding bonds) which do not result in an increase in debt service under the Senior Bonds Resolution in any Bond Year (as defined in the Senior Bonds Resolution), (ii) the Series 2003 Bonds, (iii) any Parity Debt and (iv) any Subordinate Debt. The Agency will not otherwise encumber, pledge or place any charge or lien upon any of the Tax Revenues or other amounts pledged to the Bonds superior or equal to the pledge and lien created for the benefit of the Bonds.

Extension of Payment. The Agency will not, directly or indirectly, extend or consent to the extension of the time for the payment of any Bond or claim for interest on any of the Bonds and will not, directly or indirectly, be a party to or approve any such arrangement by purchasing or

funding the Bonds or claims for interest in any other manner. In case the maturity of any such Bond or claim for interest shall be extended or funded, whether or not with the consent of the Agency, such Bond or claim for interest so extended or funded shall not be entitled, in case of default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest which shall not have been so extended or funded.

Payment of Claims. The Agency shall promptly 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 other amounts pledged to the payment of the Bonds, or any part thereof, or upon any funds in the hands of the Trustee, or which might impair the security of the Bonds. Nothing 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 of Oakland, in which complete and correct entries shall be made of all transactions relating to the Redevelopment Project, the Tax Revenues, the Redevelopment Fund and the Special Fund. Such books of record and accounts shall at all times during business hours be subject to the inspection of the Series 2003 Insurer, any other Insurer and the Owners of not less than ten percent (10%) in aggregate principal amount of the Bonds then Outstanding, or their representatives authorized in writing.

The Agency will cause to be prepared, within two hundred and seventy (270) days after the close of each Fiscal Year so long as the Bonds are Outstanding, complete audited financial statements with respect to such Fiscal Year showing the Tax Revenues, all disbursements of Tax Revenues and the financial condition of the Redevelopment Project, including the balances in all funds and accounts relating to the Redevelopment Project, as of the end of such Fiscal Year. The Agency shall promptly furnish a copy of such financial statements to the Trustee, the Series 2003 Insurer and any other Insurer at no expense and to any Owner upon reasonable request and at the expense of such Owner. In addition, the Agency shall deliver to the Trustee, the Series 2003 Insurer and any other Insurer, on or about February 1 of each year, a Written Certificate of the Agency and a written certificate or opinion of an Independent Accountant stating that the Agency is in compliance with its obligations under the Indenture.

Payments of Taxes and Other Charges. Except as otherwise provided in the Indenture, the Agency will pay and discharge, or cause to be paid and discharged, all taxes, service charges, assessments and other governmental charges which may hereafter be lawfully imposed upon the Agency or the properties then owned by the Agency in the Redevelopment Project, or upon the revenues therefrom when the same shall become due. Nothing contained in the Indenture shall require the Agency to make any such payment so long as the Agency in good faith shall contest the validity of said taxes, assessments or charges. The Agency will duly observe and conform with all valid requirements of any governmental authority relative to the Redevelopment Project or any part thereof.

Disposition of Property. The Agency will not participate in the detachment of land from the Project Area or the disposition of any land or real property in the Project Area to anyone which will result in such property becoming exempt from taxation because of public ownership or use or otherwise (except property dedicated for public right-of-way and except property planned for public ownership or use by the Redevelopment Plan in effect on the date of the Indenture) so that such detachment or disposition shall, when taken together with other such detachments or dispositions, (i) aggregate more than ten percent (10%) of the assessed value of property in the

Project Area or (ii) would cause the amount of Tax Revenues available to the Agency for application under the Indenture in the succeeding Fiscal Year to fall below 115% of Maximum Annual Debt Service, in either case unless the Series 2003 Insurer and any other Insurer shall otherwise consent in writing.

Maintenance of Tax Revenues. The Agency shall comply with all requirements of the Law to insure the allocation and payment to it of the Tax Revenues, including without limitation the timely filing of any necessary statements of indebtedness with appropriate officials of the County and, in the case of amounts payable by the State, appropriate officials of the State. The Agency shall not undertake proceedings for amendment of the Redevelopment Plan if such amendment shall result in payments to one or more taxing entities pursuant to Sections 33607.5 and 33607.7 of the Law unless the Agency shall first obtain a written opinion of an Independent Redevelopment Consultant that such payments will not adversely impair the Agency's ability to pay debt service on the Bonds. Additionally, the Agency shall not approve any amendment to the Redevelopment Plan which would, in and of itself, cause the amount of Tax Revenues available to the Agency for application under the Indenture in any succeeding Fiscal Year to fall below 115% of Maximum Annual Debt Service without the written consent of the Series 2003 Insurer and any other Insurer.

Compliance With Law; Low and Moderate Income Housing Fund. The Agency shall ensure that all activities undertaken by the Agency with respect to the redevelopment of the Project Area are undertaken and accomplished in conformity with all applicable requirements of the Redevelopment Plan and the Law, including, without limitation, duly noticing and holding any public hearing required by either Section 33445 or Section 33679 of the Law prior to application of proceeds of the Bonds to any portion of the Redevelopment Project. Without limiting the generality of the foregoing, the Agency covenants that it shall deposit or cause to be deposited in the Low and Moderate Income Housing Fund established pursuant to Section 33334.3 of the Law, all amounts when, as and if required to be deposited therein pursuant to the Law.

Tax Covenants Relating to the Bonds. The Agency will assure that the proceeds of the Bonds are so used as to cause the Bonds to satisfy the private business tests of section 141(b) of the Code or the private loan financing test of section 141(c) of the Code. The Agency will not take any action or permit or suffer any action to be taken if the result of the same would be to cause the Bonds to be "federally guaranteed" within the meaning of section 149(b) of the Code. The Agency will not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the Bond proceeds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the Closing Date, would have caused the Bonds to be "arbitrage bonds" within the meaning of section 148 of the Code. The Agency shall take all actions necessary to assure the exclusion of interest on the Bonds from the gross income of the Owners of the Bonds to the same extent as such interest is permitted to be excluded from gross income under the Code as in effect on the date of issuance of the Bonds.

Continuing Disclosure. The Agency covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of the Indenture, failure of the Agency to comply with the Continuing Disclosure Certificate shall not be an Event of Default under the Indenture. However, any Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Agency to comply with its obligations under the Indenture. Any notice required to be given pursuant to the provisions of the Continuing Disclosure Certificate shall also be given to the Series 2003 Insurer and to S&P and Moody's.

The Trustee

Duties, Immunities and Liabilities of Trustee.

(a) The Trustee shall, prior to the occurrence of an Event of Default (as defined below under the heading "Events 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, duties or obligations 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 man would exercise or use under the circumstances in the conduct of his 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) or (ii) if at any time the Agency has knowledge that the Trustee shall cease to be eligible in accordance with (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 written notice of such removal by the Agency to the Trustee, with a copy to the Series 2003 Insurer and any other Insurer, 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 by giving the Owners, the Series 2003 Insurer and any other Insurer 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, with notice of such appointment to be furnished to the Series 2003 Insurer and any other Insurer.

(d) Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective only 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 of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any Owner (on behalf of such Owner and all other Owners) may petition any court of competent jurisdiction at the expense of the Agency 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, acknowledging and delivering to the Agency and to its predecessor Trustee a written acceptance thereof, and thereupon 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; but, nevertheless at the Written Request of the Agency or the request of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions set forth in the Indenture. Upon request of the successor Trustee, the Agency shall execute and deliver

any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in the Indenture, the Agency shall cause either the predecessor Trustee or the successor Trustee to mail a notice of the succession of such Trustee to the trusts under the Indenture to each rating agency which then has a current rating on the Bonds and to the Owners at their respective addresses shown on the Registration Books.

(e) If an Event of Default occurs with respect to any Bonds of which the Trustee has been given or is deemed to have notice, as provided in the Indenture, then the Trustee shall immediately give written notice thereof, by first-class mail to the Series 2003 Insurer, any other Insurer and the Owner of each such Bond, unless such Event of Default shall have been cured before the giving of such notice; provided, however, that unless such Event of Default consists of the failure by the Agency to make any payment when due, the Trustee shall, within thirty (30) days of the Trustee's knowledge thereof, give such notice to the Series 2003 Insurer and any other Insurer, and the Trustee, with the consent of the Series 2003 Insurer and any other Insurer, may elect not to give such notice if and so long as the Trustee in good faith determines that it is in the best interests of the Bond Owners not to give such notice.

(f) The Agency agrees that, so long as any Bonds or any Parity Debt are Outstanding, the Trustee shall be a financial institution having a trust office in the State, having (or in the case of a corporation or trust company included in a bank holding company system, the related bank holding company shall have) a combined capital and surplus of at least \$75,000,000, and subject to supervision or examination by federal or state authority. If such financial institution publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this subsection the combined capital and surplus of such financial institution 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 (f), the Trustee shall resign immediately in the manner and with the effect specified in the Indenture.

No Trustee Liability or Duty. The Trustee shall have no liability or obligation to the Bondowners with respect to the payment of debt service on the Bonds by the Agency or with respect to the observance or performance by the Agency of the other conditions, covenants and terms contained in the Indenture, or with respect to the investment of any moneys in any fund or account established, held or maintained by the Agency pursuant to the Indenture or otherwise.

No provision of the Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Indenture, or in the exercise of any of its rights or powers. The Trustee shall be entitled to interest on all amounts advanced by it at the maximum rate permitted by law.

The Trustee may execute any of the trusts or powers under the Indenture or perform any duties under the Indenture either directly or by or through agents, attorneys or receivers and the Trustee shall not be responsible for any intentional misconduct or negligence on the part of any agent, attorney or receiver appointed with due care by it under the Indenture.

The Trustee shall have no responsibility, opinion, or liability with respect to any information, statements or recital in any offering memorandum or other disclosure material prepared or distributed with respect to the issuance of the Bonds.

Before taking any action under the Indenture at the request of the Owners or the Series 2003 Insurer or any other Insurer, the Trustee may require that a satisfactory indemnity bond be furnished by the Owners, the Series 2003 Insurer or any other Insurer for the reimbursement of all expenses to which it may be put and to protect it against all liability, except liability which is adjudicated to have resulted from its negligence or willful misconduct in connection with any action so taken.

Compensation and Indemnification. The Agency shall pay to the Trustee from time to time reasonable compensation for all services rendered under the Indenture and also all reasonable expenses, charges, legal and consulting fees and other disbursements and those of its attorneys (including the allocated costs and disbursement of in-house counsel to the extent such services are not redundant with those provided by outside counsel), agents and employees, incurred in and about the performance of its powers and duties under the Indenture. The Trustee shall have a first lien on the Tax Revenues and all funds and accounts held by the Trustee under the Indenture to secure the payment to the Trustee of all fees, costs and expenses, including reasonable compensation to its experts, attorneys and counsel (including the allocated costs and disbursement of in-house counsel to the extent such services are not redundant with those provided by outside counsel).

Amendment of Indenture

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 upon adoption without the consent of any Owners, but only with the prior written consent of the Series 2003 Insurer (except that no such consent shall be required with respect to any Supplemental Indenture entered into for the purposes set forth in (c) below), to the extent permitted by law, but only for any one or more of the following purposes-

(a) to add to the covenants and agreements of the Agency in the Indenture contained, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or powers in the Indenture reserved 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, in the reasonable determination of the Agency, materially adversely affect the interests of the Owners; or

(c) to provide for the issuance of Parity Debt in accordance with the Indenture; or

(d) to amend any provision of the Indenture relating to the requirements of or compliance with the Code, to any extent whatsoever but only if and to the extent such amendment will not adversely affect the exemption from federal income taxation of interest on any of the Bonds, in the opinion of Bond Counsel; or

(e) to comply with the requirements of a provider of a Qualified Reserve Account Credit Instrument.

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 consent of the Series 2003 Insurer, any other Insurer and the Owners of a majority in aggregate principal amount of the Bonds then Outstanding are filed with the Trustee. No such modification or amendment shall (a) extend the maturity of or reduce the interest rate on any Bond or otherwise alter or impair the obligation of the Agency to pay the principal, interest or redemption premiums (if any) at the time and place and at the rate and in the currency provided therein of any Bond without the express written consent of the Series 2003 Insurer, any other Insurer or the Owner of such Bond, or (b) reduce the percentage of Bonds required for the written consent to any such amendment or modification. In no event shall any Supplemental Indenture modify any of the rights or obligations of the Trustee without its prior written consent. In no event shall any Supplemental Indenture modify any of the rights or obligations of the Series 2003 Insurer or any other Insurer without its prior written consent.

Events of Default and Remedies

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

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

(b) if default shall be made by the Agency in the observance of any of the covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, other than a default described in the preceding clause (a), and such default shall have continued for a period of thirty (30) days following receipt by the Agency of written notice from the Trustee, the Series 2003 Insurer or any other Insurer or written notice from any Owner (with a copy of said notice delivered to the Trustee and the Series 2003 Insurer and any other Insurer) of the occurrence of such default, provided that if in the reasonable opinion of the Agency the failure stated in the notice can be corrected, but not within such thirty (30) day period, such failure will not constitute an event of default if corrective action is instituted by the Agency (with the prior written consent of the Series 2003 Insurer and any other Insurer) within such thirty (30) day period and the Agency thereafter diligently and in good faith cures such failure in a reasonable period of time as approved by the Series 2003 Insurer and any other Insurer; or

(c) If the Agency files a petition seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America, or if a court of competent jurisdiction will approve a petition by the Agency seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America, or, if under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction will approve a petition by the Agency, seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America, or, if under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction will assume custody or control of the Agency or of the whole or any substantial part of its property.

In determining whether an Event of Default has occurred under (a) above, no effect shall be given to payments made under the Series 2003 Bond Insurance Policy, the Series 2003 Qualified Reserve Account Credit Instrument or under any other municipal bond insurance policy, financial guaranty insurance policy or Qualified Reserve Account Credit Instrument.

If an Event of Default has occurred under the Indenture and is continuing, the Trustee, may, and, if requested in writing by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding the Trustee shall, (a) declare the principal of the Bonds, together with the accrued interest thereon, to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, anything in the Indenture or in the Bonds to the contrary notwithstanding, and (b) subject to the provisions of the Indenture, exercise any other remedies available to the Trustee and the Bond Owners in law or at equity.

Immediately upon receiving notice or actual knowledge of the occurrence of an Event of Default, the Trustee shall give notice of such Event of Default to the Series 2003 Insurer and any other Insurer and to the Agency by telephone promptly confirmed in writing. Such notice shall also state whether the principal of the Bonds shall have been declared to be or have immediately become due and payable. With respect to any Event of Default described in clauses (a) or (c) above the Trustee shall, and with respect to any Event of Default described in clause (b) above the Trustee in its sole discretion may, also give such notice to the Owners by mail, which shall include the statement that interest on the Bonds shall cease to accrue from and after the date, if any, on which the Trustee shall have declared the Bonds to become due and payable pursuant to the preceding paragraph (but only to the extent that principal and any accrued, but unpaid, interest on the Bonds is actually paid on such date). In no event shall the debt service on the Series 2003 Bonds be accelerated without the prior written consent of the Series 2003 Insurer.

This provision, however, is subject to the condition that if, at any time after the principal of the Bonds shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Agency shall, with the written consent of a majority in aggregate principal amount of the Owners of the Bonds, deposit with the Trustee a sum sufficient to pay all principal on the Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, with interest on such overdue installments of principal and interest (to the extent permitted by law), and the reasonable fees and expenses of the Trustee, (including the allocated costs and disbursements of its in-house counsel to the extent such services are not redundant with those provided by outside counsel) and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Trustee shall promptly give written notice of the foregoing to the Series 2003 Insurer, any other Insurer and the Owners of all Bonds then Outstanding, and with the prior written approval of the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding, by written notice to the Agency and to the Trustee, may, on behalf of the Owners of all of the Bonds, rescind and annul such declaration and its consequences. However, no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon. In no event shall any rescission or annulment of the acceleration of the debt service on the Series 2003 Bonds occur without the prior written consent of the Series 2003 Insurer.

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 described above, and all sums thereafter received by the Trustee under the Indenture, shall be applied by the Trustee in the following order upon presentation of the several Bonds, and the stamping thereon of the payment if only partially paid, or upon the surrender thereof if fully paid:

First, to the payment of the fees, costs and expenses of the Trustee in declaring such Event of Default and in exercising the rights and remedies set forth in the Indenture,

including reasonable compensation to its agents, attorneys (including the allocated costs and disbursements of its in-house counsel to the extent such services are not redundant with those provided by outside counsel) and counsel and any outstanding fees, expenses of the Trustee; and

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

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

Limitation on Owner's Right to Sue. No Owner of any Bond issued under the Indenture shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture, unless (a) such Owner shall have previously given to the Agency, the Trustee, the Series 2003 Insurer and any other Insurer written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted 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, in every case, to be conditions precedent to the exercise by any Owner of any remedy under the Indenture; it being understood and intended that no one or more Owners shall have any right in any manner whatever by his or their action to enforce any right under the Indenture, except in the manner in the Indenture provided, and that all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner in the Indenture provided and for the equal benefit of all Owners of the Outstanding Bonds.

Determination of Percentage of Bond Owners. Whenever in the Indenture the consent, direction or other action is required or permitted to be given or taken by a percentage of the Owners of an aggregate principal amount of Outstanding Bonds (including by the Owners of a majority in aggregate principal amount of the Outstanding Bonds), such percentage shall be

calculated on the basis of the principal amount of the Outstanding Bonds, determined as of the next succeeding Interest Payment Date.

Defeasance of Bonds

The Agency may pay and discharge the indebtedness on any Bonds in any one or more of the following ways:

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

(ii) by irrevocably depositing with the Trustee or an escrow agent, 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, is fully sufficient to pay all or the applicable portion of Outstanding Bonds, including all principal, interest and redemption premiums, as applicable, or;

(iii) by irrevocably depositing with the Trustee or an escrow agent, in trust, Defeasance Obligations in such amount as an Independent Accountant shall determine will, together with the interest to accrue thereon and available moneys then on deposit in the funds and accounts established pursuant to the Indenture, be fully sufficient to pay and discharge the indebtedness on all Bonds or the applicable portion thereof (including all principal, interest and redemption premiums) at or before maturity;

and, if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given pursuant to the Indenture 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 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 shall cease and terminate with respect to all Outstanding Bonds or, if applicable, with respect to that portion of the Bonds which has been paid and discharged, except only (a) the covenants of the Agency under the Indenture with respect to the Code, (b) the obligation of the Trustee to transfer and exchange Bonds under the Indenture, (c) the obligations of the Agency under the Indenture and (d) the obligation of the Agency to pay or cause to be paid to the Owners (or the Series 2003 Insurer and any other Insurer), from the amounts so deposited with the Trustee, all sums due thereon and to pay the Trustee, the Series 2003 Insurer and any other Insurer all fees, expenses and costs of the Trustee, the Series 2003 Insurer and any other Insurer. In the event the Agency shall, pursuant to the foregoing provision, pay and discharge any portion or all of the Bonds then Outstanding, the Trustee shall be authorized to take such actions and execute and deliver to the Agency all such instruments as may be necessary or desirable to evidence such discharge, including, without limitation, selection by lot of Bonds of any maturity of the Bonds that the Agency has determined to pay and discharge in part.

In the case of a defeasance or payment of all of the Bonds Outstanding, any funds thereafter held by the Trustee which are not required for said purpose or for payment of amounts due the Trustee shall be paid over to the Agency.

If a forward supply contract is employed in connection with the defeasance of any of the Bonds, (i) the verification report relating to the defeasance of such Bonds shall expressly state that the adequacy of the escrow to accomplish the defeasance relies solely on the initial escrowed investments and the maturing principal thereof and interest income thereon and does not assume performance under or compliance with the forward supply contract, and (ii) the

applicable escrow agreement shall provide that in the event of any discrepancy or difference between the terms of the forward supply contract and the escrow agreement, the terms of the escrow agreement shall be controlling.

Notwithstanding anything in the Indenture to the contrary, in the event that the principal and/or interest due of the Bonds is paid by the Series 2003 Insurer pursuant to the Series 2003 Bond Insurance Policy or by any other Insurer pursuant to its municipal bond or financial guaranty insurance policy, such 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 Tax Revenues and other assets under the Indenture and all covenants, agreements and other obligations of the Agency to the Bond Owners so paid shall continue to exist and shall run to the benefit of Series 2003 Insurer and any other Insurer, and the Series 2003 Insurer and any other Insurer shall be subrogated to the rights of such Bond Owners, as applicable.

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APPENDIX E
FINAL FORM OF BOND COUNSEL OPINION

February __, 2005

Redevelopment Agency of the City of Oakland
One Frank Ogawa Plaza
Oakland, California 94612

OPINION: \$44,360,000 Redevelopment Agency of the City of Oakland Central District
Redevelopment Project Subordinated Tax Allocation Bonds, Series 2005

Members of the Agency:

We have acted as bond counsel in connection with the issuance by the Redevelopment Agency of the City of Oakland (the "Agency") of its \$44,360,000 principal amount Redevelopment Agency of the City of Oakland Central District Redevelopment Project Subordinated Tax Allocation Bonds, Series 2005 (the "Bonds"), pursuant to the Community Redevelopment Law, constituting Part 1 (commencing with Section 33000) of Division 24 of the Health and Safety Code of the State of California (the "Law"), a resolution of the Agency adopted on January 18, 2005, and an Indenture of Trust dated as of January 1, 2003, between the Agency and BNY Western Trust Company, as succeeded by The Bank of New York Trust Company, N.A., as trustee (the "Trustee"), as amended and supplemented by a First Supplemental Indenture of Trust dated as of February 1, 2005 (collectively, the "Indenture") between the Agency and the Trustee. We have examined the Law and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Agency contained in the Indenture and in certified proceedings and other certifications of public officials furnished to us, without undertaking to verify such facts by independent investigation.

Based upon the foregoing, we are of the opinion, under existing law, as follows:

1. The Agency is duly created and validly existing as a public body, corporate and politic, with the power to execute and deliver the Indenture, perform the agreements on its part contained therein and issue the Bonds.

2. The Indenture has been duly executed and delivered by the Agency and constitutes a valid and binding obligation of the Agency enforceable upon the Agency.

3. Pursuant to the Law, the Indenture creates a valid lien on the funds pledged by the Indenture for the security of the Bonds, the Series 2003 Bonds and any other Parity Debt (as such terms are defined in the Indenture), subject to the prior lien granted to the Senior Bonds under the Senior Bonds Resolution (as such terms are defined in the Indenture).

4. The Bonds have been duly authorized, executed and delivered by the Agency and are valid and binding special obligations of the Agency payable, on a parity with the Series 2003 Bonds and any other Parity Debt, solely from the sources provided therefor in the Indenture.

5. The interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The opinions set forth in the preceding sentence are subject to the condition that the Agency comply with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Agency has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

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

The rights of the owners of the Bonds and the enforceability of the Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in appropriate cases.

Respectfully submitted,

A Professional Law Corporation

APPENDIX F

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The information in this Appendix concerning The Depository Trust Company (“DTC”), New York, New York, and DTC’s book-entry system has been obtained from DTC and the Agency takes no responsibility for the completeness or accuracy thereof. The Agency cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.

The DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued for each maturity of each Series of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC 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, (respectively, “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.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Security (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of

the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the 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 the 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 Security documents. For example, Beneficial Owners of the 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. The conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants and by DTC 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. Any failure of DTC to advise any DTC Participant, or of any DTC Participant or Indirect Participant to notify a Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the Bonds called for redemption or of any other action premised on such notice. Redemption of portions of the Bonds by the Agency will reduce the outstanding principal amount of Bonds held by DTC. In such event, DTC will implement, through its book-entry system, a redemption by lot of interests in the Bonds held for the account of DTC Participants in accordance with its own rules or other agreements with DTC Participants and then DTC Participants and Indirect Participants will implement a redemption of the Bonds for the Beneficial Owners. Any such selection of Bonds to be redeemed will not be governed by the Indenture and will not be conducted by the Agency or the Paying Agent.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest evidenced by 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 Agency 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 Agency, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest evidenced by the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Agency or 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.

NEITHER THE AGENCY NOR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF BONDS FOR PREPAYMENT.

Neither the Agency nor the Paying Agent can give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal of, premium, if any, and interest on the Bonds paid to DTC or its nominee, as the registered Owner, or any redemption or other notice, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Official Statement.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Agency or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, security certificates are required to be printed and delivered.

The Agency may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered.

In the event that the book-entry system is discontinued as described above, the requirements of the Indenture will apply. The foregoing information concerning DTC concerning and DTC's book-entry system has been provided by DTC, and none of the Agency or the Paying Agent take any responsibility for the accuracy thereof.

The Agency and the Underwriters do not give any assurances that DTC, the Participants or others will distribute payments of principal, interest or premium, if any, evidenced by the Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the Agency nor the Underwriters is responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the Bonds or an error or delay relating thereto.

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APPENDIX G

FORM OF CONTINUING DISCLOSURE CERTIFICATE

THIS CONTINUING DISCLOSURE CERTIFICATE (this "Disclosure Certificate") is executed and delivered by the REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND (the "Agency") in favor of THE BANK OF NEW YORK TRUST COMPANY, N.A., as trustee (the "Trustee"), in connection with the issuance of \$44,360,000 Redevelopment Agency of the City of Oakland, Central District Redevelopment Project Subordinated Tax Allocation Bonds, Series 2005 (the "Bonds"). The Bonds are being executed and delivered pursuant to that certain Indenture of Trust, dated as of January 1, 2003, between the Agency and the Trustee (formerly named BNY Western Trust Company), as amended and supplemented by that certain First Supplemental Indenture of Trust dated as of February 1, 2005, between the Agency and the Trustee (collectively, the "Indenture"). The Agency covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Agency for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule (as defined below).

Section 2. Definitions. The definitions set forth in the Indenture apply to all capitalized terms 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 Agency 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.

"CPO" means the Internet-based filing system currently located at www.DisclosureUSA.org, or such other similar filing system approved by the Securities and Exchange Commission.

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

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

"National Repository" shall mean the repositories designated by the Securities and Exchange Commission from time to time for purposes of the Rule. Information on the National Repositories as of a particular date is available on the Internet at www.sec.gov/info/municipal/nrmsir.htm

"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 and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository. Information regarding the National Repositories as of a particular date is available on the Internet at www.sec.gov/info/municipal/nrmsir.htm.

Section 3. Provision of Annual Reports.

(a) Not later than 270 days after the end of the Agency's fiscal year (which is currently June 30), commencing with the 2003-2004 fiscal year, the Agency shall, or shall cause the Dissemination Agent to, not later than 270 days after the end of the Agency's fiscal year (which is currently June 30) commencing with the 2003-2004 fiscal year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Agency may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Agency's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) Not later than fifteen (15) Business Days prior to said date, the Agency shall provide the Annual Report to the Dissemination Agent (if other than the Agency). If the Agency is unable to provide to the Dissemination Agent and the Repositories an Annual Report by the date required in subsection (a), the Dissemination Agent shall provide to (i) each National Repository or the Municipal Securities Rulemaking Board and (ii) each appropriate State Repository (with a copy to the Trustee) a notice, in substantially the form attached as Exhibit A. In lieu of filing the notice with each Repository, the Agency or the Dissemination Agent may file such notice with the CPO.

(c) With respect to the Annual Report, the Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and

(ii) if the Dissemination Agent is other than the Agency, file a report with the Agency certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing the Repositories to which it was provided.

(d) In lieu of filing the Annual Report with each Repository in accordance with the preceding paragraph (c), the City or the Dissemination Agent may file such Annual Report solely with the CPO.

Section 4. Content of Annual Reports. The Agency's Annual Report shall contain or include by reference the following:

1. The audited financial statements of the Agency 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 Agency's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the 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 become available.

2. Unless otherwise provided in the audited financial statements filed on or prior to the annual filing deadline for Annual Reports provided for in Section 3 above, financial information and operating data with respect to the Agency for the preceding Fiscal Year, substantially similar to that provided in the corresponding tables and charts in the Official Statement Bonds:

- (a) Table 1 - Summary Plan Limits;
- (b) Table 2 – Property Tax Values;
- (c) Table 3 – Tax Revenues Received;
- (d) Table 4 – 10 Largest Local Taxpayers.

Such annual information and operating data described above shall be provided on or before seven months after the end of the Agency's fiscal year. The Agency's current fiscal year ends June 30. The Agency may adjust such fiscal year by providing written notice of the change of fiscal year to each then existing National Repository and the State Repository, if any. In lieu of providing such annual financial information and operating data, the Agency may cross-reference to other documents provided to the National Repository, the State Repository or to the Commission and, if such document is a final official statement within the meaning of the Rule, available from the MSRB.

Section 5. Material Events. The Agency agrees to provide or cause to be provided, in a timely manner, to the State Repository, if any, and to each National Repository or to the MSRB notice of the occurrence of any of the following events (the "Listed Events") with respect to the Bonds, if material:

- 1. Principal and interest payment delinquencies.
- 2. Non-payment related defaults.
- 3. Modifications to rights of the Holders of the Bonds.
- 4. Optional, contingent or unscheduled bond calls.
- 5. Defeasances.
- 6. Rating changes.

7. Adverse tax opinions or events adversely affecting the tax-exempt status of the Bonds.
8. Unscheduled draws on debt service reserves reflecting financial difficulties.
9. Unscheduled draws on credit enhancements reflecting financial difficulties.
10. Substitution of the credit or liquidity providers or their failure to perform.
11. Release, substitution or sale of property securing repayment of the Bonds.

Any event under subsections (1) or (6) of the definition of the term "Listed Event" will always be deemed by the Agency to be material.

If the Agency determines that knowledge of the occurrence of a Listed Event would be material, the Agency shall promptly file, or cause the Dissemination Agent to promptly file, a notice of such occurrence with (i) each National Repository or the Municipal Securities Rulemaking Board and (ii) each appropriate State Repository. The Agency shall have no obligation under this Section 3 to give further notices after the date of the defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the maturity of the Bonds, the Agency shall give notice of such termination in the same manner as for a Listed Event. In lieu of filing the notice of Listed Event with each Repository in accordance with the preceding paragraph, the Agency or the Dissemination Agent may file such notice of a Listed Event with the CPO.

Nothing in this Section shall be deemed to prevent the Agency from disseminating any other information, 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 Agency 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 Agency shall have no obligation under this Disclosure Certificate to update such information or include it in any future notice of occurrence of a Listed Event.

In the event of a failure of the Agency to comply with any provision of this Section 5, any Bondholder may take such actions as may be necessary and appropriate, including applicable legal remedies to cause the Agency to comply with its obligations under this Section 5. A default under this Section 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 Agency to comply with this Section shall be an action to compel performance.

This Section shall inure solely to the benefit of the Agency, the Participating Underwriters and holders from time to time of the Bonds and no other person shall have any rights hereunder.

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

Section 7. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Agency may amend this Disclosure Certificate; and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Section 3, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted; and

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Owners of the Bonds in the same manner as provided in the Ordinance for amendments to the Ordinance with the consent of Owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the Bonds.

Section 8. Dissemination Agent. The Agency may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

Section 9. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Agency agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder (including, without limitation, any alleged violations of the Securities Exchange Act of 1934, as amended), including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Agency under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Neither the Trustee nor the Dissemination Agent shall be responsible for the accuracy or validity of any information contained in any Annual Report or report of a Listed Event prepared by the Agency under this Disclosure Certificate.

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Agency 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 Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Agency chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Agency shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Agency, the Trustee, the Dissemination Agent, the Participating Underwriters and holders

and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 12. Default. In the event of a failure of the Agency to comply with any provision of this Disclosure Certificate, any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Agency, as the case may be, 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 Ordinance, and the sole remedy under this Disclosure Certificate in the event of any failure of the Agency to comply with this Disclosure Certificate shall be an action to compel performance.

Section 13. Prior Undertakings. The Agency each hereby certifies that it is in compliance in all material respects with all prior undertakings made by it pursuant to Rule 15c2-12(b)(5).

Section 14. Effective Date. This Disclosure Certificate shall be effective on and as of February __, 2005.

Section 15. Notices. Any notices or communications to the Agency relating to this Disclosure Certificate may be given as follows:

If to the Agency:

Redevelopment Agency of the City of Oakland
c/o Finance and Management Agency
150 Frank H. Ogawa Plaza, Suite 5330
Oakland, California 94612
Attention: Treasury Manager
Telephone: (510) 238-2989
Fax: (510) 238-2137

The Agency may, by written notice to the other parties acting hereunder, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

Section 16. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, this Certificate is given this ____ day of February, 2005.

REDEVELOPMENT AGENCY OF THE CITY
OF OAKLAND CALIFORNIA

By: _____
Authorized Representative

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Obligor: REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND,
CALIFORNIA

Name of Bond Issue: \$44,360,000 Redevelopment Agency of the City of Oakland,
Central District Redevelopment Project Subordinated Tax
Allocation Bonds, Series 2005 (the "Bonds")

Date of Delivery: February __, 2005.

NOTICE IS HEREBY GIVEN to [(i) each National Repository or the Municipal Securities Rulemaking Board and (ii) each appropriate State Repository] [the CPO and the Municipal Securities Rulemaking Board] that the Redevelopment Agency of the City of Oakland, California (the "Agency") has not provided an Annual Report with respect to the above-named Bonds as required by the First Supplemental Indenture of Trust dated as of February 1, 2005 relating to the Bonds. The Agency anticipates that the Annual Report will be filed by _____.

Dated: _____

REDEVELOPMENT AGENCY OF THE CITY
OF OAKLAND, CALIFORNIA

By: _____
Authorized Representative

APPENDIX H
SPECIMEN BOND INSURANCE POLICY

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Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Fl.
New York, New York 10004
Telephone: (212) 668-0340

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.
Form No.: 2B-0012 (1/01)


Authorized Officer of Insurance Trustee

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 I

SPECIMEN RESERVE ACCOUNT SURETY POLICY

Ambac Assurance Corporation

Statutory Office:
c/o CT Corporation
44 East Mifflin Street
Madison, Wisconsin 53703

Administrative Office:
One State Street Plaza
New York, New York 10004
Telephone: (212) 668-0340

Policy No. SB__BE

Ambac Assurance Corporation (“Ambac”), in consideration of the payment of the premium and subject to the terms of this Surety Bond, hereby unconditionally and irrevocably guarantees the full and complete payments which are to be applied to payment of principal of and interest on the [Obligations] (as hereinafter defined) and which are required to be made by or on behalf of the (the “Obligor”) to ___ (the “Paying Agent/Trustee”) as such payments are due by the Obligor but shall not be so paid pursuant to a resolution of the City Council of the Obligor authorizing the issuance of \$ _____(the “[Obligations]”) of said city and providing the terms and conditions for the issuance of said [Obligations] (the “Resolution/Indenture/Ordinance”); provided that the amount available at any particular time to be paid to the Paying Agent under the terms hereof shall not exceed the Surety Bond Coverage, defined herein as the lesser of \$ _____ or the [Debt Service Reserve Fund Requirement for the [Obligations], as that term is defined in the Resolution] (the “Reserve Requirement”). The Surety Bond Coverage shall be reduced and may be reinstated from time to time as set forth herein.

1. As used herein, the term “Owner” shall mean the registered owner of any [Obligation] as indicated in the books maintained by the applicable paying agent, the Obligor or any designee of the Obligor for such purpose. The term “Owner” shall not include the Obligor or any person or entity whose obligation or obligations by agreement constitute the underlying security or source of payment of the [Obligations].
2. Upon the later of: (i) one (1) day after receipt by the General Counsel of Ambac of a demand for payment in the form attached hereto as Attachment 1 (the “Demand for Payment”), duly executed by the Paying Agent certifying that payment due as required by the Resolution has not been made to the Paying Agent; or (ii) the payment date of the [Obligations] as specified in the Demand for Payment presented by the Paying Agent to the General Counsel of Ambac, Ambac will make a deposit of funds in an account with the Paying Agent or its successor, in [City/State] sufficient for the payment to the Paying Agent, of amounts which are then due to the Paying Agent (as specified in the Demand for Payment) up to but not in excess of the Surety Bond Coverage.
3. Demand for Payment hereunder may be made by prepaid telecopy, telex, or telegram of the executed Demand for Payment c/o the General Counsel of Ambac. If a Demand for Payment made hereunder does not, in any instance conform to the terms and conditions of this Surety Bond, Ambac shall give notice to the Paying Agent, as promptly as reasonably practicable that such Demand for Payment was not effected in accordance with the terms and conditions of this Surety Bond and briefly state the reason(s) therefor. Upon being notified that such Demand for Payment was not effected in accordance with this Surety Bond, the Paying Agent may attempt to correct any such nonconforming Demand for Payment if, and to the extent that, the Paying Agent is entitled and able to do so.
4. The amount payable by Ambac under this Surety Bond pursuant to a Demand for Payment shall be limited to the Surety Bond Coverage. The Surety Bond Coverage shall be reduced automatically to the

extent of each payment made by Ambac hereunder and will be reinstated to the extent of each reimbursement of Ambac by the Obligor pursuant to Article II of the Guaranty Agreement, dated as of the date of the [Obligations], by and between Ambac and the Obligor (the "Guaranty Agreement"); provided, that in no event shall such reinstatement exceed the Surety Bond Coverage, Ambac will notify the Paying Agent, in writing within five (5) days of such reimbursement, that the Surety Bond Coverage has been reinstated to the extent of such reimbursement pursuant to the Guaranty Agreement and such

reinstatement shall be effective as of the date Ambac gives such notice. The notice to the Paying Agent will be substantially in the form attached hereto as Attachment 2. The Surety Bond Coverage shall be automatically reduced to the extent that the Reserve Requirement for the [Obligations] is lowered or reduced pursuant to the terms of the Resolution.

5. Any service of process on Ambac may be made to Ambac or the office of the General Counsel of Ambac and such service of process shall be valid and binding as to Ambac. During the term of its appointment, General Counsel will act as agent for the acceptance of service of process and its offices are located at One State Street Plaza, New York, New York 10004.

6. This Surety Bond is noncancelable for any reason. The term of this Surety Bond shall expire on the earlier of (i) _____ (the maturity date of the [Obligations]) or (ii) the date on which the Obligor, to the satisfaction of Ambac, has made all payments required to be made on the [Obligations] pursuant to the Resolution. The premium on this Surety Bond is not refundable for any reason, including the payment prior to maturity of the [Obligations].

7. This Surety Bond shall be governed by and interpreted under the laws of the State of Wisconsin [or **Minnesota, Nebraska, North Carolina, South Carolina, Utah, Vermont, Washington or Commonwealth of Pennsylvania, for financings in those states**], and any suit hereunder [seeking **specific performance (for Florida)**] in connection with any payment may be brought only by the Paying Agent within one year [**two years in Minnesota, three years in Maryland and Utah, five years in Kansas**] after (i) a Demand for Payment, with respect to such payment, is made pursuant to the terms of this Surety Bond and Ambac has failed to make such payment or (ii) payment would otherwise have been due hereunder but for the failure on the part of the Paying Agent to deliver to Ambac a Demand for Payment pursuant to the terms of this Surety Bond, whichever is earlier.

8. One of the following paragraphs may apply:

ADDITIONAL PARAGRAPH FOR CALIFORNIA TRANSACTIONS:

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.

ADDITIONAL PARAGRAPH FOR CONNECTICUT TRANSACTIONS:

In the event that Ambac were to become insolvent, any claims arising under the Surety Bond would be excluded from coverage by the Connecticut Insurance Guaranty Association.

ADDITIONAL PARAGRAPH FOR FLORIDA TRANSACTIONS:

The insurance provided by the Surety Bond is not covered by the Florida Insurance Guaranty Association.

ADDITIONAL PARAGRAPH FOR NEW YORK TRANSACTIONS:

The insurance provided by the Surety Bond is not covered by the property/casualty insurance security fund specified by the insurance laws of the State of New York.

FOR OKLAHOMA TRANSACTIONS — MUST USE OKLAHOMA ENDORSEMENT

IN WITNESS WHEREOF, Ambac has caused this Surety Bond to be executed and attested on its behalf this day of , 200_ .

Ambac Assurance Corporation

Attest: _____
Assistant Secretary

By: _____
Vice President and
Assistant General Counsel

By: _____
[Countersignature Agent, if applicable]

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