

PRELIMINARY OFFICIAL STATEMENT DATED MAY 14, 2014

NEW ISSUE – BOOK ENTRY ONLY
(BANK QUALIFIED)

RATINGS: S&P: “AA” (Insured) / “A” (Underlying)
See “CONCLUDING INFORMATION – Ratings” herein.

In the opinion of Richards, Watson & Gershon, A Professional Corporation, Bond Counsel, under existing law (i) assuming continuing compliance with certain covenants and the accuracy of certain representations, 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, and the Bonds are qualified tax-exempt obligations as that term is defined in Section 265(b)(3) of the Internal Revenue Code of 1986, as amended, and (ii) interest on the Bonds is exempt from personal income taxation by the State of California. Interest on the Bonds may be subject to certain federal taxes imposed only on certain corporations, including the corporate alternative minimum tax on a portion of that interest. See “CONCLUDING INFORMATION – Tax Exemption” herein for a discussion of the effect of certain provisions of the Code on Owners of the Bonds.

\$3,045,000*

CALIMESA FINANCING AUTHORITY
TAX ALLOCATION REFUNDING REVENUE BONDS
(CALIMESA REDEVELOPMENT PROJECT NO. 1 AND PROJECT NO. 5)
SERIES 2014

Dated: Delivery Date

Due: December 1, as shown on inside cover

The above-captioned bonds (the “Bonds”) are being issued by the Calimesa Financing Authority (the “Authority”) pursuant to an Indenture of Trust, dated as of May 1, 2014 (the “Indenture”), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”). Proceeds of the Bonds will be used to fund (i) a loan (the “2014 Project No. 1 Loan”) to the Successor Agency to the Calimesa Redevelopment Agency (the “Agency”) with respect to the Calimesa Redevelopment Project Area No. 1 (“Project No. 1”), and (ii) a loan (the “2014 Project No. 5 Loan”; and together with the 2014 Project No. 1 Loan, the “2014 Loans”), to the Agency with respect to the Calimesa Redevelopment Project Area No. 5 (“Project No. 5”; and together with Project No. 1, the “Project Areas”), pursuant to the terms of, respectively, a Loan Agreement, dated as of May 1, 2014, with respect to Project No. 1, by and among the Authority, the Agency, and the Trustee (the “2014 Project No. 1 Loan Agreement”), and a Loan Agreement, dated as of May 1, 2014, with respect to Project No. 5, by and among the Authority, the Agency, and the Trustee (the “2014 Project No. 5 Loan Agreement”; and together with the 2014 Project No. 1 Loan Agreement, the “2014 Loan Agreements”). The proceeds of the 2014 Loans will be used to (i) refinance the outstanding obligations of the Agency under a loan agreement dated as of March 1, 2008 (the “2008 Project No. 1 Loan Agreement”), with respect to the Calimesa Redevelopment Project Area No. 1 (“Project No. 1”); (ii) refinance the outstanding obligations of the Agency under a loan agreement dated as of March 1, 2008 (the “2008 Project No. 5 Loan Agreement”; and together with the 2008 Project No. 1 Loan Agreement, the “2008 Loan Agreements”), with respect to the Calimesa Redevelopment Project Area No. 5 (“Project No. 5”); (iii) fund reserve subaccounts for the 2014 Loans; and (iv) pay the costs of issuing the Bonds.

The Bonds will be delivered as fully registered bonds, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York (“DTC”), and will be available to ultimate purchasers (“Beneficial Owners”) in the denomination of \$5,000 or any integral multiple thereof, under the book-entry system maintained by DTC. Beneficial Owners will not be entitled to receive delivery of bond certificates representing their ownership interest in the Bonds. The principal of, premium if any, and semiannual interest (due June 1 and December 1 of each year, commencing December 1, 2014) on the Bonds will be payable by The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”), to DTC for subsequent disbursement to DTC participants, so long as DTC or its nominee remains the registered owner of the Bonds (see “THE BONDS—Book-Entry System” herein).

The Bonds are subject to optional and mandatory redemption prior to their maturity under certain conditions as described herein, including mandatory redemption upon acceleration of the payments due under a 2014 Loan Agreement (as defined herein) upon the occurrence of certain events of default under such 2014 Loan Agreement. See “APPENDIX B – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE 2014 LOAN AGREEMENTS – The Loan Agreement-Events of Default and Remedies.”

The Bonds are special obligations of the Authority and payable from and equally and ratably secured by a first pledge of Revenues (as defined herein) consisting primarily of certain property tax revenues to be derived from the Project Areas, received by the Agency, and paid to the Authority as 2014 Loan payments pursuant to the 2014 Loan Agreements. Taxes levied on the property within the Project Areas on that portion of the taxable valuation over and above the taxable valuation of the respective base year property tax roll to the extent they constitute Pledged Tax Revenues, shall be deposited in the Redevelopment Obligation Retirement Fund, held and administered by the Agency and transferred to the Revenue Fund held by the Trustee, in accordance with the Indenture.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by ASSURED GUARANTY MUNICIPAL CORP. See “BOND INSURANCE” and “APPENDIX I – SPECIMEN MUNICIPAL BOND INSURANCE POLICY” herein.



This cover page of the Official Statement contains information for quick reference only. It is not a complete summary of the Bonds. Investors should read the entire Official Statement to obtain information essential to the making of an informed investment decision with respect to the Bonds. Attention is hereby directed to certain Risk Factors more fully described herein.

Neither the Bonds, nor the obligations of the Agency under the 2014 Loan Agreements, are a debt of the City of Calimesa (the “City”), the State of California (the “State”) or any of its political subdivisions (except the Agency and the Authority, as applicable) and neither said City, said State or any of its political subdivisions (except the Agency and the Authority, as applicable) is liable therefor. The principal of, premium, if any, and interest on the Bonds ultimately are payable from and secured by the Pledged Tax Revenues allocated to the Agency from the Project Areas and payable by the Agency to the Authority under the 2014 Loan Agreements. The Bonds do not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction.

The Bonds are offered, when, as and if issued, subject to the approval of Richards, Watson & Gershon, A Professional Corporation, Los Angeles, California, Bond Counsel and Disclosure Counsel. Certain legal matters will be passed on for the Underwriter by Quint & Thimmig LLP, Larkspur, California, Underwriter’s Counsel. It is anticipated that the Bonds will be available for delivery to DTC in New York, New York, on or about May 28, 2014.

Dated: May __, 2014

Jefferies

* Preliminary; subject to change.

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

\$3,045,000*
CALIMESA FINANCING AUTHORITY
TAX ALLOCATION REFUNDING REVENUE BONDS
(CALIMESA REDEVELOPMENT PROJECT NO. 1 AND PROJECT NO. 5)
SERIES 2014

MATURITY SCHEDULE*
(Base CUSIP† 130836)

\$1,675,000 Serial Bonds

| <u>Maturity Date</u> <u>(December 1)</u> | <u>Principal</u> <u>Amount</u> | <u>Interest</u> <u>Rate</u> | <u>Yield</u> | <u>CUSIP†</u> <u>Suffix</u> |
|---|-----------------------------------|--------------------------------|--------------|--------------------------------|
| 2014 | \$155,000 | | | |
| 2015 | 90,000 | | | |
| 2016 | 90,000 | | | |
| 2017 | 95,000 | | | |
| 2018 | 95,000 | | | |
| 2019 | 100,000 | | | |
| 2020 | 95,000 | | | |
| 2021 | 105,000 | | | |
| 2022 | 110,000 | | | |
| 2023 | 110,000 | | | |
| 2024 | 115,000 | | | |
| 2025 | 120,000 | | | |
| 2026 | 125,000 | | | |
| 2027 | 135,000 | | | |
| 2028 | 135,000 | | | |

\$800,000 _____% Term Bonds due December 1, 2033 - Yield – _____% - CUSIP† Suffix _____
\$570,000 _____% Term Bonds due December 1, 2038 - Yield – _____% - CUSIP† Suffix _____

† CUSIP® Copyright 2014, CUSIP Global Services, and a registered trademark of American Bankers Association. CUSIP® data herein is provided by CUSIP Global Services, which is managed on behalf of American Bankers Association by S&P Capital IQ. Neither the Authority nor the Underwriter guarantees the accuracy of the CUSIP® data.

* Preliminary; subject to change.

CALIMESA FINANCING AUTHORITY

Authority Commission / Successor Agency Board of Directors / City Council Members

William "Bill" Davis, *President / Chair / Mayor*
Jeffrey Hewitt, *Vice President / Vice-Chair / Mayor Pro Tem*
Jim Hyatt, *Authority Commissioner / Director / Council Member*
Joyce McIntire, *Authority Commissioner / Director / Council Member*
Ella Zanolovic, *Authority Commissioner / Director / Council Member*

Authority / Agency / City Staff

Randy Anstine, *Chief Administrative Officer / Executive Director / City Manager*
Bonnie Johnson, *Assistant City Manager / Finance Director*
Darlene Gerdes, *Authority Secretary / Agency Secretary / City Clerk*
Kevin G. Ennis, Esq., *Authority Counsel / Agency Counsel / City Attorney*

SPECIAL SERVICES

Bond Counsel and Disclosure Counsel

Richards, Watson & Gershon,
A Professional Corporation
Los Angeles, California

Financial Advisor / Continuing Disclosure Dissemination Agent

Urban Futures, Inc.
Orange, California

Trustee / Escrow Agent

The Bank of New York Mellon Trust Company, N.A.
Los Angeles, California

Underwriter

Jefferies LLC
San Francisco, California

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

No Offering May Be Made Except by this Official Statement. No dealer, broker, salesperson or other person has been authorized by the Authority or the Agency to give any information or to make any representations with respect to the Bonds other than as contained in this Official Statement, and, if given or made, such other information or representation must not be relied upon as having been given or authorized by the Authority, the Agency or the Underwriter.

Use of Official Statement. This Official Statement is submitted in connection with the sale of the Bonds described in this Official Statement and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement does not constitute a contract between any Bond owner and the Authority, the Agency or the Underwriter.

Preparation of this Official Statement. The information contained in this Official Statement has been obtained from sources that are believed to be reliable, but this information is not guaranteed as to accuracy or completeness. The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Assured Guaranty Municipal Corp. (“AGM”) makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading “BOND INSURANCE” and “APPENDIX I – SPECIMEN MUNICIPAL BOND INSURANCE POLICY”.

Estimates and Forecasts. When used in this Official Statement and in any continuing disclosure made by the Agency, the words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “forecast,” “expect,” “intend” and similar expressions identify “forward looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the Bonds will, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the Agency, or the other parties described in this Official Statement, since the date of this Official Statement.

Document Summaries. All summaries of the Indenture, the 2014 Loan Agreements, or other documents contained in this Official Statement are made subject to the provisions of such documents and do not purport to be complete statements of any or all such provisions. All references in this Official Statement to the Indenture, the 2014 Loan Agreements, and such other documents are qualified in their entirety by reference to such documents, which are on file with the Agency.

No Unlawful Offers or Solicitations. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

No Registration with the SEC. The issuance and sale of the Bonds have not been registered under the Securities Act of 1933 or the Securities Exchange Act of 1934, both as amended, in reliance upon exemptions provided thereunder by Sections 3(a)(2) and 3(a)(12), respectively, for the issuance and sale of municipal securities.

Public Offering Prices. The Underwriter may overallocate or take other steps that stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. If commented, the Underwriter may discontinue such market stabilization at any time. The Underwriter may offer and sell the Bonds to certain dealers and dealer banks and banks acting as agent at prices lower than the public offering prices stated on the inside cover page of this Official Statement, and the Underwriter may change those public offering prices from time to time.

Web Page. The City of Calimesa maintains a website. However, the information maintained on the website is not a part of this Official Statement and should not be relied upon in making an investment decision with respect to the Bonds.

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\$3,045,000*
CALIMESA FINANCING AUTHORITY
TAX ALLOCATION REFUNDING REVENUE BONDS
(CALIMESA REDEVELOPMENT PROJECT NO. 1 AND PROJECT NO. 5)
SERIES 2014

INTRODUCTION

This introduction does not purport to be complete, and reference is made to the cover page, the body of this Official Statement, the appendices hereto, and the documents referred to herein for more complete information with respect to matters concerning the Bonds. Potential investors are encouraged to read the entire Official Statement. Definitions of certain terms used in this Official Statement are set forth in “APPENDIX B — SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE 2014 LOAN AGREEMENTS.”

Authority for Issuance

The Authority is a joint powers authority, duly organized and existing under and pursuant to that certain Joint Exercise of Powers Agreement dated February 4, 2008 (the “Joint Powers Agreement”), by and between the City of Calimesa, California (the “City”), and the Calimesa Redevelopment Agency (the “Prior Agency”), as succeeded by the Successor Agency to the Calimesa Redevelopment Agency (the “Agency”), and under the provisions of Articles 1 through 4 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the “Act”), and is authorized pursuant to Article 4 of the Act (the “Bond Law”) to borrow money and loan the proceeds to the Agency for the purpose of financing and refinancing public capital improvements of the Agency.

The above-captioned bonds (the “Bonds”) are being issued in accordance with the Bond Law, a resolution (the “Authority Resolution”) adopted by the Authority on February 3, 2014 and an Indenture of Trust, dated as of May 1, 2014 (the “Indenture”), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”). The Bonds are limited obligations of the Authority entitled, ratably and equally, to the benefits of the Indenture and are payable solely from and secured by an assignment and pledge of Revenues, consisting primarily of the Authority’s interest in certain loan repayments to be made by the Agency under two separate 2014 Loan Agreements (herein defined). The Agency’s obligations under the 2014 Loan Agreements are secured by a pledge of “Pledged Tax Revenues,” consisting of certain property tax revenues derived from taxes assessed on property within the two project areas of the Agency (the “Project Areas”, as described herein) and other amounts allocated and paid to the Agency. See “SECURITY FOR THE BONDS” herein.

Purpose

Proceeds of the Bonds will be used to fund (i) a loan (the “2014 Project No. 1 Loan”) to Agency with respect to the Calimesa Redevelopment Project Area No. 1 (“Project No. 1”), and (ii) a loan (the “2014 Project No. 5 Loan”; and together with the 2014 Project No. 1 Loan, the “2014 Loans”), to the Agency with respect to the Calimesa Redevelopment Project Area No. 5 (“Project No. 5”), pursuant to the terms of, respectively, a Loan Agreement, dated as of May 1, 2014, with respect to Project No. 1, by and among the Authority, the Agency, and the Trustee (the “2014 Project No. 1 Loan Agreement”), and a Loan Agreement, dated as of May 1, 2014, with respect to Project No. 5, by and among the Authority, the Agency, and the Trustee (the “2014 Project No. 5 Loan Agreement”; and together with the 2014 Project

* Preliminary; subject to change.

No. 1 Loan Agreement, the “2014 Loan Agreements”). The proceeds of the 2014 Loans will be used to (i) refinance the outstanding obligations of the Agency under a loan agreement dated as of March 1, 2008 (the “2008 Project No. 1 Loan Agreement”), with respect to the Calimesa Redevelopment Project Area No. 1 (“Project No. 1”); (ii) refinance the outstanding obligations of the Agency under a loan agreement dated as of March 1, 2008 (the “2008 Project No. 5 Loan Agreement”; and together with the 2008 Project No. 1 Loan Agreement, the “2008 Loan Agreements”), with respect to the Calimesa Redevelopment Project Area No. 5 (“Project No. 5”); (iii) fund reserve subaccounts for the 2014 Loans; and (iv) pay the costs of issuing the Bonds. The loan provided by the Authority to the Agency under the 2008 Project No. 1 Loan Agreement and the loan provided by the Authority to the Agency under the 2008 Project No. 5 Loan Agreement are referred to herein as, respectively, the “2008 Project No. 1 Loan” and the “2008 Project No. 5 Loan”, and together as the “2008 Loans”. See “PLAN OF REFUNDING” and “SOURCES AND USES OF FUNDS.”

The 2014 Loans are authorized pursuant to the Constitution and laws of the State of California (the “State”), including Article 11 (commencing with Section 53580) of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code (the “Refunding Law”) and the provisions of California Health and Safety Code Section 34177.5, and the 2014 Loan Agreements. The 2014 Loans and the 2014 Loan Agreements were approved by CSA Resolution No. 2014-01 adopted by the Agency on February 3, 2014, and by OB Resolution No. 2014-02 adopted by the Oversight Board for the Agency (the “Oversight Board”) on February 4, 2014 (the “Oversight Board Resolution”). Written notice of the Oversight Board Resolution was provided to the State Department of Finance pursuant to the Dissolution Act (as defined herein) on February 4, 2014, and the State Department of Finance requested review within five business days of such written notice. On April 7, 2014, the State Department of Finance provided a letter to the Agency stating that based on such department’s review and application of the law, the Oversight Board Resolution approving the refinancing of the 2008 Loans is approved by the State Department of Finance and that the letter constitutes the department’s determination with respect to the Oversight Board action taken pursuant to the Oversight Board Resolution (the “DOF Determination Letter”). The DOF Determination Letter provides that the approval therein is conditioned on the understanding that the refunding obligations meet the limitations in California Health and Safety Code Section 34177.5(a), which as described above in this paragraph is one of the authorizing laws pursuant to which the 2014 Loans are being incurred to refund the 2008 Loans, which effects a refunding of the 2008 Bonds. A copy of the DOF Determination Letter is set forth as APPENDIX H hereto.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by Assured Guaranty Municipal Corp. See “BOND INSURANCE” herein.

The City and the Agency

The City of Calimesa (the “City”), California is located in northwestern Riverside County (the “County”), along Interstate 10 and bordering the County of San Bernardino, within the Yucaipa Valley of the San Gorgonio Pass Area. The City was incorporated in 1990. It maintains a council-manager form of government, with the Councilmembers elected at-large for staggered four-year terms. The Mayor is elected annually by a vote of the City Council. For certain information regarding the City, see “APPENDIX A – GENERAL INFORMATION REGARDING THE CITY OF CALIMESA.”

The Calimesa Redevelopment Agency (the “Prior Agency”) was established on May 18, 1992 by the City Council of the City with the adoption of Ordinance No. 92-9, pursuant to the Community Redevelopment Law (Part 1, Division 25, commencing with Section 33000 of the Health and Safety Code of the State) (the “Redevelopment Law”). On June 29, 2011, Assembly Bill No. 26 (“AB X1 26”) was enacted as Chapter 5, Statutes of 2011, together with a companion bill, Assembly Bill No. 27 (“AB X1

27”). A lawsuit was brought in the California Supreme Court, *California Redevelopment Association, et al., v. Matosantos, et al.*, 53 Cal. 4th 231 (Cal. 2011), challenging the constitutionality of AB X1 26 and AB X1 27. In its December 29, 2011 decision in that lawsuit, the California Supreme Court largely upheld AB X1 26, invalidated AB X1 27, and held that AB X1 26 may be severed from AB X1 27 and enforced independently. As a result of AB X1 26 and the decision of the California Supreme Court in the *California Redevelopment Association* case, as of February 1, 2012, all redevelopment agencies in the State were dissolved, including the Prior Agency, and successor agencies were designated as successor entities to the former redevelopment agencies to expeditiously wind down the affairs of the former redevelopment agencies.

The primary provisions enacted by AB X1 26 relating to the dissolution and wind down of former redevelopment agency affairs are Parts 1.8 (commencing with Section 34161) and 1.85 (commencing with Section 34170) of Division 24 of the Health and Safety Code of the State, as amended on June 27, 2012 by Assembly Bill No. 1484 (“AB 1484”), enacted as Chapter 26, Statutes of 2012 (as amended from time to time, the “Dissolution Act”).

On August 15, 2011, pursuant to Resolution No. 2011-30 and Section 34173 of the Dissolution Act, the City Council of the City elected to serve as successor agency to the Prior Agency and, on February 6, 2012, established rules and regulations for the operations of the Successor Agency to the Calimesa Redevelopment Agency (the “Agency”) to assume these successor functions pursuant to CSA Resolution No. 2012-01, adopted by the City Council as the governing body of the Agency. Subdivision (g) of Section 34173 of the Dissolution Act, added by AB 1484, expressly affirms that the Agency is a separate public entity from the City, that the two entities shall not merge, and that the liabilities of the Prior Agency will not be transferred to the City nor will the assets of the Prior Agency become assets of the City.

Pursuant to Article 1 of the Act, the Authority is a separate public entity from its members, the City and the Agency. As authorized by the Act, the Joint Powers Agreement provides that the debts, liabilities, and obligations of the Authority will not be the debts, liabilities, and obligations of the City or the Agency, except as specifically provided in the Joint Powers Agreement. The Indenture provides that the Bonds are special obligations of the Authority, payable from and secured by a first pledge of Revenues, consisting primarily of certain loan repayments to be made by the Agency under the two 2014 Loan Agreements. Thus, although the Agency is not directly obligated to repay the Bonds, through the provisions of the Indenture and the 2014 Loan Agreements, the repayment of principal and interest on the Bonds relies upon payments made by the Agency to the Authority pursuant to the 2014 Loan Agreements. See “SECURITY FOR THE BONDS” and “THE AUTHORITY” herein.

The Project Areas

Pursuant to the Redevelopment Law, the City Council, on behalf of the Prior Agency, established two redevelopment projects within the City, both of which generate Pledged Tax Revenues which are pledged to the repayment of the 2014 Loans, and which are referred to herein collectively as the “Project Areas.” The redevelopment plan for Calimesa Redevelopment Project Area No. 1 (“Project No. 1”) was approved by Ordinance No. 93-23 of the City adopted on December 30, 1993, and has been amended thereafter in accordance with the Redevelopment Law as described further under the caption “THE PROJECT AREAS.” The redevelopment plan for Calimesa Redevelopment Project Area No. 5 (“Project No. 5”) was approved by Ordinance No. 188 of the City adopted on June 18, 2001, and has been amended thereafter in accordance with the Redevelopment Law as described further under the caption “THE PROJECT AREAS.” The redevelopment plans for the Project Areas are referred to herein collectively as the “Redevelopment Plans.”

Tax Allocation Financing

Prior to the enactment of AB X1 26, the Redevelopment Law authorized the financing of redevelopment projects through the use of tax increment revenues. This method provided that the taxable valuation of the property within a redevelopment project area on the property tax roll last equalized prior to the effective date of the ordinance which adopts the redevelopment plan becomes the base year valuation. Assuming the taxable valuation never drops below the base year level, the taxing agencies thereafter received that portion of the taxes produced by applying then current tax rates to the base year valuation, and the redevelopment agency was allocated the remaining portion produced by applying then current tax rates to the increase in valuation over the base year. Such incremental tax revenues allocated to a redevelopment agency were authorized to be pledged to the payment of agency obligations.

The Dissolution Act authorizes refunding indebtedness, including the 2014 Loans, to be secured by a pledge of monies deposited from time to time in a Redevelopment Property Tax Trust Fund held by a county auditor-controller with respect to a successor agency, which are equivalent to the tax increment revenues that were formerly allocated under the Redevelopment Law to the redevelopment agency and formerly authorized under the Redevelopment Law to be used for the financing of redevelopment projects. Under each 2014 Loan Agreement, Pledged Tax Revenues consist of the amounts deposited from time to time in the Redevelopment Property Tax Trust Fund established pursuant to and as provided in the Dissolution Act. See “SECURITY FOR THE BONDS – Tax Increment Financing” herein for additional information.

Under the Indenture, the Bonds are secured by “Revenues,” consisting primarily of the loan repayments to be made by the Agency under the 2014 Loan Agreements, and therefore ultimately are payable from and secured by the Pledged Tax Revenues allocated to the Agency from the Project Areas. See “SECURITY FOR THE BONDS – The Indenture” and “– Loan Agreements.”

Successor agencies have no power to levy property taxes and must look specifically to the allocation of taxes as described above. See “RISK FACTORS.”

Security for the Bonds

The Bonds are limited obligations of the Authority entitled to the benefits of the Indenture and are payable solely from and secured by Revenues (as defined therein), monies on deposit (including in the accounts and subaccounts therein) in the Revenue Fund (including but not limited to the Reserve Account therein established by the Indenture and the Reserve Subaccounts therein established by the 2014 Loan Agreements), held by the Trustee pursuant to the Indenture, and by an assignment and pledge of the Authority’s interest in the payments of principal and interest made by the Agency under the 2014 Loan Agreements. See “SECURITY FOR THE BONDS – The Indenture.”

The Dissolution Act requires the Riverside County Auditor-Controller (the “County Auditor-Controller”) to determine the amount of property taxes that would have been allocated to the Prior Agency had the Prior Agency not been dissolved pursuant to the operation of AB X1 26, using current assessed values on the last equalized roll on August 20, and to deposit that amount in the Redevelopment Property Tax Trust Fund for the Agency established and held by the County Auditor-Controller (the “Redevelopment Property Tax Trust Fund”) pursuant to the Dissolution Act. The Dissolution Act provides that any bonds or other indebtedness authorized thereunder to be issued by the Agency will be considered indebtedness incurred by the dissolved Prior Agency, with the same legal effect as if the bonds or other indebtedness had been issued prior to effective date of AB X1 26, in full conformity with the applicable provision of the Redevelopment Law that existed prior to that date, and will be included in the Agency’s Recognized Obligation Payment Schedule (see “APPENDIX B – SUMMARY OF CERTAIN

PROVISIONS OF THE INDENTURE AND THE 2014 LOAN AGREEMENTS” and “SECURITY FOR THE BONDS – Recognized Obligation Payment Schedule”).

The Dissolution Act further provides that bonds or other indebtedness authorized thereunder to be issued by the Agency will be secured by a pledge of, and lien on, and will be repaid from moneys deposited from time to time in the Redevelopment Property Tax Trust Fund, and that property tax revenues pledged to any bonds or other indebtedness authorized under the Dissolution Act, such as the 2014 Loans, are taxes allocated to the Agency pursuant to the provisions of the Redevelopment Law and the State Constitution which provided for the allocation of tax increment revenues under the Redevelopment Law, as described in the foregoing paragraph.

In accordance with the Dissolution Act, “Pledged Tax Revenues” are defined under each 2014 Loan Agreement as the monies deposited from time to time in the Redevelopment Property Tax Trust Fund established pursuant to subdivision (c) of Section 34172 of the Dissolution Act, as provided in paragraph (2) of subdivision (a) of Section 34183 of the Dissolution Act. If, and to the extent, that the provisions of Section 34172 or paragraph (2) of subdivision (a) of Section 34183 are invalidated by a final judicial decision, then the 2014 Loan Agreements each state that Pledged Tax Revenues shall include all tax revenues allocated to the payment of indebtedness pursuant to Health & Safety Code Section 33670 or such other section as may be in effect at the time providing for the allocation of tax increment revenues in accordance with Article XVI, Section 16 of the California Constitution.

Each 2014 Loan is payable from and secured by (i) an irrevocable pledge of the Pledged Tax Revenues on a parity with the other 2014 Loan, (ii) an irrevocable first pledge, on a parity with the other 2014 Loan, of all of the monies in the Redevelopment Obligation Retirement Fund established and held by the Agency pursuant to the Dissolution Act, and (iii) an irrevocable first pledge and lien on respective Bond Fund and respective Reserve Subaccount established pursuant to the applicable 2014 Loan Agreement. Taxes levied on the property within each Project Area on that portion of the taxable valuation over and above the taxable valuation of the applicable base year property tax roll with respect to such Project Area, to the extent they constitute Pledged Tax Revenues, as described herein, will be deposited in the Redevelopment Property Tax Trust Fund for transfer by the County Auditor-Controller to the Agency’s Redevelopment Obligation Retirement Fund on January 2 and June 1 of each year to the extent required for payments listed in the Agency’s Recognized Obligation Payment Schedule in accordance with the requirements of the Dissolution Act (see “SECURITY FOR THE BONDS – Recognized Obligation Payment Schedule”).

Under the 2014 Loan Agreements, the Agency covenants and agrees to that it will take all actions required under the Dissolution Act to include scheduled debt service on the 2014 Loans, as well as any amount required under the Indenture to replenish the Reserve Account, in Recognized Obligation Payment Schedules for each six-month period so as to enable the County Auditor-Controller to distribute from the Redevelopment Property Tax Trust Fund to the Agency’s Redevelopment Obligation Retirement Fund on each January 2 and June 1 amounts required for the Agency to pay principal of, and interest on, the 2014 Loans coming due in the respective six-month period. Monies deposited by the County Auditor-Controller into the Agency’s Redevelopment Obligation Retirement Fund will be transferred by the Agency to the Authority for deposit in the respective Bond Funds established under the 2014 Loan Agreements, and therefrom, transferred by the Authority to the Trustee for deposit in the Revenue Fund established under the Indenture and administered by the Trustee in accordance with the Indenture. See “SECURITY FOR THE BONDS.”

Successor agencies have no power to levy property taxes and must look specifically to the allocation of taxes as described above. See “RISK FACTORS.”

Reserve Account

In order to further secure the payment of principal of and interest on the Bonds, a Reserve Account within the Revenue Fund is created and held under the Indenture in an amount equal to the Reserve Requirement. "Reserve Requirement" means, as of the date of computation, an amount equal to the least of (i) Maximum Annual Debt Service, (ii) 10% of the initial principal amount of the Bonds and of any Additional Authority Bonds, or (iii) 125% of average Annual Debt Service. See "SECURITY FOR THE BONDS – Reserve Account."

Additional Authority Bonds; Parity Debt

The Indenture allows for the issuance of Additional Authority Bonds secured on a parity with the Bonds under the Indenture (see "SECURITY FOR THE BONDS – Additional Authority Bonds"), and the 2014 Loan Agreements allow for the incurrence by the Agency of Parity Debt secured under the 2014 Loan Agreements on a parity with the 2014 Loans (see "SECURITY FOR THE BONDS – Additional Obligations on a Parity with a 2014 Loan").

Further Information

Brief descriptions of the Bonds, the Indenture, the 2014 Loans, the 2014 Loan Agreements, the Authority, the Agency, the Prior Agency and the City are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. All references herein to the Indenture, the 2014 Loan Agreements, the Bond Law, the Refunding Law, the Redevelopment Law, the Dissolution Act, the Constitution and the laws of the State as well as the proceedings of the Prior Agency, the Agency and the City are qualified in their entirety by reference to such documents. References herein to the Bonds are qualified in their entirety by the form thereof included in the Indenture and the information with respect thereto included herein, copies of which are all available for inspection at the offices of the Authority. During the period of the offering of the Bonds, copies of the forms of all documents mentioned herein are available from the Authority Secretary, c/o the City Clerk's office, City of Calimesa, 908 Park Avenue, Calimesa, California 92320.

PLAN OF REFUNDING

The Authority will loan the proceeds of the Bonds to the Agency pursuant to the 2014 Loan Agreements. The Agency will use a portion of the proceeds of the 2014 Project No. 1 Loan to prepay amounts that remain due with respect to the 2008 Project No. 1 Loan Agreement. The Agency will use a portion of the proceeds of the 2014 Project No. 5 Loan to prepay amounts that remain due with respect to the 2008 Project No. 5 Loan Agreement. The Authority will use those prepaid loan amounts to currently refund and defease all of the Calimesa Financing Authority Tax Allocation Revenue Bonds (Calimesa Redevelopment Project No. 1 and Project No. 5), Series 2008 (the "2008 Bonds"), currently outstanding in the aggregate principal amount of \$2,785,000, in order to discharge the pledge of the lien securing the 2008 Bonds. See "SOURCES AND USES OF FUNDS."

Concurrently with the issuance of the Bonds, the Authority and the Agency will enter into an Escrow Agreement, dated as of May 1, 2014 (the "Escrow Agreement"), with The Bank of New York Mellon Trust Company, N.A., Los Angeles, California, as escrow agent (the "Escrow Agent"). Under the Escrow Agreement, the Escrow Agent will create and establish an escrow fund (the "Escrow Fund"). The amounts deposited in the Escrow Fund will be held uninvested and will be used to pay the redemption price on the outstanding 2008 Bonds, including any accrued and unpaid interest with respect thereto, on May 28, 2014.

The monies deposited in the Escrow Fund will be held solely for the benefit of the owners of the 2008 Bonds and will not serve as a security or be available for payment of principal of, or interest on, or premium, if any, on the Bonds or any amounts due under the 2014 Loan Agreements.

As a result of the deposit and application of funds pursuant to the Escrow Agreement, as of the date of issuance of the Bonds, the lien upon the Pledged Tax Revenues of the 2008 Loans, and therefore of the 2008 Bonds, will be discharged, and the 2008 Loans and 2008 Bonds will no longer have any claim against the Pledged Tax Revenues.

SOURCES AND USES OF FUNDS

The estimated sources and uses of funds are summarized as follows:

| | Project No. 1 2014 Loan | Project No. 5 2014 Loan | Authority Bond Totals |
|--|----------------------------|----------------------------|--------------------------|
| <u>Sources of Funds:</u> | | | |
| Par Amount of Bonds/2014 Loans | \$ | \$ | \$ |
| Plus/(Less): Net Original Issue Premium/(Discount) | | | |
| Total Sources: | \$ | \$ | \$ |
| <u>Uses of Funds:</u> | | | |
| Underwriter's Discount | \$ | \$ | \$ |
| Deposit to Escrow Fund ⁽¹⁾ | | | |
| Deposit to Reserve Subaccounts of the Reserve Account ⁽²⁾ | | | |
| Deposit to Costs of Issuance Fund ⁽³⁾ | | | |
| Deposits to Loan Fund Subaccounts ⁽⁴⁾ | | | |
| Total Uses: | \$ | \$ | \$ |

(1) See "PLAN OF REFUNDING."

(2) In total, an amount equal to the Reserve Requirement as described in "SECURITY FOR THE BONDS – Reserve Account."

(3) To be used to pay Costs of Issuance (as defined in the Indenture), which include Trustee fees, Bond Counsel and Disclosure Counsel fees, Financial Advisor fees, bond insurance premium, printing costs, and other related costs.

(4) To be disbursed on the date of issuance of the Bonds to fund the 2014 Loans.

THE BONDS

Authority for Issuance

The Bonds are authorized for issuance pursuant to the Indenture, the Authority Resolution, and the Bond Law.

Description of the Bonds

The Bonds will be registered initially in the name of "Cede & Co.," as nominee of The Depository Trust Company, New York, New York ("DTC"), which has been appointed as securities depository for the Bonds, and registered ownership may not be transferred thereafter except as provided in the Indenture. Purchasers will not receive certificates representing their interests in the Bonds. Principal of and interest on the Bonds will be paid by the Trustee to DTC, which in turn is obligated to remit such principal and interest to its Participants for subsequent disbursement to beneficial owners of the Bonds as described herein. See "THE BONDS – Book-Entry System" below.

The Bonds will be issued in the aggregate principal amount set forth on the cover hereof as fully registered bonds. The Bonds will be delivered only in denominations of \$5,000 or integral multiples thereof. The Bonds will be dated their date of delivery (the “Date of Delivery”). Interest on the Bonds will be payable on June 1 and December 1 of each year (each an “Interest Payment Date”), commencing on December 1, 2014. Interest with respect to each Bond will be payable to the person whose name appears on the Bond Register as the Owner thereof as of the close of business on the fifteenth calendar day of the month preceding each Interest Payment Date, whether or not such fifteenth calendar day is a Business Day (each, a “Record Date”). Principal of the Bonds will be payable on December 1 in each of the years and in the amounts shown on the inside cover page hereof.

Interest on the Bonds is payable by check of the Trustee mailed by first class mail, postage prepaid, on each Interest Payment Date to the owners of the Bonds at their respective addresses shown on the Bond Register kept by the Trustee as of the applicable Record Date. The payment of interest to each registered owner of \$1,000,000 or more aggregate principal amount of Bonds may be made by wire transfer to an account designated by such owner in a written request filed with the Trustee prior to such Record Date. Principal of the Bonds is payable in lawful money of the United States by check of the Trustee upon presentation and surrender thereof at the corporate trust office of the Trustee in Los Angeles, California.

The Bonds will bear interest (calculated on the basis of a 360-day year comprised of twelve 30-day months) from the Interest Payment Date next preceding the date of authentication thereof, unless (i) a Bond is authenticated on or before an Interest Payment Date and after the close of business on the preceding Record Date, in which event such Bond will bear interest from such Interest Payment Date, or (ii) a Bond is authenticated on or before the first Record Date, in which event such Bond will bear interest from the Date of Delivery, or (iii) interest on any Bond is in default as of the date of authentication thereof, in which event interest will be payable on each Interest Payment Date from the date to which interest has been paid in full.

While the Bonds are held in the book-entry only system of DTC, all payments on the Bonds will be made to Cede & Co., as the registered owner of the Bonds. See “THE BONDS – Book-Entry System” below. Principal of, and redemption premium (if any), on the Bonds are payable in lawful money of the United States of America upon surrender of the Bonds at maturity or earlier redemption at the corporate trust office of the Trustee indicated in the Indenture. See “APPENDIX D – BOOK-ENTRY ONLY SYSTEM.”

Book-Entry System

DTC, New York, New York, 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 certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. While the Bonds are held in the book-entry only system of DTC, all payments on the Bonds will be made to Cede & Co., as the registered owner of the Bonds. See “APPENDIX D – BOOK-ENTRY ONLY SYSTEM.”

Optional Redemption

The Bonds maturing on or before December 1, 20__ are not subject to optional redemption prior to maturity. The Bonds maturing on or after December 1, 20__ may be redeemed at the option of the Authority prior to maturity on any date on or after December 1, 20__ as a whole, or in part from such maturities as are selected by the Authority, and by lot within a maturity, from funds made available to the

Authority resulting from optional prepayment of 2014 Loan Agreements, at the par amount of the Bonds being redeemed, without premium together with accrued interest thereon to the date of redemption. The Authority shall select the Bonds to be redeemed in a manner such that the remaining scheduled payments on the 2014 Loans are not less than the corresponding scheduled payments due on the Bonds following such redemption. Notwithstanding the foregoing, as long as the Insurance Policy is in full force and effect, in the event of an optional redemption of Bonds in part, the selection of Bonds to be redeemed shall be subject to the approval of the Insurer.

Sinking Fund Redemption of Term Bonds*

The Bonds maturing on December 1, 2033 and December 1, 2038 (collectively, the “Term Bonds”) are subject to mandatory redemption, in whole or in part, by lot prior to maturity, from sinking account payments as shown on the following tables, at a redemption price equal to 100% of the principal amount plus accrued interest, if any, to the redemption date, without premium.

Term Bonds Maturing December 1, 2033

| Sinking Fund Payment Date (December 1) | Principal Amount To Be Redeemed |
|--|------------------------------------|
| 2029 | \$145,000 |
| 2030 | 150,000 |
| 2031 | 160,000 |
| 2032 | 170,000 |
| 2033 (maturity) | 175,000 |

Term Bonds Maturing December 1, 2038

| Sinking Fund Payment Date (December 1) | Principal Amount To Be Redeemed |
|--|------------------------------------|
| 2034 | \$185,000 |
| 2035 | 195,000 |
| 2036 | 60,000 |
| 2037 | 65,000 |
| 2038 (maturity) | 65,000 |

Mandatory Redemption Upon Acceleration of a 2014 Loan

The Bonds are also subject to mandatory redemption in whole or in part among maturities, from such maturities as selected by the Authority, on any date, from amounts credited towards the payment of principal of any 2014 Loan coming due and payable solely by reason of acceleration of such 2014 Loan upon default, at a redemption price equal to the principal amount of the Bonds to be redeemed, without premium, together with accrued interest thereon to the redemption date. Pursuant to the Indenture and the 2014 Loan Agreements, the Bonds shall be subject to redemption under this provision solely from amounts credited towards the payment of principal of any 2014 Loan which has become due and payable

* Preliminary; subject to change.

by reason of acceleration, and shall not be subject to redemption from any amounts credited towards the payment of matured principal which has become due and payable.

Notwithstanding the foregoing, the maturity of Bonds insured by the Insurer shall not be accelerated without the consent of the Insurer and in the event the maturity of the Bonds is accelerated, the Insurer may elect, in its sole discretion, to pay accelerated principal and interest accrued, on such principal to the date of acceleration (to the extent unpaid by the Authority under the Indenture or unpaid by the Agency for the corresponding accelerated 2014 Loan amount under a 2014 Loan Agreement) and the Trustee shall be required to accept such amounts. Upon payment of such accelerated principal and interest accrued to the acceleration date as provided above, the Insurer's obligations under the Insurance Policy with respect to such Bonds shall be fully discharged. As long as the Insurance Policy is in full force and effect, in the event of a mandatory redemption in part of Bonds upon acceleration of a 2014 Loan, the selection of Bonds to be redeemed shall be subject to the approval of the Insurer.

Purchase of Bonds

In lieu of the mandatory sinking fund redemption of the Bonds, Revenues on deposit in the Revenue Fund which are to be transferred to the Principal Account may also be used and withdrawn by the Trustee at any time, upon the written request of the Authority, for the purchase of the Bonds at public or private sale as and when and at such prices (which including brokerage and other charges shall not be in excess of the principal amount thereof of the Bond being purchased) as the Authority may in its discretion determine.

General Redemption Provisions

Notice of Redemption; Rescission. Notice of redemption prior to maturity shall be given by first class mail, postage prepaid not less than thirty (30) nor more than sixty (60) days prior to the redemption date to the registered owner of each such Bond at the address shown on the Bond Register of the Trustee. Neither the failure to receive such notice nor any defect in any notice mailed shall affect the sufficiency of the proceedings for the redemption of any Bonds. No notice of optional redemption or notice of mandatory redemption upon acceleration of a loan shall be mailed until such time as there is on deposit moneys sufficient to redeem that portion of the Bonds as set forth in the notice, unless all such amounts are to be paid with the proceeds of refunding bonds.

The actual receipt by the Bondowner of notice of redemption shall not be a condition precedent to redemption, and failure to receive notice, or any defect therein, shall not affect the validity of the proceedings for the redemption of the Bonds or the cessation of interest on the redemption date. Notice of redemption of Bonds shall be given by the Trustee on behalf of the Agency and at the request and expense of the Agency. A certificate by the Trustee that notice of redemption has been given in accordance with the Indenture shall be conclusive as against all parties, and no Bondowner whose Bond is called for redemption may object to the redemption or the cessation of interest on the redemption date by claiming or showing that it failed to receive actual notice of call and redemption.

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

Partial Redemption of Bonds. Upon surrender of any Bond redeemed in part only, the Authority shall execute and the Trustee shall authenticate and deliver to the registered owner, at the expense of the Authority, a new Bond or Bonds of authorized denominations equal in aggregate principal amount to the unredeemed portion of the Bond surrendered and of the same interest rate and same maturity. A partial redemption shall be valid upon payment of the amount required to be paid to the registered owner, and the Authority and the Trustee shall be released and discharged from all liability to the extent of such payment.

Effect of Redemption. Notice of redemption having been duly given as described above, and moneys for payment of the principal of, premium, if any, and interest payable upon redemption of the Bonds being set aside as described above, the Bonds, or parts thereof, called for redemption shall, on the redemption date, become due and payable at the redemption price specified in the notice. Interest on the Bonds, or parts thereof, as the case may be, called for redemption shall cease to accrue and be payable from and after the redemption date. The Bonds, or parts thereof redeemed, shall cease to be entitled to any lien, benefit or security under the Indenture, and the Owners of the Bonds shall have no rights except to receive payment of the redemption price upon surrender of the Bonds, and, in the case of partial redemption of Bonds, also to receive a new Bond or Bonds for the unredeemed balance as provided above.

Transfer or Exchange

Any Bond may, in accordance with its terms, be transferred, upon the registration books of the Trustee, upon surrender of such Bond to the Trustee at its corporate trust office in Los Angeles, California (or such other place as may be designated by the Trustee) for cancellation, accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee, duly executed. Whenever any Bond or Bonds shall be surrendered for registration of transfer, the Authority shall execute and the Trustee shall authenticate and deliver a new Bond or Bonds, of like series, interest rate, maturity and principal amount of authorized denomination.

All exchanges shall be made in such a manner and upon such reasonable terms and conditions as may be determined and prescribed by the Authority and communicated to the Trustee. No transfer or exchange of Bonds for which notice of redemption has been given shall be made after the date of mailing of such notice. No Bond may be exchanged during the fifteen days prior to the selection of Bonds for redemption. The person, firm or corporation requesting the registration or exchange shall pay any tax or governmental charge that may be imposed in connection with the registration or exchange. The Authority shall pay all other registration and exchange costs and charges including the cost of printing new Bonds.

Events of Default and Acceleration of Bonds

The following events constitute “Events of Default” under the Indenture:

(a) Default in the due and punctual payment of the principal of any Bond or Additional Authority Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise;

(b) Default in the due and punctual payment of any installment of interest on any Bond or Additional Authority Bond when and as such interest installment shall become due and payable;

(c) Default by the Authority in the observance of any of the other covenants, agreements or conditions on its part in this Indenture or contained in the Bonds or Additional Authority Bonds, if such default shall have continued for a period of sixty (60) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority by the Trustee, or to

the Authority and the Trustee by the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds and Additional Authority Bonds at the time Outstanding; provided that such default (other than a default arising from nonpayment of the Trustee's fees and expenses, which must be cured within such 60-day period unless waived by the Trustee) shall not constitute a Event of Default hereunder if the Authority shall commence to cure such default within said sixty (60) day period and thereafter diligently and in good faith shall cure such default within a reasonable period of time; or

(d) The filing by the Authority of a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America, or if a court of competent jurisdiction shall approve a petition, filed with or without the consent of the Authority, seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America, or if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Authority or of the whole or any substantial part of its property.

Upon the occurrence of an event of default, the Trustee may and shall, at the direction of a majority of the Bondowners, by written notice to the Agency, declare the principal of the Bonds to be immediately due and payable, whereupon that portion of the principal of the Bonds thereby coming due and the interest thereon accrued to the date of payment shall, without further action, become and be immediately due and payable, anything in this Indenture or in the Bonds to the contrary notwithstanding.

The declaration may be rescinded by the Owners of not less than a majority of the Bonds then outstanding provided the Agency cures the default or defaults and deposits with the Trustee a sum sufficient to pay all principal on the Bonds matured prior to the declaration and all matured installments of interest (if any) upon all the Bonds so that the Agency is currently in compliance with all payment, deposit and transfer provisions of the Indenture, and has paid or provided for the payment of any fees and expenses incurred by the Trustee in connection with the default.

Following the occurrence of an Event of Default, all amounts received by the Trustee pursuant to any right given or action taken by the Trustee under the provisions of the Indenture relating to the Bonds and Additional Authority Bonds shall be applied by the Trustee in the following order upon presentation of the several Bonds and Additional Authority Bonds, and the stamping thereon of the amount 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 carrying out the provisions of the Indenture, including reasonable compensation to its agents, attorneys and counsel, and to the payment of any fees and expenses of the Trustee then outstanding in connection with the performance of its duties and obligations under the Indenture and the Loan Agreements, including any related fees and expenses of its legal counsel then outstanding; and

Second, to the payment of the whole amount of interest on and principal of the Outstanding Bonds and any Outstanding Additional Authority Bonds then due and unpaid, with interest on overdue installments of principal and interest to the extent permitted by law at the net effective rate of interest then borne by the Outstanding Bonds or Additional Authority Bonds, as applicable; provided, however, that in the event such amounts shall be insufficient to pay in full the full amount of such interest and principal, then such amounts shall be applied in the following order of priority:

- first, to the payment of all installments of interest on the Outstanding Bonds and any Outstanding Additional Authority Bonds then due and unpaid, on a pro rata basis in the event that the available amounts are insufficient to pay all such interest in full,

- second, to the payment of principal of all installments of the Outstanding Bonds and any Outstanding Additional Authority Bonds then due and unpaid, excluding principal having come due and payable solely by reason of acceleration pursuant to a 2014 Loan Agreement, on a pro rata basis in the event that the available amounts are insufficient to pay all such principal in full, and
- third, to the payment of interest on overdue installments of principal and interest, on a pro rata basis in the event that the available amounts are insufficient to pay all such interest in full.

SECURITY FOR THE BONDS

The Indenture

The Bonds are limited obligations of the Authority entitled to the benefits of the Indenture and are payable solely from and secured by Revenues (as defined therein), monies on deposit (including in the accounts and subaccounts therein) in the Revenue Fund (including but not limited to the Reserve Account therein established by the Indenture and the Reserve Subaccounts therein established by the 2014 Loan Agreements), held by the Trustee pursuant to the Indenture, and by an assignment and pledge of the Authority’s interest in the payments of principal and interest on the 2014 Loans made by the Agency under the 2014 Loan Agreements. As defined in the Indenture, “Revenues” consist primarily of the loan repayments to be made by the Agency on the 2014 Loans under the 2014 Loan Agreements, and therefore ultimately are payable from and secured by the Pledged Tax Revenues allocated to the Agency from the Project Areas. See “APPENDIX B - SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE 2014 LOAN AGREEMENTS - The Indenture”.

The 2014 Loans are secured by a pledge of the Pledged Tax Revenues. See “SECURITY FOR THE BONDS – Loan Agreements” and “– Tax Increment Financing” below.

Loan Agreements

The Dissolution Act requires the County Auditor-Controller to determine the amount of property taxes that would have been allocated to the Prior Agency (pursuant to subdivision (b) of Section 16 of Article XVI of the State Constitution) had the Prior Agency not been dissolved pursuant to the operation of AB X1 26, using current assessed values on the last equalized roll on August 20, and to deposit that amount in the Redevelopment Property Tax Trust Fund for the Agency established and held by the County Auditor-Controller pursuant to the Dissolution Act. The Dissolution Act provides that any bonds authorized thereunder to be issued by the Agency will be considered indebtedness incurred by the dissolved Prior Agency, with the same legal effect as if the bonds had been issued prior to effective date of AB X1 26, in full conformity with the applicable provisions of the Redevelopment Law that existed prior to that date, and will be included in the Agency’s Recognized Obligation Payment Schedule (see “APPENDIX B – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE 2014 LOAN AGREEMENTS” and “SECURITY FOR THE BONDS – Recognized Obligation Payment Schedule”).

The Dissolution Act further provides that bonds authorized thereunder to be issued by the Agency will be secured by a pledge of, and lien on, and will be repaid from moneys deposited from time to time in the Redevelopment Property Tax Trust Fund, and that property tax revenues pledged to any bonds authorized to be issued by the Agency under the Dissolution Act, including the Bonds, are taxes allocated

to the Agency pursuant to subdivision (b) of Section 33670 of the Redevelopment Law and Section 16 of Article XVI of the State Constitution.

Pursuant to subdivision (b) of Section 33670 of the Redevelopment Law and Section 16 of Article XVI of the Constitution of the State and as provided in each Redevelopment Plan, taxes levied upon taxable property in the Project Areas each year by or for the benefit of the State, any city, county, city and county, district, or other public corporation (herein sometimes collectively called “taxing agencies”) after the effective date of the ordinance approving the applicable Redevelopment Plan, or the respective effective dates of ordinances approving amendments to the Redevelopment Plan that added territory to the Project Area, as applicable, are to be divided as follows:

(a) *To Taxing Agencies:* That portion of the taxes which would be produced by the rate upon which the tax is levied each year by or for each of the taxing agencies upon the total sum of the assessed value of the taxable property in the Project Area as shown upon the assessment roll used in connection with the taxation of such property by such taxing agency last equalized prior to the effective date of the ordinance adopting the Redevelopment Plan, or the respective effective dates of ordinances approving amendments to the Redevelopment Plan that added territory to the Project Area, as applicable (each, a “base year valuation”), will be allocated to, and when collected will be paid into, the funds of the respective taxing agencies as taxes by or for the taxing agencies on all other property are paid; and

(b) *To the Prior Agency/Agency:* Except for that portion of the taxes in excess of the amount identified in (a) above which are attributable to a tax rate levied by a taxing agency 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 approved by the voters of the taxing agency on or after January 1, 1989 for the acquisition or improvement of real property, which portion shall be allocated to, and when collected shall be paid into, the fund of that taxing agency, that portion of the levied taxes each year in excess of such amount, annually allocated within the Plan Limit following the Delivery Date, when collected will be paid into a special fund of the Prior Agency. Section 34172 of the Dissolution Act provides that, for purposes of Section 16 of Article XVI of the State Constitution, the Redevelopment Property Tax Trust Fund shall be deemed to be a special fund of the Agency to pay the debt service on indebtedness incurred by the Prior Agency or the Agency to finance or refinance the redevelopment projects of the Prior Agency.

That portion of the levied taxes described in paragraph (b) above, less amounts deducted pursuant to Section 34183(a) of the Dissolution Act for permitted administrative costs of the County Auditor-Controller, constitute the amounts required under the Dissolution Act to be deposited by the County Auditor-Controller into the Redevelopment Property Tax Trust Fund. In addition, Section 34183 of the Dissolution Act effectively eliminates the January 1, 1989 date from paragraph (b) above.

“Pledged Tax Revenues” are defined under the 2014 Loan Agreements as the monies deposited from time to time in the Redevelopment Property Tax Trust Fund established pursuant to subdivision (c) of Section 34172 of the Dissolution Act, as provided in paragraph (2) of subdivision (a) of Section 34183 of the Dissolution Act; provided, if, and to the extent, that the provisions of Section 34172 or paragraph (2) of subdivision (a) of Section 34183 are invalidated by a final judicial decision, then Pledged Tax Revenues shall include all tax revenues allocated to the payment of indebtedness pursuant to California Health & Safety Code Section 33670 or such other section as may be in effect at the time providing for the allocation of tax increment revenues in accordance with Article XVI, Section 16 of the California Constitution. The 2014 Loans are payable from and secured by the Pledged Tax Revenues to be derived from the Project Areas.

Each 2014 Loan is payable from and secured by (i) an irrevocable pledge of the Pledged Tax Revenues on a parity with the other 2014 Loan, (ii) an irrevocable first pledge, on a parity with the other 2014 Loan, of all of the monies in the Redevelopment Obligation Retirement Fund established and held by the Agency pursuant to the Dissolution Act, and (iii) an irrevocable first pledge and lien on respective Bond Fund and respective Reserve Subaccount established pursuant to the applicable 2014 Loan Agreement. The Dissolution Act provides for only a single Redevelopment Property Tax Trust Fund into which property taxes that would have been allocated to the Prior Agency (pursuant to subdivision (b) of Section 16 of Article XVI of the State Constitution) must be deposited by the County Auditor-Controller had the Prior Agency not been dissolved pursuant to the operation of AB X1 26. This legal requirement is notwithstanding the fact that such revenues derive from more than one Project Area. Similarly, the Dissolution Act provides for the establishment and maintenance by the Agency of a single Redevelopment Obligation Retirement Fund, into which property taxes required for the payment of enforceable obligations of the Agency are transferred by the County Auditor-Controller from the Redevelopment Property Tax Trust Fund. Nonetheless, the Dissolution Act contains some ambiguities regarding the treatment of project areas, and since the dissolution of the Prior Agency to date, the County Auditor-Controller has also provided to the Agency information regarding property tax revenues allocated to the Redevelopment Property Tax Trust Fund for the Agency in a format that accounts separately for the revenues derived from each Project Area. Accordingly, although each 2014 Loan is payable from and secured by an irrevocable pledge of the Pledged Tax Revenues and all of the monies in the Redevelopment Obligation Retirement Fund on a parity with the other 2014 Loan, the utilization of separate 2014 Loan Agreements and 2014 Loans, including the utilization of a “Pro Rata Share” therein (including but not limited to replenishment of the Reserve Account), facilitates revenue projections and bookkeeping on a basis consistent with historical and expected future reporting of Pledged Tax Revenues, as well as the various distributions required to be made by the County Auditor-Controller from the Redevelopment Property Tax Trust Fund. See “SECURITY FOR THE BONDS – Tax Increment Financing” below for additional information regarding certain distributions required to be made from the Redevelopment Property Tax Trust Fund under the Dissolution Act.

Taxes levied on the property within the Project Areas on that portion of the taxable valuation over and above the taxable valuation of the applicable base year property tax roll with respect to the various territories within the Project Areas, to the extent they constitute Pledged Tax Revenues, as described herein, will be deposited in the Redevelopment Property Tax Trust Fund for transfer by the County Auditor-Controller to the Agency’s Redevelopment Obligation Retirement Fund on January 2 and June 1 of each year to the extent required for payments listed in the Agency’s Recognized Obligation Payment Schedule in accordance with the requirements of the Dissolution Act (see “SECURITY FOR THE BONDS – Recognized Obligation Payment Schedule”). Monies deposited by the County Auditor-Controller into the Agency’s Redevelopment Obligation Retirement Fund will be transferred by the Agency to the Authority for deposit in the respective Bond Funds established under the 2014 Loan Agreements, and therefrom, transferred by the Authority to the Trustee for deposit in the Revenue Fund established under the Indenture and administered by the Trustee in accordance with the Indenture (See “APPENDIX B – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE 2014 LOAN AGREEMENTS”).

The Agency has no power to levy and collect taxes, and various factors beyond its control could affect the amount of Pledged Tax Revenues available in any six-month period to pay the scheduled principal of and interest on the 2014 Loans, and therefore Revenues pledged by the Authority for payment of the principal of and interest on the Bonds (see “SECURITY FOR THE BONDS – Tax Increment Financing” and “– Recognized Obligation Payment Schedule” and “RISK FACTORS”).

Neither the Bonds, nor the obligations of the Agency under the 2014 Loan Agreements, are a debt of the City, the State of California or any of its political subdivisions (except the Agency and the

Authority, as applicable) and neither said City, said State or any of its political subdivisions (except the Agency and the Authority, as applicable) is liable therefor. The principal of, premium, if any, and interest on the Bonds ultimately are payable from and secured by the Pledged Tax Revenues allocated to the Agency from the Project Areas and payable by the Agency to the Authority under the 2014 Loan Agreements. The Bonds do not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction.

Tax Increment Financing

Prior to the enactment of AB X1 26, the Redevelopment Law authorized the financing of redevelopment projects through the use of tax increment revenues. This method provided that the taxable valuation of the property within a redevelopment project area on the property tax roll last equalized prior to the effective date of the ordinance which adopts the redevelopment plan becomes the base year valuation. Assuming the taxable valuation never drops below the base year level, the taxing agencies thereafter received that portion of the taxes produced by applying then current tax rates to the base year valuation, and the redevelopment agency was allocated the remaining portion produced by applying then current tax rates to the increase in valuation over the base year. Such incremental tax revenues allocated to a redevelopment agency were authorized to be pledged to the payment of agency obligations.

The Dissolution Act authorizes refunding bonds or other indebtedness, including the 2014 Loans, to be secured by a pledge of monies deposited from time to time in a Redevelopment Property Tax Trust Fund held by a county auditor-controller with respect to a successor agency, which are equivalent to the tax increment revenues that were formerly allocated under the Redevelopment Law to the redevelopment agency and formerly authorized under the Redevelopment Law to be used for the financing of redevelopment projects, less amounts deducted pursuant to Section 34183(a) of the Dissolution Act for permitted administrative costs of the county auditor-controller. Under the 2014 Loan Agreements, Pledged Tax Revenues consist of the amounts deposited from time to time in the Redevelopment Property Tax Trust Fund established pursuant to and as provided in the Dissolution Act. Successor agencies have no power to levy property taxes and must look specifically to the allocation of taxes as described above. See “RISK FACTORS.”

Prior to the dissolution of redevelopment agencies, tax increment revenues from one project area could not be used to repay indebtedness incurred for another project area. However, the Dissolution Act has only required that county auditor-controllers establish a single Redevelopment Property Tax Trust Fund with respect to each former redevelopment agency within the respective county. Additionally, the Dissolution Act now requires that all revenues equivalent to the amount that would have been allocated as tax increment to the former redevelopment agency will be allocated to the Redevelopment Property Tax Trust Fund of the applicable successor agency, and this requirement does not require funds derived from separate project areas of a former redevelopment agency to be separated. In effect, in situations where a former redevelopment agency had established more than one redevelopment project area, the Dissolution Act combines the property tax revenues derived from all project areas into a single trust fund, the Redevelopment Property Tax Trust Fund, to repay indebtedness of the former redevelopment agency or the successor agency. To the extent the documents governing outstanding bonds of a redevelopment agency have pledged revenues derived from a specific project area, the Dissolution Act states, “It is the intent . . . that pledges of revenues associated with enforceable obligations of the former redevelopment agencies are to be honored. It is intended that the cessation of any redevelopment agency shall not affect either the pledge, the legal existence of that pledge, or the stream of revenues available to meet the requirements of the pledge.” The implications of these provisions of the Dissolution Act are not entirely clear when a former redevelopment agency has established more than one redevelopment project area, as is the case with the Prior Agency, which has established Project No. 1 and Project No. 5. However, as required by Section 34177.5(g) of the Dissolution Act, the “Pledged Tax Revenues” that secure, and are

pledged for repayment of, each 2014 Loan consist of the monies deposited from time to time in the Redevelopment Property Tax Trust Fund established pursuant to subdivision (c) of Section 34172 of the Dissolution Act, as provided in paragraph (2) of subdivision (a) of Section 34183 of the Dissolution Act. Thus, each 2014 Loan is secured by such Pledged Tax Revenues on a parity with the other 2014 Loan.

The Redevelopment Law authorized redevelopment agencies to make payments to school districts and other taxing agencies to alleviate any financial burden or detriments to such taxing agencies caused by a redevelopment project. The Prior Agency entered into several agreements for this purpose (the “Pass-Through Agreements”). Additionally, Section 33607.5 and 33607.7 of the Redevelopment Law required mandatory tax sharing applicable to redevelopment projects adopted after January 1, 1994, or amended thereafter in certain manners specified in such statutes (the “Statutory Pass-Through Amounts”). The Dissolution Act requires the County Auditor-Controller to distribute from the Redevelopment Property Tax Trust Fund amounts required to be distributed under the Pass-Through Agreements and for Statutory Pass-Through Amounts to the taxing entities for each six-month period before amounts are distributed by the County Auditor-Controller from the Redevelopment Property Tax Trust Fund to the Agency’s Redevelopment Obligation Retirement Fund each January 2 and June 1, unless (i) passthrough payment obligations have previously been made subordinate to debt service payments for the bonded indebtedness of the Prior Agency, as succeeded by the Agency, (ii) the Agency has reported, no later than the December 1 and May 1 preceding the January 2 or June 1 distribution date, that the total amount available to the Agency from the Redevelopment Property Tax Trust Fund allocation to the Agency’s Redevelopment Obligation Retirement Fund, from other funds transferred from the Prior Agency, and from funds that have or will become available through asset sales and all redevelopment operations is insufficient to fund the Agency’s enforceable obligations, pass-through payments, and the Agency’s administrative cost allowance for the applicable six-month period, and (iii) the State Controller has concurred with the Agency that there are insufficient funds for such purposes for the applicable six-month period.

The Dissolution Act provides for a procedure by which the Agency may make Statutory Tax Sharing Amounts subordinate to the Bonds, but the Agency has determined not to undertake such procedure, and therefore, Statutory Tax Sharing Amounts are not subordinate to the Bonds (see “THE PROJECT AREAS – Statutory Pass-Throughs”). Moreover, as described in “THE PROJECT AREAS – Pass-Through Agreements,” the payments to the taxing entities under the Pass-Through Agreements are not subordinate to indebtedness of the Agency. Therefore, the Dissolution Act, as applied to the Agency and the 2014 Loans, provides without exception that the County Auditor-Controller distribute from the Redevelopment Property Tax Trust Fund amounts required to be distributed under the Pass-Through Agreements and for Statutory Pass-Through Amounts to the taxing entities for each six-month period before amounts are distributed by the County Auditor-Controller from the Redevelopment Property Tax Trust Fund to the Agency’s Redevelopment Obligation Retirement Fund each January 2 and June 1.

See “THE PROJECT AREAS – Pass-Through Agreements” and “– Statutory Pass-Throughs” for additional information regarding the Pass-Through Agreements and the Statutory Tax Sharing Amounts applicable to the Agency and the revenues derived from the Project Areas.

Recognized Obligation Payment Schedule

ROPS Process Under the Dissolution Act

Before each six-month period, the Dissolution Act requires successor agencies to prepare and submit to the successor agency’s oversight board and the State Department of Finance for approval a Recognized Obligation Payment Schedule (the “Recognized Obligation Payment Schedule”) pursuant to which enforceable obligations (as defined in the Dissolution Act) of the successor agency are listed,

together with the source of funds to be used to pay for each enforceable obligation. As defined in the Dissolution Act, “enforceable obligation” includes bonds, including the required debt service, reserve set-asides, and any other payments required under the indenture or similar documents governing the issuance of the outstanding bonds of the former redevelopment agency, as well as other obligations such as loans, judgments or settlements against the former redevelopment agency, any legally binding and enforceable agreement that is not otherwise void as violating the debt limit or public policy, contracts necessary for the administration or operation of the successor agency, and amounts borrowed from the Low and Moderate Income Housing Fund. A reserve may be included on the Recognized Obligation Payment Schedule and held by the successor agency when required by the bond indenture or when the next property tax allocation will be insufficient to pay all obligations due under the provisions of the bond for the next payment due in the following six-month period (see “APPENDIX B – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE 2014 LOAN AGREEMENTS – Covenants of the Agency”).

Under the Dissolution Act, the categories of sources of payments for enforceable obligations listed on a Recognized Obligation Payment Schedule are the following: (i) the Low and Moderate Income Housing Fund, (ii) bond proceeds, (iii) reserve balances, (iv) administrative cost allowance, (v) the Redevelopment Property Tax Trust Fund (but only to the extent no other funding source is available or when payment from property tax revenues is required by an enforceable obligation or otherwise required under the Dissolution Act), or (vi) other revenue sources (including rents, concessions, asset sale proceeds, interest earnings, and any other revenues derived from the former redevelopment agency, as approved by the oversight board).

The Dissolution Act provides that, commencing on the date the first Recognized Obligation Payment Schedule is valid thereunder, only those payments listed in the Recognized Obligation Payment Schedule may be made by the Agency from the funds specified in the Recognized Obligation Payment Schedule.

The Recognized Obligation Payment Schedule with respect to the six-month period of January 1, 2013 through June 30, 2013 was required to be submitted by the Agency, after approval by the Oversight Board, to the County Administrative Officer, the County Auditor-Controller, the State Department of Finance, and the State Controller no later than September 1, 2012. For each subsequent six-month period, the Recognized Obligation Payment Schedule must be submitted by the Agency, after approval by the Oversight Board, to the County Administrative Officer, the County Auditor-Controller, the State Department of Finance, and the State Controller by 90 days before the date of the next January 2 or June 1 property tax distribution. If the Agency does not submit an Oversight Board-approved Recognized Obligation Payment Schedule by such deadlines, the City will be subject to a civil penalty equal to \$10,000 per day for every day the schedule is not submitted to the State Department of Finance. Additionally, the Agency’s administrative cost allowance is reduced by 25% if the Agency did not submit an Oversight Board-approved Recognized Obligation Payment Schedule by September 11, 2012, with respect to the Recognized Obligation Payment Schedule for the six-month period of January 1, 2013 through June 30, 2013, or by the 80th day before the date of the next January 2 or June 1 property tax distribution, as applicable, with respect to the Recognized Obligation Payment Schedule for subsequent six-month periods commencing with the period of July 1, 2013 through December 31, 2013.

The Dissolution Act requires the State Department of Finance to make a determination of the enforceable obligations and the amounts and funding sources of the enforceable obligations no later than 45 days after the Recognized Obligation Payment Schedule is submitted. Within five business days of the determination by the State Department of Finance, the Agency may request additional review by the department and an opportunity to meet and confer on disputed items, if any. The State Department of Finance will notify the Agency and the County Auditor-Controller as to the outcome of its review at least

15 days before the January 2 or June 1 date of property tax distribution, as applicable. Additionally, the County Auditor-Controller may review a submitted Recognized Obligation Payment Schedule and object to the inclusion of any items that are not demonstrated to be enforceable obligations and may object to the funding source proposed for any items, provided that the County Auditor-Controller must provide notice of any such objections to the Agency, the Oversight Board, and the State Department of Finance at least 60 days prior to the January 2 or June 1 date of property tax distribution, as applicable.

In connection with the allocation and distribution by the County Auditor-Controller of property tax revenues deposited in the Redevelopment Property Tax Trust Fund, under the Dissolution Act the County Auditor-Controller must prepare estimates of the amounts of (i) property tax to be allocated and distributed and (ii) the amounts of passthrough payments to be made in the upcoming six-month period, and provide those estimates to the entities receiving the distributions and the State Department of Finance no later than October 1 and April 1 of each year, as applicable. With respect to the Recognized Obligation Payment Schedule for January 1, 2015 through July 31, 2015, the County Auditor-Controller must provide such estimate to the Agency by October 1, 2014. If, after receiving such estimate from the County Auditor-Controller, the Agency determines and reports, no later than December 1 or May 1, as applicable (i.e., by December 1, 2014 with respect to the Recognized Obligation Payment Schedule for January 1, 2015 through July 31, 2015), that the total amount available to the Agency from the Redevelopment Property Tax Trust Fund allocation to the Agency's Redevelopment Obligation Retirement Fund, from other funds transferred from the Prior Agency, and from funds that have or will become available through asset sales and all redevelopment operations, is insufficient to fund the payment of passthrough obligations, for Agency enforceable obligations listed on the Recognized Obligation Payment Schedule, and for the Agency's administrative cost allowance, the County Auditor-Controller must notify the State Controller and the State Department of Finance no later than 10 days from the date of the Agency's notification. If the State Controller concurs that there are insufficient funds to pay required debt service, the Dissolution Act provides for certain adjustments to be made to the estimated distributions, as described in more detail under "SECURITY FOR THE BONDS – Tax Increment Financing" above.

The Agency timely submitted to the County Administrative Officer, the County Auditor-Controller, the State Department of Finance, and the State Controller its Oversight Board-approved Recognized Obligation Payment Schedules for the six-month periods of January 1, 2013 through June 30, 2013, July 1, 2013 through December 31, 2013, January 1, 2014 through June 30, 2014, and July 1, 2014 through December 31, 2014.

Amounts Received for Six-Month Periods in 2013 and for January 1, 2014 through June 30, 2014

Pursuant to this process, the Agency received \$242,094 on January 2, 2013 for its enforceable obligations for January 1, 2013 through June 30, 2013, including the interest payments due six business days prior to June 1, 2013 on the 2008 Loans; \$242,094 on June 1, 2013 for its enforceable obligations for July 1, 2013 through December 31, 2013, including the principal and interest payments due six business days prior to December 1, 2013 on the 2008 Loans; and \$240,744 on January 2, 2014 for its enforceable obligations for January 1, 2014 through June 30, 2014, including the interest payments due six business days prior to June 1, 2014 on the 2008 Loans. The estimate provided by the County Auditor-Controller on April 1, 2014 for the amount of the property tax distribution expected to be paid to the Agency on June 1, 2014 is sufficient for the Agency to meet its enforceable obligations for the six-month period commencing July 1, 2014 through December 1, 2014, including the principal and interest payments due six business days prior to December 1, 2014 on the 2014 Loans. For additional information regarding procedures under the Dissolution Act relating to late Recognized Obligation Payment Schedules and implications thereof on 2014 Loans, and therefore, on the Bonds, see "RISK FACTORS – Recognized Obligation Payment Schedule."

Statutory Limitations on Review of Bonds on ROPS by DOF

The Dissolution Act provides that any bonds or other indebtedness authorized thereunder to be issued by the Agency will be considered indebtedness incurred by the dissolved Prior Agency, with the same legal effect as if the bonds or other indebtedness had been issued prior to effective date of AB X1 26, in full conformity with the applicable provision of the Redevelopment Law that existed prior to that date, and will be included in the Agency's Recognized Obligation Payment Schedule. Section 34177.5(f) of the Dissolution Act additionally provides that if the State Department of Finance has requested review of the Oversight Board Resolution and, after review, has approved the resolution, the scheduled payments on the 2014 Loans shall be listed in the Recognized Obligation Payment Schedule and will not be subject to further review and approval by the State Department of Finance or the State Controller.

Further, the Agency has covenanted in the 2014 Loan Agreements to take all actions required under the Dissolution Act to include scheduled debt service on the 2014 Loans, as well as any amount required under the Indenture to replenish the Reserve Account of the Revenue Fund, in Recognized Obligation Payment Schedules for each six-month period so as to enable the County Auditor-Controller to distribute from the Redevelopment Property Tax Trust Fund to the Agency's Redevelopment Obligation Retirement Fund on each January 2 and June 1 amounts required for the Agency to pay principal of, and interest on, the 2014 Loans coming due in the respective six-month period, including listing a reserve on the Recognized Obligation Payment Schedule to the extent required by the 2014 Loan Agreements or when the next property tax allocation is projected to be insufficient to pay all obligations due under the provisions of the 2014 Loan Agreements for the next payment due in the following six-month period (see "APPENDIX B – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE 2014 LOAN AGREEMENTS – Covenants of the Agency").

Reserve Account

Under the Indenture, the Trustee shall establish and maintain a separate account within the Revenue Fund known as the "Reserve Account," with separate subaccounts therein known as the "Project No. 1 Reserve Subaccount" and the "Project No. 5 Reserve Subaccount" (together, the "Reserve Subaccounts").

The Reserve Account shall be held by the Trustee in trust. The amount on deposit in each of the Reserve Subaccounts shall be maintained at the applicable Pro Rata Share of the Reserve Requirement at all times prior to the payment of the Bonds in full, except to the extent required for the purposes set forth in the Indenture. As defined in the Indenture and in the 2014 Loan Agreements, "Reserve Requirement" means as of the date of computation, an amount equal to the least of (i) Maximum Annual Debt Service, (ii) 10% of the initial principal amount of the Bonds and of any Additional Authority Bonds, or (iii) 125% of average Annual Debt Service, and the computation shall be made with respect to all Bonds and Additional Authority Bonds Outstanding at the time of such computation.

As defined in the Indenture and 2014 Loan Agreements, "Maximum Annual Debt Service" means, as of the date of calculation, the largest amount obtained by totaling, for the current or any future Bond Year, the sum of (a) the amount of interest payable on the Bonds and any Additional Authority Bonds to be Outstanding in such Bond Year, assuming that principal thereof is paid as scheduled and that any mandatory sinking fund payments are made as scheduled, and (b) the amount of principal payable on the Bonds and on any Additional Authority Bonds to be Outstanding in such Bond Year, including any principal required to be prepaid by operation of mandatory sinking fund payments.

In the event that the Authority shall fail to deposit with the Trustee the full amount required to be deposited pursuant to each of the 2014 Loan Agreements on or before the fifth (5th) Business Day

preceding any Interest Payment Date, on or before the fourth (4th) Business Day preceding such Interest Payment Date, the Trustee shall withdraw from each of the Reserve Subaccounts and transfer to the Interest Account and the Principal Account, in such order, a Pro Rata Share of the difference between the amount required to be deposited pursuant to this section and the amount actually deposited by the Authority. As defined in the Indenture and the 2014 Loan Agreements, “Pro Rata Share” means:

- (i) 36.76% with respect to the 2014 Project No. 1 Loan Agreement; and
- (ii) 63.24% with respect to the 2014 Project No. 5 Loan Agreement.

The Pro Rata Share is calculated based on a ratio of the initial principal amount of each 2014 Loan to the aggregate initial principal amount of both 2014 Loans (e.g., the initial principal amount of the Bonds) and maintains the same respective percentages as the “Pro Rata Share” from 2008 Loan Agreements to achieve same percentage of savings per Project Area as a result of the refunding accomplished by the incurrence of the 2014 Loans and issuance of the Bonds.

In the event that the amount on deposit in each of the Reserve Subaccounts shall at any time be less than the applicable Pro Rata Share of the Reserve Requirement, the Trustee shall promptly notify the Authority and the Agency of the amount required to be deposited therein to restore the balance to the applicable Pro Rata Share of the Reserve Requirement, such notice to be given by telephone, telefax or other form of telecommunication promptly confirmed in writing. Upon receipt of any such notice, the Authority shall withdraw a Pro Rata amount of the deficiency from each of the Bond Funds established by the 2014 Loan Agreements as described below under the caption “Bond Funds” and transfer to the Trustee for deposit in the Reserve Account of the Revenue Fund an amount which when added to amounts to be transferred with respect to other 2014 Loan will be equal to the amount of money necessary to maintain the Reserve Requirement in the Reserve Account. Upon receipt of the deposit required by the 2014 Loan Agreements, the Trustee shall deposit such amounts in each of the Reserve Subaccounts to restore the amounts on deposit therein to the Pro Rata Share of the Reserve Requirement. Amounts on deposit in the Reserve Account shall not be secured or applied in any way to the payment of any obligations other than the obligations of the Authority and the Agency under the Indenture.

In the event that the cumulative amount on deposit in each of the Reserve Subaccounts on or before the sixth (6th) Business Day preceding any Interest Payment Date (other than the final Interest Payment Date) exceeds the applicable Pro Rata Share of the Reserve Requirement, the Trustee shall withdraw from each Reserve Subaccount all amounts in excess of the Pro Rata Share of the Reserve Requirement with respect to 2014 Loan Agreement and deposit such amounts in the Revenue Fund to be applied as a credit toward the applicable 2014 Loan payments. At the Request of the Agency filed with the Trustee, all amounts in each of the Reserve Subaccounts shall either (a) be credited, on or before the sixth (6th) Business Day preceding the final Interest Payment Date, to the payment of principal and interest then required to be made by the Authority pursuant to the respective 2014 Loan Agreements, or (b) transferred, following the final Interest Payment Date, to the Agency for any lawful purpose free and clear of the lien of this Indenture. Notwithstanding the foregoing provisions of the Indenture, however, no amounts shall be withdrawn from any of the Reserve Subaccounts and be deposited in the Revenue Fund or transferred to the Agency during any period in which an Event of Default shall have occurred and be continuing under the Indenture.

Under the terms of the 2014 Loan Agreements, the Agency may issue or incur Parity Debt with respect to the 2014 Loans for such purposes as are permitted under the Dissolution Act, including without limitation Section 34177.5 thereof. See “—Additional Obligations on a Parity with a 2014 Loan” herein. The Reserve Account may be maintained in the form of one or more separate sub-accounts which are established for the purpose of holding the proceeds of any Parity Debt in conformity with applicable provisions of the Internal Revenue Code of 1986, as amended.

The Authority reserves the right, with respect to all or any portion of the Reserve Requirement, to substitute at any time and from time to time and subject to any further requirements of any Parity Debt Instrument (being any resolution, indenture of trust, trust agreement or other instrument authorizing the issuance of any Parity Debt and which otherwise complies with all of the terms and conditions of the 2014 Loan Agreements), one or more Qualified Reserve Account Credit Instruments for cash or any Qualified Reserve Account Credit Instrument then on deposit in or held by the Reserve Account. See “APPENDIX B — SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE 2014 LOAN AGREEMENTS” for definitions of certain terms used in this Official Statement, including, but not limited to “Qualified Reserve Account Credit Instrument.”

Bond Funds

Under the Dissolution Act, the Agency has previously established a special trust fund called the Redevelopment Obligation Retirement Fund (the “Redevelopment Obligation Retirement Fund”), which is held by the Agency and into which the County Auditor-Controller distributes property tax revenues each January 2 and June 1 from the Redevelopment Property Tax Trust Fund for the payment by the Agency of enforceable obligations pursuant to the Recognized Obligation Payment Schedule.

Each of the 2014 Loan Agreements establishes a special fund known as the “Bond Fund,” which is to be held by the Authority. The Agency will deposit all of the Pledged Tax Revenues received in any Bond Year in the Redevelopment Obligation Retirement Fund promptly upon receipt thereof by the Agency and shall immediately thereafter transfer all Pledged Tax Revenues to the Authority for deposit in the applicable Bond Fund. At such time (if any) during such Bond Year as the amounts of Pledged Tax Revenues on deposit in each of the Bond Funds equal the aggregate amounts required to be transferred by the Authority to the Trustee pursuant to the applicable 2014 Loan Agreement and pursuant to any applicable Parity Debt Instrument and the Agency shall have delivered to the Trustee an Annual Loan Payment Certificate certifying that all deposits have been made to each of the Bond Funds as required by each of the 2014 Loan Agreements; that the Pledged Tax Revenues to be received with respect to such Bond Year will equal at least 125% of Annual Debt Service on the Bonds; that there is on deposit in the Reserve Account an amount equal to the Reserve Requirement; and that no event has occurred that would result in a transfer by the Trustee from the Reserve Account pursuant to the Indenture, any Pledged Tax Revenues held in the Bond Fund or thereafter received during such Bond Year in excess of such amounts shall be released from the pledge and lien under the applicable 2014 Loan Agreement and shall be returned to the Agency for any lawful purpose. In the event the Annual Loan Payment Certificate provides that Pledged Tax Revenues with respect to such Bond Year will be less than 125% of the Annual Debt Service on the Bonds an amount equal to the Pro Rata share of the difference between the amount of Pledged Tax Revenues to be received with respect to such Bond Year and 125% of Annual Debt Service on the Bonds shall be retained in each of the Bond Funds. At such time as it is determined that the aggregate Pledged Tax Revenues remaining to be received under any applicable Plan Limit is equal to or less than 125% of the aggregate debt service payable on the Bonds through maturity, all Pledged Tax Revenues shall be deposited in the Bond Fund and used solely for the payment of debt service on the Bonds. The Annual Loan Payment Certificate is a certificate of the Executive Director, Treasurer, or Secretary (or any other officer of the Agency duly authorized by the Agency for that purpose) of the Agency certifying, based on evidence of appropriate County officials and other evidence on file with the Agency, the amount of aggregate Pledged Tax Revenues to be received with respect to the current Bond Year. Prior to the payment in full of the principal of and interest and prepayment premium (if any) on the 2014 Loans and all applicable Parity Debt, the Agency shall not have any beneficial right or interest in the moneys on deposit in the related Bond Fund, except only as provided in the 2014 Loan Agreements.

The Authority shall withdraw from each of the Bond Funds and transfer to the Trustee the applicable installments of 2014 Loan payments for deposit by the Trustee in the Interest Account and

Principal Account to pay debt service on the Bonds. In addition, in the event that the Trustee shall notify the Authority, Agency pursuant to the Indenture that the amount on deposit in any of the Reserve Subaccounts is less than the applicable Pro Rata Share of the Reserve Requirement, the Authority shall immediately withdraw from the Bond Fund and transfer to the Trustee for deposit in the Reserve Account a Pro Rata Share of the amount of money necessary to maintain the Reserve Requirement 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.

Additional Obligations on a Parity with a 2014 Loan

In addition to the 2014 Loans, the Agency may issue or incur additional obligations on a parity with the 2014 Loans (“Parity Debt”) in such principal amount as shall be determined by the Agency and for such purposes as are permitted under the Dissolution Act, including without limitation Section 34177.5 thereof.

Section 34177.5 of the Dissolution Act presently permits successor agencies to issue bonds or incurring other indebtedness secured by property tax revenues comprised of former tax increment and required to be deposited into the respective Redevelopment Property Tax Trust Fund for the applicable successor agency under limited circumstances:

- (i) to provide savings to the successor agency;
- (ii) for the purpose of financing debt service spikes, including balloon maturities; provided, (A) the existing indebtedness is not accelerated, except to the extent necessary to achieve substantially level debt service, and (B) the principal amount of the refunding bonds or the indebtedness will not exceed the amount required to defease the refunded bonds or other indebtedness, to establish customary debt service reserves, and to pay related costs of issuance;
- (iii) for the purpose of amending an existing enforceable obligation under which the successor agency is obligated to reimburse a political subdivision of the state for the payment of debt service on a bond or other obligation of the political subdivision or to pay all or a portion of the debt service on the bond or other obligation of the political subdivision to provide savings to the successor agency, when such amendment is in connection with a refunding of the bonds or other obligations of the separate political subdivision so that the enforceable obligation will apply to the refunding obligations of the political subdivision; or
- (iv) for the purpose of making payments under an existing enforceable obligation when the enforceable obligation includes the irrevocable pledge of property tax increment (i.e., formerly tax increment revenues prior to the effective date of the Dissolution Act) or other funds and the obligation to issue bonds secured by that pledge.

When bonds are issued or debt is incurred pursuant to the situations contemplated in clauses (i) and (iii), the following two constraints apply to the size of the financing: (A) the total interest cost to maturity on the refunding bonds or indebtedness plus the principal amount of the refunding bonds or other indebtedness shall not exceed the total remaining interest cost to maturity on the bonds or other indebtedness to be refunded plus the remaining principal of the bonds or other indebtedness to be refunded, and (B) the principal amount of the refunding bonds or the indebtedness will not exceed the amount required to defease the refunded bonds or other indebtedness, to establish customary debt service reserves, and to pay related costs of issuance. If the foregoing conditions are satisfied, the initial principal amount of the refunding bonds or indebtedness may be greater than the outstanding principal amount of

the bonds or other indebtedness to be refunded. The successor agency may pledge to the refunding bonds or other indebtedness the revenues pledged to the bonds or other indebtedness being refunded, having the same lien priority as the pledge of the bonds or other obligations to be refunded.

Subject to the foregoing, the Agency may issue and deliver any Parity Debt payable from and secured by a lien and charge upon the Pledged Tax Revenues on a parity with the lien and charge securing the 2014 Loans subject to the following additional specific conditions specified in the 2014 Loan Agreements:

(a) No Event of Default shall have occurred and be continuing, and the Agency shall otherwise be in compliance with all covenants set forth in the 2014 Loan Agreements;

(b) The Oversight Board shall have approved the issuance of such Parity Debt;

(c) A Report shall be delivered to the Trustee stating that, based on the most recent assessed valuation of taxable property in the Project Areas as shown on the records of the County, the amount of Pledged Tax Revenues for the then current Fiscal Year, plus at the option of the Agency the Additional Allowance, is at least equal to one hundred twenty-five percent (125%) of the largest amount obtained by totaling for the current or any future Bond Year, the sum of (a) the amount of interest payable on the 2014 Loans and any Parity Debt to be Outstanding in each such Bond Year, assuming that principal thereof is paid as scheduled and that any mandatory sinking fund payments are made as scheduled, and (b) the amount of principal payable on the 2014 Loans and any Parity Debt to be Outstanding in each such Bond Year, including any principal required to be prepaid by operation of mandatory sinking fund payments. For purposes of such calculation, there shall be excluded principal and interest on amounts in a special escrow fund and the principal of and interest on any Parity Debt to the extent the proceeds thereof are then deposited in a fully self-supporting escrow fund (the fully self-supporting nature of which is evidenced by a report prepared by an Independent Financial Consultant) from which amounts may not be released to the Agency unless the amount of Pledged Tax Revenues then to be received is not less than the percentage set forth above;

(d) The related Parity Debt Instrument shall provide that interest on such Parity Debt shall be payable semiannually on June 1 and December 1 in each full calendar year during the term of such Parity Debt and the principal of such Parity Debt shall be payable on December 1 in each year principal is paid;

(e) The Agency shall deliver to the Authority and the Trustee a Certificate of the Agency certifying that the aggregate amount of principal of and interest on the 2014 Loans, all Parity Debt and all other indebtedness payable from Pledged Tax Revenues following the issuance or incurrence of such Parity Debt will not exceed the maximum amount of Pledged Tax Revenues permitted under the Plan Limit to be allocated and paid to the Agency following the issuance or incurrence of such Parity Debt;

(f) The Agency shall fund a reserve fund for such Parity Debt in an amount equal to the maximum annual debt service or such lesser amount required by the Code with respect to all Parity Debt; and

(g) The Agency shall deliver to the Authority and the Trustee a Certificate of the Agency certifying that the conditions precedent to the issuance of such Parity Debt set forth in the 2014 Loan Agreements have been satisfied.

Additional Authority Bonds

Except as set forth in the Indenture, the Authority covenants that no additional bonds, notes or other indebtedness shall be issued or incurred which are payable out of Revenues in whole or in part. In this regard, the Indenture provides that the Authority may issue Additional Authority Bonds secured on a parity with the Bonds (“Additional Authority Bonds”), in such principal amount as shall be determined by the Authority, pursuant to a Supplemental Indenture adopted or entered into by the Authority, and subject to the following conditions precedent:

(a) The Authority shall be in compliance with all covenants set forth in the Indenture and all Supplemental Indentures;

(b) If the proceeds of such Additional Authority Bonds shall be applied to accomplish a refunding of a portion of the Bonds, there shall have been delivered to the Trustee a certificate of an Independent Financial Consultant stating that the Annual Debt Service on the Additional Authority Bonds does not exceed the Annual Debt Service on the Bonds defeased or redeemed with the proceeds of such Additional Authority Bonds;

(c) Additional Authority Bonds secured on a parity with the Outstanding Bonds may be issued only if there shall have been delivered to the Trustee a written certificate of an Independent Financial Consultant stating that the requirements of Parity Debt provisions of the 2014 Loan Agreements have been met and that the Revenues will be not less than 100% of Debt Service on the Bonds and all Additional Authority Bonds to be secured on a parity with the Bonds. For purposes of such calculation, there shall be excluded principal and interest on amounts in a special escrow fund and the principal of and interest on any Additional Authority Bonds to the extent the proceeds thereof are then deposited in a fully self-supporting escrow fund (the fully self-supporting nature of which is evidenced by a report prepared by an Independent Financial Consultant) from which amounts may not be released to the Authority or the Agency unless the amount of Revenues then to be received is not less than the percentage set forth above;

(d) The Supplemental Indenture providing for the issuance of such Additional Authority Bonds shall provide that interest thereon shall be payable on June 1 and December 1, and principal thereof shall be payable on December 1 in any year in which principal is payable;

(e) The Supplemental Indenture providing for the issuance of such Additional Authority Bonds may provide for the establishment of separate funds and accounts; and

(f) The Authority delivers to the Trustee a written certificate of the Authority certifying that the conditions precedent to the issuance of such Additional Authority Bonds set forth in clauses (a), (b) and (c) above have been satisfied.

Bonds Not a Debt of the City of Calimesa or the State of California

Neither the Bonds, nor the obligations of the Agency under the 2014 Loan Agreements, are a debt of the City, the State of California or any of its political subdivisions (except the Agency and the Authority, as applicable) and neither said City, said State or any of its political subdivisions (except the Agency and the Authority, as applicable) is liable therefor. The principal of, premium, if any, and interest on the Bonds ultimately are payable from and secured by the Pledged Tax Revenues allocated to the Agency from the Project Areas and payable by the Agency to the Authority under the 2014 Loan Agreements. The Bonds do not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction.

BOND INSURANCE

The following information has been furnished by Assured Guaranty Municipal Corp. (the "Insurer" or "AGM") for use in this Official Statement. No representation is made by the Authority or the Underwriter as to the accuracy or completeness of such information, or the absence of material adverse changes therein at any time subsequent to the date hereof. Reference is made to "APPENDIX I – SPECIMEN MUNICIPAL BOND INSURANCE POLICY" for a specimen of the Insurer's policy.

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. ("AGM") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Assured Guaranty Municipal Corp.

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM's financial strength is rated "AA" (stable outlook) by Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and "A2" (stable outlook) by Moody's Investors Service, Inc. ("Moody's"). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On March 18, 2014, S&P published a Research Update report in which it upgraded AGM's financial strength rating to "AA" (stable outlook) from "AA-" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On February 10, 2014, Moody's issued a press release stating that it had affirmed AGM's insurance financial strength rating of "A2" (stable outlook). AGM can give no assurance as to any further ratings action that Moody's may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

Capitalization of AGM

At December 31, 2013, AGM's policyholders' surplus and contingency reserves were approximately \$3,529 million and its net unearned premium reserve was approximately \$1,891 million. Such amounts represent the combined surplus, contingency reserves and net unearned premium reserve of AGM and its wholly owned subsidiary Assured Guaranty (Europe) Ltd., plus 60.7% of the contingency reserve and net unearned premium reserve of AGM's indirect subsidiary, Municipal Assurance Corp.

Incorporation of Certain Documents by Reference

Portions of the following document filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof: the Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (filed by AGL with the SEC on February 28, 2014).

All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AGM included herein under the caption "BOND INSURANCE – Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

Miscellaneous Matters

AGM or one of its affiliates may purchase a portion of the Bonds or any uninsured bonds offered under this Official Statement and such purchases may constitute a significant proportion of the bonds offered. AGM or such affiliate may hold such Bonds or uninsured bonds for investment or may sell or otherwise dispose of such Bonds or uninsured bonds at any time or from time to time.

AGM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept

any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading “BOND INSURANCE”.

THE AUTHORITY

The Calimesa Financing Authority (the “Authority”) was established pursuant to a Joint Exercise of Powers Agreement dated February 4, 2008 (the “Joint Powers Agreement”), by and between the City and the Prior Agency, as succeeded by the Agency, in accordance with the provisions of the Act. The Authority was created for the purpose of assisting in the financing and refinancing of public capital improvements for the City and the Prior Agency, as succeeded by the Agency.

The Authority is governed by a five-member Authority Commission which consists of the City Council of the City, and therefore the Board Members of the Agency. See “THE SUCCESSOR AGENCY TO THE CALIMESA REDEVELOPMENT AGENCY” below for a listing of the Authority Commissioners /Agency Directors. The Mayor acts as President of the Authority, the Mayor Pro Tem acts as Vice President, the City Manager acts as its Chief Administrative Officer, the City Clerk acts as its Secretary, and the Finance Director acts as its Treasurer.

Pursuant to Article 1 of the Act, the Authority is a separate public entity from its members, the City and the Agency. As authorized by the Act, the Joint Powers Agreement provides that the debts, liabilities, and obligations of the Authority will not be the debts, liabilities, and obligations of the City or the Agency, except as specifically provided in the Joint Powers Agreement. The Indenture provides that the Bonds are special obligations of the Authority, payable from and secured by a first pledge of Revenues, consisting primarily of certain loan repayments to be made by the Agency under the two 2014 Loan Agreements. Thus, although the Agency is not directly obligated to repay the Bonds, through the provisions of the Indenture and the 2014 Loan Agreements, the repayment of principal and interest on the Bonds relies upon payments made by the Agency to the Authority pursuant to the 2014 Loan Agreements.

THE SUCCESSOR AGENCY TO THE CALIMESA REDEVELOPMENT AGENCY

The Prior Agency was established on May 18, 1992 by the City Council of the City with the adoption of Ordinance No. 92-9, pursuant to the Redevelopment Law. On June 29, 2011, AB X1 26 was enacted as Chapter 5, Statutes of 2011, together with a companion bill, AB X1 27. A lawsuit was brought in the California Supreme Court, *California Redevelopment Association, et al., v. Matosantos, et al.*, 53 Cal. 4th 231 (Cal. 2011), challenging the constitutionality of AB X1 26 and AB X1 27. In its December 29, 2011 decision, the California Supreme Court largely upheld AB X1 26, invalidated AB X1 27, and held that AB X1 26 may be severed from AB X1 27 and enforced independently. As a result of AB X1 26 and the decision of the California Supreme Court in the California Redevelopment Association case, as of February 1, 2012, all redevelopment agencies in the State were dissolved, including the Prior Agency, and successor agencies were designated as successor entities to the former redevelopment agencies to expeditiously wind down the affairs of the former redevelopment agencies.

On August 15, 2011, pursuant to Resolution No. 2011-30 and Section 34173 of the Dissolution Act, the City Council of the City elected to serve as successor agency to the Prior Agency and, on February 6, 2012, established rules and regulations for the operations of the Successor Agency to the Calimesa Redevelopment Agency (the “Agency”) to assume these successor functions pursuant to CSA Resolution No. 2012-01, adopted by the City Council as the governing body of the Agency. Subdivision

(g) of Section 34173 of the Dissolution Act, added by AB 1484, expressly affirms that the Agency is a separate public entity from the City, that the two entities shall not merge, and that the liabilities of the Prior Agency will not be transferred to the City nor will the assets of the Prior Agency become assets of the City.

The Agency is governed by a five-member Board of Directors (the “Board”) which consists of the members of the City Council of the City of Calimesa. The Mayor acts as the Chair of the Board, the City Manager as its Executive Director, the City Clerk as its Secretary and the Finance Director of the City as the Finance Officer of the Agency.

The Directors on the Board of the Agency and the expiration dates of their terms are as follows:

| <u>Name and Office</u> | <u>Expiration of Term</u> |
|------------------------------------|---------------------------|
| William “Bill” Davis, <i>Chair</i> | November, 2016 |
| Jeffrey Hewitt, <i>Vice-Chair</i> | November, 2014 |
| Jim Hyatt, <i>Director</i> | November, 2014 |
| Joyce McIntire, <i>Director</i> | November, 2016 |
| Ella Zanowic, <i>Director</i> | November, 2016 |

Agency Powers

All powers of the Agency are vested in its five members who are elected members of the City Council. Pursuant to the Dissolution Act, the Agency is a separate public body from the City and succeeds to the organizational status of the Prior Agency but without any legal authority to participate in redevelopment activities, except to complete any work related to an approved enforceable obligation. The Agency is tasked with expeditiously winding down the affairs of the Prior Agency, pursuant to the procedures and provisions of the Dissolution Act. Under the Dissolution Act, many Agency actions are subject to approval by the Oversight Board, as well as review by the State Department of Finance. California has strict laws regarding public meetings (known as the Ralph M. Brown Act) which generally make all Agency and Oversight Board meetings open to the public in a similar manner as City Council meetings.

Under a State initiative enacted in 1974, public officials are required to make extensive disclosures regarding their financial interests by filing such disclosures as public records. As of the date of this Official Statement, the members of the City Council and the Agency, and other City and Agency officials have made the required filings.

Previously, Section 33675 of the Redevelopment Law required the Prior Agency to file not later than the first day of October of each year with the County Auditor a statement of indebtedness certified by the chief fiscal officer of the Prior Agency for each redevelopment plan which provides for the allocation of taxes (i.e., the Redevelopment Plan). The statement of indebtedness was required to contain the date on which the bonds were delivered, the principal amount, term, purposes and interest rate of the bonds and the outstanding balance and amount due on the bonds. Similar information was required to be given for each loan, advance or indebtedness that the Prior Agency had incurred or entered into which is payable from tax increment. Section 33675 also provided that payments of tax increment revenues from the County Auditor to the Prior Agency could not exceed the amounts shown on the Prior Agency's statement of indebtedness. The Dissolution Act eliminates this requirement and provides that, commencing on the date the first Recognized Obligation Payment Schedule is valid thereunder, the Recognized Obligation Payment Schedule supersedes the statement of indebtedness previously required under the Redevelopment Law, and commencing from such date, the statement of indebtedness will no

longer be prepared nor have any effect under the Redevelopment Law (see “SECURITY FOR THE BONDS – Recognized Obligation Payment Schedule”).

RISK FACTORS

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

The various legal opinions to be delivered concurrently with the issuance of the Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by State and federal laws, rulings and decisions affecting remedies, and by bankruptcy, reorganization or other laws of general application affecting the enforcement of creditors' rights, including equitable principles.

Reduction in Taxable Value

Pledged Tax Revenues allocated to the Redevelopment Property Tax Trust Fund are determined by the amount of incremental taxable value in the Project Areas and the current rate or rates at which property in the Project Areas is taxed. The reduction of taxable values of property in one or more of the Project Areas caused by economic factors beyond the Agency's control, such as relocation out of a Project Area by one or more major property owners, sale of property to a non-profit corporation exempt from property taxation, or the complete or partial destruction of such property caused by, among other eventualities, earthquake or other natural disaster, could cause a reduction in the Pledged Tax Revenues that provide for the repayment of and secure the 2014 Loans, and therefore, in the Revenues that provide for the repayment of and secure the Bonds. Such reduction of Pledged Tax Revenues could have an adverse effect on the Agency's ability to make timely payments of principal of and interest on the 2014 Loans, and therefore, on the Authority's ability to make timely payments of principal and interest on the Bonds.

As described in greater detail under the heading “PROPERTY TAXATION IN CALIFORNIA – Article XIII A of the State Constitution,” Article XIII A 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 Bonds could reduce Pledged Tax Revenues securing 2014 Loans, and therefore, the Revenues securing the Bonds.

In addition to the other limitations on, and required application under the Dissolution Act of Pledged Tax Revenues on deposit in the Redevelopment Property Tax Trust Fund described herein under the heading “RISK FACTORS – Recognized Obligation Payment Schedule,” the State electorate or Legislature could adopt a constitutional or legislative property tax reduction with the effect of reducing Pledged Tax Revenues allocated to the Redevelopment Property Tax Trust Fund and available to the Agency. Although the federal and State Constitutions include clauses generally prohibiting the Legislature's impairment of contracts, there are also recognized exceptions to these prohibitions. There is no assurance that the State electorate or Legislature will not at some future time approve additional limitations that could reduce the Pledged Tax Revenues and the Revenues and adversely affect the source of repayment and security of the 2014 Loans, and therefore, the Bonds.

Risks to Real Estate Market

The Agency's ability to make payments on the 2014 Loans will be dependent upon the economic strength of the Project Areas. The general economy of the Project Areas will be subject to all of the risks generally associated with urban real estate markets. Real estate prices and development may be adversely affected by changes in general economic conditions, fluctuations in the real estate market and interest rates, unexpected increases in development costs and by other similar factors. Further, real estate development within a Project Area could be adversely affected by limitations of infrastructure or future governmental policies, including governmental policies to restrict or control development. In addition, if there is a decline in the general economy of a Project Area, the owners of property within the Project Area may be less able or less willing to make timely payments of property taxes or may petition for reduced assessed valuation causing a delay, interruption, or reduction in the receipt of Pledged Tax Revenues by the Agency from the Project Area.

Reduction in Inflationary Rate

As described in greater detail below, Article XIII A of the State Constitution provides that the full cash value of real property used in determining taxable value may be adjusted from year to year to reflect the inflationary rate, not to exceed a 2 percent increase for any given year, or may be reduced to reflect a reduction in the consumer price index or comparable local data. Such measure is computed on a calendar year basis. Because Article XIII A limits inflationary assessed value adjustments to the lesser of the actual inflationary rate or 2 percent, there have been years in which the assessed values were adjusted by actual inflationary rates, which were less than 2 percent. Since Article XIII A was approved, the annual adjustment for inflation has fallen below the 2 percent limitation several times but in Fiscal Year 2010-11 the inflationary value adjustment was negative for the first time at -0.237%. In Fiscal Year 2011-12, the inflationary value adjustment was 0.753%, which also is below the 2 percent limitation, but for Fiscal Year 2012-13, the inflationary value adjustment was 2.00%, which is the maximum permissible increase under Article XIII A. For Fiscal Year 2013-14, the inflationary value adjustment is 2.00%, and for Fiscal Year 2014-15, the inflationary value adjustment will be 0.454%. The Agency is unable to predict if any adjustments to the full cash value of real property within the Project Areas, whether an increase or a reduction, will be realized in the future.

Development Risks

The general economy of the Project Areas will be subject to all the risks generally associated with real estate development. Projected development within the Project Areas may be subject to unexpected delays, disruptions and changes. Real estate development operations may be adversely affected by changes in general economic conditions, fluctuations in the real estate market and interest rates, unexpected increases in development costs and by other similar factors. Further, real estate development operations within the Project Area could be adversely affected by future governmental policies, including governmental policies to restrict or control development. If projected development in a Project Area is delayed or halted, the economy of the Project Area could be affected. If such events lead to a decline in assessed values they could cause a reduction in Pledged Tax Revenues. In addition, if there is a decline in the general economy of a Project Area, the owners of property within such Project Area may be less able or less willing to make timely payments of property taxes causing a delay or stoppage of the Pledged Tax Revenues received by the Agency from the Project Area. In addition, the insolvency or bankruptcy of one or more large owners of property within the Project Areas could delay or impair the receipt of Pledged Tax Revenues by the Agency.

Levy and Collection of Taxes

The Agency has no independent power to levy or collect property taxes. Any reduction in the tax rate or the implementation of any constitutional or legislative property tax decrease could reduce the Pledged Tax Revenues and, therefore, the Revenues, and accordingly, could have an adverse impact on the security for and the ability of the Agency to repay the 2014 Loans and on the security for and the ability of the Authority to repay the Bonds.

Likewise, delinquencies in the payment of property taxes by the owners of land in the Project Areas, and the impact of bankruptcy proceedings on the ability of taxing agencies to collect property taxes, could have an adverse effect on the Agency's ability to make timely payments on the 2014 Loans and, therefore, on the Authority's ability to make timely payments on the Bonds. Any reduction in Pledged Tax Revenues, whether for any of these reasons or any other reasons, could have an adverse effect on the Agency's ability to pay the principal of and interest on the 2014 Loans, and therefore, on the Authority's ability to pay the principal and interest on the Bonds.

Concentration of Ownership

Currently, the ten largest local secured taxpayers within Project No. 1 own properties constituting, in the aggregate, 59.78% of the 2013-14 secured assessed valuation of all of the property within Project No. 1. Similarly, the ten largest local secured taxpayers within Project No. 5 currently own properties constituting, in the aggregate, 46.67% of the 2013-14 secured assessed valuation of all of the property within Project No. 5. See "THE PROJECT AREAS – Largest Taxpayers." The willingness and ability of the such largest taxpayers, as well as other property owners, to pay property taxes could be adversely affected by changes in general or local economic conditions, fluctuations in the real estate market and other factors. Failure of such largest taxpayers (or any future owner of a significant amount of taxable property within the Project Areas) to pay installments of such property taxes when due could cause the depletion of the Reserve Account prior to reimbursement from the resale of foreclosed property and repayment of the delinquent property tax. In such an event, there may be insufficient Pledged Tax Revenues to meet the Agency's obligations under the 2014 Loan Agreements, which would result in insufficient Revenues to meet the Authority's obligations under the Indenture.

Time Limits on Receiving Tax Increment Revenues

Under current limitations contained in the redevelopment plans for certain of the Project Areas, the right to receive tax increment revenue and to pay debt service with a portion of such tax increment revenue will terminate prior to the final maturity date of the Bonds. The final maturity date of the Bonds is December 1, 2038. However the right to receive tax increment revenue terminates with respect to the Project Area No. 5 on December 23, 2036. See "THE PROJECT AREAS – Limitations and Requirements of the Redevelopment Plans". Upon the termination date for Project No. 5, debt service on the Bonds will become payable solely from tax increment revenues allocated to Project No. 1. Applying information currently available, the Authority has structured debt service so that the expected remaining Pledged Tax Revenues will be sufficient to pay the remaining debt service on the Bonds. However, the respective termination dates will result in a smaller number of properties generating Pledged Tax Revenues, and therefore Revenues, as the termination date is reached for Project No. 1. Because the 2014 Loans, and therefore the Bonds, are payable solely from Pledged Tax Revenues, the credit quality of the Bonds at any one time depends upon the credit quality of the remaining Project Area that generates Pledged Tax Revenues. In addition, unanticipated adverse events affecting the remaining properties subject to taxation could impair the Agency's ability to pay, when due, the remaining debt service on the 2014 Loans, and therefore the Authority's ability to pay, when due, the remaining debt service on the Bonds. See "THE PROJECT AREAS – Limitations and Requirements of the Redevelopment Plan."

State Budget Issues

AB X1 26 and AB 1484 were enacted by the State Legislature and Governor as trailer bills necessary to implement provisions of the State's budget acts for its fiscal years 2011-12 and 2012-13, respectively. The 2011-12 State budget included projected State savings estimated to aggregate \$1.7 billion in 2011-12 associated with AB X1 27, which would have allowed redevelopment agencies to continue in operation provided their establishing cities or counties agreed to make an aggregate \$1.7 billion in payments to K-12 schools. However, AB X1 27 was found in December 2011 by the California Supreme Court to violate the State Constitution, which altered this budgetary plan of the State. According to the State's Summary of the 2012-13 State budget, AB 1484 implements a framework to transfer cash assets previously held by redevelopment agencies to cities, counties, and special districts to fund core public services, with assets transferred to schools offsetting State general fund costs (projected savings of \$1.5 billion for the fiscal year).

For 2013-14, the State budget implemented a number of changes, unrelated to redevelopment dissolution, to help the State work toward (on a multiyear basis) a \$1 billion reserve, such as extending certain medical fees and taxes and continuing the use of miscellaneous State highway account revenues to pay transportation bond debt service. The 2013-14 budget summary additionally describes Proposition 98 (schools) General Fund savings estimated at \$2.1 billion in 2012-13 and \$1.1 billion in 2013-14 as a result of monies generated by redevelopment agency dissolution in those years, a portion of which are one-time savings generated from the distribution of unencumbered funds held by former redevelopment agencies. The Governor's Budget Summary for the Governor's proposed 2014-15 budget cautions that although cities, counties, special districts and schools are estimated to receive over \$7 billion in revenues between 2011-12 and 2014-15 that previously would have been allocated to redevelopment agencies, recent court decisions, if finalized and upheld, could put more than \$3 billion of these funds at risk. The Governor's proposed 2014-15 budget also proposes to allocate \$1.591 billion to the State's "Rainy Day Fund," which would constitute the State's first deposit into that fund since 2007, attributed in part to a capital gains "windfall" from State investments due to a strong stock market in 2013, as well as debt reduction strategies in the State's budgets adopted since Governor Brown took office in 2011. Nonetheless, there can be no assurance that additional legislation will not be enacted in the future to additionally implement provisions relating to the State budget or otherwise that may affect successor agencies or Pledged Tax Revenues.

The full text of each State Assembly bill cited above may be obtained from the "Official California Legislative Information" website maintained by the Legislative Counsel of the State of California pursuant to State law, at the following web link: <http://www.leginfo.ca.gov/bilinfo.html>.

Information about the State budget and State spending is available at various State maintained websites. Text of the 2014-15 Budget Summary for the proposed budget, the current State budget, and other documents related to the State budget may be found at the website of the State Department of Finance, www.dof.ca.gov. A nonpartisan analysis of the budget is posted by the Legislative Analyst's Office at www.lao.ca.gov. In addition, various State official statements, many of which contain a summary of the current and past State budgets may be found at the website of the State Treasurer, www.treasurer.ca.gov.

None of the websites or webpages referenced above is in any way incorporated into this Official Statement. They are cited for informational purposes only. The Authority makes no representation whatsoever as to the accuracy or completeness of any of the information on such websites.

Recognized Obligation Payment Schedule

The Dissolution Act provides that, commencing on the date the first Recognized Obligation Payment Schedule is valid thereunder, only those payments listed in the Recognized Obligation Payment Schedule may be made by the Agency from the funds specified in the Recognized Obligation Payment Schedule. Before each six-month period, the Dissolution Act requires successor agencies to prepare and approve, and submit to the successor agency's oversight board and the State Department of Finance for approval, a Recognized Obligation Payment Schedule pursuant to which enforceable obligations (as defined in the Dissolution Act) of the successor agency are listed, together with the source of funds to be used to pay for each enforceable obligation. Pledged Tax Revenues will not be distributed from the Redevelopment Property Tax Trust Fund by the County Auditor-Controller to the Agency's Redevelopment Obligation Retirement Fund without a duly approved and effective Recognized Obligation Payment Schedule obtained in sufficient time prior to the January 2 or June 1 distribution dates, as applicable. See "SECURITY FOR THE BONDS – Recognized Obligation Payment Schedule" and "PROPERTY TAXATION IN CALIFORNIA – Property Tax Collection Procedures – Recognized Obligation Payment Schedule." In the event the Agency were to fail to file a Recognized Obligation Payment Schedule with respect to a six-month period, the availability of Pledged Tax Revenues to the Agency could be adversely affected for such period.

In the event a successor agency fails to submit to the State Department of Finance an oversight board-approved Recognized Obligation Payment Schedule complying with the provisions of the Dissolution Act within five business days of the date upon which the Recognized Obligation Payment Schedule is to be used to determine the amount of property tax allocations, the State Department of Finance may determine if any amount should be withheld by the applicable county auditor-controller for payments for enforceable obligations from distribution to taxing entities pursuant to clause (iv) in the following paragraph, pending approval of a Recognized Obligation Payment Schedule. Upon notice provided by the State Department of Finance to the county auditor-controller of an amount to be withheld from allocations to taxing entities, the county auditor-controller must distribute to taxing entities any monies in the Redevelopment Property Tax Trust Fund in excess of the withholding amount set forth in the notice, and the county auditor-controller must distribute withheld funds to the successor agency only in accordance with a Recognized Obligation Payment Schedule when and as approved by the State Department of Finance.

Typically, under the Redevelopment Property Tax Trust Fund distribution provisions of the Dissolution Act, the County Auditor-Controller is to distribute funds for each six-month period in the following order specified in Section 34183 of the Dissolution Act: (i) first, subject to certain adjustments for subordinations to the extent permitted under the Dissolution Act (as described above under "SECURITY FOR THE BONDS – Tax Increment Financing") and no later than each January 2 and June 1, to each local agency and school entity, to the extent applicable, amounts required for passthrough payments such entity would have received under provisions of the Redevelopment Law, as those provisions read on January 1, 2011, including pursuant to the Pass-Through Agreements and Statutory Pass-Through Amounts; (ii) second, on each January 2 and June 1, to the Agency for payments listed in its Recognized Obligation Payment Schedule, with debt service payments scheduled to be made for tax allocation bonds having the highest priority over payments scheduled for other debts and obligations listed on the Recognized Obligation Payment Schedule; (iii) third, on each January 2 and June 1, to the Agency for the administrative cost allowance, as defined in the Dissolution Act; and (iv) fourth, on each January 2 and June 1, to taxing entities any moneys remaining in the Redevelopment Property Tax Trust Fund after the payments and transfers authorized by clauses (i) through (iii), in an amount proportionate to such taxing entity's share of property tax revenues in the tax rate area in that fiscal year (without giving effect to any passthrough obligations that were established under the Redevelopment Law).

If the Agency does not submit an Oversight Board-approved Recognized Obligation Payment Schedule within five business days of the date upon which the Recognized Obligation Payment Schedule is to be used to determine the amount of property tax allocations and the State Department of Finance does not provide a notice to the County Auditor-Controller to withhold funds from distribution to taxing entities, amounts in the Redevelopment Property Tax Trust Fund for such six-month period would be distributed to taxing entities pursuant to clause (iv) above. However, the Agency has covenanted to take all actions required under the Dissolution Act to include scheduled debt service on the 2014 Loans, as well as any amount required under the 2014 Loan Agreements and the Indenture to replenish the Reserve Account of the Revenue Fund, in Recognized Obligation Payment Schedules for each six-month period and to enable the County Auditor-Controller to distribute from the Redevelopment Property Tax Trust Fund to the Agency's Redevelopment Obligation Retirement Fund on each January 2 and June 1 amounts required for the Agency to pay principal of, and interest on, the 2014 Loans coming due in the respective six-month period, including listing a reserve on the Recognized Obligation Payment Schedule to the extent required by the 2014 Loan Agreements or when the next property tax allocation is projected to be insufficient to pay all obligations due under the provisions of the 2014 Loan Agreements for the next payment due in the following six-month period (see "APPENDIX B – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE 2014 LOAN AGREEMENTS – Covenants of the Agency").

AB 1484 also adds new provisions to the Dissolution Act implementing certain penalties in the event the Agency does not timely submit a Recognized Obligation Payment Schedule for a six-month period. Specifically, a Recognized Obligation Payment Schedule must be submitted by the Agency, after approval by the Oversight Board, to the County Administrative Officer, the County Auditor-Controller, the State Department of Finance, and the State Controller no later than September 1, 2012 with respect to the six-month period of January 1, 2013 through June 30, 2013 and by 90 days before the date of the next January 2 or June 1 property tax distribution with respect to each subsequent six-month period. If the Agency does not submit an Oversight Board-approved Recognized Obligation Payment Schedule by such deadlines, the City will be subject to a civil penalty equal to \$10,000 per day for every day the schedule is not submitted to the State Department of Finance. Additionally, the Agency's administrative cost allowance is reduced by 25% if the Agency does not submit an Oversight Board-approved Recognized Obligation Payment Schedule by September 11, 2012, with respect to the Recognized Obligation Payment Schedule for the first half of calendar year 2012, or by the 80th day before the date of the next January 2 or June 1 property tax distribution, as applicable, with respect to the Recognized Obligation Payment Schedule for subsequent six-month periods. The Agency timely submitted to the County Administrative Officer, the County Auditor-Controller, the State Department of Finance, and the State Controller its Oversight Board-approved Recognized Obligation Payment Schedules for the six-month periods of January 1, 2013 through June 30, 2013, July 1, 2013 through December 31, 2013, January 1, 2014 through June 30, 2014, and July 1, 2014 through December 31, 2014.

AB 1484 Penalty for Failure to Remit Unencumbered Funds

AB1484 further implements certain provisions of ABX1 26, including establishing a process for determining the liquid assets that redevelopment agencies should have shifted to their successor agencies when they were dissolved, and the amount that should be available for remittance by the successor agencies to their respective county auditor-controllers for distribution to affected taxing entities within the project areas of the former redevelopment agencies. This determination process is commonly known as the "due diligence review process" and is required to be completed through the final step (review by the State Department of Finance) by November 9, 2012 with respect to affordable housing funds and by April 1, 2013 with respect to non-housing funds. Within five business days of receiving notification from the State Department of Finance, the Agency must remit to the county auditor-controller the amount of unobligated balances determined by the State Department of Finance, or it may request a meet and confer

with the State Department of Finance to resolve any disputes. If there is a meet and confer process, the Agency must remit the amount of unobligated balances within five working days of receiving a subsequent notification from the State Department of Finance of the amount of unobligated balances at the conclusion of that process.

If the Agency fails to remit the amounts determined by the State Department of Finance by the respective deadlines, certain penalties and remedies apply under AB 1484. Among such penalties and remedies, if the city that established the redevelopment agency is performing the duties of the successor agency, the State Department of Finance may order an offset to the city's sales and use tax revenues equal to the amount the successor agency fails to remit. If the State Department of Finance does not order an offset, the county auditor-controller may reduce the property tax allocation of the city. Alternatively or in addition to the remedies discussed in the foregoing sentences, the State Department of Finance may direct the county auditor-controller to deduct the unpaid amount from future allocations of property tax to the successor agency under Section 34183 of the Dissolution Act until the amounts required to be remitted are paid.

Pertinent to the Bonds, if the Agency were to fail to remit to the County Auditor-Controller the amounts of unobligated balances determined by the State Department Finance within the time frames required under AB 1484, the State Department of Finance may direct the County Auditor-Controller to deduct the unpaid amount from future allocations of Pledged Tax Revenues to the Agency under Section 34183 of the Dissolution Act until the amounts required to be remitted are paid.

As to affordable housing funds, the Agency has completed the due diligence review process, and on November 7, 2012, the State Department of Finance issued a letter to the Agency making no adjustments and concurring that the Agency had \$24,005 in unencumbered affordable housing fund balances available for distribution to taxing entities. The Agency timely remitted to the County Auditor-Controller such unencumbered affordable housing fund balances within the five business day period following notification from the State Department of Finance.

As to non-housing funds, the Agency also has completed the due diligence review process, and on March 8, 2013, the State Department of Finance issued a letter to the Agency making no adjustments and concurring that the Agency has no unencumbered non-housing fund balances available for distribution to taxing entities.

On April 26, 2013, the State Department of Finance issued to the agency a "finding of completion," which confirms that the Agency has, among other things, paid in full the amounts determined during the due diligence reviews and the county auditor-controller has reported those payments to the State Department of Finance. Accordingly, based on this finding of completion, neither the Agency nor the City are subject to any AB 1484 penalties for a failure to remit unencumbered funds.

Bankruptcy and Foreclosure

The payment of property taxes from which Pledged Tax Revenues are derived and the ability of the County to foreclose the lien 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. The various legal opinions to be delivered concurrently with the delivery of the Bonds (including Bond Counsel's approving legal opinion) will be qualified as to the enforceability of the various legal instruments by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights, by the application of equitable principles and by the exercise of judicial discretion in appropriate cases.

Although bankruptcy proceedings would not cause the liens to become extinguished, bankruptcy of a property owner could result in a delay in prosecuting superior court foreclosure proceedings. Such delay would increase the possibility of delinquent tax installments not being paid in full and thereby increase the likelihood of a delay or default in payment of the principal of and interest on the 2014 Loans, and therefore, payment of the principal of and interest on the Bonds.

Estimated Revenues

In estimating that Pledged Tax Revenues will be sufficient to pay debt service on the 2014 Loans, the Agency has made certain assumptions with regard to present and future assessed valuation in the Project Areas, future tax rates and percentage of taxes collected. The Agency believes these assumptions to be reasonable, but there is no assurance these assumptions will be realized and to the extent that the assessed valuation and the tax rates are less than expected, the Pledged Tax Revenues available to pay debt service on the 2014 Loans will be less than those projected and such reduced Pledged Tax Revenues may be insufficient to provide for the payment of principal of, premium (if any) and interest on the 2014 Loans. Accordingly, under such circumstances, Revenues available to pay debt service on the Bonds will be less than those projected and such reduced Revenues may be insufficient to provide for the payment of principal of, premium (if any) and interest on the Bonds.

Hazardous Substances

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

Seismic Factors

The City, like most regions in the State of California, is located in an area of seismic activity and, therefore, could be subject to potentially destructive earthquakes. According to the Safety Element contained in the City's General Plan, the City is prone to significant earthquake activity from nearby faults, as it is located near the northwestern end of the San Gorgonio Pass, which is bounded by two of the most active faults in southern California: the San Andreas fault on the northeast, and the San Jacinto fault on the southwest. The San Andreas, San Gorgonio Pass, Banning, Cherry Valley, Beaumont Plain, and San Jacinto faults are most likely to cause high ground accelerations in the City. The Safety Element of the City's General Plan depicts the San Andreas fault (San Bernardino Mountains portion, to the north), the Banning fault (to the east), and the Beaumont Plain fault (to the southeast) as being located within 20 miles of the City; and the San Jacinto fault (Lytle Creek-Claremont portion, to the northwest) and the San Jacinto fault (Casa Loma-Clark portion, to the southeast), as being located within 30 miles of the City. Seismic hazards encompass liquefaction, landslides, strong ground shaking, and conceivably even surface rupture. The City is located within Seismic Zone 4 of the Uniform Building Code (UBC, 1991) and Riverside County Ground Shaking Zones IV and V, as designated in the County's General Plan (1988), with those areas of the City close to the San Andreas fault on the northeast and to the San Jacinto fault on the southwest designated as Ground Shaking Zone V. For more information see "Calimesa General Plan - Safety Element" on file with the Calimesa City Clerk.

The occurrence of severe seismic activity in the City could result in substantial damage to property located in the Project Areas, and could lead to successful appeals for reduction of assessed values of such property. Such a reduction of assessed valuations could result in a reduction of the Pledged Tax Revenues that secure the 2014 Loans, and therefore, of the Revenues that secure the Bonds.

Risk of Floods

Most precipitation in the San Gorgonio Pass region in which the City is located occurs during the winter months, between December and March, with annual precipitation ranging between 17 inches and 39 inches. Runoff is drained by several southwest-flowing drainages tributary to San Timoteo Creek that extend across the City. These tributaries are ephemeral, with rain water in the upper reaches generally infiltrating into the alluvium so that runoff decreases downstream. San Timoteo Creek drains northward into the Upper Santa Ana River, and on to the Pacific Ocean. The City has adopted a comprehensive Master Flood Control and Drainage Plan. The 1980 Flood Insurance Rate Map for the City shows 100- and 500-year flood areas along Garden Air Golf Course Wash. The Calimesa Channel was constructed to provide protection to adjacent properties from flood runoff resulting from a 100-year flood event. Storm-induced flood problems in the City, as defined in the National Flood Insurance Program in which the City has been registered since December 1990, would include flash floods in the canyon areas, saturated mudflows on hillsides, and shallow flooding of streets and residences associated with poor storm drainage. For more information see "Calimesa General Plan - Safety Element" on file with the Calimesa City Clerk.

As with seismic hazards, the occurrence of flood damage to property located in the Project Areas could lead to successful appeals for reduction of assessed values of such property and any reduction of assessed valuations could result in a reduction of the Pledged Tax Revenues that secure the 2014 Loans, and therefore, of the Revenues that secure the Bonds.

Changes in the Law

There can be no assurance that the California electorate will not at some future time adopt initiatives or that the Legislature will not enact legislation that will amend the Dissolution Act, the Redevelopment Law or other laws or the Constitution of the State resulting in a reduction of Pledged Tax Revenues, which could have an adverse effect on the Agency's ability to pay debt service on the 2014 Loans, and therefore, on the Authority's ability to pay debt service on the Bonds.

Investment Risk

Funds held under the Indenture are required to be invested in Permitted Investments as provided under the Indenture. See APPENDIX B attached hereto for a summary of the definition of Permitted Investments. The Bond Funds established under the 2014 Loan Agreements may be invested by the Authority in any investments authorized under the laws of the State of California for the moneys proposed to be invested therein, and the funds and accounts of the Agency, into which Pledged Tax Revenues are deposited, may be invested by the Agency in any investment authorized by law. 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.

Further, the Agency cannot predict the effects on the receipt of Pledged Tax Revenues if the County were to suffer significant losses in its portfolio of investments or if the County or the City were to become insolvent or declare bankruptcy. See "RISK FACTORS – Bankruptcy and Foreclosure."

Additional Obligations

The potential for the issuance of Parity Debt secured by a pledge of Pledged Tax Revenues on a parity with the 2014 Loans could, in certain circumstances, increase the risks associated with the Agency's payment of debt service on the 2014 Loans, and therefore, the Authority's payment of debt service on the Bonds, in the event of a decrease in the Agency's collection of Pledged Tax Revenues. However, Section 34177.5 of the Dissolution Act provides limited authority for successor agencies to issue bonds, and the Agency's ability to issue Parity Debt secured by a pledge of Pledged Tax Revenues on a parity with the 2014 Loans is subject to the requirements of the Dissolution Act as in effect from time to time. For additional information, see described "SECURITY FOR THE BONDS – Additional Bonds."

Secondary Market

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

No Validation Proceeding Undertaken

California Code of Civil Procedure Section 860 authorizes public agencies to institute a process, otherwise known as a "validation proceeding," for purposes of determining the validity of a resolution or any action taken pursuant thereto. Section 860 authorizes a public agency to institute validation proceedings in cases where another statute authorizes its use. Relevant to the Bonds, California Government Code Section 53511 authorizes a local agency to "bring an action to determine the validity of its bonds, warrants, contracts, obligations or evidences of indebtedness." Pursuant to Code of Civil Procedure Section 870, a final favorable judgment issued in a validation proceeding shall, notwithstanding any other provision of law, be forever binding and conclusive, as to all matters therein adjudicated or which could have been adjudicated, against all persons: "The judgment shall permanently enjoin the institution by any person of any action or proceeding raising any issue as to which the judgment is binding and conclusive."

Neither the Authority nor the Agency has undertaken or endeavored to undertake any validation proceeding in connection with the issuance of the Bonds or incurrence of the 2014 Loans. The Authority, the Agency, and Bond Counsel have relied on the provisions of AB 1484 authorizing the issuance of the Bonds and specifying the related deadline for any challenge to the 2014 Loans to be brought. Specifically, Section 34177.5(e) of the Dissolution Act provides that notwithstanding any other law, an action to challenge the issuance of bonds, the incurrence of indebtedness (such as the 2014 Loans), the amendment of an enforceable obligation, or the execution of a financing agreement authorized under Section 34177.5, must be brought within thirty (30) days after the date on which the oversight board approves the resolution of the successor agency approving the such financing. Such challenge period expired with respect to the 2014 Loans and the Oversight Board Resolution on March 6, 2014.

It is possible that a lawsuit challenging the Dissolution Act or specific provisions thereof could be successful and that the mechanisms currently provided for under the Dissolution Act to provide for distribution of Pledged Tax Revenues to the Agency for payment on the 2014 Loans could be impeded and result in a delinquency or default in the timely payment of principal of, and interest on, the 2014 Loans and, therefore, on the Bonds.

However, each 2014 Loan Agreement additionally provides that if, and to the extent, that the provisions of Section 34172 or paragraph (2) of subdivision (a) of Section 34183 of the Dissolution Act (upon which the distribution of Pledged Tax Revenues to the Agency rely) are invalidated by a final judicial decision, then Pledged Tax Revenues shall include all tax revenues allocated to the payment of indebtedness pursuant to Health & Safety Code Section 33670 or such other section as may be in effect at the time providing for the allocation of tax increment revenues in accordance with Article XVI, Section 16 of the California Constitution. Additionally, any action by a court to invalidate provisions of the Dissolution Act required for the timely payment of principal of, and interest on, the 2014 Loans (and therefore, on the Bonds) could raise issues regarding unconstitutional impairment of contracts or an unconstitutional taking without just compensation. The Authority believes that the aforementioned considerations would provide some protections against the adverse consequences upon the Agency and the availability of Pledged Tax Revenues for the payment of debt service on the 2014 Loans, and therefore on the availability of Revenues pledged for the payment of debt service on the Bonds, in the event of successful challenges to the Dissolution Act or portions thereof. However, the Authority does not guarantee that any lawsuit challenging the Dissolution Act or portions thereof will not result in an outcome that may have a detrimental effect on the Agency's ability to timely pay debt service on the 2014 Loans, and therefore, the Authority's ability to timely pay debt service on the Bonds.

Loss of Tax-Exemption

As discussed under the caption "CONCLUDING INFORMATION – Tax Exemption," interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued, as a result of future acts or omissions of the Agency in violation of its covenants in the 2014 Loan Agreements, or of the Authority in the Indenture.

In addition, current and future legislative proposals, if enacted into law, may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation by, for example, changing the current exclusion or deduction rules to limit the aggregate amount of interest on state and local government bonds that may be treated as tax exempt by individuals.

Should such an event of taxability occur, the Bonds are not subject to special redemption and will remain outstanding until maturity or until redeemed under other provisions set forth in the Indenture.

PROPERTY TAXATION IN CALIFORNIA

Property Tax Collection Procedures

Classification. In the State, 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 a county becomes a lien on that 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 property owned by the taxpayer. Every tax which becomes a lien on secured property has priority over all other liens on the secured property arising pursuant to State law, regardless of the time of the creation of other liens.

Generally, *ad valorem* taxes are collected by a county (the "Taxing Authority") for the benefit of the various entities (cities, schools and special districts) that share in the *ad valorem* tax (each a taxing entity) and successor agencies eligible to receive distributions from the respective Redevelopment Property Tax Trust Funds.

Collections. Secured and unsecured property are entered separately on the assessment roll maintained by the county assessor. The method of collecting delinquent taxes is substantially different for the two classifications of property. The taxing authority has four ways of collecting unsecured personal property taxes: (i) initiating a civil action against the taxpayer, (ii) 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, (iii) filing a certificate of delinquency for record in the county recorder's office to obtain a lien on certain property of the taxpayer, and (iv) seizing and selling 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 the property securing the taxes to the State for the amount of taxes which are delinquent.

Penalty. A 10% penalty is added to delinquent taxes which have been levied with respect to property on the secured roll. In addition, property on the secured roll on which taxes are delinquent is declared in default by operation of law and declaration of the tax collector on or about June 30 of each 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. 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 delinquent taxes with respect to property on the unsecured roll, and further, an additional penalty of 1.5% per month accrues with respect to such taxes beginning on varying dates related to the tax bill mailing date.

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

Supplemental Assessments. California Revenue and Taxation Code Section 75.70 provides for the supplemental assessment and taxation of property as of the occurrence of a change of ownership or completion of new construction. Prior to the enactment of this law, the assessment of such changes was permitted only as of the next tax lien date following the change, and this delayed the realization of increased property taxes from the new assessments for up to 14 months. This statute provides increased revenue to the Redevelopment Property Tax Trust Fund to the extent that supplemental assessments 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 Areas, Pledged Tax Revenues may increase.

Property Tax Administrative Costs. In 1990, the Legislature enacted SB 2557 (Chapter 466, Statutes of 1990) which allows counties to charge for the cost of assessing, collecting and allocating property tax revenues to local government jurisdictions in proportion to the tax-derived revenues allocated to each. SB 1559 (Chapter 697, Statutes of 1992) explicitly includes redevelopment agencies among the jurisdictions which are subject to such charges. In addition, Sections 34182(e) and 34183(a) of the Dissolution Act allow administrative costs of the County Auditor-Controller for the cost of administering the provisions of the Dissolution Act, as well as the foregoing SB 1559 amounts, to be deducted from property tax revenues before monies are deposited into the Redevelopment Property Tax Trust Fund. For Fiscal Year 2012-13, the County's administrative charge to the Prior Agency and Agency was \$12,402 total for both Project Areas, and for Fiscal Year 2013-14 the County's combined administrative charge to the Agency for both Project Areas is estimated to be \$11,845.

Negotiated Pass-Through Agreements. Prior to 1994, under the Redevelopment Law, a redevelopment agency could enter into an agreement to pay increment revenues to any taxing agency that has territory located within a redevelopment project in an amount which in the agency's determination is

appropriate to alleviate any financial burden or detriment caused by the redevelopment project. These agreements normally provide for payment or pass-through of tax increment revenue directed to the affected taxing agency, and, therefore, are commonly referred to as pass-through agreements or tax sharing agreements. The Agency agreements with affected taxing agencies are referred to herein as “Pass-Through Agreements.” See “THE PROJECT AREAS – Pass-Through Agreements” for a summary of the Pass-Through Agreements. See also “SECURITY FOR THE BONDS – Tax Increment Financing” for additional discussion of the treatment of Pass-Through Agreements under the Dissolution Act.

Statutory Pass-Throughs. The payment of Statutory Pass-Through Amounts (defined in APPENDIX B) results from (i) plan amendments which add territory in existing project areas on or after January 1, 1994 and (ii) from plan amendments which eliminates one or more limitations within a redevelopment plan (such as the removal of the time limit on the establishment of loans, advances and indebtedness). The calculation of the amount due affected taxing entities is described in Sections 33607.5 and 33607.7 of the Redevelopment Law. See “THE PROJECT AREAS – Statutory Pass-Throughs” and “SECURITY FOR THE BONDS – Tax Increment Financing” for further information regarding the applicability of the statutory pass-through provisions of the Redevelopment Law and the Dissolution Act to the various sub-areas of the Project Area.

Recognized Obligation Payment Schedule. The Dissolution Act provides that, commencing on the date the first Recognized Obligation Payment Schedule is valid thereunder, only those payments listed in the Recognized Obligation Payment Schedule may be made by the Agency from the funds specified in the Recognized Obligation Payment Schedule. Before each six-month period, the Dissolution Act requires successor agencies to prepare and approve, and submit to the successor agency’s oversight board and the State Department of Finance for approval, a Recognized Obligation Payment Schedule pursuant to which enforceable obligations (as defined in the Dissolution Act) of the successor agency are listed, together with the source of funds to be used to pay for each enforceable obligation. Pledged Tax Revenues will not be distributed from the Redevelopment Property Tax Trust Fund by the County Auditor-Controller to the Agency’s Redevelopment Obligation Retirement Fund without a duly approved and effective Recognized Obligation Payment Schedule obtained in sufficient time prior to the January 2 or June 1 distribution dates, as applicable. See “SECURITY FOR THE BONDS – Recognized Obligation Payment Schedule” and “RISK FACTORS – Recognized Obligation Payment Schedule.”

State Assessed Property

AB 454 (Statutes of 1987, Chapter 921) provided a revised method of reporting and allocating property tax revenues generated from most State-assessed unitary and operating nonunitary properties commencing with Fiscal Year 1988-89. Under AB 454, each county must establish one countywide tax rate area, and the assessed value of all unitary and operating nonunitary property is assigned to this tax rate area. No other property is assigned to the countywide tax rate area. The State reports to each county auditor-controller only the countywide taxable value of each unitary or operating nonunitary property. AB 454 provides two formulas for auditor-controllers to use in order to determine the allocation of unitary and property taxes generated by the countywide value, which are: (i) for revenue generated from the 1% tax rate, each jurisdiction is to receive up to 102% of its prior year unitary and operating nonunitary property tax revenue, exclusive of revenue attributable to levies for debt service; however, if county-wide revenues generated from unitary and operating nonunitary properties, exclusive of revenue attributable to levies for debt service, are greater than 102% of prior year revenues, exclusive of revenue attributable to levies for debt service, each jurisdiction receives a percentage share of the excess unitary and operating nonunitary property tax revenues equal to the percentage of each jurisdiction’s share of secured property taxes; (ii) for revenue generated from the application of the debt service tax rate to county-wide taxable value, each jurisdiction is to 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 and operating nonunitary property taxes.

The provisions of AB 454 apply to all State-assessed property, except railroads, the valuation of which will continue to be allocated to individual tax rate areas. The provisions of AB 454 do not constitute an elimination or a revision of the method of assessing utilities by the State Board of Equalization. AB 454 allows generally valuation growth or decline of State-assessed unitary and operating nonunitary property to be shared by all jurisdictions within a county.

Effective January 1, 2007, AB 2670 changes the method of assessing unitary railroad property. Before AB 2670, the assessed value of unitary railroad property was allocated to individual tax rate areas within a county where the property is located. AB 2670 has converted this method of assessment for railroad property to the countywide system. The new method involves establishing a single countywide tax rate area within each county to which the assessed value of specified unitary property of a regulated railroad company would be allocated. Revenues derived from the tax on this value are allocated among local entities in the county pursuant to a specified formula. AB 2670 also requires, with respect to a "qualified facility" as defined in Revenue and Taxation Code Section 100.11, that 80% of the value of the facility and the revenues derived from taxing this value be allocated on a countywide basis, while the remaining 20% of this value and resulting revenues be allocated exclusively to the local rate areas in the county in which the property is located. During the 2012-13 Fiscal Year, the County Auditor-Controller remitted \$1,943 in combined unitary revenues to the Agency for the Project Areas.

Article XIII A of the State Constitution

Article XIII A limits the amount of ad valorem taxes on real property to 1% of "full cash value" of such property, as determined by the county assessor. 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." Furthermore, the "full cash value" of all real property may be increased to reflect the rate of inflation, as shown by the consumer price index, not to exceed 2% per year, or may be reduced.

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 substantial damage, destruction or other factors, and 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 other special circumstances.

Article XIII A (i) exempts from the 1% tax limitation taxes to pay debt service on (a) indebtedness approved by the voters prior to July 1, 1978 or (b) 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; (ii) requires a vote of two-thirds of the qualified electorate to impose special taxes, or certain additional ad valorem taxes; and (iii) requires the approval of two-thirds of all members of the State Legislature to change any State tax laws resulting in increased tax revenues.

The validity of Article XIII A has been upheld by both the California Supreme Court and the United States Supreme Court.

In the general election held November 4, 1986, voters of the State approved two measures, Propositions 58 and 60, which further amended Article XIII A. Proposition 58 amended Article XIII A to provide that the terms "purchase" and "change of ownership," for the purposes of determining full cash value of property under Article XIII A, do not include the purchase or transfer of (1) real property between

spouses and (2) the principal residence and the first \$1,000,000 of other property between parents and children. This amendment to Article XIII A may reduce the rate of growth of local property tax revenues.

Proposition 60 amended Article XIII A to permit the Legislature to allow persons over the age of 55 who sell their residence and buy or build another of equal or lesser value within two years in the same county, to transfer the old residence assessed value to the new residence. As a result of the Legislature's action, the growth of property tax revenues may decline.

Legislation enacted by the Legislature to implement Article XIII A provides that all taxable property is shown at full assessed value as described above. In conformity with this procedure, all taxable property value included in this Official Statement is shown at 100% of assessed value and all general tax rates reflect the \$1 per \$100 of taxable value (except as noted). Tax rates for voter-approved bonded indebtedness and pension liabilities are also applied to 100% of assessed value.

Appropriations Limitation - Article XIII B

Article XIII B limits the annual appropriations of the State and its political subdivisions 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 appropriations limit is the 1978/79 fiscal year, 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.

Section 33678 of the Redevelopment Law provides that the allocation of taxes to a redevelopment agency for the purpose of paying principal of, or interest on, loans, advances, or indebtedness shall not be deemed the receipt by an agency of proceeds of taxes levied by or on behalf of an agency within the meaning of Article XIII B, 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 purpose of the Constitution and laws of the State, including Section 33678 of the Redevelopment Law. The constitutionality of Section 33678 has been upheld in two California appellate court decisions. On the basis of these decisions, the Agency has not adopted an appropriations limit.

Articles XIII C and XIII D of the State Constitution

At the election held on November 5, 1996, Proposition 218 was passed by the voters of California. The initiative added Articles XIII C and XIII D to the State Constitution. Provisions in the two articles affect the ability of local government to raise revenues. The Bonds are secured by sources of revenues that are not subject to limitation by Proposition 218. See also "– Propositions 218 and 26" below.

Proposition 87

On November 8, 1988, the voters of the State approved Proposition 87, which amended Article XVI, Section 16 of the State Constitution to provide that property tax revenue attributable to the imposition of taxes on property within a redevelopment project area for the purpose of paying debt service on certain bonded indebtedness issued by a taxing entity (not the Prior Agency or the Agency) and approved by the voters of the taxing entity after January 1, 1989 will be allocated solely to the payment of such indebtedness and not to redevelopment agencies.

Appeals of Assessed Values

Pursuant to California law, a property owner may apply for a reduction of the property tax assessment for such owner's property by filing a written application, in a 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 to reduce the assessed value of such owner's property in any one year must submit an application to the 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 each application by the staff of the County Assessor's Office, the staff makes a recommendation to the Appeals Board on each application which has not been rejected for incompleteness or untimeliness or withdrawn. The Appeals Board holds a hearing and either reduces the assessment or confirms the assessment. 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 for fiscal years following the year for which the reduction application is filed. However, if the taxpayer establishes through proof of comparable values that the property continues to be overvalued (known as "ongoing hardship"), the Assessor has the power to grant a reduction not only for the year for which application was originally made, but also for the then current year as well. Appeals for reduction in the "base year" value of an assessment, which generally must be made within three years of the date of change in ownership or completion of new construction that determined the base year, if successful, reduce the assessment for the year in which the appeal is taken and prospectively thereafter. Moreover, in the case of any reduction in any one year of assessed value granted for "ongoing hardship" in the then current year, and also in any cases involving stipulated appeals for prior years relating to base year and personal property assessments, the property tax revenues from which Pledged Tax Revenues are derived attributable to such properties will be reduced in the then current year. In practice, such a reduced assessment may remain in effect beyond the year in which it is granted. See "THE PROJECT AREAS – Largest Taxpayers" for information regarding the assessed valuations of the top ten property owners within each Project Area.

Proposition 8

Proposition 8, approved in 1978 (California Revenue and Taxation Code Section 51(b)), provides for the assessment of real property at the lesser of its originally determined (base year) full cash value compounded annually by the inflation factor, or its full cash value as of the lien date, taking into account reductions in value due to damage, destruction, obsolescence or other factors causing a decline in market value. Reductions under this code section may be initiated by the County Assessor or requested by the property owner.

After a roll reduction is granted under this code section, the property is reviewed on an annual basis to determine its full cash value and the valuation is adjusted accordingly. This may result in further reductions or in value increases. Such increases must be in accordance with the full cash value of the property and may exceed the maximum annual inflationary growth rate allowed on other properties under Article XIII A of the State Constitution. Once the property has regained its prior value, adjusted for inflation, it once again is subject to the annual inflationary factor growth rate allowed under Article XIII A.

The Agency cannot guarantee that reductions undertaken by the County Assessor or requested by a property owner pursuant to Proposition 8 will not in the future reduce the assessed valuation of property in a Project Area and, therefore, Pledged Tax Revenues that secure the 2014 Loans or the Revenues that secure the Bonds.

Propositions 218 and 26

On November 5, 1996, California voters approved Proposition 218—Voter Approval for Local Government Taxes—Limitation on Fees, Assessments, and Charges—Initiative Constitutional Amendment. Proposition 218 added Articles XIIC and XIID to the State Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges. On November 2, 2010, California voters approved Proposition 26, the “Supermajority Vote to Pass New Taxes and Fees Act.” Proposition 26 amended Article XIIC of the California Constitution by adding an expansive definition for the term “tax,” which previously was not defined under the California Constitution. Revenues securing the Bonds are derived from property taxes which are outside the scope of taxes, assessments and property-related fees and charges which are limited by Proposition 218 and outside of the scope of taxes which are limited by Proposition 26.

Future Initiatives

Article XIIA, Article XIIB, Article XIIC and Article XIID and certain other propositions affecting property tax levies were each adopted as measures which qualified for the ballot pursuant to California's initiative process. From time to time other initiative measures could be adopted, further affecting Agency revenues or the Agency's ability to expend revenues.

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THE PROJECT AREAS

General Information

Pursuant to the Redevelopment Law, the City Council, on behalf of the Prior Agency, established two redevelopment projects within the City, both of which generate Pledged Tax Revenues which are pledged to the repayment of the 2014 Loans, and which are referred to herein collectively as the “Project Areas.” The redevelopment plan for Project No. 1 was approved by Ordinance No. 93-23 of the City adopted on December 30, 1993, and has been amended thereafter in accordance with the Redevelopment Law. The redevelopment plan for Project No. 5 was approved by Ordinance No. 188 of the City adopted on June 18, 2001, and has been amended thereafter in accordance with the Redevelopment Law. The amendments to the Redevelopment Plans are described further below under the caption “THE PROJECT AREAS – Limitations and Requirements of the Redevelopment Plans.” The redevelopment plans for the Project Areas are referred to herein collectively as the “Redevelopment Plans.”

Project No. 1

Project No. 1 was formed in 1993 to eliminate blighting conditions in the area and prevent their recurrence by providing for the planning, development, replanning, redesign, clearance, reconstruction, and rehabilitation of the Project Area, and by providing for such structures and spaces as may be appropriate or necessary in the interest of the general welfare, including without limitation, recreational and other facilities incidental or appurtenant to them. Project No. 1 consists of approximately 379 acres in four non-contiguous sub-areas. The sizes of subareas A, B, C, and E are, respectively, approximately 35 acres, 32 acres, 37 acres, and 275 acres. Existing land uses are residential, commercial, and vacant.

Project No. 5

The City Council approved Ordinance No. 188 on June 18, 2001, to designate, approve, and adopt as the City and Agency’s official Redevelopment Plan for Project No. 5 a redevelopment plan previously adopted by the County Board with respect to the County Agency’s redevelopment project formerly known as the County Agency’s Project Area No. 5-1986 (now known as the County Agency’s Interstate 215 Corridor Redevelopment Project Area.” Under the Redevelopment Law, territorial jurisdiction over territory that was previously included within a county redevelopment project area that is subsequently included within the boundaries of a new city may be transferred from the county redevelopment agency to the new city’s redevelopment agency. The County Board originally formed its Project No. 5-1986 pursuant to Ordinance No. 639 adopted on December 23, 1986, and such project area included five non-contiguous sub-areas, among which one was the Calimesa sub-area.

Subsequent to the City’s incorporation in 1990, the Agency and the County Agency entered into a Jurisdictional Transfer Agreement, dated as of June 13, 2000, pursuant to Section 33216 of the Redevelopment Law. The Jurisdictional Transfer Agreement was effective as of July 1, 1999 and provided for, among other things, assumption of all rights, powers, obligations, debts and responsibilities as to the Calimesa sub-area (now known as Project No. 5) the allocation of the Project No. 5-1986 maximum tax increment limit and the maximum outstanding bonded indebtedness limit between the County Agency (as to all non-Calimesa sub-areas) and the Agency (as to Project No. 5). The result of this transfer of territorial jurisdiction of a portion of the prior County redevelopment project area is a shared redevelopment plan, but subsequent to the date of the transfer, neither the County (or County Agency) nor the City (or the Agency) have attempted to make any amendment to the shared redevelopment plan except only as to the territory under its respective jurisdiction. Pursuant to Section 33216, any amendment of such a redevelopment plan under these circumstances of jurisdictional transfer

by the creating agency (i.e., Riverside County) must be approved by the receiving agency (i.e., Calimesa) and vice versa. To date, all such amendments have been duly approved by the other agency.

Pursuant to the terms of the Jurisdictional Transfer Agreement, Project No. 5 Tax Revenues allocated to the Agency shall be available if necessary to pay any indebtedness incurred by the County Agency prior to July 1, 1999 and secured by tax increment revenues, including but not limited to indebtedness evidenced by bonds issued by the County Agency (including any refinancing after July 1, 1999). On April 22, 2014, the County certified to the Agency and the Authority that there exists no such indebtedness, or any refinancing of any such indebtedness, which is outstanding as of the date of certification and that the County has no intention to make any attempt to pledge or otherwise encumber the Project No. 5 Tax Revenues in the future.

Project No. 5 encompasses a total of approximately 190 acres in one contiguous area. Project No. 5 is characterized by vacant, commercial, and industrial land uses. Small commercial shops are located within the Project Area, as well as a 32,000 square foot shopping center known as Crown Village Plaza, which includes two restaurants (Crown Royale Restaurant and Thai Chili), Calimesa Chambers of Commerce, News Mirror newspaper, Curves, a real estate office, a dental office, Salon Tranquility, a bakery known as Cakalious, Michelle's Books, Busy Bee Quilt Shop, Rita's Hallmark, and a motorcycle equipment and goods shop known as Buckle & Belts. Project No. 5 also includes a new shopping center on the west side of Calimesa Blvd. at the intersection of Myrtlewood Drive, which includes a Fresh & Easy Market, a Walgreen's store, several restaurants including Denny's, Subway, Tang's Chinese, and a Carl's Jr. / Green Burrito, as well as various retail shops. Also within Project No. 5 is a light industrial company, Skat-Trak, that makes custom tires and exhaust for off-road vehicles and water sport motor crafts. A multi-acre light industrial complex is also located within Project No. 5.

Limitations and Requirements of the Redevelopment Plans

In 1993, the State legislature passed AB 1290, which, among other things, required redevelopment agencies to adopt time limits in each redevelopment plan specifying: 1) the last date to incur debt for a redevelopment project; 2) the last date to undertake redevelopment activity within a project area; and 3) the last date to collect tax increment revenue from a project area to repay debt.

In order to comply with AB 1290, the City adopted Ordinance No. 94-17 on December 19, 1994 with respect to the Project No. 1, and the County Board adopted its Ordinance No. 750 on November 29, 1994 with respect to Project No. 5.

In 2001, the California Legislature enacted SB 211, Chapter 741, Statutes of 2001, effective January 1, 2002 ("SB 211"). Among other things, SB 211 provides that at any time after January 1, 2002, the limitation on incurring indebtedness contained in a redevelopment plan adopted prior to January 1, 1994, may be eliminated by ordinance of the legislative body. However, such elimination triggered statutory tax sharing with those taxing entities that do not have Pass-Through Agreements. Tax sharing is calculated based on the increase in assessed valuation after the year in which the limitation would otherwise have become effective. Amounts payable to taxing agencies under the AB 1290 formula are to be computed after deducting the 20% amount (the "Housing Set-Aside Amount") attributable to the increase in assessed valuation. The Housing Set-Aside Amount was required under the Redevelopment Law prior to enactment of the Dissolution Act to be set aside by the Agency into a separate fund and used for low and moderate income housing attributable to the increase in assessed valuation. On November 5, 2007, the City Council adopted Ordinance No. 274 with respect to Project No. 5, respectively, which pursuant to SB 211 eliminated the limitation on incurring indebtedness contained in the Redevelopment Plan (previously December 23, 2006).

The actions taken by the City Council to date have resulted in the time limitations set forth in the following table, with respect to each Project Area:

**Calimesa Project Areas
Redevelopment Plan Limitations**

| Project Area | Maximum Tax Increment ⁽¹⁾ | Maximum Bonded Debt | Last Date to Incur Debt | Plan Termination Date | Last Date to Receive Prop. Taxes/Pay Debt |
|---------------|--------------------------------------|-----------------------------|---------------------------|-----------------------|---|
| Project No. 1 | \$175,000,000 ⁽²⁾ | \$17,500,000 ⁽³⁾ | 12/30/2013 ⁽⁴⁾ | 12/30/2033 | 12/30/2043 |
| Project No. 5 | 57,165,356 | 6,152,400 | Eliminated | 12/23/2026 | 12/23/2036 ⁽⁵⁾ |

- (1) In the DOF Santa Cruz Letter (as defined below), the State Department of Finance stated its position and advice to county auditor-controllers to not apply tax increment caps to bar payment of enforceable obligations approved by the State Department of Finance, unless the tax increment cap had been reached prior to the enactment of AB X1 26 in June 2011. The Authority and the Agency cannot provide any assurance that a court would concur with, or uphold, this position if a lawsuit were filed to challenge it. In addition, from time to time, the State Department of Finance changes its guidance without notice.
- (2) With respect to Project No. 1, the maximum tax increment limit is set forth in 1993 value dollars and, pursuant to the Redevelopment Plan for Project No. 1, adjusted annually in accordance with the Consumer Price Index for the nearest area to the Project Area. The adjusted maximum tax increment limit for Project No. 1, including the annual adjustment for 2014, is \$286,167,993.
- (3) With respect to Project No. 1, the maximum bonded debt limit is set forth in 1993 value dollars and, pursuant to the Redevelopment Plan for Project No. 1, adjusted annually in accordance with the Consumer Price Index for the nearest area to the Project Area. The adjusted maximum bonded debt limit for Project No. 1, including the annual adjustment for 2014, is \$28,616,799.
- (4) Ordinance No. 94-17, which established the December 30, 2013 time limit on the last date to incur debt in Project No. 1, specifies that this time limit shall not prevent the Agency from refinancing, refunding, or restructuring indebtedness after the time limit if the indebtedness is not increased and the time during which the indebtedness is to be repaid does not exceed the date on which the indebtedness would have been paid. As required by Section 34177.5 of the Dissolution Act, the principal and interest to maturity on each 2014 Loan is less than the remaining principal and interest to maturity on the corresponding 2008 Loan being refinanced. The maturity dates of the 2014 Loans are the same as the corresponding maturity dates of the 2008 Loans being refinanced.
- (5) The right to receive property taxes with respect to Project No. 5 terminates prior to the final maturity of the Bonds. See “RISK FACTORS – Time Limits on Receiving Tax Increment Revenues.”

Source: Successor Agency to the Calimesa Redevelopment Agency

On April 2, 2014, the State Department of Finance issued a letter (the “DOF Santa Cruz Letter”) to the County Auditor-Controller for the County of Santa Cruz, in response to a request for clarification concerning the position of the State Department of Finance on the applicability of tax increment caps (i.e., the maximum tax increment allocable to a redevelopment agency under its redevelopment plan). In the DOF Santa Cruz Letter, the State Department of Finance stated its position and advice to county auditor-controllers to not apply tax increment caps to bar payment of enforceable obligations approved by the State Department of Finance, unless the tax increment cap had been reached prior to the enactment of AB X1 26 in June 2011. The Authority and the Agency cannot provide any assurance that a court would concur with, or uphold, the position of the State Department of Finance in the DOF Santa Cruz Letter if a lawsuit were filed to challenge this position. In addition, from time to time, the State Department of Finance changes its guidance without notice. As of the date of this Official Statement, the Agency has received approximately \$2,202,942 in tax increment revenues from Project No. 1 and approximately \$8,575,530 in tax increment revenues from Project No. 5. In any event, based on the estimated debt service for the 2014 Loans (and therefore, the Bonds) and the projections of Pledged Tax Revenues prepared by its financial advisor (see “PLEDGED REVENUES – Projected Taxable Valuation and Pledged Tax Revenues” and “APPENDIX G – FINANCIAL ADVISOR’S REPORT), the Agency believes that the maximum tax increment plan limit for either Project Area will not be reached during the term in which Bonds are scheduled to be outstanding.

As shown in the “Redevelopment Plan Limitations” table above, the maximum tax increment plan limit is a separate Redevelopment Plan limitation than the plan limit for the last date to receive property taxes. For further discussion of the plan limit for the last date to receive property taxes, please

see footnote (4) in the Redevelopment Plan Limitations” table above and “RISK FACTORS – Time Limits on Receiving Tax Increment Revenues.”

Pass-Through Agreements

The Agency has entered into tax increment sharing agreements (“Pass-Through Agreements”) with several taxing entities which require that a portion of tax increment be allocated to such taxing entity on a basis senior to the payment of any indebtedness of the Agency. Such tax increment sharing agreements are listed as follows.

Project No. 1

The Agency has entered into eleven (11) Pass-Through Agreements for allocation and distribution of tax increment revenues with respect to the Project No. 1 as follows:

- *Beaumont Library District.* Pursuant to its agreement with the Beaumont Library District, the Agency is to pay to the library district 100% of the district’s share of tax increment (currently 0% of the Project No. 1 basic tax levy).
- *Beaumont Cemetery District.* Pursuant to its agreement with the Beaumont Cemetery District (now known as Summit Cemetery District), the cemetery district is to receive 100% of the district’s share of tax increment (currently 1.97% of the Project No. 1 basic tax levy).
- *Beaumont Unified School District.* Pursuant to its agreement with the Beaumont Unified School District, the Agency is to pay to the school district an amount equal to 50% of the district’s share of tax increment (currently 2.95% of the Project No. 1 basic tax levy).
- *Mt. San Jacinto Community College District.* Pursuant to its agreement with the Mt. San Jacinto Community College District, the Agency is to pay to the college district an amount equal to 50% of the district’s share of tax increment (currently 0.27% of the Project No. 1 basic tax levy).
- *Riverside County Flood Control and Water Conservation District.* Pursuant to its agreement with the Riverside County Flood Control and Water Conservation District, 100% of the district’s share is allocated for district uses (currently 5.40% of the Project No. 1 basic tax levy). (The Agency is to pay to the district 50% of the district’s share of tax increment revenues, but the remaining 50% retained by the Agency must be paid into a special fund of the Agency for the sole purpose of funding district Master Drainage Plan facilities (or substitute facilities approved by the district) which benefit Project No. 1 and at the direction of and under the supervision of the district.)
- *Riverside County Superintendent of Schools.* The Agency annually pays the district an amount equal to 60% of the district’s share of tax increment revenues (currently 2.77% of the Project No. 1 basic tax levy).
- *San Bernardino Community College District.* Each Fiscal Year, the Agency pays to the college district an amount equal to 50% of the district’s share of tax increment (currently 4.80% of the Project No. 1 basic tax levy).
- *San Geronio Pass Memorial Hospital.* The hospital is to receive 100% of its share of tax increment (currently 0.09% of the Project No. 1 basic tax levy).

- *San Gorgonio Pass Water Agency.* The district annually receives 50% of its share of tax increment (currently 5.55% of the Project No. 1 basic tax levy).
- *Yucaipa/Calimesa Unified School District.* The district annually receives 40% of its share of tax increment (currently 33.74% of the Project No. 1 basic tax levy).
- *Yucaipa Valley Water District.* The district annually receives 100% of its share of tax increment (currently 5.03% of the Project No. 1 basic tax levy).

Project No. 5

The Agency has entered into seven (7) Pass-Through Agreements for allocation and distribution of tax increment revenues with respect to the Project No. 5 as follows:

- *Beaumont Cemetery District.* Pursuant to its agreement with the Beaumont Cemetery District (now known as Summit Cemetery District), the cemetery district is to receive 100% of the district’s share of tax increment (currently 2.02% of the Project No. 5 basic tax levy).
- *Riverside County Flood Control and Water Conversation District.* The Riverside County Flood Control and Water Conservation District is paid annually 100% of its share of tax increment (currently 5.55% of the Project No. 5 basic tax levy).
- *Riverside County Superintendent of Schools.* The District is to be paid annually an amount equal to 29.62% of the district’s share of tax increment revenues (currently 2.77% of the Project No. 5 basic tax levy).
- *San Bernardino Community College District.* Each Fiscal Year, the college district is to be paid 29.62% of the district’s share of tax increment (currently 5.31% of the Project No. 5 basic tax levy).
- *San Gorgonio Pass Water Agency.* The district annually receives 100% of its share of tax increment (currently 5.67% of the Project No. 5 basic tax levy).
- *Yucaipa/Calimesa Unified School District.* The district annually receives 29.62% of its share of tax increment (currently 37.39% of the Project No. 5 basic tax levy).
- *Yucaipa Valley Water District.* The district annually receives 100% of its share of tax increment (currently 3.20% of the Project No. 5 basic tax levy).

See “PLEGGED REVENUES—Projected Taxable Valuation and Pledged Tax Revenues” herein for a depiction of the effects of the Pass-Through Agreements from both Project Areas upon net Pledged Tax Revenues available for debt service on the 2014 Loans, and therefore, on the Bonds.

Statutory Pass-Throughs

The enactment of AB 1290, effective in 1994, amended the Redevelopment Law to establish a statutory formula (“Statutory Tax Sharing”) for the distribution of future tax increments to other taxing agencies who collect taxes from a redevelopment project area (“Statutory Pass-Through Amounts”), to the extent no Pass-Through Agreement was entered into between the Prior Agency and such taxing agency prior to January 1, 1994. Statutory Tax Sharing applies to, among other things, a redevelopment plan adopted prior to January 1, 1994 that was amended subsequent to that date to increase or eliminate

the time limit on establishing loans, advances, and indebtedness (i.e., Project No. 5). The effect of the application of the Statutory Tax Sharing statutes is that Project No. 5 is subject to Statutory Tax Sharing with taxing agencies for which no Pass-Through Agreement was entered into prior January 1, 1994.

As to Project No. 5, Statutory Tax Sharing requires a redevelopment agency to pay to affected taxing agencies aggregate amounts from tax increment (which are allocated to such agencies in proportion to the percentage share of property taxes of each affected taxing agency) as follows:

- (a) commencing with the “first fiscal year” (as defined below) continuing through the last fiscal year in which the agency receives tax increments from the redevelopment project area, an amount equal to 25% of tax increment revenues received by the agency from the redevelopment project area after the amount required to be deposited in the Low and Moderate Income Housing Fund has been deducted;
- (b) in addition to amounts payable as described in (a) above and after the amount required to be deposited in the Low and Moderate Income Housing Fund has been deducted, commencing in the 11th fiscal year (as determined below) and continuing through the last fiscal year in which the agency receives tax increments from the redevelopment project area, an amount equal to 21% of tax increment revenues received by the agency from the redevelopment project area, calculated by applying the tax rate against the amount of assessed value by which the current fiscal year assessed value exceeds the assessed value of the redevelopment project area in the 10th fiscal year in which the agency receives tax increments from such redevelopment project area; and
- (c) in addition to amounts payable as described in (a) and (b) above and after the amount required to be deposited in the Low and Moderate Income Housing Fund has been deducted, commencing in the 31st fiscal year (as determined below) and continuing through the last fiscal year in which the agency receives tax increments from the redevelopment project area, an amount equal to 14% of tax increment revenues received by the agency from the redevelopment project area, calculated by applying the tax rate against the amount of assessed value by which the current fiscal year assessed value exceeds the assessed value of the redevelopment project area in the 30th fiscal year in which the agency receives tax increments from such redevelopment project area.

For the purposes of such calculations, (i) the “first fiscal year” shall be the first fiscal year following the fiscal year in which the limitation being amended would have taken effect without the amendment or, if more than one limitation is being amended, the first year in which one or more of the limitations would have taken effect without the amendment (the “Adjusted Base Year”), and (ii) the amounts calculated shall be calculated against the amount of assessed value by which the current year assessed value exceeds the Adjusted Base Year assessed value.

The City Council adopted Ordinance No. 274 on November 5, 2007 to eliminate the time limit to incur indebtedness (previously December 23, 2006) for Project No. 5 pursuant to SB 211. Accordingly, Statutory Tax Sharing payments with respect taxing agencies for which no Pass-Through Agreements were entered into commenced in Fiscal Year 2008-09 pursuant to Section 33607.7, except for the City. There is no Statutory Tax Sharing with respect to Project No. 1.

Under the Dissolution Act, the Agency is no longer responsible for the payment of Statutory Pass-Through Amounts. Instead, the Dissolution Act requires the County Auditor-Controller to distribute from the Redevelopment Property Tax Trust Fund amounts required to be distributed for Statutory Pass-Through Amounts to the taxing entities for each six-month period before amounts are distributed by the County Auditor-Controller from the Redevelopment Property Tax Trust Fund to the Agency’s Redevelopment Obligation Retirement Fund each January 2 and June 1.

The Dissolution Act provides for a procedure by which the Agency may make Statutory Pass-Through Amounts subordinate to the 2014 Loans; however, the Agency has determined not to undertake such procedure, and therefore, Statutory Pass-Through Amounts are not subordinate to the 2014 Loans.

See “PLEDGED REVENUES—Projected Taxable Valuation and Pledged Tax Revenues” herein.

Land Uses in Project Areas

Land use for fiscal year 2013-14 in the Project Areas are shown in the following tables.

**CALIMESA REDEVELOPMENT PROJECT AREA NO. 1
Assessed Valuation and Parcels by Land Use
Fiscal Year 2013-14**

| Land Use | Number of Parcels | 2013-14 Secured Assessed Valuation | Percent of Secured Assessed Valuation |
|---------------------------|-------------------|------------------------------------|---------------------------------------|
| Commercial | 46 | \$23,972,819 | 64.51% |
| Single Family Residential | 53 | 6,583,057 | 17.71 |
| Vacant Agricultural | 9 | 3,437,649 | 9.25 |
| Vacant Residential | 17 | 1,579,686 | 4.25 |
| Miscellaneous | 12 | 961,719 | 2.59 |
| Multifamily Residential | 4 | 627,440 | 1.69 |
| Government | 7 | 4 | 0.00 |
| Total: | 148 | \$37,162,374 | 100.0% |

Source: Urban Futures, Inc. with information from the Riverside County 2013-14 Secured Property Tax Roll.

**CALIMESA REDEVELOPMENT PROJECT AREA NO. 5
Assessed Valuation and Parcels by Land Use
Fiscal Year 2013-14**

| Land Use | Number of Parcels | 2013-14 Secured Assessed Valuation | Percent of Secured Assessed Valuation |
|---------------------------|-------------------|------------------------------------|---------------------------------------|
| Commercial | 120 | \$64,406,573 | 89.03% |
| Single Family Residential | 53 | 4,891,358 | 6.76 |
| Multifamily Residential | 12 | 2,754,626 | 3.81 |
| Vacant Residential | 5 | 236,372 | 0.33 |
| Miscellaneous | 6 | 49,871 | 0.07 |
| Government | 5 | 1,151 | 0.00 |
| Total: | 201 | \$72,339,951 | 100.0% |

Source: Urban Futures, Inc. with information from the Riverside County 2013-14 Secured Property Tax Roll.

Largest Taxpayers

Set forth below are the ten largest taxpayers in Project No. 1 and Project No. 5, respectively, based on the 2013-14 secured property tax roll.

CALIMESA REDEVELOPMENT PROJECT AREA NO. 1 Ten Largest Secured Property Taxpayers 2013-14 Fiscal Year

| Property Owner | Land Use | 2013-14 Secured Assessed Valuation | % of Total ⁽¹⁾ |
|-----------------------------------|--------------|---------------------------------------|------------------------------|
| 1.Stater Bros Market | Commercial | \$ 5,283,521 | 14.22% |
| 2.San Gorgonio Land | Agricultural | 2,674,867 | 7.20 |
| 3.Oak Valley Partners | Commercial | 2,649,174 | 7.13 |
| 4.McDonalds Corp | Commercial | 2,278,877 | 6.13 |
| 5.Monte Vista Medical Center | Commercial | 1,963,826 | 5.28 |
| 6.Masini Kelly Ann | Commercial | 1,836,535 | 4.94 |
| 7.Saba Partners Inc | Agricultural | 1,702,273 | 4.58 |
| 8.Calimesa Plaza | Commercial | 1,312,513 | 3.53 |
| 9.Patel Vibhakerbhaib | Commercial | 1,259,310 | 3.39 |
| 10.Rowland Heights Mobile Estates | Commercial | <u>1,256,428</u> | <u>3.38</u> |
| Total | | <u>\$22,217,324</u> | <u>59.78%</u> |

(1) Based on fiscal year 2013-14 total Project No. 1 secured assessed valuation of \$37,162,374.

Source: Compiled by Urban Futures, Inc. from the Riverside County 2013-14 Secured Property Tax Roll.

CALIMESA REDEVELOPMENT PROJECT AREA NO. 5 Ten Largest Secured Property Taxpayers 2013-14 Fiscal Year

| Property Owner | Land Use | 2013-14 Secured Assessed Valuation | % of Total ⁽¹⁾ |
|---|------------|---------------------------------------|------------------------------|
| 1.Redus One | Commercial | \$7,259,962 | 10.04% |
| 2.Walgreen Co. | Commercial | 5,947,238 | 8.22 |
| 3.5th Street Business Park | Commercial | 4,286,191 | 5.93 |
| 4.Learned Perry LP | Commercial | 2,982,791 | 4.12 |
| 5.Atlas Storage | Commercial | 2,652,000 | 3.67 |
| 6.Avakian Joseph L | Commercial | 2,407,564 | 3.33 |
| 7.Fresh & Easy Neighborhood Markets Inc | Commercial | 2,226,916 | 3.08 |
| 8.Maingot William George | Commercial | 2,221,152 | 3.07 |
| 9.Tsai Yun Chih | Commercial | 2,010,080 | 2.78 |
| 10.Jack in the Box | Commercial | <u>1,769,505</u> | <u>2.45</u> |
| Total | | <u>\$33,763,399</u> | <u>46.67%</u> |

(1) Based on fiscal year 2013-14 total Project No. 5 secured assessed valuation of \$72,339,951.

Source: Compiled by Urban Futures, Inc. from the Riverside County 2013-14 Secured Property Tax Roll.

Appeals

As previously discussed under “PROPERTY TAXATION IN CALIFORNIA – Appeals of Assessed Values,” property owners may apply for a reduction of their property tax assessment 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.

From August 1, 2007 through April 1, 2014, 43 appeals were filed by property owners with respect to assessed values of their respective parcels in Project No. 1. The aggregate assessed value of the properties subject to such appeals was \$34,873,315. Collectively, the appeals filed during this period requested reductions in assessed values in a total amount of \$17,607,788, of which amount a reduction of \$281,774, in the aggregate (amounting to 1.60% of the requested reductions and pertaining to 2 successful appeals), was allowed by the State Board of Equalization.

From August 1, 2007 through April 1, 2014, 28 appeals were filed by property owners with respect to assessed values of their respective parcels in Project No. 5. The aggregate assessed value of the properties subject to such appeals was \$47,002,621. Collectively, the appeals filed during this period requested reductions in assessed values in a total amount of \$23,181,167, of which amount a reduction of \$357,638, in the aggregate (amounting to 1.54% of the requested reductions and pertaining to 2 successful appeals), was allowed by the State Board of Equalization.

Currently, there are 16 outstanding assessed valuation appeals with respect to parcels located in Project No. 1 and 17 outstanding assessed valuation appeals with respect to parcels located in Project No. 5. The aggregate assessed value of the properties in Project No. 1 currently subject to such appeals is \$9,235,220, and collectively, the appeals have requested reductions in assessed values in a total amount of \$3,867,678. The aggregate assessed value of the properties in Project No. 5 currently subject to such appeals is \$43,057,322, and collectively, the appeals have requested reductions in assessed values in a total amount of \$18,886,157. The Authority and the Agency have no way of knowing the outcome of these appeals or their effect on the valuation in the Project Areas.

See “APPENDIX G – FINANCIAL ADVISOR’S REPORT,” for further details regarding the appeals historical and currently outstanding assessment appeals with respect to property located within the Project Areas.

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PLEGGED REVENUES

Pledged Tax Revenues (as described in the section “SECURITY FOR THE BONDS” herein) are to be deposited by the Agency in the Redevelopment Obligation Retirement Fund, and thereafter transferred by the Agency to the Authority for deposit in the respective Bond Funds established under the 2014 Loan Agreements. Monies deposited into such Bond Funds are thereafter transferred by the Authority to the Trustee for deposit in the Revenue Fund established under the Indenture and administered by the Trustee and applied to the payment of the principal of and interest on the Bonds.

Schedules of Historical Incremental Revenues

The following tables are schedules of the taxable valuations and resulting incremental revenues in each Project Area for the Fiscal Years 2010-11 through 2013-14.

Calimesa Redevelopment Project Area No. 1 Assessed Valuation and Incremental Revenues

| | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
|----------------------------------|--------------|---------------------------|---------------------------|---------------------------|
| Assessed Valuation (AV) | \$38,090,573 | \$38,791,114 | \$39,639,590 | \$40,074,510 |
| Base Year Value | (18,860,692) | (18,860,692) | (18,860,692) | (18,860,692) |
| Incremental Value | \$19,229,881 | \$19,930,422 | \$20,778,898 | \$21,213,818 |
| Estimated Incremental Revenues | \$ 228,739 | \$ 199,304 ⁽¹⁾ | \$ 207,789 ⁽¹⁾ | \$ 212,138 ⁽¹⁾ |
| Base Year as a % of Current AV | 49.52% | 48.62% | 47.58% | 47.06% |
| Housing Set-Aside ⁽²⁾ | \$ (45,748) | \$ (39,861) | -- | -- |
| County Administration Fees | (2,996) | (2,522) | \$ (2,522) | \$ (2,779) |
| Pass-Throughs ⁽³⁾ | (101,636) | (88,557) | (92,327) | (94,259) |
| Net Available for Debt Service | \$ 78,359 | \$ 68,365 | \$ 112,940 | \$ 115,100 |

(1) Estimated based on a 1.00% property tax rate, per AB 1484. Rate prior to the implementation of AB 1484 was approximately 1.19%

(2) Per AB 1484, the Successor Agency is no longer required to set aside tax revenues for housing purposes in 2012-13 and thereafter.

(3) See “THE PROJECT AREAS – Pass-Through Agreements” and “– Statutory Pass-Throughs.”

Source: Urban Futures, Inc.

Calimesa Redevelopment Project Area No. 5 Assessed Valuation and Incremental Revenues

| | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
|----------------------------------|--------------|---------------------------|---------------------------|---------------------------|
| Assessed Valuation (AV) | \$77,627,565 | \$78,162,044 | \$80,983,059 | \$85,570,011 |
| Base Year Value | (16,364,744) | (16,364,744) | (16,364,744) | (16,364,744) |
| Incremental Value | \$61,262,821 | \$61,797,300 | \$64,618,315 | \$69,205,267 |
| Estimated Incremental Revenues | \$ 728,721 | \$ 617,973 ⁽¹⁾ | \$ 646,183 ⁽¹⁾ | \$ 692,053 ⁽¹⁾ |
| Base Year as a % of Current AV | 21.08% | 20.94% | 20.21% | 19.12% |
| Housing Set-Aside ⁽²⁾ | \$ (145,744) | \$ (123,595) | -- | -- |
| County Administration Fees | (9,546) | (7,857) | \$ (7,857) | \$ (9,066) |
| Pass-Throughs ⁽³⁾ | (234,683) | (202,041) | (213,020) | (230,870) |
| Net Available for Debt Service | \$ 338,748 | \$ 284,480 | \$ 425,306 | \$ 452,117 |

(1) Estimated based on a 1.00% property tax rate, per AB 1484. Rate prior to the implementation of AB 1484 was approximately 1.19%

(2) Per AB 1484, the Successor Agency is no longer required to set aside tax revenues for housing purposes in 2012-13 and thereafter.

(3) See “THE PROJECT AREAS – Pass-Through Agreements” and “– Statutory Pass-Throughs.”

Source: Urban Futures, Inc.

Projected Taxable Valuation and Pledged Tax Revenues

The Authority has retained Urban Futures, Inc. of Orange, California to provide projections of taxable valuation and Pledged Tax Revenues the property in the Project Areas. The Authority and the Agency believe the assumptions (set forth in the footnotes below and “APPENDIX G – FINANCIAL ADVISOR’S REPORT”) upon which the projections are based are reasonable; however, some assumptions may not materialize and unanticipated events and circumstances may occur (see “RISK FACTORS”). Therefore, the actual Pledged Tax Revenues received during the forecast period may vary from the projections and the variations may be material. Summaries of the projected taxable valuation and projected Pledged Tax Revenues to be derived from each Project Area are as follows:

Calimesa Redevelopment Project Area No. 1 Projected Taxable Valuation and Pledged Tax Revenues

| Fiscal Year Ended | Taxable Assessed Valuation ⁽¹⁾ | Gross Pledged Tax Revenues ⁽¹⁾ | County Admin. Fees | Pass-Through Agreements | Net Pledged Tax Revenues Available for Debt Service ⁽²⁾ |
|--------------------------|--|--|---------------------------|--------------------------------|---|
| 2014 | \$40,074,510 | \$212,138 | \$2,779 | \$ 94,259 | \$115,100 |
| 2015 | 40,876,000 | 220,153 | 2,884 | 97,821 | 119,448 |
| 2016 | 41,693,520 | 228,328 | 2,991 | 101,453 | 123,884 |
| 2017 | 42,527,391 | 236,667 | 3,100 | 105,158 | 128,408 |
| 2018 | 43,377,938 | 245,172 | 3,212 | 108,937 | 133,023 |
| 2019 | 44,245,497 | 253,848 | 3,325 | 112,792 | 137,730 |
| 2020 | 45,130,407 | 262,697 | 3,441 | 116,724 | 142,532 |
| 2021 | 46,033,015 | 271,723 | 3,560 | 120,735 | 147,429 |
| 2022 | 46,953,676 | 280,930 | 3,680 | 124,826 | 152,424 |
| 2023 | 47,892,749 | 290,321 | 3,803 | 128,998 | 157,519 |
| 2024 | 48,850,604 | 299,899 | 3,929 | 133,254 | 162,716 |
| 2025 | 49,827,616 | 309,669 | 4,057 | 137,595 | 168,017 |
| 2026 | 50,824,168 | 319,635 | 4,187 | 142,023 | 173,424 |
| 2027 | 51,840,652 | 329,800 | 4,320 | 146,540 | 178,939 |
| 2028 | 52,877,465 | 340,168 | 4,456 | 151,147 | 184,565 |
| 2029 | 53,935,014 | 350,743 | 4,595 | 155,846 | 190,303 |
| 2030 | 55,013,714 | 361,530 | 4,736 | 160,639 | 196,155 |
| 2031 | 56,113,989 | 372,533 | 4,880 | 165,528 | 202,125 |
| 2032 | 57,236,269 | 383,756 | 5,027 | 170,514 | 208,214 |
| 2033 | 58,380,994 | 395,203 | 5,177 | 175,601 | 214,425 |
| 2034 | 59,548,614 | 406,879 | 5,330 | 180,789 | 220,760 |
| 2035 | 60,739,586 | 418,789 | 5,486 | 186,080 | 227,222 |
| 2036 | 61,954,378 | 430,937 | 5,645 | 191,478 | 233,813 |
| 2037 | 63,193,465 | 443,328 | 5,808 | 196,984 | 240,536 |
| 2038 | 64,457,335 | 455,966 | 5,973 | 202,600 | 247,394 |

(1) Commencing Fiscal Year 2014-15, based on projected 2% annual assessed valuation growth over Fiscal Year 2013-14 actual assessed valuation and projected 2% assessed valuation growth annually thereafter.

(2) Based on the columns “Gross Pledged Tax Revenues,” less “County Admin. Fees,” and “Pass-Through Agreements.”

**Calimesa Redevelopment Project Area No. 5
Projected Taxable Valuation and Pledged Tax Revenues**

| Fiscal Year Ended | Taxable Assessed Valuation ⁽¹⁾ | Gross Pledged Tax Revenues ⁽¹⁾ | County Admin. Fees | Statutory Pass-Throughs | Pass-Through Agreements | Net Pledged Tax Revenues Available for Debt Service ⁽²⁾ |
|--------------------------|--|--|---------------------------|--------------------------------|--------------------------------|---|
| 2014 | \$ 85,570,011 | \$ 692,053 | \$ 9,066 | \$23,890 | \$206,981 | \$452,117 |
| 2015 | 87,281,411 | 709,167 | 9,290 | 25,431 | 212,099 | 462,346 |
| 2016 | 89,027,039 | 726,623 | 9,519 | 27,004 | 217,320 | 472,781 |
| 2017 | 90,807,580 | 744,428 | 9,752 | 28,607 | 222,645 | 483,424 |
| 2018 | 92,623,732 | 762,590 | 9,990 | 30,243 | 228,077 | 494,280 |
| 2019 | 94,476,206 | 781,115 | 10,233 | 33,314 | 233,617 | 503,951 |
| 2020 | 96,365,731 | 800,010 | 10,480 | 36,445 | 239,269 | 513,816 |
| 2021 | 98,293,045 | 819,283 | 10,733 | 39,640 | 245,033 | 523,878 |
| 2022 | 100,258,906 | 838,942 | 10,990 | 42,898 | 250,912 | 534,141 |
| 2023 | 102,264,084 | 858,993 | 11,253 | 46,221 | 256,910 | 544,610 |
| 2024 | 104,309,366 | 879,446 | 11,521 | 49,611 | 263,027 | 555,287 |
| 2025 | 106,395,553 | 900,308 | 11,794 | 53,069 | 269,266 | 566,179 |
| 2026 | 108,523,464 | 921,587 | 12,073 | 56,596 | 275,630 | 577,288 |
| 2027 | 110,693,934 | 943,292 | 12,357 | 60,193 | 282,122 | 588,620 |
| 2028 | 112,907,812 | 965,431 | 12,647 | 63,863 | 288,743 | 600,178 |
| 2029 | 115,165,969 | 988,012 | 12,943 | 67,605 | 295,497 | 611,967 |
| 2030 | 117,469,288 | 1,011,045 | 13,245 | 71,423 | 302,386 | 623,992 |
| 2031 | 119,818,674 | 1,034,539 | 13,552 | 75,317 | 309,412 | 636,258 |
| 2032 | 122,215,047 | 1,058,503 | 13,866 | 79,288 | 316,579 | 648,769 |
| 2033 | 124,659,348 | 1,082,946 | 14,187 | 83,340 | 323,890 | 661,530 |
| 2034 | 127,152,535 | 1,107,878 | 14,513 | 87,472 | 331,346 | 674,546 |
| 2035 | 129,695,586 | 1,133,308 | 14,846 | 91,687 | 338,952 | 687,823 |
| 2036 | 132,289,497 | 1,159,248 | 15,186 | 95,986 | 346,710 | 701,365 |
| 2037 ⁽³⁾ | -- | -- | -- | -- | -- | -- |
| 2038 ⁽³⁾ | -- | -- | -- | -- | -- | -- |

- (1) Commencing Fiscal Year 2014-15, based on projected 2% annual assessed valuation growth over Fiscal Year 2013-14 actual assessed valuation and projected 2% assessed valuation growth annually thereafter.
- (2) Based on the columns “Gross Pledged Tax Revenues,” less “County Admin. Fees,” “Statutory Pass-Throughs,” and “Pass-Through Agreements.”
- (3) The right to receive property taxes with respect to Project No. 5 terminates prior to the final maturity of the Bonds. See “RISK FACTORS – Time Limits on Receiving Tax Increment Revenues.”

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Annual Debt Service

Set forth below is the annual debt service (assuming scheduled sinking fund payments) for the term of the Bonds.

**Calimesa Financing Authority
Tax Allocation Refunding Revenue Bonds
(Calimesa Redevelopment Project No. 1 and Project No. 5)
Series 2014
Annual Debt Service***

| Maturity Date (December 1 of) | Principal | Interest | Total Debt Service |
|--|------------------------------|------------------------------|-----------------------------------|
| 2014 | \$ 155,000.00 | \$ 64,234.27 | \$ 219,234.27 |
| 2015 | 90,000.00 | 124,797.00 | 214,797.00 |
| 2016 | 90,000.00 | 123,735.00 | 213,735.00 |
| 2017 | 95,000.00 | 122,115.00 | 217,115.00 |
| 2018 | 95,000.00 | 120,044.00 | 215,044.00 |
| 2019 | 100,000.00 | 117,602.50 | 217,602.50 |
| 2020 | 95,000.00 | 114,792.50 | 209,792.50 |
| 2021 | 105,000.00 | 111,733.50 | 216,733.50 |
| 2022 | 110,000.00 | 107,985.00 | 217,985.00 |
| 2023 | 110,000.00 | 103,750.00 | 213,750.00 |
| 2024 | 115,000.00 | 99,273.00 | 214,273.00 |
| 2025 | 120,000.00 | 94,431.50 | 214,431.50 |
| 2026 | 125,000.00 | 89,199.50 | 214,199.50 |
| 2027 | 135,000.00 | 83,587.00 | 218,587.00 |
| 2028 | 135,000.00 | 77,390.50 | 212,390.50 |
| 2029 | 145,000.00 | 71,032.00 | 216,032.00 |
| 2030 | 150,000.00 | 63,695.00 | 213,695.00 |
| 2031 | 160,000.00 | 56,105.00 | 216,105.00 |
| 2032 | 170,000.00 | 48,009.00 | 218,009.00 |
| 2033 | 175,000.00 | 39,407.00 | 214,407.00 |
| 2034 | 185,000.00 | 30,552.00 | 215,552.00 |
| 2035 | 195,000.00 | 20,636.00 | 215,636.00 |
| 2036 | 60,000.00 | 10,184.00 | 70,184.00 |
| 2037 | 65,000.00 | 6,968.00 | 71,968.00 |
| 2038 | 65,000.00 | 3,484.00 | 68,484.00 |
| Total | <u>\$3,045,000.00</u> | <u>\$1,904,742.27</u> | <u>\$4,949,742.27</u> |

* Preliminary; subject to change.

Debt Service Coverage – 2014 Loans

The projected debt service coverage for the 2014 Loans, and therefore, on the Bonds, for the Bond Years ending December 1, 2014 through December 1, 2038 is set forth in the following table, based on two growth scenarios for assessed valuation within the Project Areas: (i) annual projected growth in assessed valuation of 2% in 2014-15 and 2% annually thereafter, and (ii) no growth in assessed valuation of the Project Areas from 2013-14 assessed valuation (see “PLEDGED REVENUES – Projected Taxable Valuation and Pledged Tax Revenues” and “APPENDIX G – FINANCIAL ADVISOR’S REPORT”).

Projected Debt Service Coverage on 2014 Loans and Bonds

| Bond Year Ending December 1 | Projected Net Pledged Tax Revenues Derived from Project No. 1 ⁽¹⁾ | Projected Net Pledged Tax Revenues Derived from Project No. 5 ⁽¹⁾ | Projected Total Net Pledged Tax Revenues ⁽¹⁾ | 2014 Project No. 1 Loan Debt Service ^{(2)*} | 2014 Project No. 5 Loan Debt Service ^{(2)*} | Total Debt Service on 2014 Loans / Bonds ^{(3)*} | Projected Debt Service Coverage on 2014 Loans / Bonds (Growth Scenario) ^{(4)*} | Projected Debt Service Coverage on 2014 Loans / Bonds (No-Growth Scenario) ^{(5)*} |
|-----------------------------------|--|--|--|--|--|---|---|--|
| 2014 | \$115,100 | \$452,117 | \$567,216 | \$80,590 | \$138,644 | \$219,234 | 2.59x | 2.59x |
| 2015 | 119,448 | 462,346 | 581,795 | 78,959 | 135,838 | 214,797 | 2.71x | 2.64x |
| 2016 | 123,884 | 472,781 | 596,665 | 78,569 | 135,166 | 213,735 | 2.79x | 2.65x |
| 2017 | 128,408 | 483,424 | 611,832 | 79,811 | 137,304 | 217,115 | 2.82x | 2.61x |
| 2018 | 133,023 | 494,280 | 627,303 | 79,050 | 135,994 | 215,044 | 2.92x | 2.64x |
| 2019 | 137,730 | 503,951 | 641,681 | 79,991 | 137,612 | 217,603 | 2.95x | 2.61x |
| 2020 | 142,532 | 513,816 | 656,347 | 77,120 | 132,672 | 209,792 | 3.13x | 2.70x |
| 2021 | 147,429 | 523,878 | 671,307 | 79,671 | 137,063 | 216,734 | 3.10x | 2.62x |
| 2022 | 152,424 | 534,141 | 686,565 | 80,131 | 137,854 | 217,985 | 3.15x | 2.60x |
| 2023 | 157,519 | 544,610 | 702,129 | 78,575 | 135,176 | 213,750 | 3.28x | 2.65x |
| 2024 | 162,716 | 555,287 | 718,004 | 78,767 | 135,506 | 214,273 | 3.35x | 2.65x |
| 2025 | 168,017 | 566,179 | 734,196 | 78,825 | 135,607 | 214,432 | 3.42x | 2.65x |
| 2026 | 173,424 | 577,288 | 750,713 | 78,740 | 135,459 | 214,199 | 3.50x | 2.65x |
| 2027 | 178,939 | 588,620 | 767,559 | 80,353 | 138,234 | 218,587 | 3.51x | 2.59x |
| 2028 | 184,565 | 600,178 | 784,743 | 78,075 | 134,316 | 212,391 | 3.69x | 2.67x |
| 2029 | 190,303 | 611,967 | 802,270 | 79,413 | 136,619 | 216,032 | 3.71x | 2.63x |
| 2030 | 196,155 | 623,992 | 820,148 | 78,554 | 135,141 | 213,695 | 3.84x | 2.65x |
| 2031 | 202,125 | 636,258 | 838,383 | 79,440 | 136,665 | 216,105 | 3.88x | 2.62x |
| 2032 | 208,214 | 648,769 | 856,983 | 80,140 | 137,869 | 218,009 | 3.93x | 2.60x |
| 2033 | 214,425 | 661,530 | 875,955 | 78,816 | 135,591 | 214,407 | 4.09x | 2.65x |
| 2034 | 220,760 | 674,546 | 895,307 | 79,237 | 136,315 | 215,552 | 4.15x | 2.63x |
| 2035 | 227,222 | 687,823 | 915,045 | 79,268 | 136,368 | 215,636 | 4.24x | 2.63x |
| 2036 | 233,813 | 701,365 | 935,179 | 70,184 | -- | 70,184 | 13.32x | 8.08x |
| 2037 | 240,536 | -- | 240,536 | 71,968 | -- | 71,968 | 3.34x | 1.60x |
| 2038 | 247,394 | -- | 247,394 | 68,484 | -- | 68,484 | 3.61x | 1.68x |

* Preliminary; subject to change.

(1) Annual projected growth in assessed valuation is 2% in 2014-15 from 2013-14 valuation, and 2% annually thereafter.

(2) Based on Pro Rata Share (as defined in the 2014 Loan Agreements and the Indenture) of total debt service, which is the same as the “Pro Rata Share” from 2008 Loan Agreements to achieve same percentage of savings per Project Area.

(3) Includes debt service on the 2014 Project No. 1 Loan and on the 2014 Project No. 5 Loan.

(4) Projected Total Net Pledged Tax Revenues (from both Project Areas) assuming assessed valuation growth per footnote (1) above, divided by Total Debt Service on 2014 Loans. Annual Total Debt Service on 2014 Loans is equivalent to annual debt service on the Bonds for each Bond Year.

(5) Assumes assessed valuation of property within the Project Areas, and therefore, Projected Total Net Pledged Tax Revenues, remain constant through maturity of the Bonds, at 2013-14 Projected Total Net Pledged Tax Revenues amounts.

Source: Jefferies LLC as to debt service on the 2014 Loans and Bonds; Urban Futures, Inc.

CONCLUDING INFORMATION

Underwriting

The Bonds are being purchased for reoffering by Jefferies LLC (the “Underwriter”). The original purchase price (being the initial principal amount of the Bonds [plus/less] the net reoffering [premium/discount] in the amount of \$_____ and less an underwriter’s discount of \$_____) to be paid for the Bonds is \$_____. The Underwriter intends to offer the Bonds to the public initially at the yields set forth on the cover page of this Official Statement, which yields may subsequently change without any requirement of prior notice.

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

Legal Opinion

The opinion of Richards, Watson & Gershon, A Professional Corporation, Los Angeles, California (“Bond Counsel”), approving the validity of the Bonds and stating that interest on the Bonds is excluded from gross income for federal income tax purposes and such interest is also exempt from personal income taxes of the State of California under present State income tax laws, will be furnished to the purchaser at the time of delivery of the Bonds at the expense of the Agency. Compensation for Bond Counsel's services is entirely contingent upon the sale and delivery of the Bonds.

A copy of the proposed form of Bond Counsel's final approving opinion with respect to the Bonds is attached hereto as APPENDIX C.

The legal opinion is only as to legality and is not intended to be nor is it to be interpreted or relied upon as a disclosure document or an express or implied recommendation as to the investment quality of the Bonds.

In addition, certain legal matters will be passed on for the Authority by Richards, Watson & Gershon, A Professional Corporation, Los Angeles, California, as Disclosure Counsel, and for the Underwriter by Quint & Thimmig LLP, Larkspur, California, as Underwriter’s Counsel.

Tax Exemption

The Internal Revenue Code of 1986, as amended (the “Code”), establishes certain requirements which must be met subsequent to the issuance and delivery of the Bonds for interest thereon to be and remain excluded from gross income for Federal income tax purposes. Noncompliance with such requirements could cause interest on the Bonds to be included in gross income for Federal income tax purposes retroactive to their date of issue. These requirements include, but are not limited to, provisions which limit how the proceeds of the Bonds may be spent and invested, and generally require that certain investment earnings be rebated on a periodic basis to the United States of America. The District has made certifications and representations and has covenanted to maintain the exclusion of the interest on the Bonds from gross income for Federal income tax purposes pursuant to Section 103(a) of the Code.

In the opinion of Richards, Watson & Gershon, A Professional Corporation, Bond Counsel, under existing law and assuming the accuracy of such certifications and representations by the District and compliance with such covenants, (i) interest on the Bonds is excluded from gross income for Federal

income tax purposes under Section 103 of the Code, and (ii) the Bonds are not “specified private activity bonds” within the meaning of Section 57(a)(5) of the Code and, therefore, interest on the Bonds is not a preference item for purposes of computing the alternative minimum tax imposed by Section 55 of the Code. Bond Counsel is also of the opinion that under existing law interest on the Bonds is exempt from State of California personal income taxes. Further, Bond Counsel is also of the opinion that, under current federal income tax laws, the Bonds will qualify as qualified tax-exempt obligations under Section 265(b)(3) of the Code.

Under the Code, a portion of the interest on the Bonds earned by certain corporations may be subject to a federal corporate alternative minimum tax. In addition, interest on the Bonds may be subject to a federal branch profits tax imposed on certain foreign corporations doing business in the United States and to a federal tax imposed on excess net passive income of certain S corporations. The exclusion of interest from gross income for federal income tax purposes may have certain adverse federal income tax consequences on items of income, deduction or credit for certain taxpayers, including financial institutions, certain insurance companies, recipients of Social Security and Railroad Retirement benefits, those deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations, and individuals eligible for the earned income tax credit. Bond Counsel will express no opinion regarding these and other such consequences.

Bond Counsel has not undertaken to advise in the future whether any circumstances or events occurring after the date of issuance of the Bonds may affect the tax status of interest on the Bonds. No assurance can be given that future legislation, or amendments to the Code, if enacted into law, will not contain provisions which could eliminate, or directly or indirectly reduce the benefit of the exclusion of interest on the Bonds from gross income for Federal income tax purposes. Certain requirements and procedures contained or referred to in relevant documents may be changed and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of nationally recognized bond counsel. Bond Counsel expresses no opinion as to any Bond, or the interest thereon, if any such change occurs or action is taken upon the advice or approval of bond counsel other than Richards, Watson & Gershon, A Professional Corporation.

If the issue price of a Bond (the first price at which a substantial amount of the bonds of a maturity are to be sold to the public) is less than the stated redemption price at maturity of such Bond, the difference constitutes original issue discount, the accrual of which is excluded from gross income for Federal income tax purposes to the same extent as interest on the Bonds. Further, such original issue discount accrues actuarially on a constant yield method over the term of each such Bond and the basis of each Bond acquired at such initial offering price by an initial purchaser thereof will be increased by the amount of such accrued original issue discount. The accrual of original issue discount is generally taken into account as an increase in the amount of tax-exempt income for purposes of determining various other tax consequences of owning such Bonds. Purchasers who acquire Bonds with original issue discount are advised that they should consult with their own independent tax advisors with respect to the state and local tax consequences of owning such Bonds.

If the issue price of a Bond is greater than the stated redemption price at maturity of such Bond, the difference constitutes original issue premium, the amortization of which is not deductible from gross income for Federal income tax purposes. Original issue premium is amortized over the period to maturity of such Bond based on the yield to maturity of that Bond (or, in the case of a Bond callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on that Bond), compounded semiannually. For purposes of determining gain or loss on the sale or other disposition of such Bond, the purchaser is required to decrease such purchaser’s adjusted basis in such Bond by the amount of premium that has amortized while the purchaser has owned the Bond.

Payments of interest on tax-exempt obligations, including the Bonds, are generally subject to IRS Form 1099-INT information reporting requirements. If an owner of a Bond is subject to backup withholding under those requirements, then payments of interest will also be subject to backup withholding. Those requirements do not affect the exclusion of such interest from gross income for federal income tax purposes.

Prospective purchasers of the Bonds should consult their own independent tax advisers regarding pending or proposed federal and state tax legislation and court proceedings, and prospective purchasers of the Bonds at other than their original issuance at the respective prices indicated on the cover of this Official Statement should also consult their own tax advisers regarding other tax considerations such as the consequences of market discount, as to all of which Bond Counsel expresses no opinion.

The Internal Revenue Service has established a program to audit issues of tax-exempt bonds in order to determine whether, in its view, interest should instead be included in gross income of the Bondholders for purposes of federal income taxation. It cannot be predicted whether or not the Bonds will be subjected to such an audit. If such an audit is undertaken, it could adversely affect the market value of the Bonds until the audit is concluded, regardless of the ultimate outcome of the audit. See “RISK FACTORS – Loss of Tax-Exemption” herein.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as APPENDIX C.

No Litigation

There is no action, suit or proceeding known to the Authority or the Agency to be pending and notice of which has been served upon and received by the Authority or Agency, as applicable, or threatened, restraining or enjoining the execution or delivery of the Bonds, the Indenture, or the 2014 Loan Agreements or in any way contesting or affecting the validity of the foregoing or any proceedings of the Authority and the Agency taken with respect to any of the foregoing.

Ratings

In connection with the issuance and delivery of the Bonds, Standard & Poor’s Ratings Services, a Division of The McGraw-Hill Companies (“S&P”), is expected to assign their municipal bond rating of “AA” (Stable Outlook) to the Bonds with the understanding that, upon delivery of such Bonds, a policy insuring the payment when due of the principal of and interest on the Bonds will be issued by AGM. S&P has assigned their underlying municipal bond rating of “A” to the Bonds. Such ratings reflects only the views of such organization and any desired explanation of the significance of such ratings may be obtained from such rating agency at the following addresses: Standard & Poor’s Ratings Services, 55 Water Street, New York, New York 10041, (212) 438-2000. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by S&P, if in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

Continuing Disclosure

Pursuant to a Continuing Disclosure Agreement (the “Disclosure Agreement”) with the Trustee and Urban Futures, Inc., as dissemination agent (the “Dissemination Agent”), the Agency has agreed to provide, or cause to be provided, to the Municipal Securities Rulemaking Board (“MSRB”) certain annual financial information and operating data within nine (9) months after the end of the Agency’s fiscal year,

including (a) its postaudit of the financial transactions and records of the Agency for the applicable fiscal year pursuant to Section 34177(n) of the Dissolution Act, and (b) information of the type set forth in this Official Statement in the tables entitled “Assessed Valuation and Incremental Revenues” for the Project Areas under the caption “PLEDGED REVENUES – Schedule of Historical Incremental Revenues” and in the tables entitled “Ten Largest Secured Property Taxpayers” under the caption “THE PROJECT AREAS – Largest Taxpayers.”

In addition, the Agency has agreed to provide, or cause to be provided, to the MSRB in a timely manner, not in excess of ten business days after the occurrence of any such event, notice of the following “Listed Events”: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security; (7) modifications to rights of security holders, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the securities, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the Obligated Person (as defined in “APPENDIX E – FORM OF CONTINUING DISCLOSURE AGREEMENT”); (13) the consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material.

These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission (“Rule 15c2-12”). The Agency may amend the Disclosure Agreement, and waive any provision thereof, by written agreement of the parties, without the consent of the Owners, if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Agency or the type of business conducted thereby; (2) the Disclosure Agreement as so amended would have complied with the requirements of Rule 15c2-12 as of the date of the Disclosure Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; (3) the Agency shall have delivered to the Dissemination Agent an opinion of nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Agency and the Dissemination Agent, to the same effect as set forth in clause (2) above; (4) the Agency shall have delivered to the Dissemination Agent an opinion of nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Agency, to the effect that the amendment does not materially impair the interests of the Owners; and (5) the Agency shall have delivered copies of such opinion and amendment to the MSRB.

In addition, the Agency's obligations under the Disclosure Agreement shall terminate upon the defeasance or payment in full of all of the Bonds. The provisions of the Disclosure Agreement are intended to be for the benefit of the Owners and shall be enforceable by the Trustee on behalf of such Owners, provided that any enforcement action shall be limited to a right to obtain specific enforcement of the Agency's obligations under the Disclosure Agreement and any failure by the Agency to comply with the provisions thereof shall not be an event of default under the Indenture or under the 2014 Loan Agreements. See “APPENDIX E – FORM OF CONTINUING DISCLOSURE AGREEMENT.”

Presentation of Agency Financial Statements Subsequent to Statutory Dissolution.

As previously described herein, the Prior Agency was statutorily dissolved on February 1, 2012, and the Agency commenced operations as of the same date. Therefore, the Prior Agency operated for only seven months in fiscal year ended June 30, 2012, and the Agency operated for the last five months of fiscal year ended June 30, 2012. These activities of the Prior Agency and the Agency with respect to fiscal year ended June 30, 2012 were reported in audited financial statements prepared for the Agency for such fiscal year, separately from City audited financial statements. Pursuant to the Dissolution Act, the housing assets, housing obligations, and housing activities of the Prior Agency were transferred to the City.

Commencing with fiscal year ended June 30, 2013, the Agency will no longer prepare separate audited financial statements from the City, but rather the activities of the Agency will be reported as a fiduciary trust fund as part of the City's Annual Audit Report (i.e., audited financial statements), which is in accordance with guidance issued by the State Department of Finance on September 19, 2012 and available on its website as of May 14, 2014, interpreting Section 34177(n) of the California Health and Safety Code concerning certain successor agency postaudit obligations. See "APPENDIX F – ANNUAL AUDIT REPORT FOR FISCAL YEAR ENDED JUNE 30, 2013 (EXCERPTS)," and in particular Note 10 therein regarding "Dissolution of Redevelopment Agencies in California and Resultant Successor Agency to the Former Redevelopment Agency." A complete copy of the City of Calimesa Annual Audit Report for fiscal year ended June 30, 2013 can be obtained from the City's Finance Department.

In accordance with accounting principles generally accepted in the United States of America which provide guidance for determining which governmental activities, organizations and functions should be included in the reporting entity, the Annual Audit Report presents information on the activities of the reporting entity, which includes the City (the primary government) and related but separate legal entities such as the Calimesa Financing Authority, the Prior Agency, and the Agency. Such accounting presentation, however, does not change the separate legal status of the entities. With regard to the Agency in particular, as set forth in Section 34173(g) of the Dissolution Act, "A successor agency is a separate public entity from the public agency that provides for its governance and the two entities shall not merge."

The State Department of Finance's website is not in any way incorporated into this Official Statement, and the Agency cannot take any responsibility for, nor make any representation whatsoever as to, the continued accuracy of the Internet address or the accuracy, completeness, or timeliness of information posted there. In addition, from time to time, the State Department of Finance changes its guidance without notice.

Continuing Disclosure History.

In connection with the 2008 Bonds, the Prior Agency entered into continuing disclosure obligations under Rule 15c2-12 to file annual financial statements by March 31 of each year. Prior to the printing of this Official Statement, an examination was conducted of the continuing disclosure filings by the Prior Agency and the Agency during the past five years. The result of such examination indicated a few instances of filing delays. The continuing disclosure filings for the first year after the issuance of the 2008 Bonds inadvertently were filed approximately five months after March 31. After the first year, however, the portion of the filings comprised of annually updated information of certain tables and portions of Official Statement, dated March 19, 2008, for the 2008 Bonds, have timely been filed by the applicable March 31, with the exception of the most recent filing, which was filed on April 4, 2014, due to problems experienced by the Dissemination Agent with respect to the Electronic Municipal Market Access System (the "EMMA System") of the MSRB. As to the portion of the filings comprised of the

annual financial statements, the financial statements were filed in three instances in April, when the audit reports for the respective audited financial statements were complete. In another instance, the annual financial statements were not filed until July, even though audited financial statements were completed by January, due to changes in key personnel of City's finance department, which also handles financial matters of the Prior Agency and Agency. For the most recent fiscal year, 2012-13, the City and Agency engaged a new auditor, which required additional time for the auditors to become familiar with the City and Agency accounting practices. Now that this initial process has taken place, the Agency expects that future audited financial statements will proceed with the new auditors more expediently. The Agency believes that its procedures with its Dissemination Agent are sufficient in the normal due course to assure substantial compliance with its continuing disclosure undertakings and that the above-mentioned filing delays are anomalies due to unusual circumstances.

A failure by the Agency to comply with the provisions of the Disclosure Agreement is not an event of default under the Indenture or the 2014 Loan Agreements (although the Trustee does have remedies at law and in equity). However, a failure to comply with the provisions of the Disclosure Agreement must be reported in accordance with the SEC Rule 15c2-12(b)(5) and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds. Therefore, a failure by the Agency to comply with the provisions of the Disclosure Agreement may adversely affect the marketability of the Bonds on the secondary market.

Miscellaneous

All of the preceding summaries of the Indenture, the 2014 Loan Agreements, the Escrow Agreement, the Bond Law, the Dissolution Act, the Redevelopment Law, other applicable legislation, the Redevelopment Plans for the Project Areas, agreements and other documents are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the Authority for further information in connection therewith.

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

The execution and delivery of this Official Statement by its Chief Administrative Officer has been duly authorized by the Authority.

CALIMESA FINANCING AUTHORITY

By: _____
Chief Administrative Officer

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY OF CALIMESA

The following information concerning the City of Calimesa and the surrounding area is included herein only for the purpose of supplying general information regarding the community. Neither the Bonds, nor the obligations of the Agency under the 2014 Loan Agreements, are a debt of the City, the County, the State of California or any of its political subdivisions (except the Agency and the Authority, as applicable) and neither said City, said County, said State or any of its political subdivisions (except the Agency and the Authority, as applicable) is liable therefor. See the section in the forepart of this Official Statement entitled "SECURITY FOR THE BONDS."

General

The City is located in the County of Riverside in the San Gorgonio Pass area, in the highlands between Redlands and Beaumont. Situated in northwest Riverside County, the City flanks either side of Interstate 10 and borders the County of San Bernardino. The City was incorporated in December 1990 and has a general law form of government. The City Council is elected at large, and the City Council annually elects the Mayor from the councilmembers.

The City is at an elevation of 2,500 feet and encompasses approximately 15.6 square miles. The average high temperature is 79.5 degrees, and the average low temperature is 50.2 degrees. Annual precipitation ranges between 17 inches and 39 inches, with higher altitude areas generally receiving between 30 and 39 inches, and the lower elevation areas receiving between 17 and 30 inches.

Population

The City's estimated population on January 1, 2014 was 8,231. The following table shows the estimated past population data for the City.

CITY OF CALIMESA

| Date | Population | Date | Population |
|--------------|-------------------|--------------|-------------------|
| Jan. 1, 2005 | 7,601 | Jan. 1, 2010 | 7,847 |
| Jan. 1, 2006 | 7,608 | Jan. 1, 2011 | 7,910 |
| Jan. 1, 2007 | 7,605 | Jan. 1, 2012 | 8,022 |
| Jan. 1, 2008 | 7,626 | Jan. 1, 2013 | 8,096 |
| Jan. 1, 2009 | 7,747 | Jan. 1, 2014 | 8,231 |

Source: Demographic Research Unit, California State Department of Finance.

Assessed Valuation

A ten year history of the City's taxable assessed valuation is as follows:

| | Total Assessed Value | % change from Previous Year |
|---------|---------------------------------|--|
| 2004-05 | \$429,748,987 | 10.39% |
| 2005-06 | 481,420,409 | 12.02 |
| 2006-07 | 565,628,577 | 17.49 |
| 2007-08 | 628,351,796 | 11.09 |
| 2008-09 | 674,541,416 | 7.35 |
| 2009-10 | 593,585,951 | -12.00 |
| 2010-11 | 562,563,395 | -5.23 |
| 2011-12 | 555,699,706 | -1.22 |
| 2012-13 | 566,297,899 | 1.91 |
| 2013-14 | 581,850,467 | 2.74 |

Source: Urban Futures, Inc.

Employment and Industry

The City is located in Riverside County. The available labor force employment and unemployment figures over the last five years for Riverside-San Bernardino-Ontario Metropolitan Statistical Area (MSA), which encompasses Riverside and San Bernardino Counties, is as follows.

Riverside-San Bernardino-Ontario MSA Annual Average Labor Force and Industry Employment

| Industry | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|------------------|------------------|------------------|------------------|------------------|
| Total Farm | 15,200 | 15,000 | 14,900 | 15,000 | 14,600 |
| Mining and Logging | 1,200 | 1,000 | 1,000 | 1,200 | 1,200 |
| Construction | 67,400 | 59,700 | 58,700 | 62,600 | 69,300 |
| Manufacturing | 88,500 | 85,100 | 85,800 | 86,700 | 86,800 |
| Trade, Transportation and Utilities | 269,700 | 270,800 | 275,100 | 288,200 | 299,300 |
| Information | 14,800 | 15,800 | 15,000 | 11,500 | 11,300 |
| Financial Activities | 43,600 | 41,000 | 39,200 | 40,800 | 42,000 |
| Professional and Business Services | 127,300 | 123,400 | 126,100 | 127,100 | 132,600 |
| Educational and Health Services | 132,600 | 133,800 | 137,900 | 167,200 | 182,000 |
| Leisure and Hospitality | 123,000 | 122,800 | 124,300 | 129,300 | 136,200 |
| Other Services | 36,700 | 38,200 | 39,300 | 40,100 | 40,800 |
| Government | <u>227,300</u> | <u>234,300</u> | <u>227,300</u> | <u>224,600</u> | <u>225,000</u> |
| Total All Industries ⁽¹⁾ | <u>1,147,100</u> | <u>1,140,900</u> | <u>1,144,600</u> | <u>1,194,200</u> | <u>1,241,000</u> |
| Total Civilian Labor Force ⁽²⁾ | 1,778,200 | 1,798,200 | 1,799,000 | 1,812,800 | 1,818,300 |
| Total Unemployment | 236,600 | 257,700 | 241,200 | 217,900 | 184,900 |
| Unemployment Rate | 13.3% | 14.3% | 13.4% | 12.0% | 10.2% |

⁽¹⁾ Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers and workers on strike.

⁽²⁾ Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers and workers on strike.

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

Commercial Activity

A summary of historic taxable sales within the City is shown in the following table.

| CITY OF CALIMESA | | | | |
|---|---|-----------------------------|--------------------------|-----------------------------|
| Taxable Sales (Dollars in Thousands) | | | | |
| | <u>RETAIL STORES</u> | | <u>TOTAL ALL OUTLETS</u> | |
| | <u>Number of Permits</u> | <u>Taxable Transactions</u> | <u>Number of Permits</u> | <u>Taxable Transactions</u> |
| 2004 | 77 | \$37,668 | 176 | \$40,742 |
| 2005 | 82 | 42,135 | 172 | 44,642 |
| 2006 | 79 | 47,290 | 150 | 50,575 |
| 2007 | 87 | 48,683 | 155 | 51,047 |
| 2008 | 83 | 47,830 | 153 | 54,285 |
| | <u>RETAIL AND FOOD SERVICES⁽¹⁾</u> | | <u>TOTAL ALL OUTLETS</u> | |
| 2009 | 105 | \$43,593 | 155 | \$53,092 |
| 2010 | 116 | 45,792 | 159 | 51,057 |
| 2011 | 111 | 53,362 | 151 | 57,965 |
| 2012 ⁽²⁾ | 118 | 56,365 | 165 | 60,894 |

⁽¹⁾ Reflects change in reporting by California State Board of Equalization to reflect the board's conversion of business codes of sales and use tax permit holders from a prior system to the North American Industry Classification System (NAICS) codes. As a result of the coding change, industry-level data for 2009 and later are not comparable to industry-level data for 2008 and prior years.

⁽²⁾ Latest year-end data available.

Source: California State Board of Equalization.

Utilities

Water and sewer services are provided to residents by the Yucaipa Valley Water District and the South Mesa Water Company. The City contracts with CR&R Waste and Recycling Services for trash collection services. Electricity is provided by Southern California Edison, natural gas is provided by The Gas Company, and the telephone service is supplied by Verizon.

Services and Community Facilities

The City's climate, fresh air and canyon views give rise to four golf resorts and extensive hillside trail systems. Within a few minutes of the City's center are the Calimesa Country Club, Oak Valley Golf Club, Yucaipa Valley Golf Club, and the PGA Golf Club of Southern California at Oak Valley. Calimesa's hills and valleys host miles of hiking, biking, and equestrian trails and are part of a larger regional trail system, including a wide range of surfaces and elevations.

Calimesa contracts with the Riverside County Sheriff's Department for police protection and contracts with the Riverside County Fire Department for fire protection services. The City has a full time paid staff of 11, with the Development Services Department (consisting of Community Development, Engineering, and Building & Safety) contracted out.

Two school districts serve the City: the Yucaipa-Calimesa Joint Unified School District and the Beaumont Unified School District. Nearby are Mt. San Jacinto Community College, and San Bernardino Community College, and within a half hour commuting distance of Calimesa is the Riverside campus of University of California.

The Norton Younglove Multipurpose Senior Center, in cooperation with the Riverside County Office on Aging, provides hot lunches five days a week on site and delivered to seniors, as well as offering a number of services for all ages, including bingo, trips, and classes.

APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE 2014 LOAN AGREEMENTS

The following is a brief summary of the provisions of the Indenture and the 2014 Loan Agreements. Except for variations that distinguish the provisions of a 2014 Loan Agreement for its applicable Redevelopment Project from the other Redevelopment Project, the provisions of each 2014 Loan Agreement are substantially the same as the provisions of each of the other 2014 Loan Agreement. Except as noted in this summary, the pertinent variations have been described in the foregoing Official Statement. This summary is not intended to be definitive, and reference is made to the complete documents 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:

“Accounts” means any account created under the Indenture to be held by the Trustee.

“Act” means Articles 1 through 4 (commencing with Section 6500) of Chapter 5, Division 7, Title 1 of the Government Code of the State, as it may hereafter be amended from time to time.

“Additional Allowance” means, as of the date of calculation, the increase in the amount of Pledged Tax Revenues which, as shown in the report from an appropriate official of the County or a Redevelopment Consultant, are estimated to be receivable by the Agency within the Fiscal Year following the Fiscal Year in which such calculation is made as a result of an increase in the assessed valuation of taxable property in the Project Areas due to (a) the application of a growth factor equal to the lesser of 2.00% or the applicable Consumer Price Index percentage and (b) the completion of construction which is not yet reflected on the tax rolls of the County, and (c) the transfer of ownership or any other interest in real property which has been recorded with the County but which is not yet reflected in the tax roll. The calculation of the Additional Allowance shall be adjusted for the dollar value impact on Pledged Tax Revenues attributable to (i) the average actual delinquency rate within the Project for the three (3) Fiscal Years preceding the date of calculation and (ii) the value impact attributable to the average success rate of property owners’ appeals in the Project Areas for the three (3) Fiscal Years preceding the date of calculation or, if such average success rate is not available, the value impact equal to 50% of the value requested in such owners’ appeals for such period. Such average success rate shall be based upon the average number of appeals granted over the average number of appeals filed for said period.

“Additional Authority Bonds” means any Additional Authority Bonds authorized to be issued pursuant to the provisions of the Indenture on a parity with the 2014 Authority Bonds.

“Administrative Expenses” means the fees and expenses of the Trustee, including legal fees and expenses, and the out-of-pocket expenses of the Authority, incurred in carrying out their duties under the Indenture, including but not limited to the costs of all consultants and attorneys retained by or on behalf of the Authority to comply with any state or federal information reporting and disclosure requirements.

“Agency” means the Successor Agency to the Calimesa Redevelopment Agency.

“Agreement” means that certain Joint Exercise of Powers Agreement, dated August 1, 1989, by and between the City and the Calimesa Redevelopment Agency, as succeeded by the Agency, together with any amendments thereof and supplements thereto.

“Annual Debt Service” means, (i) with respect to the 2014 Authority Bonds for each Bond Year, the sum of (a) the interest payable on the Outstanding 2014 Authority Bonds, in such Bond Year, and (b) the principal amount of the Outstanding 2014 Authority Bonds scheduled to be paid in such Bond Year, including from mandatory sinking fund payments and (ii) with respect to the Loan, for each Bond Year, the sum of (a) the interest payable on the Loan or Parity Debt in such Bond Year, and (b) the principal amount of the Outstanding Loan scheduled to be paid in such Bond Year, including from mandatory sinking fund payments.

“Annual Loan Payment Certificate” means a Certificate of the Agency certifying, based on evidence of appropriate County officials and other evidence on file with the Agency, the amount of aggregate Pledged Tax Revenues to be received with respect to the current Bond Year.

“Authority” means the Calimesa Financing Authority, a joint powers authority duly organized and existing under the Agreement and under and by virtue of the laws of the State.

“Beneficial Owners” means the actual purchasers of the 2014 Authority Bonds whose ownership interests are recorded on the books of the DTC Participants.

“Board” means the Board of Directors of the Authority.

“Bond Counsel” means any attorney at law or firm of attorneys selected by the Authority, of nationally-recognized standing in matters pertaining to the federal tax exemption of interest on bonds issued by states and political subdivisions, and duly admitted to practice law before the highest court of any state of the United States of America.

“Bond Law” means the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 of the Act (commencing with Section 6584), as it may hereafter be amended from time to time.

“Bond Register” means the registration books for the 2014 Authority Bonds maintained by the Trustee in accordance with the Indenture.

“Bond Year” means each twelve-month period extending from December 2 in one calendar year to December 1 of the succeeding calendar year, except in the case of the initial Bond Year which shall be the period from the Date of Delivery to December 1, 2014, both dates inclusive.

“Business Day” means a day which is not a Saturday or Sunday or a day of the year on which banks in New York, New York and Los Angeles, California, or where the Trust Office is located, are not required or authorized to remain closed.

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

“Certificate of the Authority” means a certificate in writing signed by the Chief Administrative Officer or Treasurer of the Authority, or by any other officer of the Authority duly authorized by the Chief Administrative Officer for that purpose.

“City” means the City of Calimesa, a municipal corporation.

“Code” means the Internal Revenue Code of 1986, as amended, and the United States Treasury Regulations proposed or in effect with respect thereto.

“Continuing Disclosure Agreement” means that certain Continuing Disclosure Agreement, dated as of the Date of Delivery, by and between the Agency and Urban Futures, Incorporated, as the Dissemination Agent and Disclosure Agent and as it may be amended from time to time in accordance with the terms thereof.

“Costs of Issuance” means the costs and expenses incurred in connection with the issuance and sale of the 2014 Authority Bonds or any Additional Authority Bonds and the acquisition of the Loan Agreements, including the acceptance and initial annual fees and expenses of the Trustee, legal fees and expenses, costs of printing the 2014 Authority Bonds and Additional Authority Bonds and the preliminary and final Official Statements, fees of financial consultants, fees payable to the initial purchaser of the 2014 Authority Bonds and Additional Authority Bonds, and other fees and expenses set forth in a Request of the Authority.

“Costs of Issuance Fund” shall mean the fund by that name established in the Indenture.

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

“Dissolution Act” means Parts 1.8 (commencing with Section 34161) and 1.85 (commencing with Section 34170) of Division 24 of the Health and Safety Code of the State of California, as amended from time to time.

“DTC” means The Depository Trust Company, New York, New York, and its successors and assigns.

“DTC Participants” means securities brokers and dealers, banks, trust companies, clearing corporations and other organizations maintaining accounts with DTC.

“Date of Delivery” means the date upon which there is a physical delivery of the 2014 Authority Bonds or Additional Authority Bonds, as applicable, in exchange for the purchase price therefor.

“Defeasance Securities” means and includes any of the following: (1) cash, (2) non-callable direct obligations of the United States of America (“Treasuries”), (3) evidences of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated, (4) subject to the prior written consent of the Insurer, pre-refunded municipal obligations rated “AAA” and “Aaa” by S&P and Moody's, respectively, or (5) subject to the prior written consent of the Insurer, securities eligible for “AAA” defeasance under then existing criteria of S & P or any combination thereof, shall be used to effect defeasance of the Bonds unless the Insurer otherwise approve.

“DOF” means the California Department of Finance.

“Escrow Agreement” means the Escrow Agreement, dated as of May 1, 2014, by and among the Authority, the Agency, and The Bank of New York Mellon Trust Company, N.A., as escrow agent,

relating to the refunding of the portion of the Authority's Tax Allocation Revenue Bonds (Calimesa Redevelopment Project No. 1 and Project No. 5), Series 2008, scheduled to mature on December 1, 2014 and thereafter through December 1, 2038.

"Escrow Fund" means the fund by that name established under the Escrow Agreement.

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

"Indenture" means the Indenture of Trust dated as of May 1, 2014, by and between the Authority and the Trustee, authorizing the issuance of the 2014 Authority Bonds, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture pursuant to the provisions thereof.

"Independent Accountant" means any accountant or firm of such accountants appointed and paid by the Authority, and who, or each of whom -

- (a) is in fact independent and not under domination of the Authority, the City or the Agency;
- (b) does not have any substantial interest, direct or indirect, in the Authority, the City or the Agency; and
- (c) is not an officer or employee of the Authority, the City or the Agency, but who may be regularly retained to make annual or other audits of the books of or reports to the Authority, the City or the Agency.

"Independent Financial Consultant" means any financial consultant or firm of such consultants appointed and paid by the Authority, and who, or each of whom -

- (a) is in fact independent and not under domination of the Authority, the City or the Agency;
- (b) does not have any substantial interest, direct or indirect, in the Authority, the City or the Agency; and
- (c) is not an officer or employee of the Authority, the City or the Agency, but who may be regularly retained to make annual or other audits of the books of or reports to the Authority, the City or the Agency.

"Independent Redevelopment Consultant" means any consultant or firm of such consultants appointed by the Agency, and who, or each of whom:

- (a) is judged by the Agency to have experience in matters relating to the collection of Pledged Tax Revenues or otherwise with respect to the financing of redevelopment projects;
- (b) is in fact independent and not under the domination of the Agency;
- (c) does not have any substantial interest, direct or indirect, with the Agency, other than as original purchaser of the 2014 Authority Bonds or any Parity Debt; 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.

“Information Services” means one or more of the national information services that the Trustee determines are in the business of disseminating notice of redemption of obligations such as the Bonds; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other information services providing information with respect to called bonds as the Authority may designate in a Certificate of the Authority delivered to the Trustee.

“Insurance Policy” means the insurance policy issued by the Insurer guaranteeing the scheduled payment of principal of and interest on the Bonds when due.

“Insurer” means Assured Guaranty Municipal Corp., a New York stock insurance company, or any successor thereto or assignee thereof.

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

“Interest Payment Date” means June 1 and December 1 in each year, beginning December 1, 2014, and continuing thereafter so long as any 2014 Authority Bonds remain Outstanding.

“Investment Agreement” means one or more agreements for the investment of funds complying with the criteria therefor as set forth in Subsection (11) of the definition of Permitted Investments herein.

“Loan Agreements” means, collectively or, if the context requires, individually as applicable, the (a) Project No. 1 Loan Agreement, and (b) the Project No. 5 Loan Agreement.

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

“Loans” means, collectively or, if the context requires, individually as applicable (a) the Loan made pursuant to the Project No. 1 Loan Agreement, and (b) the Loan made pursuant to the Project No. 5 Loan Agreement.

“Maximum Annual Debt Service” means, as of the date of calculation, the largest amount obtained by totaling, for the current or any future Bond Year, the sum of (a) the amount of interest payable on the 2014 Authority Bonds and any Additional Authority Bonds to be Outstanding in such Bond Year, assuming that principal thereof is paid as scheduled and that any mandatory sinking fund payments are made as scheduled, and (b) the amount of principal payable on the 2014 Authority Bonds and on any Additional Authority Bonds to be Outstanding in such Bond Year, including any principal required to be prepaid by operation of mandatory sinking fund payments.

“Moody’s” means Moody’s Investors Service, its successors and assigns.

“Outstanding,” when used as of any particular time with reference to the 2014 Authority Bonds and Additional Authority Bonds, means (subject to the provisions of the Indenture) all 2014 Authority Bonds and Additional Authority Bonds theretofore executed, issued and delivered by the Authority under the Indenture and any Supplemental Indenture except -

(a) 2014 Authority Bonds and Additional Authority Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;

(b) 2014 Authority Bonds and Additional Authority Bonds paid or deemed to have been paid within the meaning of the Indenture; and

(c) 2014 Authority Bonds and Additional Authority Bonds in lieu of or in substitution for which other 2014 Authority Bonds and Additional Authority Bonds, respectively, shall have been executed, issued and delivered pursuant to the Indenture or any Supplemental Indenture.

“Oversight Board” means the oversight board duly constituted from time to time pursuant to Section 34179 of the Dissolution Act.

“Owner” or “Bond Owner,” when used with respect to any 2014 Authority Bond, means the person in whose name the ownership of such 2014 Authority Bond shall be registered on the Bond Register and, when used with respect to any Additional Authority Bonds, means the person in whose name the ownership of such Additional Authority Bonds shall be registered under the applicable Supplemental Indenture.

“Parity Debt” shall have the meaning attributed to such term in the Loan Agreements.

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

(1) (A) Direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America (“United States Treasury Obligations”); (B) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America; (C) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America; or (D) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.

(2) Federal Housing Administration debentures.

(3) The listed obligations of government-sponsored agencies which are not backed by the full faith and credit of the United States of America:

- Federal Home Loan Mortgage Corporation (FHLMC)

Participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)

Senior Debt obligations

- Farm Credit Banks (formerly: Federal Land Banks, Federal

Intermediate Credit Banks and Banks for Cooperatives)

Consolidated system-wide bonds and notes

- Federal Home Loan Banks (FHL Banks)

Consolidated debt obligations

- Federal National Mortgage Association (FNMA)

Senior debt obligations

Mortgage-backed securities (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)

- Student Loan Marketing Association (SLMA)

Senior debt obligations (excluded are securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date)

- Financing Corporation (FICO)

Debt obligations

- Resolution Funding Corporation (REFCORP)

Debt obligations

(4) Unsecured certificates of deposit, time deposits, and bankers' acceptances (having maturities of not more than 30 days) of any bank (including the Trustee and any affiliate) the short-term obligations of which are rated "A-1" or better by Standard & Poor's.

(5) Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC), in banks (including the Trustee and any affiliate) which have capital and surplus of at least \$5 million.

(6) Commercial paper (having original maturities of not more than 270 days rated "A-1+" by Standard & Poor's and "Prime-1" by Moody's and issued by an entity meeting the criteria in either clause (A) or (B):

(A) the entity (i) is organized and operating in the United States as a general corporation, (ii) has total assets in excess of \$500,000,000, and (iii) has debt other than commercial paper, if any, that is rated "A" or higher by Standard & Poor's or Moody's; or

(B) the entity (i) is organized within the United States as a special purpose corporation, trust, or limited liability company, (ii) has programwide credit enhancements including, but not limited to, overcollateralization, letters of credit, or surety bond, and (ii) has commercial paper rated "A-1" or higher by Standard & Poor's or "A1" by Moody's.

(7) Money market funds rated "AAM" or "AAM-G" by Standard & Poor's, or better (including funds for which the Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Trustee provide investment advisory or other management services).

(8) "State Obligations," which means:

(A) Direct general obligations of any state of the United States of America or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated "A3" by Moody's and "A" by

Standard & Poor's, or better, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated.

(B) Direct general short-term obligations of any state agency or subdivision or agency thereof described in (A) above and rated "A-1+" by Standard & Poor's and "Prime-1" by Moody's.

(C) Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state, state agency or subdivision described in (A) above and rated "AA" or better by Standard & Poor's and "Aa" or better by Moody's.

(9) Pre-refunded municipal obligations rated "AAA" by S & P and "Aaa" by Moody's meeting the following requirements:

(A) the municipal obligations are (1) not subject to redemption prior to maturity or (2) the trustee for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions;

(B) the municipal obligations are secured by cash or United States Treasury Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations;

(C) the principal of and interest on the United States Treasury Obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on the municipal obligations ("Verification");

(D) the cash or United States Treasury Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations;

(E) no substitution of a United States Treasury Obligation shall be permitted except with another United States Treasury Obligation and upon delivery of a new Verification; and

(F) the cash or United States Treasury Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent.

(10) Repurchase agreements:

(A) With (1) any domestic bank, or domestic branch of a foreign bank, the long term debt of which is rated at least "A" by Standard & Poor's and Moody's; or (2) any broker-dealer with "retail customers" or a related affiliate thereof which broker-dealer has, or the parent company (which guarantees the provider) of which has, long-term debt rated at least "A" by Standard & Poor's and Moody's, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation; or (3) any other entity rated "A" or better by Standard & Poor's and Moody's, provided that:

(a) The market value of the collateral is maintained at levels equal to 104% of the amount of cash transferred by the Trustee to the provider of the repurchase agreement plus accrued interest with the collateral being valued weekly and marked-to-market at one current market price plus accrued interest;

(b) The Trustee or a third party acting solely as agent therefor or for the Authority (the "Holder of the Collateral") has possession of the collateral or the collateral has been transferred to the Holder of the Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferor's books);

(c) The repurchase agreement shall state and an opinion of counsel shall be rendered at the time such collateral is delivered that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);

(d) The repurchase agreement shall provide that if during its term the provider's rating by either Moody's or Standard & Poor's is withdrawn or suspended or falls below "A-" by Standard & Poor's or "A3" by Moody's, as appropriate, the provider must, at the direction of the Authority or the Trustee, within 10 days of receipt of such direction, repurchase all collateral and terminate the agreement, with no penalty or premium to the Authority or Trustee.

(B) Notwithstanding the above, if a repurchase agreement has a term of 270 days or less (with no evergreen provision), collateral levels need not be as specified in (a) above, so long as such collateral levels are 103% or better and the provider is rated at least "A" by Standard & Poor's and Moody's, respectively.

(11) Investment agreements with a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long-term debt of which or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least "AA" by Standard & Poor's and "Aa" by Moody's; provided that, by the terms of the investment agreement:

(A) interest payments are to be made to the Trustee at times and in amounts as necessary to pay debt service on the Bonds;

(B) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven days' prior notice; the Authority and the Trustee hereby agree to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;

(C) the investment agreement shall state that is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof, or, in the case of a bank, that the obligation of the bank to make payments under the agreement ranks pari passu with the obligations of the bank to its other depositors and its other unsecured and unsubordinated creditors;

(D) the Authority and the Trustee receives the opinion of domestic counsel (which opinion shall be addressed to the Authority and the Trustee) that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and of foreign counsel (if applicable) in form and substance acceptable, and addressed to, the Authority;

(E) the investment agreement shall provide that if during its term.

(1) the provider's rating by either Standard & Poor's or Moody's falls below "AA-" or "Aa3", respectively, the provider shall, at its option, within 10 days of receipt of publication of such downgrade, either (i) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the Authority, the Trustee or a third party acting solely as agent therefor (the "Holder of the Collateral") collateral free and clear of any third-party liens or claims the market value of which collateral is maintained at levels and upon such conditions as would be acceptable to Standard & Poor's and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach); or (ii) repay the principal of and accrued but unpaid interest on the investment; and

(2) the provider's rating by either Standard & Poor's or Moody's is withdrawn or suspended or falls below "A-" or "A3", respectively, the provider must, at the direction of the Authority or the Trustee, within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the Authority or Trustee; and

(F) The investment agreement shall state and an opinion of counsel shall be rendered, in the event collateral is required to be pledged by the provider under the terms of the investment agreement at the time such collateral is delivered, that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession); and

(G) the investment agreement must provide that if during its term

(1) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the Authority or the Trustee, be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Authority or Trustee, as appropriate, and

(2) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("event of insolvency"), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Authority or Trustee, as appropriate.

(12) The State of California Local Agency Investment Fund; provided that the Trustee may restrict investments in such Fund to the extent necessary to keep moneys available for the purposes of the Indenture.

“Pledged Tax Revenues” means the monies deposited from time to time in the Redevelopment Property Tax Trust Fund established pursuant to subdivision (c) of Section 34172 of the Dissolution Act, as provided in paragraph (2) of subdivision (a) of Section 34183 of the Dissolution Act. If, and to the extent, that the provisions of Section 34172 or paragraph (2) of subdivision (a) of Section 34183 are invalidated by a final judicial decision, then Pledged Tax Revenues shall include all tax revenues allocated to the payment of indebtedness pursuant to Health & Safety Code Section 33670 or such other section as may be in effect at the time providing for the allocation of tax increment revenues in accordance with Article XVI, Section 16 of the California Constitution.

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

“Project Areas” means the Redevelopment Projects described in the Loan Agreements.

“Project No. 1” means Redevelopment Project Area No. 1 of the Calimesa Redevelopment Agency.

“Project No. 1 Loan” means the Loan made by the Authority to the Agency pursuant to the Project No. 1 Loan Agreement.

“Project No. 1 Loan Agreement” means the Loan Agreement, dated as of May 1, 2014, by and among the Authority, the Trustee and the Agency with respect to the Redevelopment Project Area No. 1.

“Project No. 5” means Redevelopment Project Area No. 5 of the Calimesa Redevelopment Agency.

“Project No. 5 Loan” means the Loan made by the Authority to the Agency pursuant to the Project No. 5 Loan Agreement.

“Project No. 5 Loan Agreement” means the Loan Agreement, dated as of May 1, 2014 by and among the Agency, the Authority and the Trustee with respect to Redevelopment Project Area No. 5.

“Pro Rata Share” means (i) 36.76% with respect to the Project No. 1 Loan Agreement and (ii) 63.24% with respect to the Project No. 5 Loan Agreement.

“Qualified Reserve Account Credit Instrument” means (i) the Reserve Fund Bond, or (ii) an irrevocable standby or direct-pay letter of credit or surety bond issued by a commercial bank or insurance company and deposited with the Trustee pursuant to the Indenture, provided that all of the following requirements are met: (a) the long-term credit rating of such bank or insurance company is in one of the two highest rating categories by S&P or Moody's, or the claims paying ability of such insurance 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 twelve (12) months; (c) such letter of credit or surety bond has a stated amount at least equal to the portion of the Reserve Requirement with respect to which funds are proposed to be released pursuant to applicable provisions of the Loan Agreement; (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 amount of Revenues required pursuant to the Indenture; and (e)

prior written notice is given to S&P before the effective date of any such Qualified Reserve Account Credit Instrument.

“Recognized Obligation Payment Schedule” means a Recognized Obligation Payment Schedule, each prepared and approved from time to time pursuant to subdivision (l) of Section 34177 of the Dissolution Act.

“Record Date” means, with respect to any Interest Payment Date, the fifteenth calendar day of the month preceding such Interest Payment Date, whether or not such day is a Business Day.

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

“Redevelopment Obligation Retirement Fund” means the fund by that name established pursuant to Section 34170.5 of the Dissolution Act and held and administered by the Agency.

“Redevelopment Property Tax Trust Fund” or “RPTTF” means the fund by that name established pursuant to Health & Safety Code Section 34170.5(b) and administered by the County auditor-controller.

“Refunding Law” means Article 11 (commencing with Section 53580) of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code.

“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.

“Representation Letter” means the representation letter dated as of the Date of Delivery for a Series from the Authority and the Trustee to DTC.

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

“Request of the Authority” means a request in writing signed by the Chief Administrative Officer of the Authority, or by any other officer of the Authority duly authorized by the Chief Administrative Officer for such purpose.

“Reserve Account” means the account so designated and established pursuant to the Indenture.

“Reserve Requirement” means as of the date of computation, an amount equal to the least of (i) Maximum Annual Debt Service, (ii) 10% of the initial principal amount of the 2014 Authority Bonds and of any Additional Authority Bonds, or (iii) 125% of average Annual Debt Service. The computation shall

be made with respect to all 2014 Authority Bonds and Additional Authority Bonds Outstanding at the time of such computation.

“Responsible Officer” means any officer of the Trustee assigned to administer the Trustee’s duties under the Indenture.

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

“Revenues” means: (a) all amounts paid by the Agency to the Authority or the Trustee pursuant to the Loan Agreements other than (i) administrative fees and expenses and indemnity against claims payable to the Authority and the Trustee and (ii) amounts payable to the United States of America pursuant to the Indenture; (b) any proceeds of the 2014 Authority Bonds originally deposited with the Trustee and all moneys deposited and held from time to time by the Trustee in the funds and accounts established under the Indenture with respect to the 2014 Authority Bonds; and (c) investment income with respect to any moneys held by the Trustee in the funds and accounts established under the Indenture with respect to the 2014 Authority Bonds.

“Securities Depositories” means The Depository Trust Company, 55 Water Street, New York, New York, 10041, Attn: Call Notification Department, Fax (212) 855-7232; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the Authority may designate in a Certificate of the Authority delivered to the Trustee.

“Standard & Poor’s” or “S&P” means Standard & Poor’s Corporation, its successors and assigns.

“State” means the State of California.

“Supplemental Indenture” means any indenture, agreement or other instrument hereafter duly executed by the Authority in accordance with the provisions of Article VII of the Indenture.

“Surplus Fund” means the fund created and established by the Indenture.

“Tax Certificate” means the Certificate Regarding Compliance with Certain Tax Matters (or similar document) pertaining to the use and investment of proceeds of a Series of Bonds, executed and delivered by a duly authorized officer of the Authority and of the Agency on the related Closing Date, including any and all exhibits and attachments thereto.

“Tax-exempt” means, with respect to interest on any obligations of a state or local government, including the interest on the Bonds, that such interest is excluded from gross income for federal income tax purposes whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating tax liabilities, including any alternative minimum tax, under the Code.

“Trust Office” means the corporate trust office of the Trustee, currently at 400 South Hope Street, Suite 400, Los Angeles, California 90071, or such other or additional offices as may be specified to the Authority by the Trustee in writing, except that with respect to presentation of Bonds for payment or for registration of transfer and exchange such term shall mean the office or agency of the Trustee at which, at any particular time, its corporate trust agency business shall be conducted.

“Trustee” means The Bank of New York Mellon Trust Company, N.A., and its successors and assigns, and any other corporation or association which may at any time be substituted in its place as provided in the Indenture.

“2008 Project No. 1 Loan” means the loan made by the Authority to the Agency pursuant to the 2008 Project No. 1 Loan Agreement.

“2008 Project No. 5 Loan” means the loan made by the Authority to the Agency pursuant to the 2008 Project No. 5 Loan Agreement.

“2008 Project No. 1 Loan Agreement” means the Loan Agreement, dated as of March 1, 2008, by and among the Calimesa Redevelopment Agency, as succeeded by the Agency, the Authority, and The Bank of New York Trust Company, N.A., as succeeded by the Trustee, with respect to Project No. 1.

“2008 Project No. 5 Loan Agreement” means the Loan Agreement, dated as of March 1, 2008, by and among the Calimesa Redevelopment Agency, as succeeded by the Agency, the Authority, and The Bank of New York Trust Company, N.A., as succeeded by the Trustee, with respect to Project No. 5.

“2014 Authority Bonds” means the Bonds authorized by and at any time Outstanding pursuant to the Indenture.

DEPOSIT AND APPLICATION OF PROCEEDS

Issuance of 2014 Authority Bonds. Upon the execution and delivery of the Indenture, the Authority shall execute and deliver the 2014 Authority Bonds in the principal amounts set forth in the Indenture to the Trustee for authentication and delivery to the original purchaser thereof upon the Request of the Authority.

Application of Proceeds of Sale of 2014 Authority Bonds and Funds Received from the Agency. Upon the delivery of the 2014 Authority Bonds to the purchasers thereof, the Trustee, on behalf of the Authority, shall receive the proceeds from the sale of the 2014 Authority Bonds and shall deposit such proceeds and moneys in the Loan Fund for the purpose of making the Loans; except that a Pro Rata Share of each Loan will be retained by the Trustee and deposited into the Costs of Issuance Fund and the respective Reserve Subaccounts and a portion of each Loan will be deemed to have been applied to the payment of a Pro Rata Share of the Underwriter’s discount.

Revenue Fund. The Trustee shall establish and maintain a separate fund to be known as the “Revenue Fund” and the following separate accounts therein: Interest Account, Principal Account and Reserve Account with subaccounts therein for each of the Project Areas. Except as otherwise provided herein, the Trustee shall deposit all Revenues received after the Date of Delivery to the Revenue Fund and shall apply amounts in the Revenue Fund as described in the Indenture.

Costs of Issuance Fund. The Trustee shall establish and maintain a fund to be held by the Trustee known as the “Costs of Issuance Fund” into which shall be deposited the amounts set forth in the Indenture. The moneys in the Costs of Issuance Fund shall be used to pay Costs of Issuance from time to time upon receipt of a Request of the Authority. On the date which is six (6) months following the Date of Delivery, or upon the earlier receipt by the Trustee of a Request of the Authority stating that all Costs of Issuance have been paid, the Trustee shall transfer all remaining amounts in the Costs of Issuance Fund to the Revenue Fund for application in accordance with the Indenture. Upon disbursement of all monies in the Costs of Issuance Fund, the Trustee shall immediately close such funds.

Reserve Account. The Trustee shall establish and maintain a separate fund known as the “Reserve Account,” with separate subaccounts therein known as the “Project No. 1 Reserve Subaccount” and the “Project No. 5 Reserve Subaccount” (together, the “Reserve Subaccounts”) which shall be held by the Trustee in trust. The amount on deposit in the Reserve Subaccounts shall be maintained at the Pro Rata Share of the Reserve Requirement at all times prior to the payment of the 2014 Authority Bonds in full, except to the extent required for the purposes set forth in the Indenture.

Loan Fund. The Trustee shall establish and maintain a separate fund to be known as the “Loan Fund” into which shall be deposited a portion of the proceeds of sale of the 2014 Authority Bonds pursuant to the Indenture. The Trustee shall also establish within the Loan Fund separate subaccounts for each Project Area which subaccounts shall be known as the “Project No. 1 Subaccount,” and the “Project No. 5 Subaccount” (together, the “Loan Subaccounts”). The Trustee shall use the proceeds of the 2014 Authority Bonds in the Loan Fund on the Date of Delivery to make the Loans to the Agency on behalf of the Authority by depositing the net amount of each Loan in the respective Loan Subaccount pursuant to the respective Loan Agreements. Monies in the respective Subaccounts shall be disbursed to the Agency in accordance with the respect Loan Agreement upon receipt of a request therefrom from the Agency.

Surplus Fund. The Trustee shall establish and maintain a separate fund to be known as the “Surplus Fund” which shall be administered as described in the Indenture.

Additional Funds and Accounts. The Trustee may establish additional accounts or subaccounts of the above described funds and accounts as the Trustee shall deem necessary in furtherance of its duties pursuant to the Indenture. In connection with the issuance of any Additional Authority Bonds, the Trustee may create additional funds, accounts or subaccounts, or accounts within any of the foregoing funds, for the purpose of separately accounting for the proceeds of the 2014 Authority Bonds and such Additional Authority Bonds. The Authority may request the establishment of such additional accounts as it deems necessary to meet its obligations pursuant to the Indenture and the Trustee shall establish such accounts.

Receipt, Deposit and Application of Revenues: Revenue Fund. All Revenues described in clause (a) of the definition thereof in the Indenture shall be promptly deposited by the Trustee upon receipt thereof in the Revenue Fund. Notwithstanding anything to the contrary set forth in the Indenture, so long as any Bonds are Outstanding, amounts in the Revenue Fund shall be applied solely to the payment of debt service due on the Bonds.

Not less than five (5) Business Days prior to each Interest Payment Date, the Trustee shall transfer from the Revenue Fund and deposit into the following respective accounts (each of which the Trustee shall establish and maintain within the Revenue Fund), the following amounts in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

(i) Interest Account. Not less than five (5) Business Days prior to each Interest Payment Date, the Trustee shall deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to equal the amount of interest becoming due and payable on such Interest Payment Date on all Outstanding 2014 Authority Bonds. No deposit need be made into the Interest Account if the amount contained therein is at least equal to the interest becoming due and payable upon all Outstanding 2014 Authority Bonds on the next succeeding Interest Payment Date. All moneys in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the 2014 Authority Bonds as it shall become due and payable (including accrued interest on any 2014 Authority

Bonds redeemed prior to maturity). All amounts on deposit in the Interest Account on the first day of any Bond Year, to the extent not required to pay any interest then having come due and payable on the Outstanding 2014 Authority Bonds, shall be withdrawn therefrom by the Trustee and transferred to the Agency to be used for any lawful purpose of the Agency.

(ii) Principal Account. Not less than five (5) Business Days prior to each Interest Payment Date on which the principal of the 2014 Authority Bonds shall be payable, the Trustee shall deposit in the Principal Account an amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the 2014 Authority Bonds coming due and payable on such Interest Payment Date pursuant to the Indenture, or the redemption price of the 2014 Authority Bonds required to be redeemed on such interest Payment Date pursuant to the Indenture. All moneys in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of (i) paying the principal of the Serial Bonds at the maturity thereof, (ii) paying the principal of the Term Bonds upon the maturity sinking fund redemption thereof pursuant to the Indenture or upon the maturity thereof, (iii) paying the redemption price of 2014 Authority Bonds upon the redemption thereof pursuant to the Indenture, or (iv) paying the principal of 2014 Authority Bonds upon the mandatory redemption thereof by reason of acceleration of any Loan pursuant to the Indenture. All amounts on deposit in the Principal Account on the first day of any Bond Year, to the extent not required to pay the principal of any Outstanding 2014 Authority Bonds then having come due and payable, shall be withdrawn therefrom and transferred to the Agency to be used for any lawful purpose of the Agency.

(iii) In the event that the Authority shall fail to deposit with the Trustee the full amount required to be deposited pursuant to each of the Loan Agreements on or before the fifth (5th) Business Day preceding any Interest Payment Date, then on or before the fourth (4th) Business Day preceding such Interest Payment Date the Trustee shall withdraw from each of the Reserve Subaccounts and transfer to the Interest Account and the Principal Account, in such order, a Pro Rata Share of the difference between the amount required to be deposited pursuant to this section and the amount actually deposited by the Authority. In the event that the aggregate amount on deposit in the Reserve Subaccounts shall at any time be less than the Reserve Requirement, the Trustee shall promptly notify the Authority, the Agency of the amount required to be deposited therein to restore the balance to the Reserve Requirement, such notice to be given by telephone, telefax or other form of telecommunication promptly confirmed in writing. Upon receipt of the deposit required by the Loan Agreements, the Trustee shall deposit such amounts in each of the Reserve Subaccounts to restore the amounts on deposit therein to the Pro Rata Share of the Reserve Requirement. Amounts on deposit in the Reserve Account shall not be secured or applied in any way to the payment of any obligations other than the obligations of the Authority under the Indenture.

In the event that the cumulative amount on deposit in all of the Reserve Subaccounts on or before the sixth (6th) Business Day preceding any Interest Payment Date (other than the final Interest Payment Date) exceeds the Reserve Requirement, the Trustee shall withdraw from each Reserve Subaccount all amounts in excess of the Pro Rata Share of the Reserve Requirement and deposit such amounts in the Revenue Fund to be applied as a credit toward the respective Loan Payments. At the Request of the Agency filed with the Trustee, all amounts in each of the Reserve Subaccounts shall either (a) be credited, on or before the sixth (6th) Business Day preceding the final Interest Payment Date, to the payment of principal and interest then required to be made by the Authority pursuant to the Loan Agreement, or (b) transferred, following the final Interest Payment Date, to the Agency to be used for any lawful purpose free and clear of the lien of the Indenture. Notwithstanding the foregoing provisions of this paragraph, however, no amounts shall be withdrawn from each of the Reserve Subaccounts and transferred to the

Agency pursuant to this paragraph during any period in which an Event of Default shall have occurred and be continuing under the Indenture.

Subject to the prior written consent of the Insurer, the Authority reserves the right, with respect to all or any portion of the Reserve Requirement to substitute, at any time and from time to time and subject to any further requirements of any Parity Obligation Instrument, one or more Qualified Reserve Account Credit Instruments for cash or any Qualified Reserve Account Credit Instrument then on deposit in or held by the Reserve Account.

On December 2 of each year, after making the deposits transfers to the Interest Account, Principal Account, and Reserve Account required pursuant to the Indenture, the Trustee shall transfer all amounts remaining on deposit in the Revenue Fund to the Surplus Fund.

Surplus Fund. Amounts in the Surplus Fund shall no longer be considered Revenues and are not pledged to repay the 2014 Authority Bonds. So long as the Loan Obligations are outstanding under the terms of the Loan Agreements on December 2 of each year after setting aside any amount specified in a Request of the Authority as necessary to pay Administrative Expenses, the remaining balance in the Surplus Fund shall be transferred by the Trustee to the Agency to be used for any lawful purpose free and clear of the lien of the Indenture.

Investments. All moneys in any of the funds or accounts established with the Trustee pursuant to the Indenture shall be invested by the Trustee solely in Permitted Investments, as directed pursuant to the Request of the Authority filed with the Trustee at least two (2) Business Days in advance of the making of such investments. In the absence of any such Request of the Authority the Trustee shall invest any such moneys in Permitted Investments described in clause (8) of the definition thereof. 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 established under the Indenture shall be deposited in the fund or account from which such investment was made. For purposes of acquiring any investments under the Indenture, the Trustee may commingle funds held by it under the Indenture upon the Request of the Authority. The Trustee and its affiliates may act as advisor, sponsor, principal or agent in the acquisition of any investment and may make any and all investments permitted herein through its own investment department. The Trustee shall incur no liability for losses arising from any investments made pursuant to this section. Absent receipt of written notice or information to the contrary, the Trustee shall be entitled to assume that all Permitted Investments which the Trustee is directed in a Request of the Authority to purchase are legal investments under the laws of the State for the moneys invested therein, and that any investment which at the time of purchase is a Permitted Investment remains a Permitted Investment thereafter.

The Authority acknowledges that, to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Authority the right to receive brokerage confirmations of security transactions as they occur, the Authority specifically waives receipt of such confirmations to the extent permitted by law. The Trustee will furnish the Authority periodic cash transaction statements which include detail for all investment transactions made by the Trustee under the Indenture.

Valuation and Disposition of Investments. For the purpose of determining the amount in any fund or account, Permitted Investments shall be valued by the Trustee or other fiduciary (the "Trustee") not less often than annually, at the market value thereof, exclusive of accrued interest. Deficiencies in the amount on deposit in any fund or account resulting from a decline in market value shall be restored no later than the succeeding valuation date.

COVENANTS OF THE AUTHORITY

Punctual Payment. The Authority shall punctually pay or cause to be paid the principal and interest to become due in respect of all the 2014 Authority Bonds, in strict conformity with the terms of the 2014 Authority Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of Revenues and other assets pledged for such payment as provided in the Indenture.

Extension of Payment of 2014 Authority Bonds. The Authority shall not directly or indirectly extend or assent to the extension of the maturity of any of the 2014 Authority Bonds or the time of payment of any claims for interest by the purchase of such 2014 Authority Bonds or by any other arrangement, and in case the maturity of any of the 2014 Authority Bonds or the time of payment of any such claims for interest shall be extended, such 2014 Authority Bonds or claims for interest shall not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the 2014 Authority Bonds then Outstanding and of all claims for interest thereon which shall have been so extended. Nothing in this section shall be deemed to limit the right of the Authority to issue 2014 Authority Bonds for the purpose of refunding any Outstanding 2014 Authority Bonds, and such issuance shall not be deemed to constitute an extension of maturity of the 2014 Authority Bonds.

Against Encumbrances. The Authority shall not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Revenues and other assets pledged or assigned under the Indenture while any of the 2014 Authority Bonds are Outstanding, except the pledge and assignment created by the Indenture. Subject to this limitation, the Authority expressly reserves the right to enter into one or more other indentures for any of its corporate purposes, including other programs under the Bond Law, and reserves the right to issue other obligations for such purposes.

Power to Issue 2014 Authority Bonds and Make Pledge and Assignment. The Authority is duly authorized pursuant to law to issue the 2014 Authority Bonds and to enter into the Indenture and to pledge and assign the Revenues, the Loan Agreements and other assets purported to be pledged and assigned, respectively, under the Indenture. The 2014 Authority Bonds and the provisions of the Indenture are and will be the legal, valid and binding special obligations of the Authority in accordance with their terms, and the Authority and the Trustee shall at all times, subject to the provisions of the Indenture, to the extent permitted by law, defend, preserve and protect said pledge and assignment of the Revenues, the Loan Agreements and other assets and all the rights of the Bond Owners under the Indenture against all claims and demands of all persons whomsoever.

Accounting Records and Financial Statements. The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with corporate trust industry standards in which complete and accurate entries shall be made of transactions relating to the proceeds of 2014 Authority Bonds, the Revenues, the Loan Agreements and all funds and accounts established pursuant to the Indenture. Such books of record and account shall be available for inspection by the Underwriter, Authority and the Agency upon reasonable prior notice during regular business hours and under reasonable circumstances.

Not later than 45 days following each Interest Payment Date, the Trustee shall prepare and file with the Authority a report (which may be in the form of its customary account statements) setting forth: (i) amounts withdrawn from and deposited into each fund and account maintained by the Trustee under the Indenture; (ii) the balance on deposit in each fund and account as of the date for which such report is prepared; and (iii) a brief description of all obligations held as investments in each fund and account. Copies of such reports may be mailed to any Owner upon the Owner's written request at a cost not to exceed the Trustee's actual costs of duplication and mailing.

Conditions to Issuance of Additional Authority Bonds. Except as set forth in the Indenture, the Authority covenants that no additional bonds, notes or other indebtedness shall be issued or incurred which are payable out of Revenues in whole or in part.

The Authority may issue Additional Authority Bonds secured on a parity with 2014 Authority Bonds (“Additional Authority Bonds”), in such principal amount as shall be determined by the Authority, pursuant to a Supplemental Indenture adopted or entered into by the Authority. Such Additional Authority Bonds may be issued subject to the following conditions precedent:

(a) The Authority shall be in compliance with all covenants set forth in the Indenture and all Supplemental Indentures;

(b) If the proceeds of such Additional Authority Bonds shall be applied to accomplish a refunding of a portion of the 2014 Authority Bonds, there shall have been delivered to the Trustee a certificate of an Independent Financial Consultant stating that the Annual Debt Service on the Additional Authority Bonds does not exceed the Annual Debt Service on the 2014 Authority Bonds defeased or redeemed with the proceeds of such Additional Authority Bonds.

(c) Additional Authority Bonds secured on a parity with the Outstanding 2014 Authority Bonds may be issued only if there shall have been delivered to the Trustee, a written certificate of an Independent Financial Consultant stating that the requirements of the Loan Agreements have been met and that the Revenues will be not less than 100% of Debt Service on the 2014 Authority Bonds and all Additional Authority Bonds to be secured on a parity with the 2014 Authority Bonds. For purposes of such calculation, there shall be excluded principal and interest on amounts in a special escrow fund and the principal of and interest on any Additional Authority Bonds to the extent the proceeds thereof are then deposited in a fully self-supporting escrow fund (the fully self-supporting nature of which is evidenced by a report prepared by an Independent Financial Consultant) from which amounts may not be released to the Authority or the Agency unless the amount of Revenues then to be received is not less than the percentage set forth above.

(d) The Supplemental Indenture providing for the issuance of such Additional Authority Bonds shall provide that interest thereon shall be payable on June 1 and December 1, and principal thereof shall be payable on December 1 in any year in which principal is payable.

(e) The Supplemental Indenture providing for the issuance of such Additional Authority Bonds may provide for the establishment of separate funds and accounts.

(f) The Authority shall deliver to the Trustee a written certificate of the Authority certifying that the conditions precedent to the issuance of such Additional Authority Bonds set forth in subsections (a), (b) and (c) above have been satisfied.

Tax Covenants. Notwithstanding any other provision of the Indenture, absent an opinion of Bond Counsel that the exclusion from gross income of interest on the 2014 Authority Bonds will not be adversely affected for federal income tax purposes, the Authority covenants to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income and specifically covenants, without limiting the generality of the foregoing, as follows:

(a) The Authority shall not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the Tax-exempt status of interest on the Bonds under Section 103(a) of the Code or cause interest on the Bonds to be an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations under Section 55 of the Code.

(b) In furtherance of the foregoing tax covenant, the Authority shall comply with the provisions of the Tax Certificate, which is incorporated herein as if fully set forth in the Indenture. These covenants shall survive payment in full or defeasance of the Bonds.

This section and the covenants set forth herein shall not be applicable to, and nothing contained herein shall be deemed to prevent the Authority from issuing bonds the interest on which has been determined by the Board to be subject to federal income taxation.

Disposition of Unexpended Funds. Any funds remaining in the accounts of the Rebate Fund after redemption and payment of the 2008 Authority Bonds and the payments described in Subsection (a)(iii) being made may be withdrawn by the Authority and utilized in any manner by the Authority.

Survival of Defeasance. Notwithstanding anything in this section to the contrary, the obligation to comply with the requirements of this section shall survive the defeasance of the 2008 Authority Bonds.

Loan Agreements. Subject to the provisions of the Indenture, the Trustee, as assignee of the Authority's rights pursuant to the Indenture, shall promptly collect all amounts due from the Agency pursuant to the Loan Agreements and shall diligently enforce, and take all steps, actions and proceedings reasonably necessary for the enforcement of all of the rights of the Authority thereunder and for the enforcement of all of the obligations of the Agency thereunder.

The Authority, the Trustee and the Agency may at any time amend or modify a Loan Agreement pursuant to the Indenture, but only (a) if the Trustee first obtains the written consent of the Owners of a majority in aggregate principal amount of the 2014 Authority Bonds then Outstanding to such amendment or modification, or (b) without the consent of any of the Bond Owners, if such amendment or modification is for any one or more of the following purposes-

(a) to add to the covenants and agreements of the Agency contained in a Loan Agreement, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power therein 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 a Loan Agreement, or in any other respect whatsoever as the Agency may deem necessary or desirable, provided under any circumstances that such modifications or amendments shall not materially adversely affect the interests of the Owners of the 2014 Authority Bonds; or

(c) to amend any provision thereof relating to the Code, to any extent whatsoever but only if and to the extent such amendment will not adversely affect the exclusion from gross income of interest on any of the 2014 Authority Bonds under the Code, in the opinion of nationally-recognized bond counsel.

Continuing Disclosure. Pursuant to each of the Loan Agreements, the Agency has undertaken all responsibility for compliance with continuing disclosure requirements, and the Authority shall have no liability to the Owners of the 2014 Authority Bonds or any other person with respect to such disclosure matters. Notwithstanding any other provision of the Indenture, failure of the Agency to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default. However, any Participating Underwriter or any Owner or beneficial owner of the 2014 Authority Bonds may take such actions as may be necessary and appropriate to compel performance by the Agency, including seeking mandate or specific performance by court order.

Further Assurances. The Authority will adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture, and for the better assuring and confirming unto the Owners of the 2014 Authority Bonds the rights and benefits provided in the Indenture.

MODIFICATION AND AMENDMENT OF THE INDENTURE

Amendment. The Indenture and the rights and obligations of the Authority and of the Owners of any 2014 Authority Bonds and/or Additional Authority Bonds may be modified or amended at any time by a Supplemental Indenture which shall become binding when the written consent of the Insurer (as long as the Insurance Policy is in full force and effect) and Owners of a majority in aggregate principal amount of each of the affected 2014 Authority Bonds and Additional Authority 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 2014 Authority Bond or Additional Authority Bonds or otherwise alter or impair the obligation of the Authority to pay the principal, interest or redemption premiums at the time and place and at the rate and in the currency provided therein of any 2014 Authority Bond or Additional Authority Bonds without the express written consent of the Owner of such 2014 Authority Bond or Additional Authority Bond, (b) reduce the percentage of 2014 Authority Bonds and Additional Authority Bonds required for the written consent to any such amendment or modification, or (c) without written consent of the Trustee, modify any of the rights or obligations of the Trustee.

The Indenture and the rights and obligations of the Authority and of the Owners of the 2014 Authority Bonds or Additional Authority Bonds may also be modified or amended at any time by a Supplemental Indenture which shall become binding upon adoption, with the written consent of the Insurer (as long as the Insurance Policy is in full force and effect, and only if the proposed modification or amendment adversely affects the rights and interests of the Insurer) but without consent of any Owners 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 Authority contained in the Indenture, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or powers herein reserved to or conferred upon the Authority so long as such addition, limitation or surrender of such rights or powers shall not materially adversely affect the Owners of the 2014 Authority Bonds or Additional Authority Bonds; 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 Authority may deem necessary or desirable, provided under any circumstances that such modifications or amendments shall not materially adversely affect the interests of the Owners of the 2014 Authority Bonds or Additional Authority Bonds; or
- (c) to amend any provision hereof relating to the Code as may be necessary or appropriate to assure compliance with the Code and the exclusion from gross income of interest on the 2014 Authority Bonds or Additional Authority Bonds; or
- (d) to provide for the issuance of Additional Authority Bonds in a manner consistent with the provisions hereof.

The Trustee may obtain an opinion of Bond Counsel that any such Supplemental Indenture entered into by the Authority and the Trustee complies with the provisions of the Indenture and the Trustee may conclusively rely upon such opinion.

Effect of Supplemental Indenture. From and after the time any Supplemental Indenture becomes effective pursuant to the Indenture, the Indenture shall be deemed to be modified and amended in accordance therewith, the respective rights, duties and obligations of the parties hereto or thereto and all Owners of Outstanding 2014 Authority Bonds, as the case may be, shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modification and amendment, and all the terms and conditions of the Indenture for any and all purposes.

Amendment by Mutual Consent. The foregoing amendment provisions of the Indenture shall not prevent any Bond Owner from accepting any amendment as to the particular 2014 Authority Bond held by him, provided that due notation thereof is made on such Authority Bond.

EVENTS OF DEFAULT

NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THE INDENTURE, SO LONG AS THE INSURANCE POLICY REMAINS IN EFFECT AND THE INSURER HAS NOT DEFAULTED WITH RESPECT TO ITS PAYMENT OBLIGATIONS UNDER THE INSURANCE POLICY, ALL PROVISIONS OF THIS ARTICLE VIII SHALL BE SUBJECT TO, AND QUALIFIED BY, THE PROVISIONS SET FORTH IN ARTICLE IX, INCLUDING, WITHOUT LIMITATION, THE INSURER'S RIGHT TO CONSENT TO ACCELERATION OF THE BONDS, AND THE INSURER'S RIGHT TO CONSENT TO OR DIRECT CERTAIN AUTHORITY, TRUSTEE OR OWNER ACTIONS.

The following events shall be Events of Default under the Indenture.

- Default in the due and punctual payment of the principal of any 2014 Authority Bond or Additional Authority Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise.
- Default in the due and punctual payment of any installment of interest on any 2014 Authority Bond or Additional Authority Bond when and as such interest installment shall become due and payable.
- Default by the Authority in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or contained in the 2014 Authority Bonds or Additional Authority Bonds, if such default shall have continued for a period of thirty (30) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority by the Trustee, or to the Authority and the Trustee by the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the 2014 Authority Bonds and Additional Authority Bonds at the time Outstanding; provided that such default (other than a default arising from nonpayment of the Trustee's fees and expenses, which must be cured within such 30-day period unless waived by the Trustee) shall not constitute a Event of Default hereunder if the Authority shall commence to cure such default within said thirty (30) day period and thereafter diligently and in good faith shall cure such default (i) as long as the Insurance Policy is in full force and effect, within sixty (60) days after written notice of the default was originally given to the Authority or within such longer period as may be agreed to by the Insurer with its prior written consent, or (ii) if the Insurance Policy is no longer in full force and effect, within a reasonable period of time;
- The filing by the Authority of a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of

America, or if a court of competent jurisdiction shall approve a petition, filed with or without the consent of the Authority, seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America, or if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Authority or of the whole or any substantial part of its property; or

- The occurrence of an Event of Default under the Project No. 1 Loan Agreement or the Project No. 5 Loan Agreement.

Upon the occurrence of an event of default, the Trustee may, and shall, at the direction of a majority of the Bondowners, by written notice to the Authority and the Agency, declare the principal of the Bonds to be immediately due and payable, whereupon that portion of the principal of the Bonds thereby coming due and the interest thereon accrued to the date of payment shall, without further action, become and be immediately due and payable, anything in the Indenture or in the Bonds to the contrary notwithstanding.

The declaration may be rescinded by the Owners of not less than a majority of the Bonds then outstanding provided the Authority cures the default or defaults and deposits with the Trustee a sum sufficient to pay all principal on the Bonds matured prior to the declaration and all matured installments of interest (if any) upon all the Bonds so that the Authority is currently in compliance with all payment, deposit and transfer provisions of the Indenture, and has paid or provided for the payment of any fees and expenses incurred by the Trustee in connection with the default.

Remedies; Rights of Bond Owners. Upon the occurrence of an Event of Default, the Trustee may pursue any available remedy at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Outstanding 2014 Authority Bonds and additional 2014 Authority Bonds, and to enforce any rights of the Trustee under or with respect to the Indenture. In the event of an Event of Default arising out of a nonpayment of Trustee's fees and expenses, the Trustee may sue the Authority to seek recovery of its fees and expenses.

If an Event of Default shall have occurred and be continuing and if requested so to do by the Owners of at least twenty-five percent (25%) in aggregate principal amount Outstanding 2014 Authority Bonds and Additional Authority Bonds and indemnified as provided in the Indenture, the Trustee shall be obligated to exercise one or more of the rights and powers conferred by Article VIII of the Indenture, as the Trustee, being advised by counsel, shall deem most expedient in the interests of the 2014 Authority Bond and Additional Bond Owners.

No remedy by the terms of the Indenture conferred upon or reserved to the Trustee (or to the 2014 Authority Bond and Additional Bond Owners) is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee or to the Bond Owners under the Indenture or now or hereafter existing at law or in equity.

No delay or omission to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or acquiescence therein; such right or power may be exercised from time to time as often as may be deemed expedient.

Application of Revenues and Other Funds After Default. All amounts received by the Trustee pursuant to any right given or action taken by the Trustee under the provisions of the Indenture relating to the 2014 Authority Bonds and Additional Authority Bonds shall be applied by the Trustee in the

following order upon presentation of the several 2014 Authority Bonds and Additional Authority Bonds, and the stamping thereon of the amount 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 carrying out the provisions of the Indenture, including reasonable compensation to its agents, attorneys and counsel, and to the payment of any fees and expenses of the Trustee then outstanding in connection with the performance of its duties and obligations under the Indenture and the Loan Agreements, including any related fees and expenses of its legal counsel then outstanding; and

Second, to the payment of the whole amount of interest on and principal of the Outstanding 2014 Authority Bonds and any Outstanding Additional Authority Bonds then due and unpaid, with interest on overdue installments of principal and interest to the extent permitted by law at the net effective rate of interest then borne by the Outstanding 2014 Authority Bonds or Outstanding Additional Authority Bonds, as applicable; provided, however, that in the event such amounts shall be insufficient to pay in full the full amount of such interest and principal, then such amounts shall be applied in the following order of priority:

- first, to the payment of all installments of interest on the Outstanding 2014 Authority Bonds and any Outstanding Additional Authority Bonds then due and unpaid, on a pro rata basis in the event that the available amounts are insufficient to pay all such interest in full,
- second, to the payment of principal of all installments of the Outstanding 2014 Authority Bonds and any Outstanding Additional Authority Bonds then due and unpaid, excluding principal having come due and payable solely by reason of acceleration pursuant to a Loan Agreement, on a pro rata basis in the event that the available amounts are insufficient to pay all such principal in full, and
- third, to the payment of interest on overdue installments of principal and interest, on a pro rata basis in the event that the available amounts are insufficient to pay all such interest in full.

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 twenty-five percent (25%) in aggregate principal amount of the 2014 Authority Bonds and Additional Authority Bonds then Outstanding, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the 2014 Authority Bonds and Additional Authority 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 twenty-five percent (25%) in aggregate principal amount of the Outstanding 2014 Authority Bonds and Additional Authority Bonds under the Indenture opposing such discontinuance, withdrawal, compromise, settlement or other such litigation and confirming the indemnity set forth in the Indenture. Any suit, action or proceeding which any Owner of 2014 Authority Bonds or Additional Authority Bonds shall have the right to bring to enforce any right or remedy under the Indenture may be brought by the Trustee for the equal benefit and protection of all Owners of 2014 Authority Bonds and Additional Authority Bonds similarly situated and the Trustee is hereby appointed (and the successive respective Owners of the 2014 Authority Bonds and Additional Authority Bonds issued under the Indenture, by taking and holding the same, shall be conclusively deemed so to have appointed it) the true and lawful attorney in fact of the respective

Owners of the 2014 Authority Bonds and Additional Authority Bonds for the purposes of bringing any such suit, action or proceeding and to do and perform any and all acts and things for and on behalf of the respective Owners of the 2014 Authority Bonds and Additional Authority Bonds as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney-in-fact.

As long as the Insurance Policy is in full force and effect, the Insurer shall be deemed to be the sole Owner of the 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 Bonds insured by it are entitled to take pursuant to the Indenture or the Loan Agreements pertaining to (i) defaults and remedies and (ii) the duties and obligations of the Trustee. The Trustee and each Bond Owner appoint the Insurer as their agent and attorney-in-fact and agree that the Insurer may at any time during the continuation of any proceeding by or against the Authority or the Agency under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding") direct all matters relating to such Insolvency Proceeding, including without limitation, (A) all matters relating to any claim or enforcement proceeding in connection with an Insolvency Proceeding (a "Claim"), (B) the direction of any appeal of any order relating to any Claim, (C) the posting of any surety, supersedeas or performance bond pending any such appeal, and (D) the right to vote to accept or reject any plan of adjustment. In addition, the Trustee and each Bond Owner delegate and assign to the Insurer, to the fullest extent permitted by law, the rights of the Trustee and each Bond Owner in the conduct of any Insolvency Proceeding, including, without limitation, all rights of any party to an adversary proceeding or action with respect to any court order issued in connection with any such Insolvency Proceeding. Remedies granted to the Bond Owners shall expressly include mandamus and the right to enforce the obligations of the Agency under the Loan Agreements. The rights granted to the Insurer under the Indenture or the Loan Agreements to request, consent to or direct any action are rights granted to the Insurer in consideration of its issuance of the Insurance Policy. Any exercise by the Insurer of such rights is merely an exercise of the Insurer's contractual rights and shall not be construed or deemed to be taken for the benefit, or on behalf, of the Bond Owners and such action does not evidence any position of the Insurer, affirmative or negative, as to whether the consent of the Bond Owners or any other person is required in addition to the consent of the Insurer.

Appointment of Receivers. Upon the occurrence of an Event of Default under the Indenture, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Bond Owners under the Indenture, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Revenues and other amounts pledged under the Indenture, pending such proceedings, with such powers as the court making such appointment shall confer.

Non-Waiver. Nothing in the Indenture, or in the 2014 Authority Bonds, shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay the interest on and principal of the 2014 Authority Bonds to the respective Owners of the 2014 Authority Bonds at the respective dates of maturity, as herein provided, out of the Revenues and other moneys herein pledged for such payment.

A waiver of any default or breach of duty or contract by the Trustee or any 2014 Authority Bond or Additional Bond Owners shall not affect any subsequent default or breach of duty or contract, or impair any rights or remedies on any such subsequent default or breach. No delay or omission of the Trustee or any Owner of any of the 2014 Authority Bonds or Additional Authority Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy conferred upon the Trustee or 2014 Authority Bond or Additional Bond Owners by the Bond Law or by Article VIII of the Indenture may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee or the 2014 Authority Bond and Additional Bond Owners, as the case may be.

Rights and Remedies of 2014 Authority Bond and Additional Bond Owners. No Owner of any 2014 Authority Bond or Additional Authority Bond issued under the Indenture shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of twenty-five percent (25%) in aggregate principal amount of all the 2014 Authority Bonds and Additional Authority Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted 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 hereby declared, in every case, to be conditions precedent to the exercise by any Owner of 2014 Authority Bonds or Additional Authority Bonds of any remedy under the Indenture; it being understood and intended that no one or more Owners of 2014 Authority Bonds or Additional Authority Bonds shall have any right in any manner whatever by his or their action to enforce any right under the Indenture, except in the manner herein 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 herein provided and for the equal benefit of all Owners of the Outstanding 2014 Authority Bonds and Additional Authority Bonds.

The right of any Owner of any 2014 Authority Bond to receive payment of the principal of and interest and premium (if any) on such 2014 Authority Bond as herein provided or to institute suit for the enforcement of any such payment, shall not be impaired or affected without the written consent of such Owner, notwithstanding the foregoing provisions of this section or any other provision of the Indenture.

Termination of Proceedings. In case the Trustee shall have proceeded to enforce any right under the Indenture by the appointment of a receiver or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely, then and in every such case, the Authority, the Trustee and the Bond Owners shall be restored to their former positions and rights under the Indenture, respectively, with regard to the property subject to the Indenture, and all rights, remedies and powers of the Trustee shall continue as if no such proceedings had been taken.

PROVISIONS RELATING TO BOND INSURANCE

Bonds Outstanding. Amounts paid by the Insurer under the Insurance Policy shall not be deemed paid for purposes of the Indenture and the Bonds relating to such payments shall remain Outstanding and continue to be due and owing until paid by the Authority in accordance with the Indenture. The Indenture shall not be discharged unless all amounts due or to become due to the Insurer have been paid in full or duly provided for.

Required Action. The Authority or, at the direction of the Authority, the Trustee, covenant and agree to take such action (including, as applicable, filing of UCC financing statements and continuations thereof) as is necessary from time to time to preserve the priority of the pledge of the trust estate under applicable law.

Claims Upon the Insurance Policy and Payments by and to the Insurer.

(a) If, on the third Business Day prior to the related scheduled interest payment date or principal payment date ("Payment Date") there is not on deposit with the Trustee, after making all

transfers and deposits required under the Indenture, moneys sufficient to pay the principal of and interest on the Bonds due on such Payment Date, the Trustee shall give notice to the Insurer and to its designated agent (if any) (the “Insurer's Fiscal Agent”) by telephone or telecopy of the amount of such deficiency by 12:00 noon, New York City time, on such Business Day. If, on the second Business Day prior to the related Payment Date, there continues to be a deficiency in the amount available to pay the principal of and interest on the Bonds due on such Payment Date, the Trustee shall make a claim under the Insurance Policy and give notice to the Insurer and the Insurer's Fiscal Agent (if any) by telephone of the amount of such deficiency, and the allocation of such deficiency between the amount required to pay interest on the Bonds and the amount required to pay principal of the Bonds, confirmed in writing to the Insurer and the Insurer's Fiscal Agent by 12:00 noon, New York City time, on such second Business Day by filling in the form of Notice of Claim and Certificate delivered with the Insurance Policy.

(b) The Trustee shall designate any portion of payment of principal on Bonds paid by the Insurer, whether by virtue of mandatory sinking fund redemption, maturity or other advancement of maturity, on its books as a reduction in the principal amount of Bonds registered to the then current Bondholder, whether DTC or its nominee or otherwise, and shall issue a replacement Bond to the Insurer, registered in the name of Assured Guaranty Municipal Corp., in a principal amount equal to the amount of principal so paid (without regard to authorized denominations); provided that the Trustee's failure to so designate any payment or issue any replacement Bond shall have no effect on the amount of principal or interest payable by the Authority on any Bond or the subrogation rights of the Insurer.

(c) The Trustee shall keep a complete and accurate record of all funds deposited by the Insurer into the Policy Payments Account (defined below) and the allocation of such funds to payment of interest on and principal of any Bond. The Insurer shall have the right to inspect such records at reasonable times upon reasonable notice to the Trustee.

(d) Upon payment of a claim under the Insurance Policy, the Trustee shall establish a separate special purpose trust account for the benefit of Bondholders referred to herein as the “Policy Payments Account” and over which the Trustee shall have exclusive control and sole right of withdrawal. The Trustee shall receive any amount paid under the Insurance Policy in trust on behalf of Bondholders and shall deposit any such amount in the Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be disbursed by the Trustee to Bondholders in the same manner as principal and interest payments are to be made with respect to the Bonds under the sections hereof regarding payment of Bonds. It shall not be necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to pay debt service with other funds available to make such payments. Notwithstanding anything herein to the contrary, the Authority agrees to pay to the Insurer (i) a sum equal to the total of all amounts paid by the Insurer under the Insurance Policy (the “Insurer Advances”); and (ii) interest on such Insurer Advances from the date paid by the Insurer until payment thereof in full, payable to the Insurer at the Late Payment Rate per annum (collectively, the “Insurer Reimbursement Amounts”). “Late Payment Rate” means the lesser of (a) the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank at its principal office in The City of New York, as its prime or base lending rate (any change in such rate of interest to be effective on the date such change is announced by JPMorgan Chase Bank) plus 3%, and (ii) the then applicable highest rate of interest on the Bonds and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Late Payment Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days. The Authority hereby covenants and agrees that the Insurer Reimbursement Amounts are secured by a lien on and pledge of the trust estate and payable from such trust estate on a parity with debt service due on the Bonds.

(e) Funds held in the Policy Payments Account shall not be invested by the Trustee and may not be applied to satisfy any costs, expenses or liabilities of the Trustee. Any funds remaining in the Policy Payments Account following a Bond payment date shall promptly be remitted to the Insurer.

Subrogation. The Insurer shall, to the extent it makes any payment of principal of or interest on the Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Insurance Policy (which subrogation rights shall also include the rights of any such recipients in connection with any Insolvency Proceeding). Each obligation of the Authority to the Insurer under the Indenture and the Loan Agreements (the "Related Documents") shall survive discharge or termination of such Related Documents.

Reimbursement of Insurer. The Authority shall pay or reimburse the Insurer any and all charges, fees, costs and expenses that the Insurer may reasonably pay or incur in connection with (i) the administration, enforcement, defense or preservation of any rights or security in any Related Document; (ii) the pursuit of any remedies under the Indenture or any other Related Document or otherwise afforded by law or equity, (iii) any amendment, waiver or other action with respect to, or related to, the Indenture or any other Related Document whether or not executed or completed, or (iv) any litigation or other dispute in connection with the Indenture or any other Related Document or the transactions contemplated thereby, other than costs resulting from the failure of the Insurer to honor its obligations under the Insurance Policy. The 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 or any other Related Document.

Application of Prepayment. After payment of reasonable expenses of the Trustee, the application of funds realized upon default shall be applied to the payment of expenses of the Authority or rebate only after the payment of past due and current debt service on the Bonds and amounts required to restore the Reserve Account to the Reserve Requirement. The Insurer shall be entitled to pay principal or interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Authority (as such terms are defined in the Insurance Policy) and any amounts due on the Bonds as a result of acceleration of the maturity thereof in accordance with the Indenture, whether or not the Insurer has received a Notice of Nonpayment (as such terms are defined in the Insurance Policy) or a claim upon the Insurance Policy.

2014 LOAN AGREEMENTS

Terms of Loans; Payment of Principal and Interest

Pursuant to the Loan Agreements, the Authority agrees to make the Loans to the Agency on the Date of Delivery. The principal of the Loans is payable in aggregate installments as of the sixth (6th) Business Day prior to December 1 in each of the years and in the amounts shown in inside of the cover, and interest on each installment of the Loan is calculated at the rates per annum and is payable as of the sixth (6th) Business Day prior to each Interest Payment Date in the aggregate amounts, corresponding to the amounts of principal and interest then coming due with respect to the outstanding Bonds. Principal of and interest on the Loans is payable by the Agency to the Trustee, as assignee of the Authority under the Indenture, in immediately available funds.

Prepayment of Loans

The Loans are subject to optional prepayment in whole, or in part, on any date on which the Bonds are subject to optional redemption, from any available source of funds of the Agency, at a prepayment price corresponding to the redemption price of the Bonds to be redeemed from such prepayments. In the event that a portion of the principal of the Loan shall have been prepaid by the

Agency pursuant to a Loan Agreement, the amount of all future annual principal installments set forth in such Loan Agreement shall be reduced in the aggregate amount of such principal so prepaid, based on calculations to be provided to the Trustee by an Independent Financial Consultant or by the original purchaser.

Parity Debt

Loans: The Agency may issue or incur Parity Debt on a parity with the Loans only for such purposes as are permitted under the Dissolution Act, including without limitation Section 34177.5 thereof, subject to the following additional conditions:

(a) No event of default shall have occurred and be continuing, and the Agency shall otherwise be in compliance with all covenants set forth in the Loan Agreements.

(b) The Oversight Board shall have approved the issuance of such Parity Debt.

(c) A Report shall be delivered to the Trustee stating that, based on the most recent assessed valuation of taxable property in the Project Areas as shown on the records of the County, the amount of Pledged Tax Revenues for the then current Fiscal Year, plus at the option of the Agency the Additional Allowance, is at least equal to one hundred twenty-five percent (125%) of the largest amount obtained by totaling for the current or any future Bond Year, the sum of (a) the amount of interest payable on the Loans and any Parity Debt to be Outstanding in each such Bond Year, assuming that principal thereof is paid as scheduled and that any mandatory sinking fund payments are made as scheduled, and (b) the amount of principal payable on the Loans and any Parity Debt to be Outstanding in each such Bond Year, including any principal required to be prepaid by operation of mandatory sinking fund payments. For purposes of such calculation, there shall be excluded principal and interest on amounts in a special escrow fund and the principal of and interest on any Parity Debt to the extent the proceeds thereof are then deposited in a fully self-supporting escrow fund (the fully self-supporting nature of which is evidenced by a report prepared by an Independent Financial Consultant) from which amounts may not be released to the Agency unless the amount of Pledged Tax Revenues then to be received is not less than the percentage set forth above.

(d) The related Parity Debt Instrument shall provide that interest on such Parity Debt shall be payable semiannually on June 1 and December 1 in each full calendar year during the term of such Parity Debt and the principal of such Parity Debt shall be payable on December 1 in each year principal is paid;

(e) The Agency shall deliver to the Authority and the Trustee a Certificate of the Agency certifying that the aggregate amount of principal of and interest on the Loan, all Parity Debt and all other indebtedness payable from Pledged Tax Revenues following the issuance or incurrence of such Parity Debt will not exceed the maximum amount of Pledged Tax Revenues permitted under the Plan Limit to be allocated and paid to the Agency following the issuance or incurrence of such Parity Debt;

(f) The Agency shall fund a reserve fund for such Parity Debt in an amount which when added to the reserve funds for all other Parity Debt will be equal to the Reserve Requirement; and

(g) The Agency shall deliver to the Authority and the Trustee a Certificate of the Agency certifying that the conditions precedent to the issuance of such Parity Debt have been satisfied.

Pledge and Deposit of Pledged Tax Revenues

The Loans and all related Parity Debt are equally secured by a pledge of, security interest in and lien on all of the Pledged Tax Revenues and a first pledge of, security interest in and lien on all of the moneys in the Redevelopment Obligation Retirement Fund. Each Loan and all additional Parity Debt is additionally secured by a first and exclusive pledge of and lien upon all of the moneys in the related Reserve Account, including all amounts derived from the investment of such moneys. The Agency covenants and agrees to take such action (including, as applicable, filing of UCC financing statements and continuations thereof) as is necessary from time to time to preserve the priority of the pledge of the trust estate under applicable law.

There has been established a special trust fund known as the “Redevelopment Obligation Retirement Fund,” which shall be held by the Agency pursuant to Section 34170.5 of the Dissolution Act. In addition, each Loan Agreement establishes a Bond Fund to be held by the Authority. The Agency shall deposit all of the Pledged Tax Revenues received in any Bond Year in the Redevelopment Obligation Retirement Fund promptly upon receipt thereof by the Agency, and shall immediately thereafter transfer amounts received therein to the Authority until such time during such Bond Year as the amounts so transferred to the Authority hereunder equal the aggregate principal and interest amounts required to be paid by the Agency to the Authority for such Bond Year pursuant to the Loan Agreements and pursuant to any Parity Debt Instrument, and the Authority shall deposit all such Pledged Tax Revenues received by the Authority from the Agency in the Bond Funds. At such time (if any) during such Bond Year as the amounts on deposit in the Bond Funds equal the aggregate amounts required to be transferred to the Trustee pursuant to the Indenture and pursuant to any applicable Parity Debt Instrument; and (except as may be otherwise provided in any Parity Debt Instrument) and the Agency shall have delivered to the Trustee an Annual Loan Payment Certificate certifying that all deposits have been made to each of the bond funds as required by each of the Loan Agreements that the Pledged Tax Revenues to be received with respect to such Bond Year will equal at least 125% of Annual Debt Service on the Bonds, that there is on deposit in Reserve Account an amount equal to the Reserve Requirement and that no event has occurred that would result in a transfer by the Trustee from the Reserve Account pursuant to the Indenture, any Pledged Tax Revenues held in the Bond Fund or thereafter received during such Bond Year in excess of such amounts shall be released from the pledge and lien under the applicable Loan Agreement and shall be returned to the Agency for any lawful purpose. In the event the Annual Loan Payment Certificate provides that Pledged Tax Revenues with respect to such Bond Year will be less than 125% of the Annual Debt Service on the Bonds an amount equal to the Pro Rata Share of the difference between the amount of Pledged Tax Revenues to be received with respect to such Bond Year and 125% of Annual Debt Service on the Bonds shall be retained in the Bond Fund. At such time as it is determined that the aggregate Pledged Tax Revenues remaining to be received under the Plan Limits is equal to or less than 125% of the aggregate debt service payable on the Authority Bonds through maturity, all Pledged Tax Revenues shall be deposited in the Bond Fund and used solely for the payment of debt service on the Bonds. Prior to the payment in full of the principal of and interest and prepayment premium (if any) on the Loan and all Parity Debt and the payment in full of all other amounts payable under the applicable Loan Agreement, and under any Parity Debt Instrument, the Agency shall not have any beneficial right or interest in the moneys on deposit in the Bond Fund, except only as provided in a Loan Agreement and in any Parity Debt Instrument, and such moneys shall be used and applied as set forth herein and in any Parity Debt Instrument.

(a) Interest and Principal Deposits. No later than the fifth (5th) Business Day preceding each Interest Payment Date commencing December 1, 2014, the Authority shall withdraw from the Bond Fund and transfer to the Trustee an amount equal to the aggregate amount of principal of and interest on the Loan becoming due and payable in such Bond Years pursuant to the Loan Agreements.

(b) Reserve Account Deposits. In the event that the Trustee notifies the Agency and the Authority pursuant to the Indenture that the amount on deposit in any of the Reserve Subaccount is less than the Reserve Requirement, the Authority shall immediately withdraw from the Bond Fund and transfer to the Trustee for deposit in the Reserve Account a Pro Rata Share of the Reserve Requirement 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.

(c) Surplus. Except as may be otherwise provided in any documents authorizing the issuance of any Parity Debt, the Agency shall not be obligated to deposit in a Special Fund in any Bond Year an amount of Pledged Tax Revenues which, together with other available amounts in such Special Fund, exceeds the amounts required to be deposited with the Trustee in such Bond Year. In the event that for any reason whatsoever any amounts shall remain on deposit in a Special Fund on any August 1 after making all of the transfers theretofore required to be made pursuant to the foregoing described provisions and pursuant to any Parity Debt Instrument, the Agency shall withdraw such amounts from such Special Fund, to be used for any lawful purpose of the Agency, including but not limited to the payment of any amounts due and owing to the United States pursuant to the Loan Agreements.

Other Covenants of the Agency

Limitation on Parity and Superior Debt. The Agency covenants that, so long as a Loan remains unpaid, the Agency shall not issue any bonds, notes or other obligations, enter into any agreement or otherwise incur any loans, advances or indebtedness, which is in any case secured by a lien on all or any part of the Pledged Tax Revenues pledged to pay such Loan which is superior to or on a parity with the lien established under the Loan Agreement for the security of such Loan, excepting only Parity Debt issued as provided in the applicable Loan Agreement. Nothing in a Loan Agreement is intended or shall be construed in any way to prohibit or impose any limitations upon the issuance by the Agency of loans, bonds, notes, advances or other indebtedness which are unsecured or which are secured by a junior lien on the applicable Pledged Tax Revenues; provided, that Pledged Tax Revenues net of 125% of Loan payments are at least equal to 110% of debt service on such subordinated indebtedness.

Books and Accounts; Financial Statements. The Agency will keep, or cause to be kept, proper books of record and accounts, separate from all other records and accounts of the Agency and the City, in which complete and correct entries shall be made of all transactions relating to the projects originally financed by the 2008 Project No. 1 Loan and the 2008 Project No. 5 Loan and refinanced by the Loans made under the Loan Agreements, the Pledged Tax Revenues, the Redevelopment Obligation Retirement Fund, the Redevelopment Fund and the Reserve Account. Such books of record and accounts shall at all times during business hours be subject, upon prior written request, to the reasonable inspection of the Authority, the Trustee and the Owners of any Bonds then outstanding, or their representatives authorized in writing. The Agency will permit the Insurer to discuss the affairs, finances and accounts of the Agency or any information the Insurer may reasonably request regarding the security for the 2014 Authority Bonds with appropriate officers of the Agency and will use commercially reasonable efforts to enable the Insurer to have access to the facilities, books and records of the Agency on any business day upon reasonable prior notice.

Protection of Security and Rights. The Agency will preserve and protect the security of the Loans and the rights of the Trustee and the Bond Owners with respect to the Loans. From and after the Date of Delivery, the Loans shall be incontestable by the Agency.

Disposition of Property. The Agency will not participate in the detachment of any land or real property from a Project Area or the disposition of any land or real property in a Project Area 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) so that such detachment or disposition shall, when taken together with other such detachments or dispositions, aggregate either more than 10% of the land area in such Project Area or 10% of the assessed value of the Project Area. Notwithstanding the foregoing, the Agency will not participate in any such detachment or disposition (except property dedicated for public right-of-way) at any time when Tax Revenues are less than one hundred twenty-five percent (125%) of Maximum Annual Debt Service on the related Loan calculated in the same manner as required for the issuance or incurrence of Parity Debt.

Maintenance of Pledged Tax Revenues. The Agency shall comply with all requirements of the Dissolution Act to insure the allocation and payment to it of the Pledged Tax Revenues, including without limitation the timely filing of any necessary statements of indebtedness with appropriate officials of the County and (in the case of supplemental revenues and other amounts payable by the State) appropriate officials of the State of California. The Agency further covenants and agrees to that it will take all actions required under the Dissolution Act to include scheduled debt service on the Loan and any Parity Debt, as well as any amount required under the Indenture to replenish the Reserve Account, in Recognized Obligation Payment Schedules for each six-month period so as to enable the County Auditor-Controller to distribute from the Redevelopment Property Tax Trust Fund to the Agency's Redevelopment Obligation Retirement Fund on each January 2 and June 1 amounts required for the Agency to pay principal of, and interest on, the Loan and any Parity Debt coming due in the respective six-month period, including, without limitation, placing on the periodic Recognized Obligation Payment Schedule for approval by the Oversight Board and State Department of Finance, to the extent necessary, the amounts to be held by the Agency as a reserve until the next six-month period, as contemplated by paragraph (1)(A) of subdivision (d) of Section 34171 of the Dissolution Act, that are necessary to provide for the payment of principal and interest under the Loan Agreements when the next property tax allocation is projected to be insufficient to pay all obligations due under any Parity Debt Instruments and the Loan Agreements and for the next payment due thereunder and hereunder in the following six-month period. The Agency shall not enter into any agreement with the County or any other governmental unit which would have the effect of reducing the amount of Pledged Tax Revenues available to the Agency for payment of the Loans. Nothing herein is intended or shall be construed in any way to prohibit or impose any limitations on the entering into by the Agency of any agreement which by its term is subordinate to the payment of the Loan and all Parity Debt.

Tax Covenants. The Agency shall not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the Tax-exempt status of interest on the 2014 Authority Bonds under Section 103(a) of the Code or cause interest on the 2014 Authority Bonds to be an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations under Section 55 of the Code. In furtherance of the foregoing tax covenant, the Agency shall comply with the provisions of the Tax Certificate, which is incorporated herein as if fully set forth in the applicable Loan Agreement. These covenants shall survive payment in full of the Loans or the 2014 Authority Bonds, or defeasance of the 2014 Authority Bonds.

Compliance with Dissolution Act. The Agency covenants that it will comply with the requirements of the Dissolution Act. Without limiting the generality of the foregoing, the Agency covenants and agrees to file all required statements and hold all public hearings required under the Dissolution Act to assure compliance by the Agency with its covenants under the Loan Agreements.

Plan Limit; Annual Review of Tax Revenues. The Agency shall annually review the total amount of Pledged Tax Revenues remaining available to be received by the Agency under an applicable Plan Limit, as well as future cumulative annual payments on the related Loan and other obligations of the Agency payable from Pledged Tax Revenues. The Agency will not accept such Pledged Tax Revenues greater than the aggregate annual debt service payable by the Agency in any year if such acceptance will

cause the amount remaining under the tax increment limit to fall below remaining cumulative debt service, except for the purpose of depositing such revenues in escrow for future Loan payments and applicable Parity Debt payments or to prepay such Loan and applicable Parity Debt. Once it has been determined that during the next succeeding Fiscal Year the aggregate Pledged Tax Revenues remaining to be received under the Plan Limit equals 110% of the aggregate remaining debt service, then the Agency must direct all subsequent Pledged Tax Revenues into a special account to be used exclusively for debt service.

Continuing Disclosure. The Agency covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of a Loan Agreement, failure of the Agency to comply with the Continuing Disclosure Agreement shall not be an Event of Default thereunder. 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 as provided in the Loan Agreements.

Amendment of Loan Agreements. The Loan Agreements may only be amended as provided in the Indenture. See “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - Indenture - Covenants of the Authority - Loan Agreements; Amendments Thereof” above. As long as the Insurance Policy is in full force and effect, any amendment, supplement, modification to, or waiver of a Loan Agreement that requires the consent of Bondowners or adversely affects the rights and interests of the Insurer shall be subject to the prior written consent of the Insurer.

Events of Default and Remedies

The following events constitute events of default under each of the Loan Agreements:

(a) Failure by the Agency to pay the principal of or interest or prepayment premium (if any) on the related Loan or Parity Debt when due and payable.

(b) Failure by the Agency to observe and perform any of the covenants, agreements or conditions on its part contained in such Loan Agreement, other than as referred to in the preceding clause (a), for a period of 30 days after written notice specifying such failure and requesting that it be remedied has been given to the Agency by the Trustee; provided, however, that if in the reasonable opinion of the Agency the failure stated in such notice can be corrected, but not within such 30 day period, the Trustee shall not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the Agency within such 30 day period and diligently pursued until such failure is corrected; provided, as long as the Insurance Policy is in full force and effect, the Trustee shall not consent to an extension of time of more than an additional thirty (30) days without the prior written consent of the Insurer.

(c) Commencement by the Agency or the City of a voluntary bankruptcy proceeding.

If an event of default has occurred and is continuing under a Loan Agreement, the Trustee may (a) declare the principal of the related Loan, together with the accrued interest on all unpaid installments thereof, to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, and (b) subject to indemnity satisfactory to the Trustee from any liability or expense, exercise any other remedies available to the Trustee in law or at equity. This provision, however, is subject to the condition that if, at any time after the principal of such Loan shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Agency shall deposit with the Trustee a sum sufficient to pay all installments of principal of such Loan matured prior to such declaration and all accrued interest thereon,

with interest on such overdue installments of principal and interest at the net effective rate then borne by the outstanding Bonds, and the reasonable expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on such Loan 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. 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. . Notwithstanding the foregoing, the maturity of 2014 Authority Bonds insured by the Insurer shall not be accelerated without the consent of the Insurer and in the event the maturity of the 2014 Authority Bonds is accelerated, the Insurer may elect, in its sole discretion, to pay accelerated principal and interest accrued, on such principal to the date of acceleration (to the extent unpaid by the Authority under the Indenture or unpaid by the Agency for the corresponding accelerated Loan amount under a Loan Agreement) and the Trustee shall be required to accept such amounts. Upon payment of such accelerated principal and interest accrued to the acceleration date as provided above, the Insurer's obligations under the Insurance Policy with respect to such Bonds shall be fully discharged.

Application of Funds Upon Default

All amounts received by the Trustee pursuant to any right given or action taken by the Trustee under the provisions of any Loan Agreement, or otherwise held by the Trustee upon the occurrence of any Event of Default, shall be applied by the Trustee in the following order:

First, to the payment of the fees, costs and expenses of the Trustee in declaring such event of default and in carrying out the provisions of such Loan Agreement relating to remedies, including reasonable compensation to its agents, attorneys and counsel, and to the payment of any fees and expenses of the Trustee then outstanding in connection with the performance of its duties and obligations under the Indenture and such Loan Agreement, including any related fees and expenses of its legal counsel then outstanding; and

Second, to the payment of the whole amount of interest on and principal of such Loan then due and unpaid, with interest on overdue installments of principal and interest to the extent permitted by law at the net effective rate of interest then borne by the outstanding Bonds; provided, however, that in the event such amounts shall be insufficient to pay in full the full amount of such interest and principal, then such amounts shall be applied in the following order of priority:

(a) first, to the payment of all installments of interest on such Loan then due and unpaid, on a pro rata basis in the event that the available amounts are insufficient to pay all such interest in full,

(b) second, to the payment of principal of all installments of such Loan then due and unpaid, other than principal having come due and payable solely by reason of acceleration, on a pro rata basis in the event that the available amounts are insufficient to pay all such principal in full,

(c) third, to the payment of principal of such Loan then due and unpaid and having come due and payable solely by reason of acceleration, on a pro rata basis in the event that the available amounts are insufficient to pay all such principal in full, and

(d) fourth, to the payment of interest on overdue installments of principal and interest, on a pro rata basis in the event that the available amounts are insufficient to pay all such interest in full.

No Waiver. Nothing in any Loan Agreement shall affect or impair the obligation of the Agency, which is absolute and unconditional, to pay from the Pledged Tax Revenues and other amounts pledged thereunder, the principal of and interest and premium (if any) on the respective Loans to the Trustee as of

the respective Interest Payment Dates, or affect or impair the right of action, which is also absolute and unconditional, of the Trustee to institute suit to enforce such payment by virtue of the contract embodied in the Loan Agreements.

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

Discharge of Loan Agreements

If the Agency shall pay and discharge the entire indebtedness on any Loan in any one or more of the following ways:

(a) by well and truly paying or causing to be paid the principal of and interest and prepayment premiums (if any) on such Loan, as and when the same become due and payable;

(b) by irrevocably depositing with the Trustee, in trust, at or before maturity, cash in an amount which, together with the available amounts then on deposit in any of the funds and accounts established pursuant to the Indenture or the related Loan Agreement, is fully sufficient to pay all principal of and interest and prepayment premiums (if any) on such Loan; or

(c) by irrevocably depositing with the Trustee or any other fiduciary, in trust, Defeasance Securities in such amount as an independent certified public 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 or the related Loan Agreement, be fully sufficient to pay and discharge the indebtedness on such Loan (including all principal, interest and prepayment premiums) at or before maturity;

then, at the election of the Agency but only if all other amounts then due and payable under the Loan Agreement shall have been paid or provision for their payment has been made, the pledge of and lien upon the Tax Revenues and other funds provided for in the related Loan Agreement and all other obligations of the Trustee, the Authority and the Agency under the related Loan Agreement with respect to such Loan shall cease and terminate, except only the obligation of the Agency to pay or cause to be paid to the Trustee, from the amounts so deposited with the Trustee or such other fiduciary, all sums due with respect to such Loan and all expenses and costs of the Trustee.

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APPENDIX C

FORM OF BOND COUNSEL OPINION

Upon issuance and delivery of the Bonds, Richards Watson & Gershon, A Professional Corporation, Bond Counsel, proposes to render its final approving opinion with respect to the Bonds in substantially the following form:

[Delivery Date]

Calimesa Financing Authority
Calimesa, California

Opinion of Bond Counsel

with reference to

\$ _____
Calimesa Financing Authority
Tax Allocation Refunding Revenue Bonds
(Calimesa Redevelopment Project No. 1 and Project No. 5)
Series 2014

Ladies and Gentlemen::

We have examined (i) a record of proceedings relating to the issuance by the Calimesa Financing Authority (the “Authority”) of the above-captioned bonds (the “Bonds”); (ii) the Indenture of Trust, dated as of May 1, 2014 (the “Indenture”), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”); (iii) the Project No. 1 Loan Agreement dated as of May 1, 2014, by and among the Successor Agency to the Calimesa Redevelopment Agency (the “Agency”), the Authority, and the Trustee (the “2014 Project No. 1 Loan Agreement”); (iv) the Project No. 5 Loan Agreement dated as of May 1, 2014, by and among the Agency, the Authority, and the Trustee (the “2014 Project No. 5 Loan Agreement, and together with the 2014 Project No. 1 Loan Agreement, the “2014 Loan Agreements”); (v) Resolution No. 2014-02 of the City Council and the CFA Resolution No. 2014-02 Authority Commission, each adopted on February 3, 2014, approving the issuance of the Bonds; (vi) CSA Resolution No. 2014-01 of the Board of Directors of the Agency adopted on February 3, 2014, approving the incurrence of the 2014 Loan Agreements and the Loans thereunder; (vii) OB Resolution No. 2014-02 of the Oversight Board to the Agency adopted on February 4, 2014 (the “Oversight Board Resolution”); (viii) a letter from DOF, dated April 7, 2014, approving the Oversight Board Resolution, and (ix) such other matters of law as we have deemed necessary to enable us to render the opinions expressed herein. As to questions of fact material to this opinion, we have relied upon such certificates and documents without undertaking to verify the same by independent investigation. All capitalized terms used but not defined herein have the meanings ascribed to them in the Indenture, and if not in the Indenture, in the 2014 Loan Agreements.

The Bonds are issued under and pursuant to the Indenture, the provisions of Articles 1 through 4 (commencing with Section 6500) of the Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the “State”), as amended (the “Act”), including the provisions of the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 of the Act. The Bonds are issued for the purpose of making two Loans to the Agency to refinance certain public capital improvements as authorized by the

Act. The 2014 Loan Agreements and the Loans thereunder are authorized pursuant to the Constitution and laws of the State, including Article 11 (commencing with Section 53580) of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code and the provisions of California Health and Safety Code Section 34177.5.

Based on the examination described herein, we are of the opinion that under existing law:

1. The Authority is duly created and validly existing under the provisions of the Act.
2. The Authority has the right and power to enter into the Indenture, and the Indenture has been duly and lawfully authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery by the Trustee, is in full force and effect and is valid and binding upon the Authority, enforceable in accordance with its terms, and no other authorization for the Indenture is required. The Indenture creates the valid pledge which it purports to create of the Revenues and certain funds established by the Indenture, including the investments, if any, thereof, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.
3. The Authority is duly authorized and entitled to issue the Bonds. The Bonds have been duly and validly authorized and issued by the Authority in accordance with the Constitution and statutes of the State of California, including the Act, and in accordance with the Indenture. The Bonds constitute the valid and binding special obligations of the Authority, payable solely from Revenues and certain funds established by and as provided in the Indenture. The Bonds are not an obligation of the State of California, any public agency thereof (other than the Authority), or any member of the Authority and neither the faith and credit nor the taxing power of the State of California or any public agency thereof or any member of the Authority is pledged for the payment of the Bonds. The Authority has no taxing power.
4. The Agency and the Authority have the right and power to enter into and carry out their obligations under the 2014 Loan Agreements and have duly authorized, executed and delivered the 2014 Loan Agreements, which, assuming due authorization, execution and delivery thereof by the Trustee, constitute valid and binding agreements of the Agency and the Authority enforceable in accordance with their respective terms. Each 2014 Loan Agreement creates the valid pledge which it purports to create of the Pledged Tax Revenues, the moneys in the Redevelopment Obligation Retirement Fund, the respective Bond Fund, and respective Reserve Subaccount, subject to the provisions of the respective 2014 Loan Agreement permitting the application thereof for the purposes and on the terms and conditions set forth in such 2014 Loan Agreement.
5. Interest on the Bonds is exempt from personal income taxes of the State of California.
6. Assuming compliance with the covenants described below, interest on the Bonds is excluded from gross income for Federal income tax purposes. The Bonds are not “specified private activity bonds” within the meaning of Section 57(a)(5) of the Internal Revenue Code of 1986, as amended (the “Code”) and, therefore, the interest on the Bonds will not be treated as a preference item for purposes of computing the alternative minimum tax imposed by Section 55 of the Code. However, we note a portion of the interest on the Bonds owned by corporations may be subject to the Federal alternative minimum tax, which is based in part on adjusted current earnings.

The Code sets forth certain requirements which must be met subsequent to the issuance and delivery of the Bonds for interest thereon to be and remain excluded from gross income for Federal income tax purposes. Noncompliance with such requirements could cause the interest on the Bonds to be

included in gross income retroactive to the date of issue of the Bonds. The Authority and the Agency have covenanted to satisfy, or take such actions as may be necessary to cause to be satisfied, each provision of the Code necessary to maintain the exclusion of the interest on the Bonds from gross income for Federal income tax purposes pursuant to Section 103(a) of the Code.

Certain requirements and procedures contained or referred to in the Indenture, the 2014 Loan Agreements, and other relevant documents may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of nationally recognized bond counsel. We express no opinion as to any Bond, or the interest thereon, if any change occurs or action is taken or omitted upon the advice or approval of any counsel other than ourselves.

Except as stated in the foregoing paragraphs numbered 5 and 6 and the paragraph immediately following paragraph 6, we express no opinion as to any Federal or state tax consequences of the ownership or disposition of the Bonds.

The opinions expressed in the paragraphs numbered 2, 3, and 4 hereof are qualified to the extent that the enforceability of the Indenture, the 2014 Loan Agreements, and the Bonds may be limited by any applicable bankruptcy, insolvency, debt adjustment, fraudulent conveyance or transfer, moratorium, reorganization or other similar laws affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public entities in the State of California. We express no opinion with respect to any opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents. We have assumed, and relied on, compliance by the Authority, the Agency, the Calimesa Redevelopment Agency, and other parties of their respective covenants set forth in the documents relating to the 2008 Authority Bonds, the 2008 Project No. 1 Loan, and the 2008 Project No. 5 Loan, including but not limited to covenants to maintain the exclusion of the interest portion of the 2008 Authority Bonds from gross income for Federal income tax purposes pursuant to Section 103(a) of the Code.

The opinions expressed herein are based on an analysis of existing law and cover certain matters not directly addressed thereby. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof, and we have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. We have assumed the genuineness of all documents and signatures presented to us. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in such documents. Furthermore, we have assumed compliance with all agreements and covenants contained in the Indenture and in the 2014 Loan Agreements. No opinion is expressed herein with respect thereto the accuracy, completeness or fairness of the Official Statement or any other offering material relating to the Bonds.

Respectfully submitted,

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APPENDIX D

BOOK-ENTRY ONLY SYSTEM

The information in this Appendix D concerning The Depository Trust Company (“DTC”), New York, New York, and DTC’s book-entry system has been obtained from DTC and the Authority takes no responsibility for the completeness or accuracy thereof. The Authority 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 Depository Trust Company (“DTC”), New York, NY, 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 certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 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 is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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 a Standard & Poor’s rating of AA+. 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 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on

behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium (if any), and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Principal, premium (if any), and interest payments with respect to the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a

successor depository is not obtained, certificates representing the Bonds are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, representing the Bonds will be printed and delivered to DTC in accordance with the provisions of the Indenture.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

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APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Disclosure Agreement”), dated as of May __, 2014 is executed and delivered by the Successor Agency to the Calimesa Redevelopment Agency (the “Successor Agency”), The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”), and Urban Futures, Inc., as dissemination agent (the “Dissemination Agent”), in connection with the issuance by the Calimesa Financing Authority (the “Authority”) of its \$_____ aggregate principal amount of Tax Allocation Refunding Revenue Bonds (Calimesa Redevelopment Project No. 1 and Project No. 5), Series 2014 (the “Bonds”). The Bonds are being issued pursuant to an Indenture of Trust, dated as of May 1, 2014 (the “Indenture”), by and between the Authority and the Trustee. The proceeds of the Bonds are being loaned by the Authority to the Successor Agency pursuant to the Loan Agreements (as defined in the Indenture). The Successor Agency, the Trustee, and the Dissemination Agent covenant and agree as follows:

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Successor Agency, the Trustee, and the Dissemination Agent for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter (as defined below) in complying with the Rule (as defined below).

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

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

“Dissemination Agent” shall mean Urban Futures, Inc., or any successor Dissemination Agent designated in writing by the Successor Agency and which has filed with the Successor 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 Agreement.

“MSRB” shall mean the Municipal Securities Rulemaking Board.

“Obligated Person” shall mean any person, including an issuer of municipal securities, who is either generally or through an enterprise, fund, or account of such person committed by contract or other arrangement to support payment of all, or part of the obligations on the Bonds (other than providers of municipal bond insurance, letters of credit, or other liquidity facilities).

“Official Statement” shall mean the final Official Statement, dated May __, 2014, relating to the Bonds.

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

“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.

Section 3. Provisions of Annual Reports.

(a) The Successor Agency shall, or shall cause the Dissemination Agent to, not later than nine (9) months after the end of the Successor Agency's Fiscal Year (which Fiscal Year currently commences on July 1 and ends on June 30 of each year), commencing March 31, 2015 with the report for the 2013-14 fiscal year, provide to the MSRB, in an electronic format accompanied by identifying information as prescribed by the MSRB, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the postaudit of the financial transactions and records of the Successor Agency for the Fiscal Year may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date. If the Successor Agency's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(b), and subsequent Annual Report filings shall be made no later than nine (9) months after the end of each such new fiscal year.

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) above for providing the Annual Report to the MSRB, the Successor Agency shall provide the Annual Report to the Dissemination Agent (if other than the Successor Agency). If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Successor Agency to determine if the Successor Agency is in compliance with the first sentence of this subsection (b). The Successor Agency shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder.

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the MSRB by the date required in subsection (a), the Dissemination Agent shall send a notice to the MSRB in substantially the form attached as Exhibit A, or in such other form as prescribed by, or acceptable to, the MSRB.

(d) The Dissemination Agent (if other than the Successor Agency) shall, if and to the extent the Successor Agency has provided an Annual Report in final form to the Dissemination Agent for dissemination, file a report with the Successor Agency and the Trustee (if the Dissemination Agent is not the Trustee) certifying that the Annual Report has been provided to the MSRB pursuant to this Disclosure Agreement, and stating the date it was provided.

Section 4. Content of Annual Reports. The Successor Agency's Annual Report shall contain or incorporate by reference the following:

(a) A postaudit of the financial transactions and records of the Successor Agency for the Fiscal Year to be made by an Independent Accountant (who must be a certified public accountant) appointed by the Successor Agency 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 Successor Agency's postaudit is not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain an unaudited statement of financial transactions and records of the Successor Agency in a format required by Section 34177(n) of Dissolution Act, and the postaudit shall be filed in the same manner as the Annual Report when they become available.

(b) To the extent not contained in the postaudit filed pursuant to the preceding subsection (a) by the date required by Section 3 hereof, other financial information and operating data relating to the Project Areas, as follows:

- 1) An update to the tabular information in the tables in the Official Statement entitled “Assessed Valuation and Tax Revenues” under the caption “PLEDGED REVENUES – Schedules of Historical Incremental Revenues” based on the most recent Fiscal Year for which information is available; and
- 2) An update to the tabular information in the tables in the Official Statement entitled “Ten Largest Secured Property Taxpayers” under the caption “THE PROJECT AREAS – Largest Taxpayers” for the most recent Fiscal Year for which information is available.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Successor Agency or related public entities, which have been available to the public on the MSRB’s internet web site or filed with the Securities and Exchange Commission. The Successor Agency shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Successor Agency shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the Bonds, which notice shall be given in a timely manner, not in excess of ten (10) business days after the occurrence of such Listed Event:

- 1) Principal and interest payment delinquencies;
- 2) Non-payment related defaults, if material;
- 3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- 4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- 5) Substitution of credit or liquidity providers, or their failure to perform;
- 6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;
- 7) Modifications to rights of security holders, if material;
- 8) Bond calls, if material, and tender offers;
- 9) Defeasances;

- 10) Release, substitution, or sale of property securing repayment of the securities, if material;
- 11) Rating changes;
- 12) Bankruptcy, insolvency, receivership or similar event of the Obligated Person;
- 13) The consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- 14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) The Dissemination Agent shall, within one (1) business day after obtaining knowledge of the occurrence of any of the events listed in Section 5(a) (1), (3), (4), (5), (6), (9), (11) or (12), inform the Successor Agency of the occurrence of such event. As soon as reasonably practicable after obtaining knowledge of the occurrence of such event (regardless of whether the source of the information is the Dissemination Agent pursuant to the foregoing sentence or another source), the Successor Agency shall, or shall cause the Dissemination Agent to, file in a timely manner, not in excess of ten (10) business days after the occurrence of any such event, a notice of such occurrence with the MSRB, in an electronic format accompanied by identifying information as prescribed by the MSRB.

(c) The Dissemination Agent shall, within one (1) business day after obtaining knowledge of the occurrence of any of any of the events listed in Section 5(a) (2), (7), (8), (10), (13) or (14), inform the Successor Agency of the occurrence of such event and request that the Successor Agency promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (d).

(d) Whenever the Successor Agency obtains knowledge of the occurrence of any event specified in Section 5(a) (2), (7), (8), (10), (13) or (14), the Successor Agency shall as soon as possible, in order to meet the ten (10) business day deadline to file notices required under the Rule and pursuant to the following sentence, determine if such event would be material under applicable Federal securities law. If the Successor Agency determines that knowledge of the occurrence of such event would be material under applicable Federal securities law, the Successor Agency shall, or shall cause the Dissemination Agent to, file in a timely manner, not in excess of ten (10) business days after the occurrence of any such event, a notice of such occurrence with the MSRB, in an electronic format accompanied by identifying information as prescribed by the MSRB.

(e) The Trustee shall, within one (1) business day after obtaining knowledge of the occurrence of any of the Listed Events, inform the Successor Agency and the Authority of such event and request that the Successor Agency promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsections (b) or (d).

Section 6. Termination of Reporting Obligation. The Successor Agency's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all the Bonds. If such termination occurs prior to the final maturity of the Bonds, the

Successor Agency shall give notice of such termination in the same manner as for a Listed Event under Section 5(b).

Section 7. Dissemination Agent.

(a) The Successor Agency hereby appoints and engages Urban Futures, Inc. as the Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Successor Agency pursuant to this Disclosure Agreement. The Successor Agency may replace the Dissemination Agent with or without cause. If at the time there is no designated Dissemination Agent appointed by the Successor Agency, the Successor Agency shall be the Dissemination Agent and undertake or assume its obligations hereunder.

Any company succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor to the Dissemination Agent hereunder without the execution or filing of any paper or any further act. The Dissemination Agent may resign its duties hereunder by giving 30-days written notice to the Successor Agency and the Trustee (if the Trustee is not the Dissemination Agent).

(b) The Dissemination Agent shall be paid compensation by the Successor Agency for its services provided hereunder in accordance with its schedule of fees agreed to between the Dissemination Agent and the Successor Agency from time to time and for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the Successor Agency hereunder and shall not be deemed to be acting in any fiduciary capacity for the Successor Agency, Owners or Beneficial Owners of the Bonds, or any other party. The Dissemination Agent may rely and shall be protected in acting or refraining from acting upon any direction from the Successor Agency or an opinion of nationally recognized bond counsel.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Successor Agency, the Trustee, and the Dissemination Agent may amend this Disclosure Agreement (and the Trustee and the Dissemination Agent shall agree to any amendment so requested by the Successor Agency, provided neither the Trustee nor the Dissemination Agent shall be obligated to enter into any amendment increasing or affecting its duties or obligations), and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), 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 type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by Owners of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of Owners of the Bonds, 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.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided. For purposes of this paragraph, “impact” has the meaning as that word is used in the letter from the staff of the Securities and Exchange Commission to the National Association of Bond Lawyers dated June 23, 1995.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing the postaudit, the annual financial information for the year in which the change is made shall present a comparison between the postaudit or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the Successor Agency to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the MSRB in the same manner as for a Listed Event under Section 5(b).

No amendment to this Agreement which modifies the duties or rights of the Dissemination Agent shall be made without the prior written consent of the Dissemination Agent.

Section 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Successor Agency from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Successor Agency chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Successor Agency shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the Successor Agency, the Trustee, or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Participating Underwriter or 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 Successor Agency, the Trustee, or the Dissemination Agent, as the case may be, to comply with its respective obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Successor Agency, the Trustee, or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. The Dissemination Agent (if other than the Trustee or the Trustee in its capacity as Dissemination Agent) shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Successor Agency agrees to indemnify and save the Trustee and the Dissemination Agent, their respective officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Trustee’s or the Dissemination Agent’s negligence or willful misconduct. See Section 7 above for additional provisions concerning duties, immunities and liabilities of the Dissemination Agent. The

obligations of the Successor Agency under this Section shall survive resignation or removal of the Trustee or the Dissemination Agent and payment of the Bonds. No person shall have any right to commence any action against the Dissemination Agent seeking any remedy other than to compel specific performance of this Agreement. Neither the Dissemination Agent nor the Trustee shall liable under any circumstances for monetary damages to any person for any breach of this Agreement.

Section 12. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the Successor Agency: Successor Agency to the Calimesa Redevelopment Agency
908 Park Avenue
Calimesa, California 92320
(909) 795-9801
Attention: Executive Director

To the Trustee: The Bank of New York Mellon Trust Company, N.A.
400 South Hope Street, Suite 400
Los Angeles, California 90071
(213) 630-6231
(213) 630-6215 Fax
Attention: Corporate Trust Services

To the Dissemination Agent: Urban Futures, Inc.
3111 North Tustin Avenue, #230
Orange, California 92865
(714) 283-9334
(714) 283-9319 Fax

Section 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Successor Agency, the Dissemination Agent, the Participating Underwriter and Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 14. Counterparts. This Disclosure Agreement 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.

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IN WITNESS WHEREOF, the parties hereto have executed this Disclosure Agreement as of the date first written above.

SUCCESSOR AGENCY TO THE CALIMESA
REDEVELOPMENT AGENCY

Executive Director

THE BANK OF NEW YORK MELLON TRUST
COMPANY, N.A.,
as Trustee

Authorized Officer

URBAN FUTURES, INC.,
as Dissemination Agent

Authorized Officer

EXHIBIT A

NOTICE TO MUNICIPAL SECURITIES RULEMAKING
BOARD OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Successor Agency to the Calimesa Redevelopment Agency

Name of Bond Issue: \$_____ initial principal amount
Calimesa Financing Authority
Tax Allocation Refunding Revenue Bonds
(Calimesa Redevelopment Project No. 1 and Project No. 5)
Series 2014

Date of Issuance: May ___, 2014

NOTICE IS HEREBY GIVEN that the Successor Agency to the Calimesa Redevelopment Agency (the "Successor Agency") has not provided an Annual Report/ with respect to the above-named Bonds as required by the Continuing Disclosure Agreement, dated as of May ___, 2014, by and among the Successor Agency, The Bank of New York Mellon Trust Company, N.A., as trustee, and Urban Futures, Inc., as dissemination agent. The Successor Agency anticipates that the Annual Report will be filed by _____.

Date: _____, 20__

Urban Futures, Inc.
as Dissemination Agent

By: _____
Title: _____

cc: Executive Director, Successor Agency to the Calimesa Redevelopment Agency

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APPENDIX F

**ANNUAL AUDIT REPORT FOR
FISCAL YEAR ENDED JUNE 30, 2013 (EXCERPTS)**

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City of Calimesa

Calimesa, California

*Annual Audit Report and Financial
Statements*

For the year ended June 30, 2013

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City of Calimesa
Annual Audit Report and Financial Statements
For the year ended June 30, 2013

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City of Calimesa
Annual Audit Report and Financial Statements
For the year ended June 30, 2013

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Members of the City Council
of the City of Calimesa
Calimesa, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Calimesa, California (City), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 48-51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Omitted Management's Discussion and Analysis

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements, and budgetary comparison schedules for other funds on pages 54-68 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Honorable Mayor and Members of the City Council
of the City of Calimesa

Page 3

The combining and individual nonmajor fund financial statements and budgetary comparison schedules on pages 54-68 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Badawi & Associates". The signature is written in a cursive, flowing style.

Badawi and Associates, CPAs
Oakland, CA
April 21, 2014

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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City of Calimesa
Statement of Net Position
June 30, 2013

| | Governmental Activities |
|---|------------------------------------|
| Assets | |
| Cash and investments (Note 3) | \$ 4,812,823 |
| Receivables: | |
| Taxes | 211,443 |
| Accounts | 50,526 |
| Interest | 1,736 |
| Due from other governments | 65,387 |
| Note Receivable | 168,750 |
| Capital assets not being depreciated (Note 5) | 1,918,401 |
| Capital assets being depreciated, net (Note 5) | 10,279,192 |
| Total Assets | <u>17,508,258</u> |
| Liabilities | |
| Accounts payable and accrued liabilities | 812,218 |
| Deposits | 429,524 |
| Unearned revenues | 232,167 |
| Noncurrent liabilities: | |
| Due within one year | 12,611 |
| Due in more than one year | 80,270 |
| Total Liabilities | <u>1,566,790</u> |
| Net Position | |
| Invested in capital assets (Note 5) | 12,197,593 |
| Restricted: | |
| Legally restricted - Street and Road Improvements | 1,060,639 |
| Regulatory/grant restrictions | 339,924 |
| Legally restricted - Dev. Impact fees | 1,407,608 |
| Unrestricted | 935,704 |
| Total Net Position | <u>\$ 15,941,468</u> |

City of Calimesa
Statement of Activities
For the year ended June 30, 2013

| Functions/Programs: | Expenses | Program Revenues | | | Total | Net (Expense) |
|---|---------------------|----------------------------|--|--|---------------------|---|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | | Revenue and Changes in Net Position |
| | | | | | | Governmental |
| | | | | | | Activities |
| Primary Government: | | | | | | |
| Governmental activities: | | | | | | |
| General government | \$ 1,087,896 | \$ 195,675 | \$ 129,432 | \$ - | \$ 325,107 | \$ (762,789) |
| Public safety | 2,564,561 | 47,055 | 100,000 | - | 147,055 | (2,417,506) |
| Public works | 947,133 | 769,323 | 180,407 | 402,113 | 1,351,843 | 404,710 |
| Community services and development | 669,797 | 192,001 | 77,955 | - | 269,956 | (399,841) |
| Parks and recreation | 163,451 | - | 36,835 | - | 36,835 | (126,616) |
| Library | 3,580 | - | 27,213 | - | 27,213 | 23,633 |
| Total governmental activities | \$ 5,436,418 | \$ 1,204,054 | \$ 551,842 | \$ 402,113 | \$ 2,158,009 | (3,278,409) |
| General Revenues: | | | | | | |
| Taxes: | | | | | | |
| Property | | | | | | 1,712,998 |
| Sales tax | | | | | | 584,096 |
| Motor vehicle in-lieu | | | | | | 583,541 |
| Franchise fees | | | | | | 298,931 |
| Transient occupancy taxes | | | | | | 32,845 |
| Busines Licenses | | | | | | 20,385 |
| Total Taxes | | | | | | 3,232,796 |
| Unrestricted investment earnings | | | | | | 12,152 |
| Other | | | | | | 56,564 |
| Total general revenues | | | | | | 3,301,512 |
| Change in net position | | | | | | 23,103 |
| Net position - beginning of year | | | | | | 15,918,365 |
| Net position - end of year | | | | | | \$ 15,941,468 |

See accompanying Notes to Basic Financial Statements.

FUND FINANCIAL STATEMENTS

Governmental Fund Financial Statements

Fiduciary Fund Financial Statements

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

General Fund accounts for resources traditionally associated with governmental which are not required legally or by sound financial management to be accounted for in another fund.

Measure A Special Revenue Fund accounts for revenue in the form of voter-approved Measure A sales tax to be used for street and road improvements.

Mitigation Fees Special Revenue Fund accounts for various sources of development related revenue including facilities fees, traffic fees, and park acquisition and improvement fees. These fees are used to expand facilities as development occurs, thus mitigating a portion of the impacts associated with development.

Non-Major Governmental Funds is the aggregate of all the non-major governmental funds.

City of Calimesa
Balance Sheet
Governmental Funds
June 30, 2013

| | Major Funds | |
|--|---------------------|------------------------------|
| | General | Measure A Special Revenue |
| Assets | | |
| Cash and investments | \$ 1,936,234 | \$ 1,044,751 |
| Receivables: | | |
| Taxes | 186,207 | 22,525 |
| Intergovernmental | 4,936 | - |
| Interest | 232 | 210 |
| Accounts | 50,526 | - |
| Due from other funds | 15,443 | - |
| Note Receivable | 168,750 | - |
| Total Assets | <u>\$ 2,362,328</u> | <u>\$ 1,067,486</u> |
| Liabilities and Fund Balance | | |
| Liabilities: | | |
| Accounts payable and accrued liabilities | \$ 758,052 | \$ 6,847 |
| Deferred revenues | 210,757 | - |
| Due to other funds | - | - |
| Deposits | 429,524 | - |
| Total Liabilities | <u>1,398,333</u> | <u>6,847</u> |
| Fund Balance: | | |
| Restricted | - | 1,060,639 |
| Assigned | 30,000 | - |
| Unassigned | 933,995 | - |
| Total Fund Balance | <u>963,995</u> | <u>1,060,639</u> |
| Total Liabilities and Fund Balance | <u>\$ 2,362,328</u> | <u>\$ 1,067,486</u> |

See accompanying Notes to Basic Financial Statements.

| Major Fund Mitigation Fees Special Revenue | Total Nonmajor Governmental Funds | Total Governmental Funds |
|--|---|--------------------------------|
| \$ 1,428,309 | \$ 403,529 | \$ 4,812,823 |
| - | 2,711 | 211,443 |
| 5,000 | 55,451 | 65,387 |
| 1,132 | 162 | 1,736 |
| - | - | 50,526 |
| - | - | 15,443 |
| - | - | 168,750 |
| <u>\$ 1,434,441</u> | <u>\$ 461,853</u> | <u>\$ 5,326,108</u> |
| \$ 26,833 | \$ 20,486 | \$ 812,218 |
| - | 64,955 | 275,712 |
| - | 15,443 | 15,443 |
| - | - | 429,524 |
| <u>26,833</u> | <u>100,884</u> | <u>1,532,897</u> |
| 1,407,608 | 339,924 | 2,808,171 |
| - | 21,045 | 51,045 |
| - | - | 933,995 |
| <u>1,407,608</u> | <u>360,969</u> | <u>3,793,211</u> |
| <u>\$ 1,434,441</u> | <u>\$ 461,853</u> | <u>\$ 5,326,108</u> |

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City of Calimesa
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Position
June 30, 2013

| | |
|--|-----------------------------|
| Total Fund Balance - Governmental Funds | \$ 3,793,211 |
| <p>Amounts reported for governmental activities in the statement of net positions (page 9) are different because:</p> | |
| <p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.</p> | 12,197,593 |
| <p>Revenues in the statement of activities that do not provide current financial resources are classified as unearned revenues in the funds.</p> | 43,545 |
| <p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.</p> | <u>(92,881)</u> |
| Net position of governmental activities | <u>\$ 15,941,468</u> |

City of Calimesa
Statements of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2013

| | Major Funds | |
|--|--------------|------------------------------|
| | General | Measure A Special Revenue |
| Revenues | | |
| Taxes | \$ 2,528,766 | \$ - |
| Licenses and permits | 192,001 | - |
| Fines and forfeitures | 47,055 | - |
| Intergovernmental | 712,973 | 402,113 |
| Charges for services | 195,675 | - |
| Development fees | 141,715 | - |
| Investment earnings | 8,946 | 421 |
| Other | 56,564 | - |
| Total Revenues | 3,883,695 | 402,534 |
| Expenditures | | |
| Current: | | |
| General government | 1,000,058 | - |
| Public safety | 2,328,029 | - |
| Public works | 222,029 | 56,871 |
| Community services and development | 305,818 | - |
| Parks and recreation | 118,200 | - |
| Library | - | - |
| Total Expenditures | 3,974,134 | 56,871 |
| Excess (Deficit) of Revenues Over Expenditures | (90,439) | 345,663 |
| Other Financing Sources (Uses) | | |
| Transfers in (Note 4) | 17,715 | 448,140 |
| Transfers out (Note 4) | (158,950) | - |
| Total Other Financing Sources (Uses) | (141,235) | 448,140 |
| Net Change in Fund Balance | (231,674) | 793,803 |
| Fund Balance - Beginning of year | 1,195,669 | 266,836 |
| Fund Balance - End of year | \$ 963,995 | \$ 1,060,639 |

See accompanying Notes to Basic Financial Statements.

| Major Fund Mitigation Fees Special Revenue | Total Nonmajor Governmental Funds | Total Governmental Funds |
|--|---|--------------------------------|
| \$ - | \$ 76,944 | \$ 2,605,710 |
| - | - | 192,001 |
| - | - | 47,055 |
| - | 422,410 | 1,537,496 |
| - | 35,000 | 230,675 |
| 592,608 | - | 734,323 |
| 2,159 | 626 | 12,152 |
| - | - | 56,564 |
| 594,767 | 534,980 | 5,415,976 |
| 7,585 | 44,251 | 1,051,894 |
| 373 | 226,868 | 2,555,270 |
| 28,699 | 271,527 | 579,126 |
| 182,807 | 162,713 | 651,338 |
| 23,280 | 21,507 | 162,987 |
| 481 | 3,099 | 3,580 |
| 243,225 | 729,965 | 5,004,195 |
| 351,542 | (194,985) | 411,781 |
| 27,845 | 131,105 | 624,805 |
| (448,140) | (17,715) | (624,805) |
| (420,295) | 113,390 | - |
| (68,753) | (81,595) | 411,781 |
| 1,476,361 | \$ 442,564 | \$ 3,381,430 |
| \$ 1,407,608 | \$ 360,969 | \$ 3,793,211 |

City of Calimesa
Reconciliation of the Statements of Revenues, Expenditures,
and Changes in Fund Balance of Governmental Funds to the Statements of Activities
For the Year Ended June 30, 2013

Net change in fund balance - governmental funds (page 19) \$ 411,781

Amounts reported for governmental activities in the statements of activities (page 10) are different because:

Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities, but they did not require the use of current financial resources. Therefore, depreciation expense was not reported as expenditures in the Governmental Funds. (413,807)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 43,545

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund. In addition, some expenditures recorded in the governmental funds have already been expensed in the government-wide in prior years (18,416)

Change in net position of governmental activities \$ 23,103

FIDUCIARY FUND FINANCIAL STATEMENTS

Agency Funds

CFD #1 Agency Fund accounts for assets held by the City for Community Facility District #1.

Private Purpose Trust Funds

Successor Agency Trust Fund accounts for assets and liabilities transferred from the City to the Successor Agency Trust Fund.

City of Calimesa
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2013

| | CFD #1 | Successor Agency Trust Fund |
|---|-------------------|--|
| Assets | | |
| Cash and investments (Note 3) | \$ 226,792 | \$ 26,300 |
| Cash and investments with fiscal agent | - | 2,309 |
| Cash and investments with fiscal agent - restricted | - | 223,720 |
| Receivables: | | |
| Interest | 8 | - |
| Deferred charges | - | 146,067 |
| Total Assets | <u>226,800</u> | <u>398,396</u> |
| Liabilities | | |
| Accounts payable and accrued liabilities | 4,445 | 70,652 |
| Interest Payable | - | 14,254 |
| Deposits | 10,000 | - |
| Due to bondholders | 212,355 | - |
| Noncurrent liabilities: | | |
| Due within one year | - | 60,000 |
| Due in more than one year | - | 2,758,357 |
| Total Liabilities | <u>\$ 226,800</u> | <u>2,903,263</u> |
| Net Position | | |
| Restricted: | | 181,677 |
| Unrestricted | | <u>(2,765,718)</u> |
| Net Position | | <u>\$ (2,584,041)</u> |

City of Calimesa
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
For the year ended June 30, 2013

| | Successor Agency Trust Fund |
|--|--|
| Additions | |
| Intergovernmental revenue | \$ 484,188 |
| Interest income | 5 |
| Total additions | <u>484,193</u> |
| Deductions | |
| Administration | 418,815 |
| Interest | 108,935 |
| Total deductions | <u>527,750</u> |
| Change in Net Position | (43,557) |
| Net Position - beginning, as restated | <u>(2,540,484)</u> |
| Net Position - ending | <u><u>\$ (2,584,041)</u></u> |

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NOTES TO BASIC FINANCIAL STATEMENTS

City of Calimesa
Notes to Basic Financial Statements
For the year ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the reporting entity

The City of Calimesa (the City) was incorporated on December 1, 1990, under the laws of the State of California and enjoys all the rights and privileges applicable to the general law city. It is governed by an elected five-member Council and Council-appointed Mayor. As required by accounting principles generally accepted in the United States of America, these financial statements present the City (the primary government) and its component unit.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on the primary government. For the most part, the effect of interfund activity has been removed from these statements.

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

The fund financial statements provide information about the City's funds. Separate financial statements are provided for governmental funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

The *General Fund* is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

The *Measure A Special Revenue Fund* is used to account for revenue in the form of voter-approved Measure A sales tax to be used for street and road improvements.

The *Mitigation Fees Fund* is used to account for various sources of development related revenue including facilities fees, traffic fees, and park acquisition and improvement fees. These fees are used to expand facilities as development occurs, thus mitigating a portion of the impacts associated with development.

City of Calimesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Government-wide and fund financial statements, Continued

Additionally, the City reports the following fund types:

The Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

The Capital Projects Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

The Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

C. Measurement focus, basis of accounting, and financial presentation

The government-wide financial statements are reported using the economic resources measurement focus and the *accrual basis* of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied.

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Amounts reported as program revenues include 1) charges to members, customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated sources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. In addition, fiduciary funds are not included in the government-wide financial statements.

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

City of Calimesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Assets, liabilities and net position or equity

Cash, Cash Equivalents and Investments

The City pools its available cash for investment purposes. The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturity of three months or less from date of acquisition. Cash and cash equivalents are combined with investments and displayed as Cash and Investments.

In accordance with GASB Statement No. 40, Deposit and Investment Disclosures (Amendment of GASB No. 3), certain disclosure requirements for Deposits and Investment Risks were made in the following areas:

- Interest Rate Risk
- Credit Risk
 - Overall
 - Custodial Credit Risk
 - Concentrations of Credit Risk

In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

The City participates in an investment pool managed by the State of California, the Local Agency Investment Fund (LAIF) which has invested a portion of the pooled funds in Structured Notes and Asset-backed Securities. The LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-backed Securities are subject to market risk as to change in interest rates.

Receivables

During the course of normal operations, the City carries various receivable balances for taxes, interest, services and special assessments. Accounts receivables are shown net of an allowance for doubtful accounts.

City of Calimesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Assets, liabilities and net position or equity

Interfund Transactions

Interfund transactions are reflected as loans, services provided reimbursements or transfers. Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the governmental-wide financial statements as "internal balances."

Use of estimates

The financial statements have been prepared in accordance with generally accepted accounting principles accepted in the United States of America and necessarily include amounts based on estimates and assumptions by management. Actual results could differ from those amounts.

Unearned revenues

In the government-wide financial statements and the fund financial statements, unearned revenues represent cash advances from various entities that have not been spent; therefore, no revenue has been recognized.

Claims and judgments

Only the short-term liability (if any) is reflected as a current liability in all applicable governmental fund types, the remainder of the liability is reported as long-term debt in the statement of net position. The City determined that no liability needs to be accrued for claims and judgments.

Capital assets

Capital assets, which include land, buildings, improvements, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 (\$50,000 for infrastructure assets) and an estimated useful life in excess of three years. Such assets are reported at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend lives are not capitalized.

City of Calimesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Assets, liabilities and net position or equity

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

| Assets | Years |
|-----------------------|-------|
| Buildings | 50 |
| Building improvements | 25-30 |
| Infrastructure | 30-50 |
| Vehicles | 3-15 |
| Office equipment | 3-7 |
| Computer equipment | 3-10 |

Employee leave benefits

Compensated absences are the amounts due to employees for future absences which are attributed to services already rendered. Vacation pay is payable to employees at the time a vacation is taken or upon separation of employment. Sick leave is payable when an employee is unable to work because of illness. The vested portion of compensated absences is included as a long-term liability in the statement of net position.

The following are summaries of the City’s compensated leave policies:

Compensatory time

All compensatory time is payable to the employee upon termination at the rate of pay at separation.

Sick leave

Employees accrue sick leave in accordance with schedules set forth in a memorandum of understanding. All employees with at least six months service are allowed to accrue up to nine hundred and sixty hours of sick leave. Employees are not paid upon separation for accrued sick leave, therefore no liability is accrued in these financial statements for sick leave.

Vacation leave

Employees accrue vacation leave in accordance with schedules set forth in a memorandum of understanding. Employees will be paid upon separation all accrued vacation leave up to a maximum of two hundred and forty hours.

City of Calimesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Assets, liabilities and net position or equity

Property taxes

The County of Riverside, California, bills and collects the property taxes and remits them to the City in installments during the year. The County is permitted by State Law (Proposition 13) to levy taxes at 1 percent per \$100 of full market value (at time of purchase) and can increase the assessed values no more than 2 percent per year. The City receives a share of this basic levy proportionate to what was received in the 1976 to 1978 period.

Property taxes are assessed and collected each fiscal year according to the following property tax calendar:

| | |
|------------|---|
| Lien Date | January 1 |
| Levy Date | July 1 |
| Due Date | November 1, First Installment February 1, Second Installment |
| Collection | December 10, First Installment April 10, Second Installment |

Net Position

Government-Wide Financial Statements

In the Government-Wide Financial Statements, net position is classified in the following categories:

Net Investment in Capital Assets - This category consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted - This category includes amounts restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted - This category includes amounts that do not meet the definition of "net investment in capital assets" or "restricted net position" as defined above.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the City's policy is to apply restricted net position first.

City of Calimesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Assets, liabilities and net position or equity

Fund Balances

Nonspendable Fund Balance- That portion of fund balance that includes amounts that are either 1) not in a spendable form; or 2) legally or contractually required to be maintained intact. Amounts considered “not in a spendable form” include items that are not expected to be converted to cash such as prepaid items and long-term notes receivable.

Restricted Fund Balance - That portion of fund balance that reflects constraints placed on the use of resources (other than nonspendable items) that are either 1) externally imposed by creditors, such as through debt covenants, grantors, contributors or the laws and regulations of other governments; or 2) imposed by law through constitutional provisions or enabling legislation. These restrictions may be effectively changed only with the consent of the resource provider.

Committed Fund Balance - That portion of fund balance that includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council, the City’s government’s highest level decision making authority. In order for funds to be considered committed, a resolution must be passed by the City Council. The established constraints remain binding until City Council takes action to amend the applicable resolution.

Assigned Fund Balance - Represents that portion of fund balance that includes amounts that are constrained by the City’s intended use of the resources but are neither restricted nor committed. Such intent needs to be established at the highest level of decision making, or by an official designated for that purpose. The City Council has the authority to assign amounts to be used for specific purposes.

Unassigned Fund Balance - Represents that portion of fund balance that includes amounts that are not contained in any of the other fund balance categories. The General Fund is the only governmental fund that may report a positive amount as unassigned fund balance. For all other governmental funds, only negative balances may be reported as unassigned fund balance.

When an expenditure is incurred for purposes for which both restricted and unrestricted funds are available, it is the City’s policy to apply the restricted funds first. The City also considers committed funds to be spent first, assigned funds to be spent second and unassigned funds to be spent last when an expenditure is incurred for purposes for which committed, assigned and unassigned fund balance is available.

City of Calimesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Assets, liabilities and net position or equity

Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. 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 issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

E. New Pronouncement

In 2013, the City adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* - The objective of this statement is to improve financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. There was no effect on net position by the City implementing this new accounting standard.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus* - The requirements of this statement result in financial statements being more relevant by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. There was no effect on net position by the City implementing this new accounting standard.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* - The requirements of this statement improve financial reporting by contributing to the Governmental Accounting Standards Board's (GASB) efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. There was no effect on net position by the City implementing this new accounting standard.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* - The objective of this statement is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosure.

City of Calimesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2013

2. BUDGETARY ACCOUNTING

Excess of expenditures over appropriations

The following funds reported an excess of expenditures over appropriations at June 30, 2013:

| | <u>Final</u> | <u>Actual</u> | <u>Variance</u> |
|-----------------------------------|--------------|---------------|-----------------|
| <i>Special Revenue Funds</i> | | | |
| Community Development Block Grant | \$ 5,000 | \$ 67,880 | \$ (62,880) |
| Gas Tax | 237,222 | 247,898 | (10,676) |
| Lighting/Landscape District | \$ 115,369 | \$ 124,127 | \$ (8,758) |

3. CASH AND INVESTMENTS

Cash and investments as of June 30, 2013, are classified in the accompanying financial statements as follows.

Statement of net positions:

| | |
|---|--------------|
| Cash and investments | \$ 4,812,823 |
| Cash and investments with fiscal agent | - |
| Cash and investments with fiscal agent-restricted | - |

Fiduciary funds:

| | |
|---|---------|
| Cash and investments | 253,092 |
| Cash and investments with fiscal agent | 2,309 |
| Cash and investments with fiscal agent-restricted | 223,720 |

| | |
|----------------------------|---------------------|
| Total cash and investments | <u>\$ 5,291,944</u> |
|----------------------------|---------------------|

Pooled deposits:

| | |
|-----------------|--------------|
| Demand deposits | \$ 1,466,553 |
| Petty cash | 900 |
| Investments | 3,824,491 |

| | |
|----------------------------|---------------------|
| Total cash and investments | <u>\$ 5,291,944</u> |
|----------------------------|---------------------|

City of Calimesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2013

3. CASH AND INVESTMENTS, Continued

A. Deposits

The carrying amount of the City's cash deposit was \$1,466,553 at June 30, 2013. Bank balances before reconciling items were \$1,720,415 the total amount of which was insured and/or collateralized with securities held by the pledging financial institutions in the City's name as discussed below.

The California Government Code requires California banks and savings and loan associations to secure the City's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the City's name.

The market value of pledged securities must equal at least 110% of the City's cash deposits. California law also allows institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the City's total cash deposits. The City has not waived collateral requirements for cash deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation.

The City follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under the provisions of bond indentures. Interest income earned on pooled cash and investments is allocated on an accounting period basis to the various funds based on the period-end cash and investment balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

B. Investments

Authorized investments

Under provisions of the City's investment policy, and in accordance with Section 53601 of the California Government Code, the City may invest in the following types of investments:

- Securities of the U.S. Government, or its agencies,
- Certificates of deposit (or time deposits) placed with commercial banks and/or savings and loan companies,
- State of California - Local Agency Investment Fund (LAIF)
- Checking accounts or passbook savings account demand deposits, and money market mutual funds.

The City's investment policy is to apply the prudent-person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and in general, avoid speculative investments. The City's investment policy does not contain any specific provisions intended to limit its exposure to a concentration of credit risk.

City of Calimesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2013

3. CASH AND INVESTMENTS, Continued

B. Investments, Continued

Investments authorized by debt agreements

Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy.

The table on below identifies the *investment types* that are authorized for investments held by bond trustee. The Table also identifies certain provisions of these debt agreements that address *interest risk* and *concentration of credit risk*.

| Authorization investment type | Maximum maturity | Maximum percentage allowed | Maximum investment in one issuer |
|---|------------------|----------------------------|----------------------------------|
| U.S. Treasury Obligations | None | None | None |
| U.S. Agency Securities | None | None | None |
| Banker's Acceptances | 180 days | None | None |
| Commercial Paper | 270 days | None | None |
| Money Market Mutual Funds | N/A | None | None |
| Repurchase/Investment Agreement | None | None | None |
| Investment Contracts | None | None | None |
| Local Agency Investment Fund | N/A | None | None |
| FHA Obligations Guaranteed by U.S. Government | None | None | None |
| Federal Funds | 180 days | None | None |
| Negotiable Certificate of Deposit | 180 days | None | None |
| Time Deposits | 180 days | None | None |
| FDIC Insured Deposits | None | None | None |
| Debt Obligations | None | None | None |

Interest rate risk

The City's investment policy mitigates interest rate risk by:

- (1) Structuring the City's portfolio so that securities mature to meet the City's cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to their maturation to meet those specific needs;
- (2) Investing primarily in short-term securities; and
- (3) Occasionally restructuring the portfolio to minimize the loss of market value and/or to maximize cash flows.

City of Calimesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2013

3. CASH AND INVESTMENTS, Continued

B. Investments, Continued

| Investment type | Totals | Remaining maturity 12 month or less |
|------------------------------|---------------------|---|
| Local Agency Investment Fund | \$ 3,598,462 | \$ 3,598,462 |
| Held by bond trustee: | | |
| Dreyfus cash management | 226,029 | 226,029 |
| Total investments | <u>\$ 3,824,491</u> | <u>\$ 3,824,491</u> |

Custodial credit risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provisions for deposits:

Credit risk/pooled cash

The City currently follows GASB No. 40 which established the way the city discloses credit, custodial, interest rate and foreign currency risks. Currently, custodial and interest rate risk are minimal. The City does not own any foreign currency. The City's most significant investment, LAIF, does not have a rating provided by a nationally recognized statistical rating agency.

Disclosures relating to credit risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The City currently invests excess monies in the LAIF and checking and savings accounts at local banks. Currently the City mitigates credit risk by:

- (1) Limiting investments to the safest types of securities;
- (2) Pre-qualifying with an established financial institution with which it will do business; and
- (3) Diversifying the investment portfolio so that a failure of any one issuer or backer will not place an undue financial burden on the City.

City of Calimesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2013

3. CASH AND INVESTMENTS, Continued

B. Investments, Continued

| Investment type | Amount | Minimum legal rating | Ratings at fiscal year end | |
|------------------------------|---------------------|----------------------|----------------------------|---------------------|
| | | | Aaa/AAA | Not Rated |
| Local Agency Investment Fund | \$ 3,598,462 | N/A | \$ - | \$ 3,598,462 |
| Held by bond trustee: | | | | |
| Dreyfus cash management | 226,029 | N/A | 226,029 | - |
| Total investments | <u>\$ 3,824,491</u> | | <u>\$ 226,029</u> | <u>\$ 3,598,462</u> |

Concentration of credit risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The City's most significant investment, LAIF, does not have a rating provided by a nationally recognized statically rating agency. Both LAIF and the Dreyfus cash management are more than 5% of the City's total investment portfolio.

Investment in State investment pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The balance is available for withdrawal on demand. The City's investment with LAIF at June 30, 2013 includes a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments include the following:

Structured Notes are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or have embedded forwards or options.

Asset-Backed Securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as collateralized mortgage obligations) or credit card receivables.

As of June 30, 2013, the City had \$3,598,462 invested in LAIF, which had 1.96% of the pool investment funds in Structured Notes and Asset-Backed Securities. The City reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The fair value of LAIF was calculated by applying a factor of 1.000273207 to the total investments held by LAIF.

City of Calimesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2013

4. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2013, is as follows:

Due to/from other funds:

| <u>Receivable fund</u> | <u>Amount</u> | <u>Payable fund</u> | <u>Amount</u> |
|------------------------|-----------------|---------------------|---------------------|
| General Fund | <u>\$15,443</u> | Nonmajor funds | <u>\$15,443</u> (a) |
| Total | <u>\$15,443</u> | Total | <u>\$15,443</u> |

(a) These amounts are to cover deficit cash balances in the owing funds and are expected to be repaid in full by June 30, 2014.

City of Calimesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2013

4. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS, Continued

Transfer in/out

| Fund receiving transfer | Amount | Fund making transfer | Amount | |
|-------------------------|------------|----------------------|------------|---|
| Non-Major | \$ 101,902 | General Fund | \$ 101,902 | a |
| Non-Major | 9,203 | General Fund | 9,203 | b |
| Non-Major | 15,000 | General Fund | 15,000 | c |
| Non-Major | 5,000 | General Fund | 5,000 | d |
| Mitigation Fees | 9,318 | General Fund | 9,318 | e |
| Mitigation Fees | 18,527 | General Fund | 18,527 | f |
| Measure A | 448,140 | Mitigation Fees | 448,140 | g |
| General Fund | 16,756 | Non-Major | 16,756 | h |
| General Fund | 959 | Non-Major | 959 | i |
| Total | \$ 624,805 | Total | \$ 624,805 | |

- a This represents a transfer from the General Fund to cover a deficiency at year end in the Prop 84 Grant Fund.
- b This represents a transfer from the General Fund to cover a deficiency at year end in the SCE General Plan Grant Fund.
- c This represents a transfer from the General Fund to cover a deficiency at year end in the LLMD Fund.
- d This represents a transfer from the General fund to the Capital Projects Fund related to ADA CIP.
- e This represents a transfer from the General Fund to cover a prior year deficiency in the Mitigation Fees Fund which was never adjusted.
- f This represents a transfer from the General Fund to cover a prior year deficiency in the Mitigation Fees Fund which was never adjusted.
- g This represents a transfer from the Mitigation Fees Fund to the Measure A Fund to correct the error of CIP Funds RDA Bond Proceeds being erroneously put in Mitigation Fees Funds in fiscal year 2010/2011.
- h This represents a transfer back from the Prop 84 Grant Fund to the General Fund after the transfer mentioned in "a" to account for net activity.
- i This represents a transfer back from the SCE General Plan Grant Fund to the General Fund after the transfer mentioned in "b" to account for net activity.

City of Calimesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2013

5. CAPITAL ASSETS

A summary of changes in capital assets at June 30, 2013 is as follows:

| | <u>Beginning balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance</u> |
|--|--------------------------|---------------------|------------------|-----------------------|
| Governmental activities | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 1,918,401 | \$ - | \$ - | \$ 1,918,401 |
| Construction in progress | - | - | - | - |
| Total capital assets not being depreciated | <u>1,918,401</u> | <u>-</u> | <u>-</u> | <u>1,918,401</u> |
| Capital assets being depreciated: | | | | |
| Building and improvements | 1,242,504 | - | - | 1,242,504 |
| Machinery and equipment | 483,642 | - | - | 483,642 |
| Road network | 10,581,232 | - | - | 10,581,232 |
| Total capital assets being depreciated | <u>12,307,378</u> | <u>-</u> | <u>-</u> | <u>12,307,378</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (587,664) | (31,062) | - | (618,726) |
| Machinery and equipment | (399,454) | (30,037) | - | (429,491) |
| Road network | (627,261) | (352,708) | - | (979,969) |
| Total accumulated depreciation | <u>(1,614,379)</u> | <u>(413,807)</u> | <u>-</u> | <u>(2,028,186)</u> |
| Total capital assets, being depreciated, net | <u>10,692,999</u> | <u>(413,807)</u> | <u>-</u> | <u>10,279,192</u> |
| Governmental activities capital assets, net | <u>\$ 12,611,400</u> | <u>\$ (413,807)</u> | <u>\$ -</u> | <u>\$ 12,197,593</u> |

Depreciation expense was charged to functions/ programs of the City as follows:

| | |
|--|-------------------|
| General government | \$ 17,586 |
| Public safety | 9,291 |
| Public works | 368,007 |
| Community services and development | 18,459 |
| Parks and recreation | <u>464</u> |
| Total depreciation expense - governmental activities | <u>\$ 413,807</u> |

City of Calimesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2013

6. LONG-TERM LIABILITIES

The following is a summary of the changes in the long-term liabilities for the fiscal year ended June 30, 2013:

| Description | Beginning balance | Additions | Deletions | Ending balance | Due within one year |
|----------------------|-------------------|-----------|-----------|----------------|---------------------|
| Compensated absences | \$ 74,465 | 49,396 | 30,980 | \$ 92,881 | \$ 12,611 |

Compensated absences

For the governmental funds, accumulated vacation, and compensatory time payable, excluding the current portion of \$12,611 at June 30, 2013, was \$80,270. These amounts are payable from futures resources and therefore have been recorded as long-term liabilities. These liabilities are generally liquidated by the General Fund.

7. CITY EMPLOYEES' RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN)

The City contributes to the California Public Employees Retirement System (PERS), a cost sharing, multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Copies of PERS' annual financial report may be obtained from their executive office: 400 Q Street, Sacramento, CA 95811.

Funding Policy: Participants are required to contribute 7% of their annual covered salary. The City is required to contribute at an actuarially determined rate calculated as a percentage of covered payroll. The City pays the full 7% of the employee's portion of the required PERS contribution. The Employer contribution rate for the fiscal year ended June 30, 2013 was 10.95% for miscellaneous employees. Benefit provisions and all other requirements are established by State statute and City council actions.

Annual Pension Cost: For the fiscal year ending June 30, 2013, the City's annual pension cost of \$71,286 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2010, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 3.55% to 14.45% for miscellaneous employees depending on age, service, and type of employment, and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period. PERS unfunded actuarial accrued liability (or surplus) is being amortized as a level percentage of projected payroll on a closed basis. The average remaining amortization period at June 30, 2010, was 7 years for miscellaneous employees for prior and current service unfunded liability.

City of Calimesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2013

7. CITY EMPLOYEES' RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN), Continued

Assembly Bill 1974, which added Sections 20840-20842 to the California Government Code allowed PERS to create risk pools and mandate public agency participation in those pools. Commencing with the valuation of June 30, 2003, mandatory pooling was established for plans with less than 100 active members. As a result, the City was required to participate in a risk pool of other agencies with less than 100 employees. The valuation report as of June 30, 2010, contained two sections: 1) the specific information of the plan including the development of the pooled contribution rate and 2) the report of the Risk Pool Actuarial Valuation as of June 30, 2010.

At the time of joining a risk pool (valuation of June 30, 2003), a side fund was created to account for the difference between the funded status of the pool and funded status of the City's plan. As of the June 30, 2012 valuation, the balance of the side fund was \$(81,694).

The side fund will be created, on an annual basis, with the actuarial investment return assumption. This assumption is currently 7.75%. The negative side fund will cause the City's required employer contribution rate to be increased by the Amortization of the Side Fund. In the absence contract amendments or funding changes, the side fund will disappear at the end of the amortization period. The amortization period remaining as of June 30, 2012 was 3 years.

| <u>Three year trend information</u> | | |
|-------------------------------------|--------------------------------------|--|
| <u>Fiscal year</u> | <u>Annual pension cost (APC)</u> | <u>Percentage of APC contributed</u> |
| June 30, 2011 | \$ 60,574 | 100% |
| June 30, 2012 | \$ 84,021 | 100% |
| June 30, 2013 | \$ 71,288 | 100% |

8. RISK MANAGEMENT

In July 1996, the City became a member of the Public Agency Risk Sharing Authority of California (PARSAC), a consortium of California cities, established in May 1986 to pool resources, share risks, purchase excess insurance and to share costs for professional risk management and claims administration. The Authority's governing board consists of one appointed official and an alternate from each participating city.

General and auto liability, public officials' errors and omission - The City maintains a self-insurance program for its general and auto liability, and public officials' errors and omission. For liability claims, the City is at risk for up to \$10,000 per occurrence; amounts in excess of \$10,000 up to \$1,000,000 are covered through the Public Agency Risk Sharing Authority of California (PARSAC). Amounts in excess of \$1,000,000 up to \$35,000,000 are covered through additional insurance purchased from third parties by PARSAC.

City of Calimesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2013

8. RISK MANAGEMENT, Continued

Employment practices liability – The City maintains a self-insurance program for its employment practices liability. For liability claims, the City is at risk for up to \$10,000 per occurrence; amounts in excess of \$10,000 up to \$1,000,000 are covered through the Employment Risk Management Authority (ERMA).

Workers' compensation – The City maintains workers' compensation insurance through PARSAC. Coverage through PARSAC is up to \$500,000 per claim. Claims in excess of \$500,000, up to \$5,000,000 are covered by policies purchased by PARSAC through third parties.

Property insurance – The City maintains a self-insurance program for its property up to \$5,000. Amounts in excess of \$5,000 up to \$1,000,000 are covered through additional insurance purchased from third parties by PARSAC.

Employee dishonesty, theft, fraud – The City maintains employee dishonesty, theft, and fraud insurance through PARSAC up to \$2,500. Amounts in excess of \$2,500 up to \$1,000,000 are covered by policies purchased from third parties by PARSAC.

9. CONTINGENCIES

The City participates in certain federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

The City is involved in several pending lawsuits of a nature common to many similar jurisdictions. City management estimates that potential claims against the City, not covered by insurance, will not have a material adverse effect on the financial statements of the City.

10. DISSOLUTION OF REDEVELOPMENT AGENCIES IN CALIFORNIA AND RESULTANT SUCCESSOR AGENCY TO THE FORMER REDEVELOPMENT AGENCY

On December 29, 2011 the California Supreme Court upheld Assembly Bill 1X 26 (AB 1X 26) that provides for the dissolution of all redevelopment agencies in the State of California. Likewise, this action affected the reporting entity of the City of Calimesa in that the former Redevelopment Agency's financial activities and related disclosures were reported within the City's government-wide financial statements (blended component unit) as capital project and debt service funds. Timelines established within AB 1x 26 included the dissolution and cessation of redevelopment agencies as of February 1, 2012.

City of Calimesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2013

10. DISSOLUTION OF REDEVELOPMENT AGENCIES IN CALIFORNIA AND RESULTANT SUCCESSOR AGENCY TO THE FORMER REDEVELOPMENT AGENCY, Continued

AB 1X 26 prescribes that either the city or another local government entity must serve as the successor agency to the former redevelopment agency. The role of the successor agency is to hold net assets of the former redevelopment agency until they can be transferred to the state or respective county. On February 6, 2012 the City Council adopted Resolution No. 2012-01 which provided for the low-to-moderate income housing functions (LMI) and related net assets of the former Redevelopment Agency to be assumed by the City Council.

Resolution No. 2012-01 of the Calimesa Successor Agency (CSA) was approved which provided for the City to act as the successor agency to the former Redevelopment Agency. For clarity and ease of financial statement presentation purposes, both the LMI and non-housing financial activities and net position subsequent to January 31, 2012 are reported as fiduciary funds in these basic financial statements.

In future fiscal years, successor agencies will only be allocated revenue by the State and respective county in amounts necessary to pay installment and/or bonded indebtedness annual payments required by listed enforceable obligations of the former redevelopment agencies which are supported by legally enforceable documents, such as bond indentures and related covenants. These payments will occur until such time that the obligations are paid in full.

The following is a summary of the changes in bonds payable in the Successor Agency Trust Fund for the fiscal year ended June 30, 2013:

| Description | Beginning balance | Additions | Deletions | Ending balance | Due within one year |
|------------------------|----------------------|-------------|--------------------|---------------------|------------------------|
| Bonds | | | | | |
| 2008 Series bonds | \$ 2,905,000 | \$ - | \$ (60,000) | \$ 2,845,000 | \$ 60,000 |
| Less deferred amounts: | | | | | |
| For issuance discount | 35,800 | - | (9,157) | 26,643 | - |
| Total bonds | <u>\$ 2,869,200</u> | <u>\$ -</u> | <u>\$ (50,843)</u> | <u>\$ 2,818,357</u> | <u>\$ 60,000</u> |

2008 Tax Allocation Revenue Bonds

In June 2008, the Calimesa Redevelopment Agency (City) issued Calimesa Redevelopment Project No. 1 and Project No. 5 Tax Allocation Revenue Bonds, Series 2008, in the aggregate principal of \$4,260,000.

City of Calimesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2013

10. DISSOLUTION OF REDEVELOPMENT AGENCIES IN CALIFORNIA AND RESULTANT SUCCESSOR AGENCY TO THE FORMER REDEVELOPMENT AGENCY, Continued

2008 Tax Allocation Revenue Bonds, Continued

The bonds are dated March 2008 and are in denominations of \$5,000 and bear interest at rates ranging from 3.10% to 5.75%. Principal is payable annually on December 1 beginning on December 2010. Interest is payable semi-annually on June 1 and December 1 commencing on December 1, 2008. The bonds mature between the time frames of December 1, 2010 and December, 2038 in amounts ranging from \$50,000 to \$280,000.

The bonds were issued to assist the Agency in the financing of redevelopment activities, to fund the Reserve Subaccounts and to pay certain costs relating to the issuance of the bonds. Per the bond indenture, a reserve is required to be maintained and at June 30, 2013, the amount held in the reserve account was \$226,029 which was fully funded.

Pledged revenues

The former RDA pledged 100% of future tax increment revenue (less amounts payable by or required to be set aside by the Agency under any pass-through agreements and by the amount required to be set-aside for low and moderate housing as required by the California Health and Safety Code) as security for the bonds. While the pledge was originally considered outstanding for the duration of the debt service requirements, the dissolution of redevelopment agencies pursuant to AB 1X26 has led to the practice of the State of California granting annual payments to successor agencies to make the required bond debt services requirements as well as payments for other obligations listed on each agency's schedule of enforceable obligations.

11. PRIOR PERIOD ADJUSTMENT

The City recorded prior period adjustments to consolidate the activities related to previously reported special revenue funds (Senior Center Computer Fund, Special Deposits Fund, and the Insurance Fund) with the General Fund as they do not meet the GASB 54 definition of Special Revenue Funds.

Governmental Fund Statements

| | Fund Balance, as Previously Reported | Prior Period Adjustment | | | Fund Balance, as Restated |
|-----------------------------|---|-------------------------|------------------------|---------------------|---------------------------------|
| | | Cash | Interest Receivable | Deposits Payable | |
| Fund Statements: | | | | | |
| General Fund | \$ 1,170,708 | \$ 346,052 | \$ 232 | \$ (321,323) | \$ 1,195,669 |
| Senior Center Computer Fund | \$ 106 | \$ (106) | \$ - | \$ - | \$ - |
| Special Deposits Fund | \$ (5,145) | \$ (315,946) | \$ (232) | \$ 321,323 | \$ - |
| Insurance Fund | \$ 30,000 | \$ (30,000) | \$ - | \$ - | \$ - |

**REQUIRED
SUPPLEMENTARY INFORMATION**

City of Calimesa
Required Supplementary Information
For the year ended June 30, 2013

1. BUDGETARY INFORMATION

The City Council has the responsibility for adoption of the City's budgets. Budgets are adopted for governmental funds. From the effective date of the budget, the amounts stated as proposed expenditures become appropriations to the various City departments. The City Council may amend the budget by resolution during each fiscal year. The City Manager is authorized to transfer funds from one major expenditure category to another within the same department and fund. Any revisions that alter the total expenditures of any fund must be approved by the City Council.

All appropriations lapse at the end of the fiscal year to the extent that they have not been expended.

Budgetary comparisons are provided in the accompanying financial statements for all funds with legally adopted budgets. Budget amounts are adopted on a basis consistent with accounting principles accepted in the United States of America.

City of Calimesa

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual General Fund

For the year ended June 30, 2013

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|---|--------------------|---------------------|-------------------|-------------------------------|
| | Original | Final | | Positive (Negative) |
| REVENUES: | | | | |
| Taxes | \$ 2,442,250 | \$ 2,471,546 | \$ 2,528,766 | \$ 57,220 |
| Licenses & permits | 36,860 | 40,460 | 192,001 | 151,541 |
| Fines & Forfeitures | 65,900 | 37,400 | 47,055 | 9,655 |
| Intergovernmental | 638,000 | 677,369 | 712,973 | 35,604 |
| Charges for Services | 375,140 | 385,190 | 195,675 | (189,515) |
| Development Fees | 28,500 | 103,670 | 141,715 | 38,045 |
| Interest Income | 9,900 | 5,240 | 8,946 | 3,706 |
| Other | 250,200 | 169,621 | 56,564 | (113,057) |
| Total revenues | 3,846,750 | 3,890,496 | 3,883,695 | (6,801) |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General Government | 925,470 | 1,141,971 | 1,000,058 | 141,913 |
| Public Safety | 2,328,333 | 2,301,333 | 2,328,029 | (26,696) |
| Public Works | 124,143 | 143,385 | 222,029 | (78,644) |
| Community development | 378,616 | 288,119 | 305,818 | (17,699) |
| Parks and recreation | 121,304 | 119,004 | 118,200 | 804 |
| Total expenditures | 3,877,866 | 3,993,812 | 3,974,134 | 19,678 |
| REVENUES OVER (UNDER) EXPENDITURES | (31,116) | (103,316) | (90,439) | \$ 12,877 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers in | - | 17,715 | 17,715 | - |
| Transfers out | - | (158,950) | (158,950) | - |
| Total other financing sources (uses) | - | (141,235) | (141,235) | - |
| Net change in fund balance | \$ (31,116) | \$ (244,551) | (231,674) | \$ 12,877 |
| FUND BALANCE: | | | | |
| Beginning of year | | | 1,195,669 | |
| End of year | | | \$ 963,995 | |

City of Calimesa

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Measure A Special Revenue Fund

For the year ended June 30, 2013

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|---|--------------------|-------------------|-------------------|---|
| | Original | Final | | |
| REVENUES: | | | | |
| Intergovernmental | \$ 785,620 | \$ 235,046 | \$ 402,113 | \$ 167,067 |
| Interest Income | 1,000 | 1,000 | 421 | (579) |
| Total revenues | 786,620 | 236,046 | 402,534 | 166,488 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Public works | 830,155 | 180,155 | 56,871 | 123,284 |
| Total expenditures | 830,155 | 180,155 | 56,871 | 123,284 |
| REVENUES OVER (UNDER) EXPENDITURES | \$ (43,535) | \$ 55,891 | 345,663 | \$ 289,772 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers in | - | 448,140 | 448,140 | - |
| Transfers out | - | - | - | - |
| Total other financing sources (uses) | - | 448,140 | 448,140 | - |
| Net change in fund balance | \$ (43,535) | \$ 504,031 | 793,803 | \$ 289,772 |
| FUND BALANCE: | | | | |
| Beginning of year | | | 266,836 | |
| End of year | | | \$ 1,060,639 | |

City of Calimesa

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Mitigation Fees Special Revenue Fund

For the year ended June 30, 2013

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|---|--------------------|--------------------|-------------------|---|
| | Original | Final | | |
| REVENUES: | | | | |
| Development fees | \$ - | \$ 221,105 | \$ 592,608 | \$ 371,503 |
| Interest Income | 4,055 | 4,055 | 2,159 | (1,896) |
| Total revenues | 4,055 | 225,160 | 594,767 | 369,607 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General government | - | 7,585 | 7,585 | - |
| Community development | - | 182,172 | 182,807 | (635) |
| Public safety | - | 373 | 373 | - |
| Public works | 42,500 | 43,338 | 28,699 | 14,639 |
| Parks and recreation | - | 34,638 | 23,280 | 11,358 |
| Library | - | 481 | 481 | - |
| Total expenditures | 42,500 | 268,587 | 243,225 | 25,362 |
| REVENUES OVER (UNDER) EXPENDITURES | (38,445) | (43,427) | 351,542 | 394,969 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers in | - | - | 27,845 | 27,845 |
| Transfers out | - | - | (448,140) | (448,140) |
| Total other financing sources (uses) | - | - | (420,295) | (420,295) |
| Net change in fund balance | \$ (38,445) | \$ (43,427) | (68,753) | \$ (25,326) |
| FUND BALANCE: | | | | |
| Beginning of year | | | 1,476,361 | |
| End of year | | | \$ 1,407,608 | |

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APPENDIX G
FINANCIAL ADVISOR'S REPORT

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May 13, 2014

Randy Anstine, City Manager
City of Calimesa
908 Park Avenue
Calimesa, CA 92320

RE: Calimesa Financing Authority
Tax Allocation Refunding Revenue Bonds
(Calimesa Redevelopment Project No. 1 and Project No. 5), Series 2014

Financial Advisor's Report

Dear Mr. Anstine:

Urban Futures, Inc. (UFI) is pleased to present this report of projected tax increment revenues to the Calimesa Financing Authority (the "Authority") in anticipation of the issuance of the tax allocation refunding revenue bond issue referenced above (the "2014 Bonds"). The following information is included as exhibits to this report:

- Exhibits A-1 to A-3: Projected Assessed Valuations and Tax Revenues
- Exhibit B: Summary of Tax Sharing Agreements
- Exhibit C: Historical Assessed Valuations
- Exhibits D-1 & D-2: Ten Largest Local Secured Taxpayers
- Exhibits E-1 & E-2: Land Uses
- Exhibits F-1 & F-2: Assessment Appeals

Projected taxable valuations and tax revenues contained in this report are based on assumptions derived from the following information:

1. Historical growth trends;
2. Trended growth in valuation as permitted by Article XIII A of the California Constitution (Proposition 13);
3. Financial reports and information supplied or prepared by the Agency; and
4. Assessed valuation information provided by the County of Riverside, from the offices of the Auditor-Controller and Assessor.

The purpose of the projections is to demonstrate the availability of tax increment revenue expected to be generated from the Merged Project Area, to secure debt service requirements of the Agency for the (proposed) 2014 Tax Allocation Refunding Bonds (the "2014 Bonds"). Tax Revenues will be allocated to the Agency pursuant to the procedures described in AB X1 26, as amended by AB 1484 (the "Dissolution Act"), which includes a requirement that the Agency periodically file a Recognized Obligation Payment Schedule (the "ROPS") with the County Auditor-Controller and the State Department of Finance.

Revenue projections have been conservatively estimated in order to reduce the risk of overstating future tax revenues.

Background

Prior to the enactment of the Dissolution Act, the California Community Redevelopment Law (the "Law") together with Article 16, Section 16 of the California Constitution, authorized redevelopment agencies to receive that portion of property tax revenue generated by project area taxable values that are over and above the Base Year value. The Base Year value is defined as the amount of the taxable values within the project area boundaries on the last equalized tax roll prior to adoption of the project area. The amount of current year taxable value that is in excess of the Base Year value is referred to as incremental taxable value.

The Dissolution Act authorizes refunding bonds, including the 2014 Bonds, to be secured by a pledge of the same revenues pledged to the bonds being refunded, and to be payable from and secured by monies deposited from time to time in Successor Agency's Redevelopment Property Tax Trust Fund ("RPTTF") held by the County Auditor-Controller. Discussions of tax increment revenues in this report refer to those monies that will be deposited into the RPTTF by the County Auditor-Controller.

General Projection Assumptions

1. The revenue projections (Exhibits A-1, A-2, and A-3) are based on a 2% assessed valuation growth factor for FY 14-15, and 2% annual assessed valuation growth thereafter, representing annual inflation increases allowable under Proposition 13. For FY 2014-15, the 2% growth factor includes inflation growth of 1.00454% as reported by the State Board of Equalization, and additional projected valuation growth from resale activity in the Project Area.
2. The Project Area tax rate is assumed to be 1.00% in FY 2013-14 and all periods thereafter.

Project Areas

In 1992 the City Council activated the Calimesa Redevelopment Agency (the "Prior Agency") for the primary purpose of eliminating blight and stimulating the City's economic base. The Prior Agency adopted a redevelopment plan for Project Area 1 on December 30, 1993. Prior to the City's incorporation in 1990, the County of Riverside (the "County") and its redevelopment agency (the "County Agency") had approved a number of redevelopment projects in County unincorporated territory; one of which, the Riverside County Redevelopment Project No. 5-1986, included five non-

contiguous sub-areas and was adopted by the County on December 23, 1986. One of the non-contiguous sub-areas of this Riverside County Redevelopment Project No. 5-1986, the "Calimesa sub-area," was located in what would later become a part of the City upon its incorporation. Pursuant to a Jurisdictional Transfer Agreement (the "Agreement") executed on June 13, 2000, the County Agency transferred jurisdiction to the City of what was then called the Calimesa Sub-area of the Riverside County Redevelopment Project No. 5-1986 and is now known as Project Area 5. The Agreement retroactively transferred jurisdiction as of July 1, 1999.

On November 5, 2007 the City Council for the City of Calimesa adopted Ordinance No. 274 which eliminated the debt incurrence deadline for Project Area 5. Because this action also required approval of the County of Riverside, since Project Area 5 was originally a County project area, the County adopted County Ordinance No. 874 on December 11, 2007 approving such action. Project Area 1 has a debt incurrence deadline of December 30, 2013, for new debt incurrence (does not affect the issuance of refunding debt).

Project Areas' Redevelopment Plan Financing Limitations

The fiscal and time limitations contained in the Redevelopment Plans for the Project Areas are summarized in Tables 1A and 1B below.

| TABLE 1A: PROJECT AREA 1 PLAN AND FINANCING LIMITATIONS | |
|--|-----------------------------|
| LIMITATION DESCRIPTION | TIME OR DOLLAR LIMIT |
| 1. Plan Effectiveness/Duration | 12/30/2033 |
| 2. Debt Incurrence Time Limit | *12/30/2013 |
| 3. Tax Increment Receipt/Debt Repayment Time Limit | 12/30/2043 |
| 4. Maximum Bonded Debt | ** \$28.6 Million |
| 5. Lifetime Increment Cap | **\$286 Million |

* Ordinance No. 94-17, which established the December 30, 2013 time limit on the last date to incur debt in Project No. 1, specifies that this time limit shall not prevent the Agency from refinancing, refunding, or restructuring indebtedness after the time limit if the indebtedness is not increased and the time during which the indebtedness is to be repaid does not exceed the date on which the indebtedness would have been paid.

** Adjusted annually by the consumer price index

| TABLE 1B: PROJECT AREA 5 PLAN AND FINANCING LIMITATIONS | |
|--|-----------------------------|
| LIMITATION DESCRIPTION | TIME OR DOLLAR LIMIT |
| 1. Plan Effectiveness/Duration | 12/23/2026 |
| 2. Debt Incurrence Time Limit | Eliminated – Ordinance 274 |
| 3. Tax Increment Receipt/Debt Repayment Time Limit | 12/23/2036 |
| 4. Maximum Bonded Debt | \$6.1524 Million |
| 5. Lifetime Increment Cap | \$57.1654 Million |

Low- and Moderate-Income Housing Set-Aside

Pursuant to Section 33334.2 of California Redevelopment Law, the Prior Agency was required to set aside 20 percent of annual tax increment allocated to the Prior Agency, for use in projects benefiting low- and moderate- income housing (the "LMI Housing Set-Aside"). Pursuant to the Dissolution Act, the Successor Agency is not required to set aside funds for the LMI Housing Set-Aside. Therefore, such amounts are now included in the amounts deposited by the County Auditor-Controller into the RPTTF, and are included in the revenues shown in Exhibits A-1, A-2, and A-3.

Pass Through Agreements

The Agency has entered into pass-through agreements with numerous taxing entities. Please refer to Exhibit B for a detailed listing of pass through agreements and taxing entities receiving statutory pass through payments.

Assessment Appeals

In Riverside County, a property owner desiring to reduce the assessed value of such owner's property in any one year must submit an application to the Riverside County Assessment Appeals Board (the "Appeals Board"). Applications for any tax year must be submitted by September 15 of such tax year. The Appeals Board, within two years of each applicant's filing date, will hold a hearing and then either reduce the assessment or confirm the assessment. A summary of current outstanding assessment appeals is shown in Exhibits F-1 and F-2.

* * * * *

While UFI has taken steps to assure the accuracy of the data used in the formulation of these projections, we cannot insure that projected valuations will, in fact, be realized because actual values will most likely be affected by future events and conditions that cannot be predicted with certainty.

We believe that this report provides the Calimesa Financing Authority with a reasonable basis for demonstrating the available tax increment revenues of the Successor Agency from Project Areas 1 and 5.

Sincerely,

URBAN FUTURES, INC.

A handwritten signature in blue ink, appearing to read "Douglas P. Anderson".

Douglas P. Anderson
Managing Principal

Exhibit A-1

**Calimesa Redevelopment Project No. 1 and Project No. 5
Combined Projected Pledged Revenues**

| <u>FYE</u> | <u>Gross Pledged Tax Revenues</u> | <u>County Admin. Fees</u> | <u>Statutory Pass Throughs</u> | <u>Pass Through Agreements</u> | <u>Net Pledged Tax Revenues Available For Loan Payments</u> |
|------------|-----------------------------------|---------------------------|--------------------------------|--------------------------------|---|
| 2014 | 904,191 | 11,845 | 23,890 | 301,240 | 567,216 |
| 2015 | 929,320 | 12,174 | 25,431 | 309,920 | 581,795 |
| 2016 | 954,951 | 12,510 | 27,004 | 318,773 | 596,665 |
| 2017 | 981,095 | 12,852 | 28,607 | 327,803 | 611,832 |
| 2018 | 1,007,762 | 13,202 | 30,243 | 337,014 | 627,303 |
| 2019 | 1,034,963 | 13,558 | 33,314 | 346,410 | 641,681 |
| 2020 | 1,062,707 | 13,921 | 36,445 | 355,993 | 656,347 |
| 2021 | 1,091,006 | 14,292 | 39,640 | 365,768 | 671,307 |
| 2022 | 1,119,871 | 14,670 | 42,898 | 375,738 | 686,565 |
| 2023 | 1,149,314 | 15,056 | 46,221 | 385,908 | 702,129 |
| 2024 | 1,179,345 | 15,449 | 49,611 | 396,281 | 718,004 |
| 2025 | 1,209,977 | 15,851 | 53,069 | 406,861 | 734,196 |
| 2026 | 1,241,222 | 16,260 | 56,596 | 417,654 | 750,713 |
| 2027 | 1,273,091 | 16,677 | 60,193 | 428,662 | 767,559 |
| 2028 | 1,305,598 | 17,103 | 63,863 | 439,890 | 784,743 |
| 2029 | 1,338,755 | 17,538 | 67,605 | 451,343 | 802,270 |
| 2030 | 1,372,576 | 17,981 | 71,423 | 463,024 | 820,148 |
| 2031 | 1,407,072 | 18,433 | 75,317 | 474,940 | 838,383 |
| 2032 | 1,442,259 | 18,894 | 79,288 | 487,094 | 856,983 |
| 2033 | 1,478,149 | 19,364 | 83,340 | 499,490 | 875,955 |
| 2034 | 1,514,757 | 19,843 | 87,472 | 512,135 | 895,307 |
| 2035 | 1,552,097 | 20,332 | 91,687 | 525,033 | 915,045 |
| 2036 | 1,590,184 | 20,831 | 95,986 | 538,188 | 935,179 |
| 2037 | 443,328 | 5,808 | - | 196,984 | 240,536 |
| 2038 | 455,966 | 5,973 | - | 202,600 | 247,394 |

Exhibit A-2

**Calimesa Redevelopment Project No. 1
Projected Taxable Valuation and Pledged Revenues**

| <u>FYE</u> | <u>Taxable Assessed Valuation</u> | <u>Gross Pledged Tax Revenues (a)</u> | <u>County Admin. Fees</u> | <u>Pass Through Agreements</u> | <u>Net Pledged Tax Revenues Available For Loan Payments</u> |
|------------|-----------------------------------|---------------------------------------|---------------------------|--------------------------------|---|
| 2014 | 40,074,510 | 212,138 | 2,779 | 94,259 | 115,100 |
| 2015 | 40,876,000 | 220,153 | 2,884 | 97,821 | 119,448 |
| 2016 | 41,693,520 | 228,328 | 2,991 | 101,453 | 123,884 |
| 2017 | 42,527,391 | 236,667 | 3,100 | 105,158 | 128,408 |
| 2018 | 43,377,938 | 245,172 | 3,212 | 108,937 | 133,023 |
| 2019 | 44,245,497 | 253,848 | 3,325 | 112,792 | 137,730 |
| 2020 | 45,130,407 | 262,697 | 3,441 | 116,724 | 142,532 |
| 2021 | 46,033,015 | 271,723 | 3,560 | 120,735 | 147,429 |
| 2022 | 46,953,676 | 280,930 | 3,680 | 124,826 | 152,424 |
| 2023 | 47,892,749 | 290,321 | 3,803 | 128,998 | 157,519 |
| 2024 | 48,850,604 | 299,899 | 3,929 | 133,254 | 162,716 |
| 2025 | 49,827,616 | 309,669 | 4,057 | 137,595 | 168,017 |
| 2026 | 50,824,168 | 319,635 | 4,187 | 142,023 | 173,424 |
| 2027 | 51,840,652 | 329,800 | 4,320 | 146,540 | 178,939 |
| 2028 | 52,877,465 | 340,168 | 4,456 | 151,147 | 184,565 |
| 2029 | 53,935,014 | 350,743 | 4,595 | 155,846 | 190,303 |
| 2030 | 55,013,714 | 361,530 | 4,736 | 160,639 | 196,155 |
| 2031 | 56,113,989 | 372,533 | 4,880 | 165,528 | 202,125 |
| 2032 | 57,236,269 | 383,756 | 5,027 | 170,514 | 208,214 |
| 2033 | 58,380,994 | 395,203 | 5,177 | 175,601 | 214,425 |
| 2034 | 59,548,614 | 406,879 | 5,330 | 180,789 | 220,760 |
| 2035 | 60,739,586 | 418,789 | 5,486 | 186,080 | 227,222 |
| 2036 | 61,954,378 | 430,937 | 5,645 | 191,478 | 233,813 |
| 2037 | 63,193,465 | 443,328 | 5,808 | 196,984 | 240,536 |
| 2038 | 64,457,335 | 455,966 | 5,973 | 202,600 | 247,394 |

(a) Based on a 1.00% tax rate applied to Incremental Valuation, which is taxable assessed valuation in a given fiscal year less the fixed base assessed valuation of \$18,860,692.

Calimesa Redevelopment Project No. 5
Projected Taxable Valuation and Pledged Revenues

| <u>FYE</u> | <u>Taxable Assessed Valuation</u> | <u>Gross Pledged Tax Revenues (a)</u> | <u>County Admin. Fees</u> | <u>Statutory Pass Throughs</u> | <u>Pass Through Agreements</u> | <u>Net Pledged Tax Revenues Available For Loan Payments</u> |
|------------|-----------------------------------|---------------------------------------|---------------------------|--------------------------------|--------------------------------|---|
| 2014 | 85,570,011 | 692,053 | 9,066 | 23,890 | 206,981 | 452,117 |
| 2015 | 87,281,411 | 709,167 | 9,290 | 25,431 | 212,099 | 462,346 |
| 2016 | 89,027,039 | 726,623 | 9,519 | 27,004 | 217,320 | 472,781 |
| 2017 | 90,807,580 | 744,428 | 9,752 | 28,607 | 222,645 | 483,424 |
| 2018 | 92,623,732 | 762,590 | 9,990 | 30,243 | 228,077 | 494,280 |
| 2019 | 94,476,206 | 781,115 | 10,233 | 33,314 | 233,617 | 503,951 |
| 2020 | 96,365,731 | 800,010 | 10,480 | 36,445 | 239,269 | 513,816 |
| 2021 | 98,293,045 | 819,283 | 10,733 | 39,640 | 245,033 | 523,878 |
| 2022 | 100,258,906 | 838,942 | 10,990 | 42,898 | 250,912 | 534,141 |
| 2023 | 102,264,084 | 858,993 | 11,253 | 46,221 | 256,910 | 544,610 |
| 2024 | 104,309,366 | 879,446 | 11,521 | 49,611 | 263,027 | 555,287 |
| 2025 | 106,395,553 | 900,308 | 11,794 | 53,069 | 269,266 | 566,179 |
| 2026 | 108,523,464 | 921,587 | 12,073 | 56,596 | 275,630 | 577,288 |
| 2027 | 110,693,934 | 943,292 | 12,357 | 60,193 | 282,122 | 588,620 |
| 2028 | 112,907,812 | 965,431 | 12,647 | 63,863 | 288,743 | 600,178 |
| 2029 | 115,165,969 | 988,012 | 12,943 | 67,605 | 295,497 | 611,967 |
| 2030 | 117,469,288 | 1,011,045 | 13,245 | 71,423 | 302,386 | 623,992 |
| 2031 | 119,818,674 | 1,034,539 | 13,552 | 75,317 | 309,412 | 636,258 |
| 2032 | 122,215,047 | 1,058,503 | 13,866 | 79,288 | 316,579 | 648,769 |
| 2033 | 124,659,348 | 1,082,946 | 14,187 | 83,340 | 323,890 | 661,530 |
| 2034 | 127,152,535 | 1,107,878 | 14,513 | 87,472 | 331,346 | 674,546 |
| 2035 | 129,695,586 | 1,133,308 | 14,846 | 91,687 | 338,952 | 687,823 |
| 2036 | 132,289,497 | 1,159,248 | 15,186 | 95,986 | 346,710 | 701,365 |

(a) Based on a 1.00% tax rate applied to Incremental Valuation, which is taxable assessed valuation in a given fiscal year less the fixed base assessed valuation of \$16,364,744.

**Calimesa Redevelopment Project No. 1 and No. 5
Summary of Tax Sharing Agreements**

A. Summary of Negotiated Pass Through Agreements

| Taxing Entity | Project No. 1 | | Project No. 5 | |
|---------------------------|-------------------------|-----------------------------------|-------------------------|-----------------------------------|
| | Share of 1.00% Tax Rate | Agreement Pass Through Percentage | Share of 1.00% Tax Rate | Agreement Pass Through Percentage |
| County General | 0.050315 | 0% | 0.052375 | 0% |
| County Free Library | 0.023324 | 0% | 0.025702 | 0% |
| Calimesa City Fire | 0.179409 | 0% | 0.181188 | 0% |
| City of Calimesa | 0.091567 | 0% | 0.099761 | 0% |
| Yucaipa USD | 0.337434 | 40% | 0.373897 | 29.62% |
| SB Valley CC District | 0.047957 | 50% | 0.053070 | 29.62% |
| Beaumont USD | 0.029513 | 50% | 0.000000 | 0% |
| Mt. San Jacinto CC Dist | 0.002731 | 50% | 0.000000 | 0% |
| Riverside County Schools | 0.027698 | 60% | 0.027707 | 29.62% |
| Co. Regional Park | 0.004048 | 0% | 0.004015 | 0% |
| Flood Control Admin. | 0.002844 | 100% | 0.003522 | 100% |
| Flood Control Zone 5 | 0.051111 | 100% | 0.051874 | 100% |
| Beaumont/Summit Cemetery | 0.019667 | 100% | 0.020197 | 100% |
| Beaumont Library District | 0.000000 | 100% | 0.000000 | 0% |
| San Gorg. Mem. Hosp. | 0.000945 | 100% | 0.000000 | 0% |
| Yucaipa Valley Cnty Wtr. | 0.050264 | 100% | 0.031404 | 100% |
| Yuc. Vall Cnty. Wtr. Imp. | 0.025714 | 100% | 0.018572 | 100% |
| SG GP Mobile Home | 0.000000 | 0% | 0.000033 | 0% |
| SG Pass Water | 0.055457 | 50% | 0.056683 | 100% |
| Total | 1.000000 | N/A | 1.000000 | N/A |

**B. Taxing Entities Receiving Statutory Pass Through Payments:
(Project No. 5 only)**

1. County General Fund
2. County Library
3. Calimesa City Fire
4. City of Calimesa
5. Beaumont USD
6. Mt. San Jacinto CC District
7. County Regional Park Dist.
8. Beaumont Library District
9. San Gorg. Mem. Hospital
10. SG GP Mobile Home

Exhibit C

**Calimesa Redevelopment Project No. 1 and Project No. 5
Historical Assessed Valuations**

| FY | Project No. 1 <u>Assessed Valuation</u> | Project No. 5 <u>Assessed Valuation</u> |
|---------|--|--|
| 2004-05 | \$ 25,348,541 | \$ 43,744,224 |
| 2005-06 | 28,949,504 | 46,596,526 |
| 2006-07 | 32,570,296 | 49,414,763 |
| 2007-08 | 37,897,958 | 58,704,569 |
| 2008-09 | 37,728,509 | 66,854,986 |
| 2009-10 | 37,567,509 | 77,032,614 |
| 2010-11 | 38,090,573 | 77,627,565 |
| 2011-12 | 38,791,114 | 78,162,044 |
| 2012-13 | 39,639,590 | 80,983,059 |
| 2013-14 | 40,074,510 | 85,570,011 |

| |
|---|
| Largest Local Secured Taxpayers/Property Owners FY 2013-14 |
|---|

| Property Owner | 2013-14 Secured Assessed Valuation | Land Use | Percent of Secured AV ⁽¹⁾ |
|------------------------------------|------------------------------------|--------------|--------------------------------------|
| 1. Stater Bros Market | \$5,283,521 | Commercial | 14.22% |
| 2. San Gorgonio Land | 2,674,867 | Agricultural | 7.20% |
| 3. Oak Valley Partners | 2,649,174 | Commercial | 7.13% |
| 4. McDonalds Corp | 2,278,877 | Commercial | 6.13% |
| 5. Monte Vista Medical Center | 1,963,826 | Commercial | 5.28% |
| 6. Masini Kelly Ann | 1,836,535 | Commercial | 4.94% |
| 7. Saba Partners Inc | 1,702,273 | Agricultural | 4.58% |
| 8. Calimesa Plaza | 1,312,513 | Commercial | 3.53% |
| 9. Patel Vibhakerbhaib | 1,259,310 | Commercial | 3.39% |
| 10. Rowland Heights Mobile Estates | 1,256,428 | Commercial | 3.38% |
| Total | \$22,217,324 | | 59.78% |



Source: *Urban Futures, Inc.* with information from the Riverside County 2011-12 Secured Property Tax Roll.

(1) Based on Fiscal Year 2013-14 secured assessed valuation of \$37,162,374.

| |
|---|
| Largest Local Secured Taxpayers/Property Owners FY 2013-14 |
|---|

| Property Owner | 2013-14 Secured Assessed Valuation | Land Use | Percent of Secured AV ⁽¹⁾ |
|--|------------------------------------|------------|--------------------------------------|
| 1. Redus One | \$7,259,962 | Commercial | 10.04% |
| 2. Walgreen Co. | 5,947,238 | Commercial | 8.22% |
| 3. 5th Street Business Park | 4,286,191 | Commercial | 5.93% |
| 4. Learned Perry LP | 2,982,791 | Commercial | 4.12% |
| 5. Atlas Storage | 2,652,000 | Commercial | 3.67% |
| 6. Avakian Joseph L | 2,407,564 | Commercial | 3.33% |
| 7. Fresh & Easy Neighborhood Markets Inc | 2,226,916 | Commercial | 3.08% |
| 8. Maingot William George | 2,221,152 | Commercial | 3.07% |
| 9. Tsai Yun Chih | 2,010,080 | Commercial | 2.78% |
| 10. Jack in the Box | 1,769,505 | Commercial | 2.45% |
| Total | \$33,763,399 | | 46.67% |

Source: *Urban Futures, Inc.* with information from the Riverside County 2013-14 Secured Property Tax Roll.

(1) Based on Fiscal Year 2013-14 secured assessed valuation of \$72,339,951.

**SUCCESSOR AGENCY TO THE CALIMESA REDEVELOPMENT AGENCY
PROJECT AREA #1
Land Use Summary
Fiscal Year 2013-14**

| Land Use | Number of Parcels | Secured Assessed Valuation | Percent of Secured A.V. ⁽¹⁾ |
|---------------------------|----------------------|-------------------------------|---|
| Commercial | 46 | \$23,972,819 | 64.51% |
| Single Family Residential | 53 | 6,583,057 | 17.71% |
| Vacant Agricultural | 9 | 3,437,649 | 9.25% |
| Vacant Residential | 17 | 1,579,686 | 4.25% |
| Miscellaneous | 12 | 961,719 | 2.59% |
| Multifamily Residential | 4 | 627,440 | 1.69% |
| Government | 7 | 4 | 0.00% |
| Total All Secured | 148 | \$37,162,374 | 100.00% |

(1) Based on Fiscal Year 2013-14 secured assessed valuation of \$37,162,374.

Source: *Urban Futures, Inc.* with information from the Riverside County 2013-14 Secured Property Tax Roll.

**SUCCESSOR AGENCY TO THE CALIMESA REDEVELOPMENT AGENCY
PROJECT AREA #5
Land Use Summary
Fiscal Year 2013-14**

| Land Use | Number of Parcels | Secured Assessed Valuation | Percent of Secured A.V. ⁽¹⁾ |
|---------------------------|----------------------|-------------------------------|---|
| Commercial | 120 | \$64,406,573 | 89.03% |
| Single Family Residential | 53 | 4,891,358 | 6.76% |
| Multifamily Residential | 12 | 2,754,626 | 3.81% |
| Vacant Residential | 5 | 236,372 | 0.33% |
| Miscellaneous | 6 | 49,871 | 0.07% |
| Government | 5 | 1,151 | 0.00% |
| Total All Secured | 201 | \$72,339,951 | 100.00% |

(1) Based on Fiscal Year 2013-14 secured assessed valuation of \$72,339,951.

Source: *Urban Futures, Inc.* with information from the Riverside County 2013-14 Secured Property Tax Roll.

| |
|---|
| Historical Assessment Appeals For Closed Appeals Reviewed from January 2008 through April 2014 |
|---|

| Number of Appeals Filed | Number of Successful Appeals | Assessed Value of Property | Owner's Opinion of Value | Total Requested AV Reduction | Reduction Allowed by Board | Allowed Reductions as % of Requested |
|-------------------------|------------------------------|----------------------------|--------------------------|------------------------------|----------------------------|--------------------------------------|
| 43 | 2 | \$34,873,315 | \$17,265,527 | \$17,607,788 | \$281,774 | 1.60% |

| |
|--|
| Outstanding Assessment Appeals as of 4/21/2014 |
|--|

| Roll Year Appealed | Number of Appeals Outstanding | Assessed Value of Property | Owner's Opinion of Value | Potential Loss of Assessed Value | Historical Success Rate | Estimated Reduction (based on Historical success) |
|--------------------|-------------------------------|----------------------------|--------------------------|----------------------------------|-------------------------|---|
| 2011 | 2 | \$788,042 | \$270,000 | \$518,042 | 1.60% | \$8,290 |
| 2012 | 7 | \$3,001,890 | \$1,850,000 | \$1,151,890 | 1.60% | \$18,433 |
| 2013 | 7 | \$5,445,288 | \$3,247,542 | \$2,197,746 | 1.60% | \$35,170 |
| TOTALS | 16 | \$9,235,220 | \$5,367,542 | \$3,867,678 | | \$53,604 |

Source: *Urban Futures, Inc.* with information from the County of Riverside.

Calimesa Redevelopment Project No. 5

Exhibit F-2

Historical Assessment Appeals
For Closed Appeals Reviewed from January 2008 through April 2014

| Number of Appeals Filed | Number of Successful Appeals | Assessed Value of Property | Owner's Opinion of Value | Total Requested AV Reduction | Reduction Allowed by Board | Allowed Reductions as % of Requested |
|-------------------------|------------------------------|----------------------------|--------------------------|------------------------------|----------------------------|--------------------------------------|
| 28 | 2 | \$47,002,621 | \$23,821,454 | \$23,181,167 | \$357,638 | 1.54% |

Outstanding Assessment Appeals as of 4/21/2014

| Roll Year Appealed | Number of Appeals Outstanding | Assessed Value of Property | Owner's Opinion of Value | Potential Loss of Assessed Value | Historical Success Rate | Estimated Reduction (based on Historical success) |
|--------------------|-------------------------------|----------------------------|--------------------------|----------------------------------|-------------------------|---|
| 2010 | 2 | \$9,393,940 | \$2,903,752 | \$6,490,188 | 1.54% | \$100,130 |
| 2011 | 3 | \$8,175,664 | \$4,087,831 | \$4,087,833 | 1.54% | \$63,067 |
| 2013 | 12 | \$25,487,718 | \$17,179,582 | \$8,308,136 | 1.54% | \$128,178 |
| TOTALS | 17 | \$43,057,322 | \$24,171,165 | \$18,886,157 | | \$191,244 |

Source: *Urban Futures, Inc.* with information from the County of Riverside.

APPENDIX H
DOF DETERMINATION LETTER

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April 7, 2014

Mr. Al Holliman, Finance Consultant
City of Calimesa
908 Park Avenue
Calimesa, CA 92320

Dear Mr. Holliman:

Subject: Approval of Oversight Board Action

The City of Calimesa Successor Agency (Agency) notified the California Department of Finance (Finance) of its February 4, 2014 Oversight Board (OB) resolution on February 4, 2014. Pursuant to Health and Safety Code (HSC) section 34179 (h), Finance has completed its review of the OB action.

Based on our review and application of the law, OB Resolution 2014-02 approving the incurrence of two refunding loans, is approved.

In 2008, the Calimesa Financing Authority (Authority) issued the 2008 Revenue Bonds. Per the indenture, all bond funds were loaned to the former redevelopment agency (RDA) for use toward Project Areas 1 and 5. Two Promissory Notes were created between the RDA and the Authority; one for Project Area 1 and one for Project Area 5. The Agency approved the refunding of the 2008 bonds. With the refunding of the 2008 bonds, the Agency wishes to reduce debt service by refunding its 2008 Project Areas 1 and 5 loans. This approval is conditioned on the understanding that no refunding bonds will be issued unless such bonds meet the limitations in HSC section 34177.5 (a). Additionally, the payments for the refunding loans should be placed on future Recognized Obligation Payment Schedule for Finance review.

Please direct inquiries to Beliz Chappuie, Supervisor, or Susana Medina Jackson, Lead Analyst at (916) 445-1546.

Sincerely,

JUSTYN HOWARD
Assistant Program Budget Manager

cc: Mr. Randy Anstine, City Manager, City of Calimesa
Ms. Judith Von Klug, Assistant City Manager, City of Calimesa
Mr. Douglas Anderson, Managing Principal, Urban Futures, Inc.
Ms. Pam Elias, Chief Accountant Property Tax Division, Riverside County
California State Controller's Office

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APPENDIX I

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer



FOR ADDITIONAL BOOKS: ELABRA.COM OR (888) 935-2272