

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the Series 2003 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS."

\$120,605,000

**REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
CENTRAL DISTRICT REDEVELOPMENT PROJECT
SUBORDINATED TAX ALLOCATION BONDS, SERIES 2003**

Dated: Date of Delivery

Due: September 1, as shown below

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

The \$120,605,000 Redevelopment Agency of the City of Oakland Central District Redevelopment Project, Subordinated Tax Allocation Bonds, Series 2003 (the "Series 2003 Bonds") are being issued by the Redevelopment Agency of the City of Oakland (the "Agency") to: (i) refund the Agency's Central District Redevelopment Project Tax Allocation Bonds, Series 1989A (the "Series 1989A Bonds"), the Central District Redevelopment Project Subordinated Tax Allocation Refunding Bonds, Series 1992A (the "Series 1992A Bonds"), the Central District Redevelopment Project Subordinated Tax Allocation Bonds, Series 1993A (the "Series 1993A Bonds"), the Central District Redevelopment Project Subordinated Tax Allocation Bonds, Series 1995A (City Administration Facility) (the "Series 1995A Bonds" and, together with the Series 1989A Bonds, the Series 1992A Bonds and the Series 1993A Bonds, the "Prior Bonds"); (ii) finance certain redevelopment activities within or to the benefit of the Agency's Central District Project Area (the "Project Area"); and (iii) pay the costs associated with the issuance of the Series 2003 Bonds. The Series 2003 Bonds are issued pursuant to an Indenture of Trust dated as of January 1, 2003 (the "Indenture") between the Agency and BNY Western Trust Company, San Francisco, California (the "Trustee"). See "PLAN OF FINANCE."

The Series 2003 Bonds will be issued in book-entry form, initially registered in the name of Cede & Co. as nominee of the Depository Trust Company, New York, New York ("DTC"), who will act as securities depository for the Series 2003 Bonds. Individual purchases of the Series 2003 Bonds will be in book-entry form only, and in principal amounts of \$5,000 or any integral multiple thereof. Purchasers will not receive physical certificates representing their interests in the Series 2003 Bonds. Principal of, interest on and redemption premium, if any, on the Series 2003 Bonds will be paid by the Trustee directly to DTC, which in turn is obligated to remit such principal, interest and redemption premium, if any, to DTC Participants for subsequent disbursement to the Beneficial Owners of the Series 2003 Bonds. See APPENDIX F—"DTC AND THE BOOK-ENTRY ONLY SYSTEM." Interest on the 2003 Bonds will be payable on each March 1 and September 1 of each year, commencing March 1, 2003 at the respective rates set forth below. Principal of the Series 2003 Bonds is payable on the dates and in the respective principal amounts set forth below.

The Series 2003 Bonds are subject to optional and mandatory sinking account redemption as described herein. See "THE SERIES 2003 BONDS—Redemption Provisions."

For a discussion of some of the risks associated with the purchase of the Series 2003 Bonds, see "CERTAIN RISKS TO BONDHOLDERS."

The Series 2003 Bonds are payable from and secured by Tax Revenues (as defined herein), consisting primarily of tax increment derived from property in the Project Area and allocated to the Agency pursuant to the Redevelopment Law. No funds or properties of the Agency, other than the Tax Revenues, are pledged to secure the Series 2003 Bonds. The pledge of Tax Revenues to secure the Series 2003 Bonds is subordinate to a pledge thereof to secure the Agency's Central District Redevelopment Project, Senior Tax Allocation Bonds, Series 1992. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2003 BONDS."

The scheduled payment of principal and interest on the Series 2003 Bonds when due will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the delivery of the Series 2003 Bonds by Financial Guaranty Insurance Company.



FGIC is a registered service mark used by Financial Guaranty Insurance Company, a private company not affiliated with any U.S. Government agency.

THE SERIES 2003 BONDS ARE NOT A DEBT OF THE CITY OF OAKLAND, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS OTHER THAN THE AGENCY TO THE LIMITED EXTENT SET FORTH IN THE INDENTURE, AND NEITHER THE CITY, THE STATE NOR ANY OF ITS POLITICAL SUBDIVISIONS OTHER THAN THE AGENCY IS LIABLE THEREFOR. THE PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THE SERIES 2003 BONDS ARE PAYABLE SOLELY FROM TAX REVENUES ALLOCATED TO THE AGENCY FROM THE PROJECT AREA AND CERTAIN OTHER FUNDS PLEDGED THEREFOR UNDER THE INDENTURE. THE SERIES 2003 BONDS DO NOT CONSTITUTE AN INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. NONE OF THE MEMBERS OF THE AGENCY, THE CITY COUNCIL, OR ANY PERSONS EXECUTING THE SERIES 2003 BONDS, ARE LIABLE PERSONALLY ON THE SERIES 2003 BONDS BY REASON OF THEIR ISSUANCE. THE AGENCY HAS NO TAXING POWER.

MATURITY SCHEDULE

Maturity Date (September 1)	Principal Amount	Interest Rate	Yield/ Price	CUSIP No.† (672321)	Maturity Date (September 1)	Principal Amount	Interest Rate	Yield/ Price	CUSIP No.† (672321)
2003	\$ 4,860,000	3.00%	0.94%	FR2	2012	\$ 5,145,000	5.50%	9.70%	GA8
2004	2,795,000	3.00	1.27	FS0	2013	3,395,000	5.50	113.833††	GB6
2005	2,870,000	3.00	1.37	FT8	2014	5,665,000	5.50	112.757††	GC4
2006	2,970,000	4.00	1.80	FU5	2015	12,840,000	5.50	111.518††	GD2
2007	3,090,000	4.00	2.20	FV3	2016	13,545,000	5.50	110.555††	GE0
2008	3,185,000	4.00	2.60	FW1	2017	14,290,000	5.50	109.689††	GF7
2009	3,305,000	5.00	2.95	FX9	2018	15,080,000	5.50	108.917††	GG5
2010	4,720,000	5.00	3.25	FY7	2019	15,905,000	5.50	108.151††	GH3
2011	4,945,000	5.00	3.50	FZ4					

† CUSIP numbers are provided for convenience only. None of the Agency, the City or the Underwriters assumes any responsibility for the accuracy of such numbers.

†† Priced to call at 100 on March 1, 2013.

The Series 2003 Bonds are offered when, as and if issued, subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Certain legal matters will be passed upon for the Agency by the City Attorney of the City of Oakland in his capacity as Agency Counsel, Oakland, California and for the Underwriters by Lofton & Jennings, San Francisco, California. It is anticipated that the Series 2003 Bonds in book-entry form will be available for delivery through the facilities of DTC in New York, New York on or about January 9, 2003.

Morgan Stanley**E. J. De La Rosa & Co., Inc.****Redwood Securities Group, Inc.**

Dated: January 7, 2003

No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations in connection with the offer or sale of the Series 2003 Bonds by the Agency or the Underwriters, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Agency or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2003 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

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

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

The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The Agency does not plan to issue any updates or revisions to those forward-looking statements if or when their expectations, or events, conditions or circumstances on which such statements are based occur.

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

The Series 2003 Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption from the registration requirements contained in such Act. The Series 2003 Bonds have not been registered or qualified under the securities laws of any state.

In connection with the offering of the Series 2003 Bonds, the Underwriters may overallot or effect transactions that stabilize or maintain the market price of the Series 2003 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriters may offer and sell the Series 2003 Bonds to certain dealers and others at prices lower than the public offering prices set forth on the cover page hereof and said public offering prices may be changed from time to time by the Underwriters.

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

AGENCY BOARD AND CITY COUNCIL

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

AGENCY AND CITY STAFF

Edmund G. Brown, Jr., *Agency Chief Executive Officer and Mayor*
Robert C. Bobb, *Agency Administrator and City Manager*
Dr. George G. Musgrove, *Assistant City Manager*
Ceda Floyd, *Agency Secretary and City Clerk*
Roland E. Smith, *City Auditor*
John Russo, *Agency Counsel and City Attorney*
Deborah Edgerly, *Agency Treasurer and Director, Financial Services Agency*
William E. Claggett, *Executive Director, Community and Economic Development Agency*
Joseph T. Yew, Jr., *Treasury Manager*

SPECIAL SERVICES

BNY Western Trust Company San Francisco, California <i>Trustee</i>	Public Financial Management, Inc. San Francisco, California <i>Financial Advisor</i>
Grant Thornton LLP Minneapolis, Minnesota <i>Verification Agent</i>	HdL Coren & Cone Diamond Bar, California <i>Fiscal Consultant</i>
Jones Hall, A Professional Law Corporation San Francisco, California <i>Bond Counsel</i>	Lofton & Jennings San Francisco, California <i>Underwriters' Counsel</i>

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San Rafael

Richmond

Berkeley

Emeryville

Oakland

Alameda

San Francisco

San Leandro

Hayward

1580

1880

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\$120,605,000
REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
CENTRAL DISTRICT REDEVELOPMENT PROJECT
SUBORDINATED TAX ALLOCATION BONDS, SERIES 2003

INTRODUCTION

This introduction contains only a brief summary of certain of the terms of the Series 2003 Bonds being offered, and a full review should be made of the entire Official Statement including the cover page, the table of contents and the appendices for a more complete description of the terms of the Series 2003 Bonds. All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of provisions of, any other documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions of such documents.

General; Authority for Issuance

The purpose of this Official Statement, including the cover page and the appendices hereto, is to furnish information in connection with the sale and delivery of \$120,605,000 the Redevelopment Agency of the City of Oakland Central District Redevelopment Project Subordinated Tax Allocation Bonds, Series 2003 (the "Series 2003 Bonds") to be issued by the Redevelopment Agency of the City of Oakland (the "Agency").

The Series 2003 Bonds are issued pursuant to the authority granted under the Community Redevelopment Law (constituting Part 1 of Division 24 of the Health and Safety Code of the State of California) (the "Redevelopment Law") and a resolution of the Agency adopted on December 17, 2002 (the "Resolution") which authorized the issuance, sale and delivery of the Series 2003 Bonds. The Series 2003 Bonds are being issued pursuant to an Indenture of Trust dated as of January 1, 2003 (the "Indenture"), by and between the Agency and BNY Western Trust Company, as trustee (the "Trustee").

Purpose

The Series 2003 Bonds are being issued to: (i) refund the Agency's Central District Redevelopment Project Tax Allocation Bonds, Series 1989A (the "Series 1989A Bonds"), the Central District Redevelopment Project Subordinated Tax Allocation Refunding Bonds, Series 1992A (the "Series 1992A Bonds"), the Central District Redevelopment Project Subordinated Tax Allocation Bonds, Series 1993A (the "Series 1993A Bonds"), the Central District Redevelopment Project Subordinated Tax Allocation Bonds, Series 1995A (City Administration Facility) (the "Series 1995A Bonds" and, together with the Series 1989A Bonds, the Series 1992A Bonds and the Series 1993A Bonds, the "Prior Bonds"); (ii) finance certain redevelopment activities within or to the benefit of the Agency's Central District Project Area (the "Project Area"); and (iii) pay the costs associated with the issuance of the Series 2003 Bonds See "PLAN OF FINANCE" and "ESTIMATED SOURCES AND USES OF FUNDS." The Series 2003 Bonds will mature in the years and amounts and bear interest at the rates set forth on the cover page.

The Agency

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

The Agency currently administers eight redevelopment project areas in the City. When the Agency issues debt for a project area, such debt is payable solely from the tax increment revenues generated in that project area. In addition to the Series 2003 Bonds, the Agency authorized and sold and will issue and deliver \$23,085,000 of its Coliseum Area Redevelopment Project Tax Allocation Bonds, Series 2003 on January 9, 2003.

The City

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

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

The Project Area

The Project Area encompasses approximately 828 acres, and contains the City's downtown district, as well as residential and public uses. See "THE PROJECT AREA."

Security for the Series 2003 Bonds

General. The Series 2003 Bonds are limited obligations of the Agency payable solely from and secured solely by a pledge of Tax Revenues (defined herein) and certain other funds held by the Trustee pursuant to the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2003 BONDS."

Pursuant to the Redevelopment Law, a portion of all property tax revenues (the "Tax Revenues"), including certain reimbursements by the State, collected by or for each taxing agency on any increase in the taxable value of certain property within the Project Area over that shown on the assessment rolls for the base year ("Base Year Value") may be pledged to the repayment of loans, advances and indebtedness incurred by the Agency in connection with redevelopment activities in or of benefit to the Project Area. The Project Area has a Base Year Value that was established based on the assessed value for the year in which taxable property in such area was last equalized prior to the effective date of the ordinance approving the applicable redevelopment plan. The Base Year for the Project Area is Fiscal Year 1980-81. The Agency, under the Indenture, pledges the Tax Revenues to secure repayment of the Series 2003 Bonds.

Outstanding Senior Debt. The pledge of Tax Revenues securing the Series 2003 Bonds is subordinate to the pledge thereof securing the Agency's Central District Redevelopment Project, Senior Tax Allocation Refunding Bonds, Series 1992 (the "Senior Bonds"). The Senior Bonds are outstanding in the principal amount of \$66,130,000 (as of December 1, 2002); with average annual debt service of approximately \$7,482,334. See "DEBT SERVICE COVERAGE PROJECTIONS," "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2003 BONDS--Outstanding Senior Debt." Following the issuance of the Series 2003 Bonds, there will be no other debt outstanding payable for Tax Revenues on a parity with the Series 2003 Bonds.

Reserve Account. A Reserve Account is established for the Series 2003 Bonds pursuant to the Indenture in an amount equal to the Reserve Requirement (as defined herein). On the date of delivery of the Series 2003 Bonds, a municipal bond debt service reserve fund policy in the amount of \$12,060,500 issued by Financial Guaranty Insurance Company, doing business in California as FGIC Insurance Company (“Financial Guaranty” or the “Series 2003 Insurer”) will be deposited in the Reserve Account. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2003 BONDS–Reserve Account Surety Bond” and APPENDIX I–“SPECIMEN RESERVE ACCOUNT SURETY BOND POLICY.” Amounts on deposit in the Reserve Account will be used for the payment of debt service on the Series 2003 Bonds in the event that amounts on deposit in the Interest Account or the Principal Account are insufficient therefor. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2003 BONDS–Reserve Account.”

THE SERIES 2003 BONDS ARE NOT A DEBT OF THE CITY OF OAKLAND, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS OTHER THAN THE AGENCY TO THE LIMITED EXTENT SET FORTH IN THE INDENTURE, AND NEITHER THE CITY, NOR THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS OTHER THAN THE AGENCY IS LIABLE THEREFOR. THE PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THE SERIES 2003 BONDS ARE PAYABLE SOLELY FROM TAX REVENUES ALLOCATED TO THE AGENCY FROM THE PROJECT AREA AND CERTAIN OTHER FUNDS PLEDGED THEREFOR UNDER THE INDENTURE. THE SERIES 2003 BONDS DO NOT CONSTITUTE AN INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. NONE OF THE MEMBERS OF THE AGENCY, THE CITY COUNCIL, OR ANY PERSONS EXECUTING THE SERIES 2003 BONDS, ARE LIABLE PERSONALLY ON THE SERIES 2003 BONDS BY REASON OF THEIR ISSUANCE. THE AGENCY HAS NO TAXING POWER.

Bond Insurance

The payment of principal of and interest on the Series 2003 Bonds when due will be insured by a financial guaranty insurance policy to be issued by Financial Guaranty simultaneously with the delivery of the Series 2003 Bonds. See “BOND INSURANCE” and APPENDIX H–“SPECIMEN BOND INSURANCE POLICY.”

Certain Risk Factors

Investment in the Series 2003 Bonds involves risk. For a discussion of certain considerations relevant to an investment in the Series 2003 Bonds, see “CERTAIN RISKS TO BONDHOLDERS.”

Continuing Disclosure

The Agency has agreed to provide, or cause to be provided, to each nationally recognized municipal securities information repository or the Municipal Securities Rulemaking Board and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission certain annual financial information and operating data and, in a timely manner, notice of certain material events. These covenants have been made in order to assist the Underwriters in complying with the Securities and Exchange Commission Rule 15c2-12(b)(5). See “CONTINUING DISCLOSURE” for a description of the specific nature of the annual report and notices of material events and a summary description of the terms of the disclosure agreement pursuant to which such reports are to be made.

The Agency has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

Additional Information

This Official Statement contains brief descriptions of the Series 2003 Bonds, the security for the Series 2003 Bonds, the Indentures, the Agency, the Project Area and certain other information relevant to the issuance of the Series 2003 Bonds. All references herein to the Indentures are qualified in their entirety by reference to the complete text thereof and all references to the Series 2003 Bonds are further qualified by reference to the form thereof contained in the Indenture. The Agency's audited financial statements for the Fiscal Year ended June 30, 2001 are included in APPENDIX B. The proposed form of legal opinion of Bond Counsel for the Series 2003 Bonds is set forth in APPENDIX E. See APPENDIX D—"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" for definitions of certain words and terms used herein. All capitalized terms used in this Official Statement and not otherwise defined herein have the same meanings as in the Indentures. The information set forth herein and in the Appendices hereto has been furnished by the Agency and includes information which has been obtained from other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness by the Agency or the Underwriters and is not to be construed as a representation by the Underwriters. Copies of documents referred to herein and information concerning the Series 2003 Bonds are available upon written request from the Executive Director of the Community and Development, 250 Frank Ogawa Plaza, 3rd Floor, Oakland, California 94612. The Agency may impose a charge for copying, mailing and handling.

PLAN OF FINANCE

Refunding

Upon the issuance and delivery of the Bonds, a portion of the proceeds, together with certain other lawfully available funds, will be used to establish separate irrevocable escrows to refund and defease each series of the Prior Bonds. The Agency and U.S. Bank, N.A., as escrow agent (the "Escrow Agent") will enter into escrow agreements, each dated as of January 1, 2003 (each an "Escrow Agreement") with respect to each series of Prior Bonds other than the Series 1992A Bonds, which will be refunded on a current basis pursuant to irrevocable refunding instructions. The amounts deposited with the Escrow Agent, together with certain other available moneys, including funds currently held pursuant and under the Indenture related to such series of Prior Bonds, will be held by the Escrow Agent in cash until January 10, 2003 when the Escrow Agent will use such monies to purchase Eligible Securities (as defined in the Escrow Agreements), the principal and interest on which will be sufficient to pay the principal of, interest on, and redemption price, if any, of the related series of Prior Bonds as set forth below. Pursuant to irrevocable refunding instructions (the "Refunding Instructions") given by the Agency to U.S. Bank, N.A., as successor trustee for the Series 1992A Bonds, a portion of the proceeds of the Series 2003 Bonds, together with amounts available under the Trust Indenture related to the Series 1992A Bonds, will be held in cash until January 10, 2003 when U.S. Bank, N.A. will use such monies to purchase Investment Securities (as defined in the Refunding Instructions) that will be sufficient to redeem in full the Series 1992A Bonds on March 11, 2003. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS."

\$8,608,437
Redevelopment Agency of the City of Oakland
Central District Redevelopment Project Subordinated Tax Allocation Bonds,
Series 1989A

<u>Maturity Date</u> <u>(September 1)</u>	<u>Denominational</u> <u>Amount</u>	<u>Interest</u>	<u>CUSIP No.</u> <u>(539558)⁽¹⁾</u>	<u>Redemption</u> <u>Date⁽²⁾</u>
2003	\$1,490,937.70	6.60%	FA9	September 1, 2003
2004	1,388,964.20	6.65	FB7	September 1, 2004
2005	1,300,993.00	6.65	FC5	September 1, 2005
2006	1,216,954.20	6.65	FD3	September 1, 2006
2007	1,141,433.75	6.65	FE1	September 1, 2007
2008	1,067,700.90	6.65	FF8	September 1, 2008
2009	1,001,452.55	6.65	FG6	September 1, 2009

⁽¹⁾ CUSIP numbers are provided for convenience only. None of the Agency, the City or the Underwriters assumes any responsibility for the accuracy of such numbers.

⁽²⁾ Non-callable. To be defeased to maturity.

\$52,400,000
Redevelopment Agency of the City of Oakland
Central District Redevelopment Project Subordinated Tax Allocation Refunding Bonds,
Series 1992A

<u>Maturity Date</u> <u>(September 1)</u>	<u>Amount</u>	<u>Interest⁽¹⁾</u>	<u>CUSIP No.</u> <u>(672321)⁽²⁾</u>	<u>Redemption</u> <u>Date</u>	<u>Redemption</u> <u>Price</u>
2019	\$52,400,000	5.95%	DT0	March 11, 2003	102%

⁽¹⁾ Maximum interest rate.

⁽²⁾ CUSIP numbers are provided for convenience only. None of the Agency, the City or the Underwriters assumes any responsibility for the accuracy of such numbers.

\$20,550,000
Redevelopment Agency of the City of Oakland
Central District Redevelopment Project Subordinated Tax Allocation Bonds,
Series 1993A

<u>Maturity Date</u> <u>(September 1)</u>	<u>Amount</u>	<u>Interest</u>	<u>CUSIP No.</u> <u>(672321)⁽¹⁾</u>	<u>Redemption</u> <u>Date</u>	<u>Redemption</u> <u>Price</u>
2003	\$670,000	4.75%	FC5	September 1, 2003 ⁽²⁾	N/A
2004	700,000	4.90	FG6	September 1, 2004 ⁽²⁾	N/A
2009 ⁽³⁾	4,075,000	5.30	FD3	September 1, 2004	102%
2013	4,080,000	5.00	FE1	September 1, 2013 ⁽²⁾	N/A
2021	11,025,000	5.00	FF8	September 1, 2021 ⁽²⁾	N/A

⁽¹⁾ CUSIP numbers are provided for convenience only. None of the Agency, the City or the Underwriters assumes any responsibility for the accuracy of such numbers.

⁽²⁾ Non-callable. To be defeased to maturity.

⁽³⁾ To be redeemed.

\$9,410,000
Redevelopment Agency of the City of Oakland
Central District Redevelopment Project Subordinated Tax Allocation Bonds,
Series 1995A

<u>Maturity Date</u> <u>(September 1)</u>	<u>Amount</u>	<u>Interest</u>	<u>CUSIP No.</u> <u>(672321)⁽¹⁾</u>	<u>Redemption</u> <u>Date</u>	<u>Redemption</u> <u>Price</u>
2008	\$415,000	7.20%	FL5	September 1, 2005	102%
2008	595,000 ⁽²⁾	7.20	FL5	September 1, 2008	N/A
2015	1,340,000	7.50	FM3	September 1, 2005	102
2021	7,060,000	7.60	FN1	September 1, 2005	102

(1) CUSIP numbers are provided for convenience only. None of the Agency, the City or the Underwriters assumes any responsibility for the accuracy of such numbers.

(2) Non-callable. To be defeased to maturity.

The Project

The balance of the proceeds of the Series 2003 Bonds will be deposited in the Redevelopment Fund held by the Agency to be applied to finance or refinance various redevelopment activities, including development of low and moderate income housing, within the Project Area.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds relating to the Series 2003 Bonds are as follows:

Sources:

Principal Amount of the Series 2003 Bonds	\$120,605,000.00
Original Issue Premium	11,627,992.45
Reserve Funds from Prior Bonds	<u>6,557,817.54</u>
TOTAL SOURCES	\$138,790,809.99

Uses:

Refunding of Prior Bonds ⁽¹⁾	\$110,826,362.96
Redevelopment Fund ⁽²⁾	25,000,000.00
Costs of Issuance Fund ⁽³⁾	<u>2,964,447.03</u>
TOTAL USES	\$138,790,809.99

(1) These amounts, together with certain other available monies of the Agency, will be held in cash until January 10, 2003 when United State Treasury Obligations will be purchased to refund or redeem the applicable Series of Prior Bonds. See "PLAN OF FINANCE-Refunding."

(2) To be used to finance additional redevelopment activities in the Project Area. See "THE PROJECT."

(3) Includes the fees and expenses of Bond Counsel; fees and expenses of the Trustee, the Escrow Agent, the Financial Advisor and Verification Agent, the Underwriters' discount, printing costs, rating agency fees, bond insurance and surety bond premiums and other costs related to the issuance of the Bonds.

THE SERIES 2003 BONDS

Description

The Series 2003 Bonds will be dated their date of issuance and delivery, will bear interest at the rates per annum set forth on the cover page hereof payable semiannually on March 1 and September 1 (each, an "Interest Payment Date"), commencing March 1, 2003, and will mature on the dates and in the amounts set forth on the cover page hereof. The Series 2003 Bonds will be issued in denominations of \$5,000 or any integral multiple thereof, so long as no Series 2003 Bond shall have more than one maturity date. The Series 2003 Bonds will be issued only as one fully registered Series 2003 Bond for each maturity, in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), as registered owner of all Bonds. See APPENDIX F—"DTC AND THE BOOK-ENTRY ONLY SYSTEM." Ownership may be changed only upon the registration books maintained by the Trustee as provided in the Indenture.

Each Series 2003 Bond shall bear interest from the Interest Payment Date next preceding the date of authentication thereof, unless (a) it is authenticated after a Record Date and on or before the following Interest Payment Date, in which event it shall bear interest from such Interest Payment Date; or (b) it is authenticated on or before February 15, 2003, in which event it shall bear interest from the Closing Date; provided, however, that if, as of the date of authentication of any Bond, interest thereon is in default, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon. The Series 2003 Bonds shall mature and shall bear interest calculated on the basis of a 360-day year of twelve 30-day months.

Interest on the Series 2003 Bonds (including the final interest payment upon maturity or redemption) is payable when due by check or draft of the Trustee mailed to the Owner thereof at such Owner's address as it appears on the Registration Books at the close of business on the preceding Record Date; provided that at the written request of the Owner of at least \$1,000,000 aggregate principal amount of Bonds, which written request is on file with the Trustee as of any Record Date, interest on such Bonds shall be paid on the succeeding Interest Payment Date to such account in the United States as shall be specified in such written request.

While the Series 2003 Bonds are held in the book-entry only system of DTC, all such payments will be made to Cede & Co., as the registered Owner of the Series 2003 Bonds. The principal of the Series 2003 Bonds and any premium upon redemption, are payable in lawful money of the United States of America upon presentation and surrender thereof at the principal corporate trust office of the Trustee. See APPENDIX F—"DTC AND THE BOOK ENTRY ONLY SYSTEM."

Redemption Provisions

Optional Redemption. The Series 2003 Bonds maturing on or before September 1, 2012, are not subject to optional redemption prior to maturity. The Series 2003 Bonds maturing on and after September 1, 2013, are subject to redemption, at the option of the Agency on any date on or after March 1, 2013, as a whole or in part, by such maturities as shall be determined by the Agency, and by lot within a maturity, from any available source of funds, at 100% of the principal amount of the Series 2003 Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption.

The Agency agrees that it will redeem the Series 2003 Bonds maturing on September 1, 2019 on or prior to June 1, 2019 if the Redevelopment Plan does not, as of April 1, 2019, permit the Agency to repay indebtedness at least until September 1, 2019.

Notice of Redemption; Rescission. The Trustee on behalf and at the expense of the Agency is required to mail (by first class mail, postage prepaid) notice of any redemption at least 30 but not more than 60 days prior to the redemption date, to (i) to the Series 2003 Insurer, to any other Insurer and to the Owners of any Bonds designated for redemption at their respective addresses appearing on the Registration Books, and (ii) the Securities Depositories and to one or more Information Services designated in a Written Request of the Agency filed with the Trustee; but such mailing shall not be a condition precedent to such redemption and neither failure to receive any such notice nor any defect therein shall affect the validity of the proceedings for the redemption of such Bonds or the cessation of the accrual of interest thereon. Such notice is required to state the redemption date and the redemption price, shall state that such redemption is conditioned upon the timely delivery of the redemption price by the Agency to the Trustee for deposit in the Redemption Account, shall designate the CUSIP number of the Series 2003 Bonds to be redeemed, shall state the individual number of each Bond to be redeemed or shall state that all Bonds between two stated numbers (both inclusive) or all of the Series 2003 Bonds Outstanding are to be redeemed, and shall require that such Bonds be then surrendered at the Principal Corporate Trust Office of the Trustee for redemption at the redemption price, giving notice also that further interest on such Bonds will not accrue from and after the redemption date. The Agency shall have the right to rescind any optional redemption by written notice to the Trustee on or prior to the date fixed for redemption.

The Agency shall have the right to rescind any optional redemption by written notice to the Trustee on or prior to the date fixed for redemption. Any such notice of optional redemption shall be canceled 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 Series 2003 Bonds then called for redemption, and such cancellation shall not constitute an Event of Default under the Indenture. The Agency and the Trustee shall have no liability to the Owners or any other party related to or arising from such rescission of redemption. The Trustee shall mail notice of such rescission of redemption in the same manner and to the same recipients as the original notice of redemption was sent.

Selection of Bonds for Redemption. Whenever any Bonds or portions thereof are to be selected for redemption by lot, the Agency shall make such selection, in such manner as the Agency shall deem appropriate, and if the Agency fails to make such selection, the Trustee shall make such selection, in such manner as the Trustee shall deem appropriate, and shall notify the Agency thereof to the extent Bonds are no longer held in book-entry form. In the event of redemption by lot of Bonds, the Trustee shall assign to each Bond then Outstanding a distinctive number for each \$5,000 of the principal amount of each such Bond. The Series 2003 Bonds to be redeemed shall be the Series 2003 Bonds to which were assigned numbers so selected, but only so much of the principal amount of each such Bond of a denomination of more than \$5,000 shall be redeemed as shall equal \$5,000 for each number assigned to it and so selected.

Effect of Redemption. From and after the date fixed for redemption, if funds available for the payment of the redemption price of and interest on the Series 2003 Bonds so called for redemption shall have been duly deposited with the Trustee, such Series 2003 Bonds so called shall cease to be entitled to any benefit under the Indenture other than the right to receive payment of the redemption price and accrued interest to the redemption date, and no interest shall accrue thereon from and after the redemption date specified in such notice.

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

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DEBT SERVICE SCHEDULE

Set forth below is the debt service schedule for the Series 2003 Bonds.

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>	<u>Annual Debt Service</u>
3/1/2003	--	\$890,734.72	\$890,734.72	-
9/1/2003	\$4,860,000	3,083,312.50	7,943,312.50	\$8,834,047.22
3/1/2004		3,010,412.50	3,010,412.50	-
9/1/2004	2,795,000	3,010,412.50	5,805,412.50	8,815,825.00
3/1/2005	-	2,968,487.50	2,968,487.50	
9/1/2005	2,870,000	2,968,487.50	5,838,487.50	8,806,975.00
3/1/2006	-	2,925,437.50	2,925,437.50	
9/1/2006	2,970,000	2,925,437.50	5,895,437.50	8,820,875.00
3/1/2007	-	2,866,037.50	2,866,037.50	
9/1/2007	3,090,000	2,866,037.50	5,956,037.50	8,822,075.00
3/1/2008	-	2,804,237.50	2,804,237.50	
9/1/2008	3,185,000	2,804,237.50	5,989,237.50	8,793,475.00
3/1/2009	-	2,740,537.50	2,740,537.50	
9/1/2009	3,305,000	2,740,537.50	6,045,537.50	8,786,075.00
3/1/2010	-	2,657,912.50	2,657,912.50	
9/1/2010	4,720,000	2,657,912.50	7,377,912.50	10,035,825.00
3/1/2011	-	2,539,912.50	2,539,912.50	
9/1/2011	4,945,000	2,539,912.50	7,484,912.50	10,024,825.00
3/1/2012	-	2,416,287.50	2,416,287.50	
9/1/2012	5,145,000	2,416,287.50	7,561,287.50	9,977,575.00
3/1/2013	-	2,274,800.00	2,274,800.00	
9/1/2013	5,395,000	2,274,800.00	7,669,800.00	9,944,600.00
3/1/2014	-	2,126,437.50	2,126,437.50	
9/1/2014	5,665,000	2,126,437.50	7,791,437.50	9,917,875.00
3/1/2015	-	1,970,650.00	1,970,650.00	
9/1/2015	12,840,000	1,970,650.00	14,810,650.00	16,781,300.00
3/1/2016	-	1,617,550.00	1,617,550.00	
9/1/2016	13,545,000	1,617,550.00	15,162,550.00	16,780,100.00
3/1/2017	-	1,245,062.50	1,245,062.50	
9/1/2017	14,290,000	1,245,062.50	15,535,062.50	16,780,125.00
3/1/2018	-	852,087.50	852,087.50	
9/1/2018	15,080,000	852,087.50	15,932,087.50	16,784,175.00
3/1/2019	-	437,387.50	437,387.50	
9/1/2019	<u>15,905,000</u>	<u>437,387.50</u>	<u>16,342,387.50</u>	<u>16,779,775.00</u>
TOTAL	\$120,605,000	\$74,880,522.22	\$195,485,522.22	\$195,485,522.22

DEBT SERVICE COVERAGE PROJECTIONS

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

Bond Year Ending September 1	Projected Net Tax Revenues ⁽¹⁾	Senior Bonds Debt Service ⁽²⁾	Tax Revenues Available for Series 2003 Bonds	Series 2003 Bonds Debt Service	Estimated Coverage ⁽⁴⁾	Estimated Combined Coverage
2003	\$25,104,000	\$7,945,075	\$17,158,925	\$8,834,047	1.94x	1.50x
2004	25,104,000	7,966,499	17,137,501	8,815,825	1.94	1.50
2005	25,104,000	7,976,015	17,127,985	8,806,975	1.94	1.50
2006	25,104,000	7,957,850	17,146,150	8,820,875	1.94	1.50
2007	25,104,000	7,959,250	17,144,750	8,822,075	1.94	1.50
2008	25,104,000	7,985,100	17,118,900	8,793,475	1.95	1.50
2009	25,104,000	7,994,825	17,109,175	8,786,075	1.95	1.50
2010	25,104,000	6,745,088	18,358,913	10,035,825	1.83	1.50
2011	25,104,000	6,757,538	18,346,463	10,024,825	1.83	1.50
2012	25,104,000	6,801,563	18,302,438	9,977,575	1.83	1.50
2013	25,104,000	6,835,513	18,268,488	9,944,600	1.84	1.50
2014	25,104,000	6,863,700	18,240,300	9,917,875	1.84	1.50
2015	25,104,000	–	25,104,000	16,781,300	1.50	1.50
2016	25,104,000	–	25,104,000	16,780,100	1.50	1.50
2017	25,104,000	–	25,104,000	16,780,125	1.50	1.50
2018	25,104,000	–	25,104,000	16,784,175	1.50	1.50
2019	<u>25,104,000</u>	<u>–</u>	<u>25,104,000</u>	<u>16,779,775</u>	1.50	1.50
TOTAL	\$426,768,000	\$89,788,014	\$336,979,986	\$195,485,522		

(1) Net Tax Revenue is net of the 20% Housing Set-Aside and the SB 2557 property tax administration costs. For coverage purposes, this table maintains tax increment at a constant level equal to the amount available for debt service based on Fiscal Year 2002-2003 revenues. See "LIMITATIONS ON TAX REVENUES—SB 2557" and Appendix C—"REPORT OF THE FISCAL CONSULTANT" on Table 2.

(2) See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2003 BONDS—Outstanding Debt.

(3) Interest on the Series 2003 Bonds has been calculated at an average interest rate equal to 5.389576%.

(4) Tax Revenues available for Series 2003 Bonds divided by Series 2003 Bonds Total Debt Service.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2003 BONDS

Tax Allocation Financing

The Redevelopment Law provides a means for financing redevelopment projects based upon an allocation of taxes collected by a redevelopment agency within a redevelopment project area. The taxable valuation of a project area last equalized prior to adoption of the redevelopment plan, or base roll, is established and, except for any period during which the taxable valuation drops below the base year level, the taxing agencies thereafter receive the taxes produced by the levy of the then current tax rate upon the base roll. Taxes collected upon any increase in taxable valuation over the base roll are allocated to a redevelopment agency and may be pledged by a redevelopment agency to the repayment of any indebtedness incurred in financing or refinancing a redevelopment project. Redevelopment agencies

themselves have no authority to levy property taxes and must look specifically to the allocation of taxes produced as above indicated.

Allocation of Taxes

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

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

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

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

Tax Revenues

General. Subject to the prior and senior pledge of and interest in and lien on the Tax Revenues in favor of the Senior Bonds, the Series 2003 Bonds and any additional Parity Debt and any additional Parity Debt are and will be equally secured by a first pledge of, security interest in and lien on all of the Tax Revenues and the moneys in the Special Fund, and the Series 2003 Bonds and any additional Bonds shall also be secured by a first and exclusive pledge of, security interest in and lien upon all of the moneys in the Debt Service Fund, the Interest Account, the Principal Account, the Redemption Account, and the Reserve Account, without preference or priority for series, issue, number, dated date, sale date, date of execution or date of delivery. Except for the Tax Revenues and such moneys, no funds or properties of the Agency shall be pledged to, or otherwise liable for, the payment of principal of or interest or redemption premium (if any) on the Series 2003 Bonds. Except for the Tax Revenues and such moneys, no funds or properties of the Agency shall be pledged to, or otherwise liable for, the payment of principal of or interest or redemption premium (if any) on the Series 2003 Bonds. Under the Indenture, the Agency may incur additional loans, advances or indebtedness issued or incurred by the Agency on a parity with the Series 2003 Bonds ("Parity Debt") pursuant to the Indenture, which Parity Debt shall be equally secured, on a parity with the Series 2003

Bonds, by a pledge of, security interest in and lien on all of the Tax Revenues and the moneys in the Special Fund without preference or priority for series, issue, number, dated date, sale date, date of execution or date of delivery, and, if applicable under any Supplemental Indenture, any Parity Debt issued as Bonds shall also be secured by a first and exclusive pledge of, security interest in and lien upon all of the moneys in the Debt Service Fund (including the Reserve Account). See "Parity Debt and Subordinate Debt" below. See also APPENDIX D—"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."

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

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

The Agency has no power to levy and collect property taxes, and any property tax limitation, legislative measure, voter initiative or provisions of additional sources of income to taxing agencies having the effect of reducing the property tax rate, could reduce the amount of Tax Revenues that would otherwise be available to pay debt service on the Series 2003 Bonds and, consequently, the principal of, and interest on, the Series 2003 Bonds. Likewise, broadened property tax exemptions could have a similar effect. See "CERTAIN RISKS TO BONDHOLDERS" and "LIMITATIONS ON TAX REVENUES AND POSSIBLE SPENDING LIMITATIONS."

THE SERIES 2003 BONDS ARE NOT A DEBT OF THE CITY OF OAKLAND, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS OTHER THAN THE AGENCY TO THE LIMITED EXTENT SET FORTH IN THE INDENTURE, AND NEITHER THE CITY, NOR THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS OTHER THAN THE AGENCY IS LIABLE THEREFOR. THE PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THE SERIES 2003 BONDS ARE PAYABLE SOLELY FROM TAX REVENUES ALLOCATED TO THE AGENCY FROM THE PROJECT AREA AND CERTAIN OTHER FUNDS PLEDGED THEREFOR UNDER THE INDENTURE. THE SERIES 2003 BONDS DO NOT CONSTITUTE AN INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. NONE OF THE MEMBERS OF THE AGENCY, THE CITY COUNCIL, OR ANY PERSONS EXECUTING THE SERIES 2003 BONDS, ARE LIABLE PERSONALLY ON THE SERIES 2003 BONDS BY REASON OF THEIR ISSUANCE. THE AGENCY HAS NO TAXING POWER.

In consideration of the acceptance of the Series 2003 Bonds by those who shall hold the same from time to time, the Indenture constitutes a contract between the Agency and the Owners from time to time of the

Series 2003 Bonds, and the covenants and agreements set forth therein to be performed on behalf of the Agency are for the equal and proportionate benefit, security and protection of all owners of the Series 2003 Bonds without preference, priority or distinction as to security or otherwise of any of the Series 2003 Bonds over any of the others by reason of the number or date thereof or the time of sale, execution and delivery thereof, or otherwise for any cause whatsoever, except as expressly provided in the Series 2003 Bonds or in the Indenture.

Outstanding Senior Debt

The Series 2003 Bonds are subordinate to the Agency's Central District Redevelopment Project, Senior Tax Allocation Refunding Bonds, Series 1992 (the "Senior Bonds"). The Senior Bonds are secured by a pledge of the Senior Bonds Tax Revenues of the Agency. The Indenture provides that so long as Bonds remain Outstanding, the Agency shall not issue or incur any obligations payable from Tax Revenues on a basis senior to the payment of debt service on the Series 2003 Bonds other than refunding bonds with respect to the Senior Bonds (and any refunding of such refunding bonds) which do not result in increased debt service in any Bond Year (as defined in the Senior Bonds Resolution). The Senior Bonds are outstanding in the principal amount of \$66,130,000 (as of December 1, 2002); with average annual debt service of approximately \$7,482,334.

Following the issuance of the Series 2003 Bonds, there will be no other debt outstanding payable from the Tax Revenues on a parity with the Series 2003 Bonds. The Agency may issue debt, payable on a parity with or subordinate to the payment of debt service on the Series 2003 Bonds subject to the conditions set forth in the Indenture. See "--Parity Debt and Subordinate Debt."

Reserve Account

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

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

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

the amount of Tax Revenues for the current Fiscal Year (as evidenced in the written records of the County), at least equal the requirements for issuance of Parity Debt under the Indenture. See “–Parity Debt and Subordinate Debt.”

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

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

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

The Reserve Account may be satisfied with the acquisition of a financial instrument meeting the requirements of a “Qualified Reserve Account Credit Instrument” set forth in APPENDIX D–“SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.” “Qualified Reserve Account Credit Instrument” is defined to mean an irrevocable standby or direct-pay letter of credit or surety bond issued by a commercial bank or insurance company and deposited with the Trustee, provided that all of the following requirements are met at the time of acceptance thereof by the Trustee: (a) in the case of a commercial bank, the long-term credit rating of such bank is “AA” from S&P or “Aa” from Moody’s and, in the case of an insurance company, the claims paying ability of such insurance company is AAA from S&P or AAA from Moody’s or, if rated by A.M. Best & Company, is rated in the highest rating category by A.M. Best & Company; (b) such letter of credit or surety bond has a term of at least 12 months; (c) such letter of credit or surety bond has a stated amount at least equal to the portion of the Reserve Requirement with respect to which funds are proposed to be released; and (d) the Trustee is authorized pursuant to the terms of such letter of credit or surety bond to draw thereunder an amount equal to any deficiencies which may exist from time to time in the Interest Account, the Principal Account or the Sinking Account for the purpose of making payments required pursuant to the Indenture.

Reserve Account Surety Bond

The following information has been provided by Financial Guaranty Insurance Company ("Financial Guaranty") for use in this Official Statement. Reference is made to APPENDIX I for a specimen of the Reserve Account Surety Policy to be issued by Financial Guaranty Insurance Company upon issuance of the Series 2003 Bonds. Neither the Agency nor the Underwriters make any representation as to the accuracy or completeness of this information or as to the absence of material adverse changes in this information subsequent to the date hereof.

Concurrently with the issuance of the Series 2003 Bonds, Financial Guaranty Insurance Company ("Financial Guaranty") will issue its Municipal Bond Debt Service Reserve Fund Policy (the "Reserve Account Surety Policy"). The Reserve Account Surety Policy unconditionally guarantees the payment of that portion of the principal or accreted value (if applicable) of and interest on the Series 2003 Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the Issuer, provided that the aggregate amount paid under the Reserve Account Surety Policy may not exceed the maximum amount set forth in the Reserve Account Surety Policy \$12,060,500. Financial Guaranty will make such payments to the paying agent (the "Paying Agent") for the Series 2003 Bonds on the later of the date on which such principal or accreted value (if applicable) and interest is due or on the business day next following the day on which Financial Guaranty shall have received telephone or telegraphic notice subsequently confirmed in writing or written notice by registered or certified mail from the Paying Agent of the nonpayment of such amount by the Issuer. The term "nonpayment" in respect of a Series 2003 Bond includes any payment of principal, accreted value or interest (as applicable) made to an owner of a Series 2003 Bond 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.

The Reserve Account Surety Policy is non-callable and the premium will be fully paid at the time of delivery of the Series 2003 Bonds. The Reserve Account Surety Policy covers failure to pay principal or accreted value (if applicable) of the Series 2003 Bonds on their respective stated maturity dates, or dates on which the same shall have been called for mandatory sinking fund redemption, and not on any other date on which the Series 2003 Bonds may have been accelerated, and covers the failure to pay an installment of interest on the stated date for its payment. The Reserve Account Surety Policy shall terminate on the scheduled final maturity date of the bonds being issued.

Generally, in connection with its issuance of a Reserve Account Surety Policy, Financial Guaranty requires, among other things, (i) that, so long as it has not failed to comply with its payment obligations under the Reserve Account Surety Policy, it is granted the power to exercise any remedies available at law or under the authorizing document other than (A) acceleration of the Series 2003 Bonds or (B) remedies which would adversely affect holders in the event that the issuer fails to reimburse Financial Guaranty for any draws on the Reserve Account Surety Policy; and (ii) that any amendment or supplement to or other modification of the principal legal documents be subject to Financial Guaranty's consent. The specific rights, if any, granted to Financial Guaranty in connection with its issuance of the Reserve Account Surety Policy are set forth in the description of the principal legal documents appearing elsewhere in this Official Statement. Reference should be made as well to such description for a discussion of the circumstances, if any, under which the issuer of the Series 2003 Bonds is required to provide additional or substitute credit enhancement, and related matters.

The Reserve Account Surety Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Parity Debt and Subordinate Debt

Issuance of Parity Debt. In addition to the Series 2003 Bonds, the Agency may, by Supplemental Indenture, issue additional bonds or incur other loans, advances or indebtedness ("Parity Debt") payable from Tax Revenues on a parity with the Series 2003 Bonds to finance redevelopment activities with respect to the Project in such principal amount as shall be determined by the Agency. The Agency may issue and deliver any such Parity Debt subject to the following specific conditions all of which are made conditions precedent to the issuance and delivery of such Parity Debt:

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

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

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

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

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

such that the remaining debt service on the Senior Bonds, and the remaining debt service on the Bonds including any Parity Debt, no longer exceeds 95% of the amount of Tax Revenues then remaining to be allocated and paid to the Agency under the Plan Limit, the Trustee shall transfer amounts on deposit in such escrow to the Agency to be used for any lawful purpose; and

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

Issuance of Subordinate Debt. In addition to the Series 2003 Bonds, the Agency may issue or incur loans, advances or indebtedness ("Subordinate Debt") which are either: payable from, but not secured by a pledge of or lien upon, the Tax Revenues; or secured by a pledge of or lien upon the Tax Revenues which is expressly subordinate to the pledge of and lien upon the Tax Revenues for security of the Series 2003 Bonds, in such principal amount as shall be determined by the Agency. The Agency may issue or incur such Subordinate Debt subject to the following specific conditions precedent:

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

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

BOND INSURANCE

The following information has been provided by Financial Guaranty Insurance Company (for use in this Official Statement. Reference is made to APPENDIX H for a specimen of the financial guaranty insurance policy to be issued by Financial Guaranty Insurance Company upon issuance of the Series 2003 Bonds. Neither the Agency nor the Underwriters make any representation as to the accuracy or completeness of this information or as to the absence of material adverse changes in this information subsequent to the date hereof.

Concurrently with the issuance of the Series 2003 Bonds, Financial Guaranty Insurance Company, doing business in California as FGIC Insurance Company ("Financial Guaranty") will issue its Municipal Bond New Issue Insurance Policy for the Bonds (the "Policy"). The Policy unconditionally guarantees the payment of that portion of the principal of and interest on the Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the Agency as issuer of the Series 2003 Bonds. Financial Guaranty will make such payments to State Street Bank and Trust Company, N.A., or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal and interest is due or on the business day next following the day on which Financial Guaranty shall have received telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from an owner of Series 2003 Bonds or the Trustee of the nonpayment of such amount by the Agency. The Fiscal Agent will disburse such amount due on any Series 2003 Bond to its owner upon receipt by the Fiscal Agent

of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal and interest due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal and interest shall be vested in Financial Guaranty. The term "nonpayment" in respect of an Series 2003 Bond includes any payment of principal or interest made to an owner of an Series 2003 Bond 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.

The Policy is non-cancellable and the premium will be fully paid at the time of delivery of the Series 2003 Bonds. The Policy covers failure to pay principal of the Series 2003 Bonds on their respective stated maturity dates or dates on which the same shall have been duly called for mandatory sinking fund redemption, and not on any other date on which the Series 2003 Bonds may have been otherwise called for redemption, accelerated or advanced in maturity, and covers the failure to pay an installment of interest on the stated date for its payment.

Generally, in connection with its insurance of an issue of municipal securities, Financial Guaranty requires, among other things, (i) that it be granted the power to exercise any rights granted to the holders of such securities upon the occurrence of an event of default, without the consent of such holders, and that such holders may not exercise such rights without Financial Guaranty's consent, in each case so long as Financial Guaranty has not failed to comply with its payment obligations under the Policy; and (ii) that any amendment or supplement to or other modification of the principal legal documents be subject to Financial Guaranty's consent. The specific rights, if any, granted to Financial Guaranty in connection with its insurance of the Series 2003 Bonds are set forth in the description of the principal legal documents appearing elsewhere in this Official Statement. Reference should be made as well to such description for a discussion of the circumstances, if any, under which the Agency is required to provide additional or substitute credit enhancement, and related matters. See APPENDIX D—"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."

This Official Statement contains a section regarding the ratings assigned to the Series 2003 Bonds and reference should be made to such section for a discussion of such ratings and the basis for their assignment to the Series 2003 Bonds. See "RATINGS."

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Guaranty is a wholly-owned subsidiary of FGIC Corporation (the "Corporation"), a Delaware holding company. The Corporation is a subsidiary of General Electric Capital Corporation ("GE Capital"). Neither the Corporation nor GE Capital is obligated to pay the debts of or the claims against Financial Guaranty. Financial Guaranty is a monoline financial guaranty insurer domiciled in the State of New York and subject to regulation by the State of New York Insurance Department. As of September 30, 2002, the total capital and surplus of Financial Guaranty was approximately \$1.1 billion. Financial Guaranty prepares financial statements on the basis of both statutory accounting principles and generally accepted accounting principles. Copies of such financial statements may be obtained by writing to Financial Guaranty at 125 Park Avenue, New York, New York 10017, Attention: Communications Department (telephone number: 212-312-3000) or to the New York State Insurance Department at 25 Beaver Street, New York, New York 10004-2319, Attention: Financial Condition Property/Casualty Bureau (telephone number: 212-480-5187).

TAX ALLOCATION FINANCING

Introduction

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

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

Property Tax Rate and Appropriation Limitations

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

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

The Agency has no power to levy and collect taxes. Any further reduction in the tax rate or the implementation of any constitutional or legislative property tax de-emphasis will reduce Tax Revenues, and, accordingly, would have an adverse impact on the ability of the Agency to pay debt service on the Series 2003 Bonds.

Court Challenges to Article XIII A. There have been many challenges to Article XIII A of the State Constitution. In *Nordlinger v. Hahn*, a challenge relating to residential property, the United States Supreme Court held that the method of property tax assessment under Article XIII A did not violate the federal Constitution. The Agency cannot predict whether there will be any future challenges to California's present system of property tax assessment and cannot evaluate the ultimate effect on the Agency's receipt of tax increment revenues should a future decision hold unconstitutional the method of assessing property.

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

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

Unitary Property

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

Property Tax Collection Procedures

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

Collections. The method of collecting delinquent taxes is substantially different for the two classifications of property. The taxing authority has four ways of collecting unsecured property taxes in the absence of timely payment by the taxpayer: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the county recorder's office, in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of the personal property, improvements or possessory interests belonging or assessed to the assessee.

The exclusive means of enforcing the payment of delinquent taxes with respect to property on the secured roll is the sale of property securing the taxes to the State for the amount of taxes which are delinquent.

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

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

Penalties. A 10% penalty is added to delinquent taxes which have been levied with respect to property on the secured roll. In addition, property on the secured roll on which taxes are delinquent is sold to the State on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of the delinquent taxes and a delinquency penalty, plus a redemption penalty of 1.5% per month to the time of redemption and a \$15 Redemption Fee. If taxes are unpaid for a period of five years or more, the property is deeded to the State and then is subject to sale by the county tax collector. A 10% penalty also applies to the delinquent taxes on property on the unsecured roll, and further, an additional penalty of 1.5% per month accrues with respect to such taxes beginning the first day of the third month following the delinquency date.

Supplemental Assessments. A bill enacted in 1983, SB 813 (Statutes of 1983, Chapter 498), provides for the supplemental assessment and taxation of property as of the occurrence of a change in ownership or completion of new construction. Previously, statutes enabled the assessment of such changes only as of the next January 1 tax lien date following the change and thus delayed the realization of increased property taxes from the new assessments for up to 14 months. As enacted, Chapter 498 provides increased revenue to redevelopment agencies to the extent that supplemental assessments as a result of new construction or changes of ownership occur within the boundaries of redevelopment projects subsequent to the January 1 lien date. To the extent such supplemental assessments occur within the Project Area, Tax Revenues may increase. See "THE CENTRAL DISTRICT PROJECT AREA."

Certification of Agency Indebtedness

A significant provision of the Redevelopment Law, Section 33675, was added by the Legislature in 1976, providing for the filing not later than the first day of October of each year with the county auditor of a statement of indebtedness certified by the chief fiscal officer of the Agency for each redevelopment project which receives tax increment. The statement of indebtedness is required to contain the date on which any

bonds were delivered, the principal amount, term, purpose and interest rate of such bonds and the outstanding balance and amount due on such bonds. Similar information must be given for each loan, advance or indebtedness that the Agency has incurred or entered into to be payable from tax increment.

This section also provides that the county auditor is limited in payment of tax increment to a redevelopment agency to the amounts shown on the Agency's statement of indebtedness. The section further provides that the statement of indebtedness is prima facie evidence of the indebtedness of the Agency, but that the county auditor may dispute the amount of indebtedness shown on the statement in certain cases. Provision is made for time limits under which the dispute can be made by the county auditor as well as provisions for determination by the Superior Court in a declaratory relief action of the proper disposition of the matter. The issue in any such action shall involve only the amount of the indebtedness and not the validity of any contract or debt instrument, or any expenditures pursuant thereto. An exception is made for payments to a public agency in connection with payments by such public agency pursuant to a bond issue which shall not be disputed in any action under the section. The Series 2003 Bonds should be entitled to the protection of that portion of the statute so that they cannot be disputed by the county auditor.

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

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

Section 33333.4 now requires redevelopment plans adopted on or after October 1, 1976 to contain a limit on the number of tax dollars which may be divided and allocated to a redevelopment agency pursuant to its redevelopment plan, a time limit on the establishing of loans, advances and indebtedness to finance, in whole or in part, the redevelopment project and a time limit not to exceed twelve years for the commencement of eminent domain proceedings to acquire property within the Project Area.

Section 33334.1 requires a redevelopment plan adopted on or after October 1, 1976 to contain a limit on the amount of bonds or indebtedness which can be outstanding at one time.

Section 33354.6 provides that with respect to any amendment of a redevelopment plan (which provides for the allocation of taxes) to add new territory to a project area, a redevelopment agency must follow the procedures and be subject to the same restrictions as provided in the adoption of a new redevelopment plan.

Low and Moderate Income Housing Fund

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

Assembly Bill 1290

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

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

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

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

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

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

The Agency is of the opinion that the provisions of AB 1290, including the time limitations provided in AB 1290, will not have an adverse impact on the payment of debt service on the Series 2003 Bonds.

Senate Bill 211

Senate Bill 211 (being Chapter 741, Statutes of 2001) (“SB 211”) was adopted by the California Legislature and became law on January 1, 2002. Among other things SB 211 authorizes a redevelopment agency that adopted a redevelopment plan on or before December 31, 1993, to amend that plan in accordance with specified procedures to extend its effectiveness and receive tax increment revenues with respect to the plan for not more than 10 years if specified requirements are met. If a plan is so amended, the requirement for allocating tax increment revenues to low and moderate income housing is increased from 20% to 30%. SB 211 also allows redevelopment agencies to amend redevelopment plans to eliminate the time limit for the

establishment of loans, advances and indebtedness. However, such elimination will trigger statutory tax sharing with those taxing entities that do not have tax sharing agreements. Tax sharing will be calculated based on the increase in assessed valuation after the year in which the time limit would have otherwise become effective. The Agency has covenanted in the Indenture not to amend the Redevelopment Plan in a manner that would impair the Agency's ability to pay debt service on the Bonds.

CERTAIN RISKS TO BONDHOLDERS

The following information should be considered by prospective investors in evaluating the Series 2003 Bonds. However, the following does not purport to be an exhaustive listing of risks and other considerations which may be relevant to making an investment decisions with respect to the Series 2003 Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks.

Accuracy of Assumptions

To estimate the revenues available to pay debt service on the Series 2003 Bonds, the Agency has made certain assumptions with regard to the assessed valuation of taxable property in the Project Area, future tax rates, percentage of taxes collected, the amount of funds available for investment and the interest rate at which those funds will be invested. See APPENDIX C—"FISCAL CONSULTANT REPORT." The Agency believes these assumptions to be reasonable, but to the extent that the assessed valuation, the tax rates, the percentages collected, the amount of the funds available for investment or the interest rate at which they are invested, are less than the Agency's assumptions, the Tax Revenues available to pay debt service on the Series 2003 Bonds will, in all likelihood, be less than those projected herein. See "DEBT SERVICE SCHEDULE AND COVERAGE PROJECTIONS."

Reduction of Tax Revenues

Tax Revenues allocated to the Agency, which constitute the primary security for the Series 2003 Bonds, are determined by the incremental assessed value of taxable property in the Project Area, the current rate or rates at which property in the Project Area is taxed, and the percentage of taxes collected in the Project Area. Several types of events which are beyond the control of the Agency could occur and cause a reduction in available Tax Revenues. A reduction of taxable values of property in the Project Area or a reduction of the rate of increase in taxable values of property in the Project Area caused by economic or other factors beyond the Agency's control (such as a successful appeal by a property owner for a reduction in a property's assessed value, a reduction of the general inflationary rate, a reduction in value, or the destruction of property caused by natural or other disasters) could occur, thereby causing a reduction in the Tax Revenues that secure the Series 2003 Bonds. Such a reduction in Tax Revenues could have an adverse impact on the Agency's ability to make timely payment of principal of and interest on the Series 2003 Bonds.

Moreover, in addition to the other limitations on Tax Revenues described under "LIMITATIONS ON TAX REVENUES," the California electorate or Legislature could adopt a constitutional or legislative property tax decrease with the effect of reducing Tax Revenues payable to the Agency. There is no assurance that the California electorate or Legislature will not at some future time approve additional limitations that could reduce Tax Revenues and adversely affect the security of the Series 2003 Bonds.

Additionally, the Agency has no power to levy and collect property taxes. The receipt of tax revenues by the Agency is dependent on the timely payment of property taxes by landowners within the

Project Area. Substantial delinquencies in the payment of property taxes on land in the Project Area by a large number of landowners could have an adverse effect on the Agency's ability to make timely debt service payments on the Series 2003 Bonds secured by Tax Revenues derived from the Project Area. Tax revenues allocated to the Agency are distributed throughout the fiscal year in installments, with a first installment in July and the installment in June of the same fiscal year. The payments are adjusted to reflect actual collections.

Reductions in Unitary Values

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

Appeals to Assessed Values

There are two basic types of assessment appeals provided for under California law. The first type of appeal, commonly referred to as a base year assessment appeal, involves a dispute on the valuation assigned by the County Assessor immediately subsequent to an instance of a change in ownership or completion of new construction. If the base year value assigned by the County Assessor is reduced, the valuation of the property cannot increase in subsequent years more than two percent annually unless and until another change in ownership and/or additional new construction activity occurs. The second type of appeal, commonly referred to as a Proposition 8 appeal, can result if factors occur causing a decline in the market value of the property to a level below the property's then current taxable value (escalated base year value). Pursuant to California law, a property owner may apply for a Proposition 8 reduction of the property tax assessment for such owner's property by filing a written application, in form prescribed by the State Board of Equalization, with the appropriate county board of equalization or assessment appeals board.

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

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

Hazardous Substances

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

Reduction in Inflation Rate

As described in greater detail below, Article XIII A of the California Constitution provides that the full cash value base of real property used in determining taxable value may be adjusted from year to year to reflect the inflation rate, not to exceed a two percent increase for any given year, or may be reduced to reflect a reduction in the consumer price index, comparable local data or any reduction in the event of declining property value caused by damage, destruction or other factors (as described above). Such measure is computed on a calendar year basis. Any resulting reduction in the full cash value base over the term of the Series 2003 Bonds could reduce Tax Revenues. See "LIMITATIONS ON TAX REVENUES—Property Tax Rate Limitations—Article XIII A."

Delinquencies

The Agency does not have any independent power to levy and collect property taxes. Any reduction in the tax rate or the implementation of any constitutional or legislative property tax decrease could reduce the Tax Revenues, and accordingly, could have an adverse impact on the ability of the Agency to repay the Series 2003 Bonds. Likewise, delinquencies in the payment of property taxes could have an adverse effect on the Agency's ability to make timely debt service payments. The County has elected to follow the procedures of the Teeter Plan, pursuant to which it allocates property taxes to the Agency based on 100% of the tax levy, notwithstanding any delinquencies. However, there can be no assurance the County will continue such practice. See "CENTRAL DISTRICT PROJECT AREA—Teeter Plan."

Investment Funds

All funds held by the Trustee under the Indenture are required to be invested in Permitted Investments as provided under the Indenture. See Appendix A attached hereto for a summary of the definition of Permitted Investments. All funds held by the Agency, including the Special Fund into which all Tax Increment Revenues are initially deposited, may be invested by the Agency in any investment authorized by law. See the audited financial statements of the Agency for the year ended June 30, 2001 attached hereto as Appendix B for a description of the Agency's investment policy at June 30, 2001. All investments, including the Permitted Investments and those authorized by law from time to time for investments by municipalities, contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected and loss or delayed receipt of principal. The occurrence of these events with respect to amounts held under

the Indenture or the Special Fund could have a material adverse affect on the security for the Series 2003 Bonds.

Bankruptcy and Foreclosure

The rights of the Owners of the Series 2003 Bonds and the enforceability of the obligation to make payments on the Series 2003 Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights under currently existing law or laws enacted in the future and may also be subject to the exercise of judicial discretion under certain circumstances. The opinions of Bond Counsel as to the enforceability of the obligation to make payments on the Series 2003 Bonds will be qualified as to bankruptcy and such other legal events. See APPENDIX E--"PROPOSED FORM OF BOND COUNSEL OPINION."

Further, the payment of the tax increment revenues and the ability of the County to timely foreclose the line of a delinquent unpaid tax may be limited by bankruptcy, insolvency, or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure. Any delay in prosecuting superior court foreclosure proceedings would increase the likelihood of a delay or default in payment of the principal of and interest on the Series 2003 Bonds and the possibility of delinquent tax installments not being paid in full.

State Budget

In connection with its approval of the budget for the 1992-93, 1993-94 and 1994-95 fiscal years, the State Legislature enacted legislation which, among other things, reallocated funds from redevelopment agencies to school districts by shifting a portion of each agency's tax increment, net of amounts due to other taxing agencies, to school districts for such fiscal years for deposit in the Education Revenue Augmentation Fund ("ERAF"). The amount required to be paid by a redevelopment agency under such legislation was apportioned among all of its redevelopment project areas on a collective basis, and was not allocated separately to individual project areas. Faced with a projected \$23.6 billion budget gap for Fiscal Year 2002-03, the State Legislature adopted and sent to the Governor of the State as urgency legislation, AB 1768 requiring redevelopment agencies to pay into ERAF in Fiscal Year 2002-03 an aggregate amount of \$75 million. AB 1768 was signed by the Governor on September 30, 2002 and requires the payment into ERAF in Fiscal Year 2002-03 only. AB 1768 provides that one-half of the ERAF obligation of the Agency is calculated based on the gross tax increment received by the Agency and the other one-half of the ERAF obligation of the Agency is calculated based on net tax increment revenues (after any pass-through payments to other taxing entities), as such tax increment revenues are shown in Table 7 of the Fiscal Year 2000-01 Annual Report of the California State Controller. Based on the tax increment revenues shown in Table 7 of the State Controller's Annual Report as being retained by the Agency, the Agency will be required to pay approximately \$1,267,106 into ERAF in Fiscal Year 2002-03. The ERAF payment of the Agency in Fiscal Year 2002-03 will not impair its ability to pay debt service on the Bonds. The Agency cannot predict whether the State Legislature will enact legislation requiring deposits into ERAF in future years.

The Legislative Analyst's Office released a report on November 14, 2002 forecasting that the State would end the 2002-03 Fiscal Year with a General Fund deficit of \$6.1 billion, compared to the \$1 billion positive reserve balance assumed when the 2002 Budget Act was adopted. Absent corrective actions, the Legislative Analyst's Office also forecasted that the State's 2003-04 budget faced a cumulative year-end deficit of \$21.1 billion and that over the longer term, the State would face annual operating deficits of between roughly \$12 billion and \$16 billion per year. On December 6, 2002, the Governor released his current-year plan for partially addressing the General Fund shortfall. This plan calls for \$10.2 billion in budgetary

reductions and adjustments in the current Fiscal Year (\$3.4 billion) and Fiscal Year 2003-04 (\$6.8 billion) combined, as an initial step towards eliminating the shortfall. At a special session of the Legislature on December 9, 2002, the Governor presented his package of planned spending cuts and savings consisting of \$7.2 billion in spending reductions, \$2.3 billion in transfers, loans and reversions and \$700,000 in funding shifts.

Most, but not all areas of State government will be affected if the Governor's proposals are implemented. Approximately one third of the proposed reductions are in education; one-fourth is in general government and local government; and one-fifth in each of health and social services, resources, transportation and housing. In all, these reductions amount to less than half of the State's projected budget deficit necessitating even further reductions when the Governor releases his full 2003-04 budget proposal on January 10, 2003.

On December 18, 2002, the Governor announced that California faces a budget shortfall of \$34.8 billion. It is unknown at this time what measures will be proposed to address the additional budget shortfall. The Governor's budget proposal is expected to include transfers of unencumbered Low and Moderate Income Housing Fund monies from every redevelopment agency in the State to the General Fund of the State. For a general discussion of the Low and Moderate Income Housing Fund, see "TAX ALLOCATION FINANCING—Low and Moderate Income Housing Fund." It has also been reported that the Governor's proposal may consider transferring unencumbered tax increment funds of redevelopment agencies to assist with the budget deficit. Although the Agency's Low and Moderate Income Housing Fund monies do not secure repayment of the Series 2003 Bonds and no specific proposals as to tax increment revenue have as yet been presented, the Agency cannot predict the impact current and future State fiscal shortfalls will have on Tax Revenues. There can be no assurance that the State will not continue to experience budget gaps in the future.

Information about the State budget and State spending is regularly available at various State-maintained websites. Text of the budget may be found at the website of the Department of Finance, www.dof.ca.gov, under the heading "California Budget." An impartial analysis of the budget is posted by the Office of the Legislative Analyst at www.lao.ca.gov. In addition, various State of California 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.

Seismic Factors

The assessed valuation of properties in the Project Area could be substantially reduced as a result of a major earthquake proximate to the Project Area. There are several geological faults in the greater San Francisco Bay Area that have the potential to cause serious earthquakes which could result in damage to buildings, roads, bridges, and property within the Project Area. The Loma Prieta earthquake, which occurred in October 1989 along the San Andreas Fault, resulted in substantial damage to the infrastructure and property in the Project Area. In addition to the San Andreas Fault, faults that could affect the Agency include the Hayward Fault and the Calaveras Fault in the central and eastern portions of the County. If there were to be an occurrence of sever seismic activity in the Project Area, there could be a negative impact on assessed values of taxable values of property in the Project Area and could result in a reduction in Tax Revenues. Such reduction of Tax Revenues could have an adverse effect on the Agency's ability to make timely payments of debt service on the Series 2003 Bonds.

Loss of Tax Exemption

In order to maintain the exclusion from gross income for federal income tax purposes of the interest on the Series 2003 Bonds, the Agency has covenanted in the Indenture to comply with the applicable requirements of the Internal Revenue Code of 1986, as amended. The interest on either series of the Series 2003 Bonds or both, could become includable gross income for purposes of federal income taxation retroactive to the date of issuance of such series of the Series 2003 Bonds as a result of acts or omissions of the Agency in violation of this or other covenants in the Indenture applicable to the Series 2003 Bonds. The Series 2003 Bonds are not subject to redemption or any increase in interest rates should an event of taxability occur and will remain outstanding until maturity or prior redemption in accordance with the provisions contained in the Indenture. See "TAX MATTERS."

Risk of Tax Audit

In December 1999, as a part of a larger reorganization of the Internal Revenue Service (the "IRS"), the IRS commenced operation of its Tax Exempt and Government Entities Division (the "TE/GE Division"), as the successor to its Employee Plans and Exempt Organizations division. The new TE/GE Division has a subdivision that is specifically devoted to tax-exempt bond compliance. Public statements by IRS officials indicate that the number of tax-exempt bond examinations (which would include the issuance of securities such as the 2003 Bonds) is expected to increase significantly under the new TE/GE Division. There is no assurance that if an IRS examination of the 2003 Bonds was undertaken that it would not adversely affect the market value of the 2003 Bonds. See "TAX MATTERS." The Agency is not currently the subject of any ongoing audit nor has it been notified by the IRS regarding the possibility of any such audit.

Secondary Market

There can be no guarantee that there will be a secondary market for the Series 2003 Bonds or, if a secondary market exists, that the Series 2003 Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

LIMITATIONS ON TAX REVENUES

The Series 2003 Bonds are secured by a pledge of Tax Revenues attributable to the Project Area. The Agency does not have any independent power to levy and collect property taxes; accordingly, the amount of Tax Revenues available to the Agency for payment of the principal of and interest on the Series 2003 Bonds is affected by several factors, including but not limited to those discussed below. See also "CERTAIN RISKS TO BONDHOLDERS."

Introduction

The Redevelopment Law and the California Constitution provide a method for financing and refinancing redevelopment projects based upon an allocation of taxes collected within a project area. First, the assessed valuation of the taxable property in a project area last equalized prior to adoption of the redevelopment plan is established and becomes the base roll. Thereafter, except for any period during which

the assessed valuation drops below the base year level, the taxing agencies on behalf of which taxes are levied on property within the project area will receive the taxes produced by the levy of the then current tax rate upon the base roll. Taxes collected upon any increase in the assessed valuation of the taxable property in a project area over the levy upon the base roll may be pledged by a redevelopment agency to the repayment of any indebtedness incurred in financing the redevelopment project. Redevelopment agencies themselves have no authority to levy taxes on property and must look specifically to the allocation of taxes produced as described above.

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

Property Tax Rate Limitations–Article XIII A

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

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

In the June 1990 election, the voters of the State approved additional amendments to Article XIII A permitting the California Legislature to extend the replacement dwelling provisions applicable to persons over 55 to severely disabled homeowners for replacement dwellings purchased or newly constructed on or after June 5, 1990, and to exclude from the definition of “new construction” triggering reassessment improvements to certain dwellings for the purpose of making the dwelling more accessible to severely disabled persons. In the November 1990 election, the voters approved the amendment to Article XIII A to permit the State Legislature to exclude from the definition of “new construction” seismic retrofitting improvements or improvements utilizing earthquake hazard mitigation technologies constructed or installed in existing buildings after November 6, 1990.

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

Litigation Regarding 2% Limitation

On November 2, 2001, the Orange County, California Supreme Court issued a Minute Order in the case of *County of Orange v. County of Orange County Assessment Appeals Board No. 3*. The case involved the assessed value of a property that exceed the prior year’s value by more than 2%. The increase of a property’s assessed value by more than 2% is a common practice among California assessors when the prior year value of the property is less than the base year value of the property (the value assigned upon change of ownership or new construction) and the current year, market value of the property is equal to or higher than the computed base year value for the current year. Such instances occur when the prior year value of the property was determined by a Proposition 8 appeal and the condition causing reduction (*e.g.*, recession in the real estate market) has ceased to influence the value of the property. The court ruled that the California Constitution and the California Revenue and Taxation Code limit the year-to-year change in value of property to 2% except in situations described in law, but not limited to the instances mentioned above. The court also found that the California Constitution does not authorize a temporary decline in the base value of property that can be restored at a rate higher than 2%.

On December 12, 2002, the court certified the case for class action status, with the class being all similarly affected owners of real property in Orange County. However, the court did not rule on the question of whether the Orange County tax collector would be required to send refund notices to all of the owners of real property within Orange County. A hearing has been set for January 30, 2003, for the court to consider this issue.

At this time, this case applies only to the Orange County assessor, but if appealed and upheld on appeal, the ruling could become binding on County assessors statewide. The Agency is unable to predict the effect on Tax Revenues if the ruling described above is ultimately determined to have applicability to the County and the Project Area. See “CERTAIN RISKS TO BONDHOLDERS—Appeals to Assessed Values” and “THE AGENCY—Assessment Appeals.”

Property Tax Collection Procedures

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

For each Fiscal Year, taxes are levied on taxable real and personal property situated in the County as of the preceding January 1. For assessments and collection purposes, property is classified either as “secured”

or “unsecured,” and is listed accordingly on separate parts of the assessment roll. The “secured roll” is that part of the assessment roll containing State assessed property and property secured by a lien on real property which is sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the “unsecured roll.”

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

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

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

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid, on August 31. A 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of one and one-half percent per month begins to accrue beginning November 1. The taxing authority has four ways of collecting unsecured personal property taxes: (1) by filing a civil action against the taxpayer; (2) by filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) by filing a certificate of delinquency for recordation in the County Recorder’s office, in order to obtain a lien on certain property of the taxpayer; and (4) by the seizure and sale of personal property, improvements or possessory interest, belonging to the taxpayer. These collection methods can be used separately or jointly.

Appropriation Limitation—Article XIII B

On November 6, 1979, California voters approved Proposition 4, the Gann Initiative, which added Article XIII B to the California Constitution. The principal effect of Article XIII B is to limit the annual appropriations of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted for changes in the cost of living,

population and services rendered by the government entity. The “base year” for establishing such appropriation limit is fiscal year 1978-79 and the limit is to be adjusted annually to reflect changes in population, consumer prices and certain increases in the cost of services provided by these public agencies.

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

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

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

Effective in Fiscal Year 1990/91, Proposition 111 and SB 88 (Chapter 60/90) modified the manner in which the appropriations limit is to be calculated and requires annual election of an inflation adjustment factor and a population factor. The annual inflation adjustment factor selected by the City for the 2001-02 year is growth in California Per Capital Income. The population factor chosen is growth within the City.

SB 2557

SB 2557, enacted in 1990 (Chapter 466, Statutes of 1990) authorized county auditors to determine property tax administration costs proportionately attributable to local jurisdictions and to submit invoices to the jurisdictions for such costs. Subsequent legislation specifically includes redevelopment agencies among the entities that are subject to a property tax administration charge. The County collects property tax administration costs from the Agency by deducting such costs from tax revenues prior to delivering such amounts to the Agency; for Fiscal Year 2001-02 the County’s administrative fee was \$256,607 was 0.92% of Fiscal Year 2001-02 gross tax increment revenues.

Proposition 218

On November 5, 1996, California voters approved Proposition 218–Voter Approval for Local Government Taxes–Initiative Constitutional Amendment. Proposition 218 added Articles XIII C and XIII D to the California Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges. The Series 2003 Bonds are secured by sources of revenues that are not subject to limitation by Proposition 218.

Taxation of Unitary Property

AB 2890 (Statutes of 1986, Chapter 1457) provides that, commencing with the fiscal year 1988-89, assessed value derived from State-assessed unitary property (consisting mostly of operational property owned by utility companies) is to be allocated county-wide as follows: (i) each tax rate area will receive the same amount from each assessed utility received in the previous fiscal year unless the applicable county-wide values are insufficient to do so, in which cash values will be allocated to each tax rate area on a pro rata basis;

and (ii) if values to be allocated are greater than in the previous fiscal year, each tax rate area will receive a pro rata share of the increase from each assessed utility according to a specified formula. Additionally, the lien date on State-assessed property is changed from March 1 to January 1.

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

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

For Fiscal Year 2001-02, approximately \$2,877,154 of tax increment revenue allocable to the Agency with respect to the Project Area was attributable to unitary property.

Limitation of Tax Revenues From Certain Increased Tax Rates

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

Redevelopment Plan Limitations

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

Among other amendments to the Redevelopment Law, AB 1290 imposes time limits on existing redevelopment plans for the incurrence of indebtedness, the duration of the plan and the collection of tax increment revenues. The time limits imposed on AB 1290 apply individually to each plan as well as to specific territory added by amendments to a redevelopment plan. The redevelopment plan for the Project

Area prohibits the incurrence of debt (including debt on a parity with the Series 2003 Bonds) after January 1, 2004. However, as previously discussed, SB 211 permits a redevelopment agency to eliminate this debt incurrence limit by plan amendment. See “TAX ALLOCATION Financing–Senate Bill 211.” AB 1290 required the Agency to adopt such a time limit for the receipt of increment, which may not extend more than ten years beyond the duration of each redevelopment plan. Pursuant to AB 1290 which took effect January 1, 1994, the Agency amended its redevelopment plan for the Project Area to impose such tax time limits. AB 1290 allows the further extension of these dates if certain findings can be made as to each of the plans. Accordingly, the time limit for plan activities (for that portion of the Project Area included when the plan was adopted on June 12, 1969) is June 12, 2009 and the time limit to repay debt or receive property taxes is June 12, 2019. For additional information regarding the time limits applicable to each territory within the Project Area, see “THE CENTRAL DISTRICT PROJECT AREA–Redevelopment Plan Limits.”

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

For those tax increment revenues generated by a small portion (approximately 14.86 acres) of the Project Area added by a 2001 plan amendment, the Agency is subject to statutory pass-through requirements created by AB 1290. This area will initially be eligible to receive tax increment revenue in the Fiscal Year 2002.

Statement of Indebtedness

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

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

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

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

Trustee in connection with a bond issue or payments to a public agency in connection with payments by that public agency with respect to a lease or bond issue.

Housing Set-Aside

Section 33334.2 and 33334.6 of the Redevelopment Law require the Agency to set aside not less than 20% of tax increment derived from the Project Area to be used for the purpose of increasing, improving and/or preserving the community's supply of low and moderate income housing. Pursuant to Agency policy, the Agency currently deposits the 25% of gross tax increment revenues in its Low and Moderate Income Housing Fund. Such funds are not Tax Revenues and are not pledged to the repayment of the Series 2003 Bonds. Pursuant to the Redevelopment Law, housing set-aside funds may be pledged to the repayment of bonds only to the extent proceeds of such bonds are used (or are used to refund bonds, the proceeds of which were used) to finance low and moderate income housing purposes. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2003 BONDS—Pledge and Allocation of Taxes" and "—Tax Revenues." No portion of the Agency's housing set-aside funds is pledged to the repayment of the Series 2003 Bonds.

The Governor of the State has recently proposed legislation that could affect the Low and Moderate Income Housing Fund. See "CERTAIN RISKS TO BONDHOLDERS STATE BUDGET."

Future Initiatives

Article XIII A, Article XIII B 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.

THE CENTRAL DISTRICT PROJECT AREA

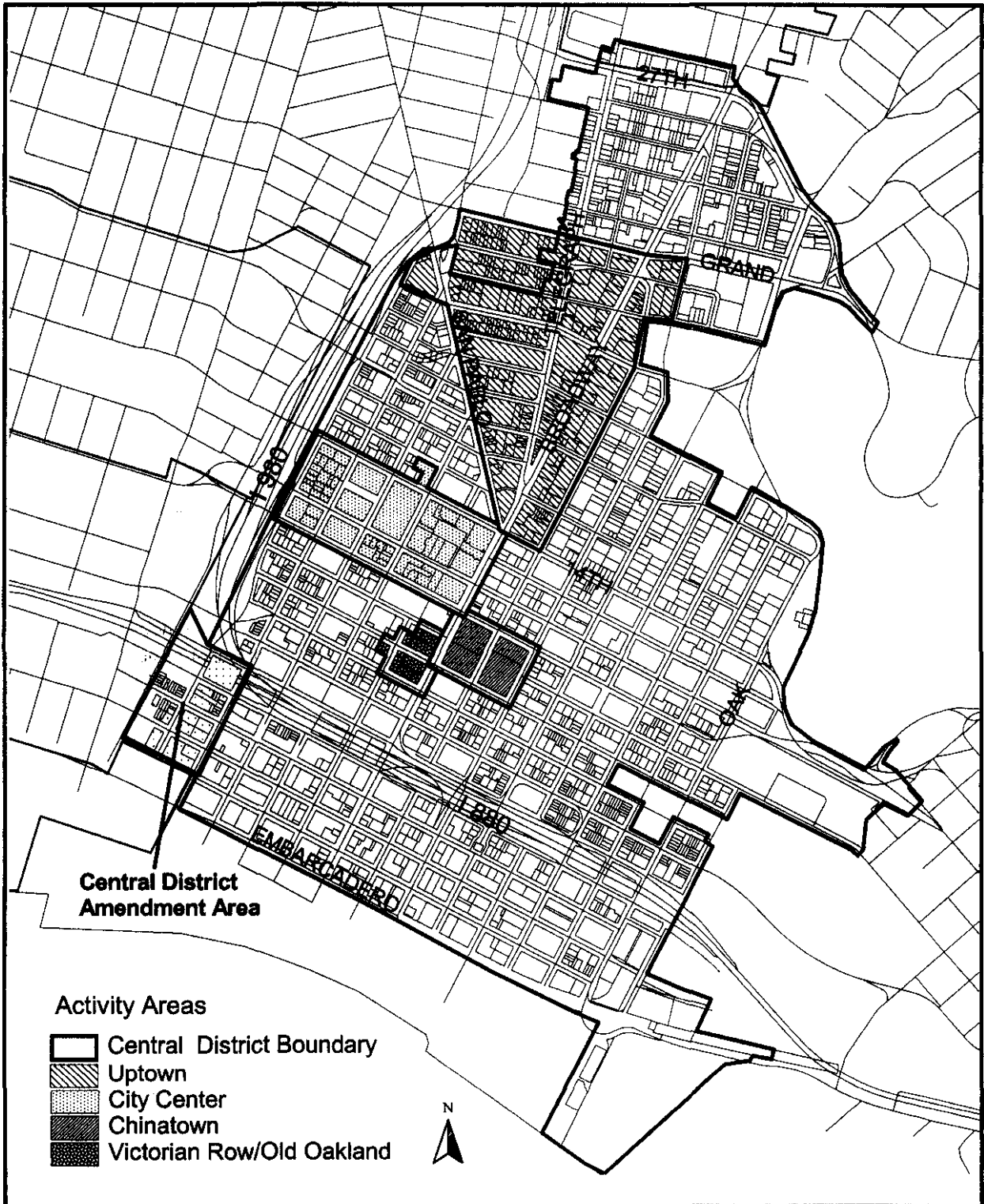
General

The Project Area encompasses an area of approximately 828 acres, covering approximately 300 City blocks, including the entire Central Business District. The Project Area is the economic and transportation hub of the East Bay portion of the San Francisco-Oakland Metropolitan Area. It contains nearly 27 major offices buildings of over 100,000 square feet each with approximately 10.5 million total square feet of rentable class A and B office space. The class A buildings currently have a vacancy rate of approximately 9.68% with half of the vacancies in the recently completed 555 City Center.

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

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

Central District Project Area Map



City Center. The City Center action-area is a major mixed-use multi-purpose development on a 15-block site assembled by the Agency. It consists of five major elements: (i) six blocks which are developed, owned and/or managed by various developers as retail, office and other commercial developments, including the international headquarters for the Clorox Company and the recently completed 555 City Center, a 470,000 square foot office development by the Shorenstein Company; (ii) the two blocks developed by DWA-Fed Oak for the 700,000 gross square foot Ronald V. Dellums Federal Building (the "Federal Building"); (iii) the City Center West Garage (a 1,452 space garage owned by the Agency); (iv) three blocks awaiting development, two under a Disposition and Development Agreement with the Shorenstein Company for 1.2 million square feet of office and the third block waiting for development under an Exclusive Negotiating Agreement with Camden Development, Inc. for the development of up to 480 units of residential on the City Center T-10 Site; and (v) the three blocks of Preservation Park (consisting primarily of office space leased to non-profit organizations) plus Landmark Place (a half block site which commenced construction in 2002 with a 92-unit residential condominiums complex). See also, "THE CENTRAL DISTRICT REDEVELOPMENT PROJECT—Largest Employers."

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

Old Oakland. Old Oakland, started in 1978, consists of the rehabilitation/restoration of eleven mid-to-late nineteenth century Victorian commercial structures. More recent redevelopment projects include Old Town Square completed in 1998 (a 98 unit residential condominium project), Swan's Market completed in 2001 (a mixed-use project with 18 affordable rental housing units, 20 condominiums, 25,000 square feet of retail and 17,000 square feet of office), and Housewives Market Residential scheduled to start construction in 2002-03 (a two phase, 202-unit residential condominium project).

Uptown. The Uptown Project, formerly the Retail Center Project, is in the site acquisition and planning stage. The Agency has an Exclusive Negotiating Agreement with Forest City Residential West to develop 1,000 units of rental and for sale housing in the Uptown area including 15,000 square feet of retail space, and 1,200 parking spaces. Other projects in the area include: the City Administration Complex, the Rotunda Building (187,000 square feet office and 57,000 square feet commercial), the Fox Theater maintenance and master planning (including reroofing, marquee, sign and lighting improvements), 17th Street and San Pablo Garage (a 525-space garage that is planned for construction in 2003-04), Telegraph and Broadway streetscape improvements (improvements at 14th and Broadway are already completed), façade improvements and retail attraction.

Other Projects. In addition to working in the four action areas, the Agency has a number of projects scattered throughout the rest of the Central District. These projects include: (1) the State of California Office Building replacement of earthquake damaged offices with 660,000 gross square feet of new office which was completed in 1996; (2) the University of California Office of the President Headquarters construction of a 225,000 square foot office building which was completed in 1998; (3) the Tribune Building - the renovation of a historic 90,000 square feet office building which was completed in 2000; (4) the Bermuda Building - demolition of the blighted/earthquake damaged building which was completed in 2002, and the planned

development of an approximately 200,000 square foot office building which is underway and expected to be completed in 2007; and (5) the Broadway Auto Row Streetscape Improvements from Grand Avenue north which was completed in 1999.

Special Programs. In addition to undertaking redevelopment activity within the four major areas described above, the Agency has initiated the 10K Housing Initiative, Downtown Façade Improvement Programs, Business Attraction, Marketing and Special Events, Community Restoration and Downtown Walking Patrol.

10K Housing. The main strategy of the Agency for downtown development for the past three years has been the implementation of Mayor Brown’s 10K housing initiative to attract 10,000 new residents to the area. This goal translates to a target of developing 6,000 new residential units. Including the five Agency projects (Uptown, Landmark Place, Swan’s, Arioso, and Housewives), there are 1,055 units completed, 394 under construction, 1,292 units with planning approval and 1,687 units with planning applications, under the 10K Housing initiative. These projects will provide 4,428 units or three quarters of the 10K target.

Downtown Façade Improvement Program. The Façade Program offers up to \$20,000 in matching grants to property and/or business owners to remodel and improve the appearance of the exteriors of buildings in designated areas within the Uptown, Downtown Historic, Old Oakland, Chinatown and Lower Broadway Districts. The façade program has provided matching grants for 33 completed projects and has 73 projects in development as of November 2002. These façade projects will result in over \$7.7 million in improvements.

Recent Developments in the Project Area

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

Commercial Projects

Telecom Building	120,000 square feet server farm
1111 Jackson	111,000 square feet office renovation
415 20 th Street	70,000 square feet office renovation and 27,000 square feet super computer facility
Various Historic Buildings	300,000 square feet plus of office renovation in Sears, Wakefield, I. Magnin and Unity buildings

Residential Projects

Allegro	312 unit, three block housing project
The Essex	270 unit, 20-story luxury apartment building
Phoenix Lofts	31 unit loft renovation
New Market Lofts	46 unit loft renovation
Sierra Lofts	249 unit condominium lofts
Old Sears	53 unit rental lofts

Controls, Land Use and Building Restrictions

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

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

Redevelopment Plan Limits

The Project Area is subject to the following limitations: (i) for activities within the territory added to the Project Area from June 12, 1979 to June 1, 2001, bonded indebtedness outstanding at any one time cannot exceed \$100 million; (ii) cumulative gross tax increment cannot exceed \$1,348,862,000 (of which approximately \$333.3 million has been collected through June 30, 2002); (iii) the time limit to incur debt is January 1, 2004 (for territory within the Project Area prior to June 12, 1979); (iv) the Redevelopment Plan terminates on June 12, 2009 (for territory within the Project Area prior to June 1, 2001); and (v) the debt repayment limit is June 12, 2019 (for territory within the Project Area prior to June 1, 2001). For territory added to the Project Area by plan amendment after June 1, 2001, the debt incurrence limit is 20 years after the amendment, the Redevelopment Plan limit is 30 years after the amendment, and the debt repayment/tax increment receipt limit is 45 years after the amendment. See Table 1 for a summary of the applicable limitations.

Table 1 summarizes the Plan Limits for the Project Area, including the Amendment Area added by the Twelfth Amendment to the Plan adopted in 2001.

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

	<u>Original Project Area</u>	<u>Amendment Area</u>	<u>Total</u>
Adoption Date	June 12, 1969	July 24, 2001	
Time Limit for Debt Issuance	January 1, 2004	July 24, 2021	
Time Limit for Plan Activities	June 12, 2009	July 24, 2031	
Time Limit for Receipt of Tax Increment	June 12, 2019	July 24, 2046	
Maximum Tax Increment Collections	\$1.348 billion	N/A	\$1.348 billion
Acreage	813.50	14.86	828.36

Source: *City of Oakland*.

Historical and Current Tax Revenues

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

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

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

It should be understood that this procedure does not involve the levy of any additional taxes, but provides that revenues produced by the tax rates in effect from year to year shall be apportioned to the taxing agencies levying the taxes and to the Agency on the basis described above. After all loans, advances and other indebtedness, including interest, incurred by the Agency in connection with the Project Area have been paid, the tax revenues will be paid to and retained by the respective taxing agencies in the normal manner. See also "CERTAIN RISKS TO BONDHOLDERS—Reduction in Taxable Values" and "—Levy and Collection of Taxes."

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Table 2 below presents the taxable value of all property within the Project Area for fiscal years ended June 30, 1999 through June 30, 2003.

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

	<u>1998-99</u>	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>
<u>Gross Assessed Value</u>					
County Secured Roll	\$1,738,082,139	\$1,868,027,147	\$2,105,593,697	\$2,216,291,670	\$2,578,802,969
County Unsecured Roll	<u>336,448,108</u>	<u>337,669,761</u>	<u>266,526,616</u>	<u>279,278,983</u>	<u>312,964,127</u>
Total Gross Assessed Values	\$2,074,530,247	\$2,205,696,908	\$2,372,120,313	\$2,495,570,653	\$2,891,767,096
<u>Less Exemptions</u>					
County Secured Roll	(\$270,203,345)	(\$270,023,156)	(\$271,188,283)	(\$113,643,485)	(\$227,171,088)
County Unsecured Roll	<u>(4,208,235)</u>	<u>(7,604,137)</u>	<u>(7,520,171)</u>	<u>(5,457,994)</u>	<u>(7,714,909)</u>
Total Exemptions	(\$274,411,580)	\$277,627,293)	(\$278,708,454)	(\$119,101,479)	(\$234,885,997)
<u>Net Assessed Values</u>					
County Secured Roll	\$1,467,878,794	\$1,598,003,991	\$1,834,305,414	\$2,102,648,185	\$2,351,631,881
County Unsecured Roll	<u>332,239,873</u>	<u>330,065,624</u>	<u>259,006,445</u>	<u>273,820,989</u>	<u>305,249,218</u>
Total Net Assessed Values	\$1,800,118,667	\$1,928,009,615	\$2,093,311,859	\$2,376,469,174	\$2,656,881,099
<u>Base Year Values (1968-69)</u>					
Secured	\$214,110,703	\$214,110,703	\$214,110,703	\$214,110,703	\$214,110,703
Unsecured	<u>61,129,825</u>	<u>61,129,825</u>	<u>61,129,825</u>	<u>61,129,825</u>	<u>61,129,825</u>
Total Base Year Values	\$275,240,528	\$275,240,528	\$275,240,528	\$275,240,528	\$275,240,528
<u>Increase Over Base-Year Values</u>					
Secured	\$1,253,768,091	\$1,383,893,298	\$1,620,019,711	\$1,888,537,482	\$2,137,521,178
Unsecured	<u>271,110,048</u>	<u>269,935,799</u>	<u>197,876,620</u>	<u>212,691,164</u>	<u>244,119,393</u>
Total Increase in Values	\$1,524,878,139	\$1,653,829,087	\$1,817,896,331	\$2,101,228,646	\$2,381,640,571

Source: Alameda County Auditor-Controller.

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Table 3 below reflects historical Tax Revenues received by the Central District Redevelopment Project Area based on fiscal years ending June 30, 1998, through June 30, 2002. To date, the County has paid to the Agency the full amount of Tax Revenues requested by the Agency, without regard to delinquencies in tax collection.

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

	1997-98	1998-99	1999-00	2000-01	2001-02
Tax Revenues	\$18,297,675.53	\$18,761,474.23	\$20,682,991.91	\$22,388,396.39	\$26,700,894.37
State Unitary Tax	<u>3,337,736.40</u>	<u>3,222,741.56</u>	<u>3,396,449.57</u>	<u>3,296,568.42</u>	<u>2,877,154.70</u>
Subtotal	\$28,295,411.93	\$21,984,215.79	\$24,079,440.57	\$25,684,964.81	\$29,578,049.07
Less County Tax Administration Fees	(188,165.04)	(217,734.80)	(224,843.14)	(221,532.12)	(256,607.00)
Less Housing Set-Aside (20%) ⁽¹⁾	<u>(4,327,082.39)</u>	<u>(4,396,843.16)</u>	<u>(4,815,888.30)</u>	<u>(5,136,992.96)</u>	<u>(5,915,609.81)</u>
Total Aggregate Tax Revenues Receipts	\$17,120,164.50	\$17,369,637.83	\$19,038,710.04	\$20,326,439.73	\$23,405,832.26

Source: Alameda County Auditor-Controller.

Principal Taxpayers

The following Table 4 lists the major taxpayers and type of business in the Project Area in terms of their 2002-03 assessed valuation:

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

Property Owner	Number of Parcels Owned	Type of Business	2002-03 Total Assessed Value	% of Total Assessed Value
OCC Venture LLC	9	Commercial Office Property Management	\$171,796,329	6.28%
Prentiss Properties Lake Merritt LLC	6	Commercial Office Property Management	148,885,121	5.44
Kaiser Foundation Health Plan Inc. ⁽¹⁾	3	Health Services	129,002,340	4.71
1800 Harrison Foundation	1	Commercial Office Property Management	106,290,475	3.88
Clorox Company ⁽¹⁾	3	Household Services	96,685,749	3.53
Oakland City Center LLC ⁽¹⁾	12	Commercial Office Property Management	87,575,068	3.20
Webster Street Partners Limited	3	Commercial Office Property Management	70,836,432	2.59
SSR Western Multifamily LLC ⁽¹⁾	3	Residential Property Management	59,531,000	2.17
Simrock 2 180 Grand LLC	2	Residential Property Management	44,625,000	1.63
Essex Portfolio Limited Partnership ⁽²⁾	<u>1</u>	Residential Property Management	<u>34,086,644</u>	<u>1.25</u>
TOTAL TOP TEN	43		949,314,158	34.68
Other Property Owners	<u>3,438</u>		<u>1,787,994,079</u>	<u>65.32</u>
TOTAL	3,481		\$2,737,308,237	100.00%

(1) Property owners with currently pending appeals. See "Outstanding Appeals for Reduction of Assessed Valuation."

(2) This parcel is a 270-unit, 20-story luxury apartment building complex.

Source: Alameda County Assessor Secured Tax Rolls.

Pending Appeals for Reduction of Assessed Valuation

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

In recent years, a number of taxpayers appeals have been filed in the City, including taxpayers in the Project Area, have applied to the Alameda County Assessors Office for reductions in assessed value of their respective property. Four of the 10 largest locally secured taxpayers owning property with an aggregate 2003-03 assessed value of \$194,914,352 have filed requests for reductions. Table 5 lists the largest locally secured taxpayers (see Table 4 above) who have filed such appeals, the assessed value, the reduction requested and the status of the appeal.

Table 5
Redevelopment Agency of the City Of Oakland
Central District Redevelopment Project Area
Pending Appeals
As of December 1, 2002

<u>Property Owner</u>	<u>No. of Parcels Owned</u>	<u>No. of Parcels Under Appeal</u>	<u>Assessed Valuation Under Appeal</u>	<u>Fiscal Year Appeal Valuation Request</u>
Principal Taxpayers				
Kaiser Foundation Health Plan Inc.	3	1	\$24,167,132	2001-02
Clorox Company	3	1	100,414,480	2001-02
Oakland City Center LLC	12	11	10,801,740	2001-02
SSR Western Multifamily LLC	<u>3</u>	<u>3</u>	<u>59,531,000</u>	2002-03
SUBTOTAL	21	16	\$194,914,352	
Other Taxpayers	<u>3,460</u>	75	<u>98,085,714</u>	Various ⁽²⁾
TOTAL	3,481	91	\$293,000,066	
Pending Appeals as a Percentage of Project Area				2.81%
Estimated Loss in Assessed Valuation due to Pending Appeals				37,689,690 ⁽³⁾
Estimated Loss in Assessed Valuation as a Percentage of Incremental Value ⁽⁴⁾				1.53%

⁽¹⁾ Reduction requested on unsecured property value.

⁽²⁾ For values assessed in Fiscal Years 1996-97 through 2002-03.

⁽³⁾ Estimated. Based on historical averages, the Fiscal Consultant estimates that 52 of the 91 pending appeals will result in a reduction in assessed value and that the reduction in value for those appeals that are allowed will be 22.32%.

⁽⁴⁾ Based on the total incremental value of the Project Area of \$2,462,067,709.

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

Tax Rates

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

Allocation of Taxes

The County Auditor-Controller is responsible for the aggregation of the taxable values assigned by the Assessor as of January 1st for property within the boundaries of the Project Area. This results in the reported total current year Project Area taxable value and becomes the basis of determining tax increment revenues due to the Redevelopment Agency. The County disburses secured, unsecured and utility tax increment revenue to all redevelopment agencies in two annual installments, December and June, based on the surrendered roll value. Redevelopment agencies receive 100% of tax increment revenue allocations based on the surrendered roll without adjustment for assessment appeals or delinquencies occurring during the current year. Successful assessment appeals and delinquencies are reflected in the succeeding years' surrendered rolls. For discussion of pending appeals for reduction of assessed valuation in the Project Area, see “THE CENTRAL DISTRICT PROJECT AREA—Pending Appeals for Reduction in Assessed Valuation.” Unitary roll and supplemental assessment revenue are paid annually in two installments in January and June.

Teeter Plan

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

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

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

THE AGENCY

Members, Authority and Personnel

The Redevelopment Agency of the City of Oakland (the "Agency") was activated on October 11, 1956, by action of the Oakland City Council pursuant to the California Community Law. Effective December 31, 1975, the City Council declared itself to be the Agency. Until January 6, 2003, the members of the Agency include the President of the City Council, Ignacio De La Fuente as Chairperson of the Agency, and the other members of the City Council of the City of Oakland: Jane Brunner, Henry Chang, Jr., Moses L. Mayne, Jr., Nancy Nadel, Larry Reid, Jr., Richard Spees and Danny Wan. On January 6, 2003, the members of the Agency will include: Ignacio De La Fuente as Chairperson of the Agency, and the other members of the City Council of the City of Oakland: Desley Brooks, Jane Brunner, Henry Chang, Jr., Nancy Nadel, Jean Quan, Larry Reid, Jr., and Danny Wan.

Agency staff services are provided by City staff under an agreement between the Agency and the City first entered into in December 1975. Such support includes project management, real estate acquisition and disposition, relocation, engineering and planning, legal, financing and fiscal services.

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

Robert C. Bobb serves as City Manager and Agency Administrator. He was appointed to this position in November 1997.

George G. Musgrove serves as Assistant City Manager. He was appointed to this position in March 1998.

Ceda Floyd serves as City Clerk and Secretary to the Agency. She was appointed to this position in March 1993.

Deborah Edgerly serves as Director, Financial Services Agency and Treasurer of the Agency. She was appointed to this position in May 1997.

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

William E. Claggett serves as Executive Director, Community and Economic Development Agency. He was appointed to this position in October, 1997.

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

Powers

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

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

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

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

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

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

Agency Finances

The Agency's audited financial statements for the fiscal year ending June 30, 2001, are found in APPENDIX B. The Agency expects that the audited financial statements for the Fiscal Year ending June 30, 2002 will be available from the Repositories on or before January 26, 2003.

TAX MATTERS

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however, to the qualifications set forth below, under existing law, the interest on the Series 2003 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the Agency comply with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Series 2003 Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The Agency has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Series 2003 Bonds.

If the initial offering price to the public (excluding bond houses and brokers) at which a Series 2003 Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes “original issue discount” for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which each Series 2003 Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes “original issue premium” for purposes of federal income taxes and State of California personal income taxes.

Under the Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the Series 2003 Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straightline interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Series 2003 Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Series 2003 Bond. The Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Series 2003 Bonds who purchase the Series 2003 Bonds after the initial offering of a substantial amount of such maturity. Owners of such Series 2003 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2003 Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Series 2003 Bonds under federal individual and corporate alternative minimum taxes.

Under the Code, original issue premium is amortized on an annual basis over the term of the Series 2003 Bonds (said term being the shorter of the applicable maturity date of the Series 2003 Bonds or the call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the Series 2003 Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Series 2003 Bond is amortized each year over the term to maturity of the Series 2003 Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straightline interpolations between compounding dates). Amortized Series 2003 Bond premium is not deductible for federal income tax purposes. Owners of Premium Series 2003 Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such Series 2003 Bonds.

In the further opinion of Bond Counsel, interest on the Series 2003 Bonds is exempt from California personal income taxes.

The form of Bond Counsel’s opinion to be delivered on the date of issuance of the Series 2003 Bonds is set forth in APPENDIX E hereto.

Owners of the Series 2003 Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Series 2003 Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Series 2003 Bonds other than as expressly described above.

CERTAIN LEGAL MATTERS

The validity of the Series 2003 Bonds and certain other legal matters are subject to the approving legal opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. A copy of the proposed form of Bond Counsel's opinion is contained in APPENDIX E to this Official Statement, and the final opinion will be made available to the owners of the Series 2003 Bonds at the time of delivery of the Series 2003 Bonds. Certain legal matters will be passed upon for the Agency by the City Attorney of the City, as Agency General Counsel, and for the Underwriters by Lofton & Jennings, San Francisco, California. Bond Counsel and Underwriters' Counsel will receive compensation that is contingent upon the sale and delivery of the Series 2003 Bonds.

Payment of the fees and expenses of Bond Counsel and Underwriters' Counsel is contingent upon the issuance of the Series 2003 Bonds.

ABSENCE OF MATERIAL LITIGATION

No material litigation is pending, with service of process having been accomplished or, to the knowledge of the Agency, threatened, concerning the validity of the Series 2003 Bonds, the corporate existence of the Agency, or the title of the officers of the agency who will execute the Series 2003 Bonds as to their respective offices. The Agency will furnish to Underwriters of the Series 2003 Bonds a certificate of the Agency as to the foregoing as of the time of the original delivery of the Series 2003 Bonds.

FINANCIAL ADVISOR

Public Financial Management, Inc., San Francisco, California, has served as Financial Advisor to the Agency with respect to the sale of the Series 2003 Bonds. The Financial Advisor has assisted the Agency in the review of this Official Statement and in other matters relating to the planning, structuring, execution and delivery of the Series 2003 Bonds. The Financial Advisor has not independently verified any of the data contained herein or conducted a detailed investigation of the affairs of the Agency to determine the accuracy or completeness of this Official Statement. Due to their limited participation, the Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained herein. The Financial Advisor will receive compensation from the Agency contingent upon the sale and delivery of the Series 2003 Bonds.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Upon delivery of the Series 2003 Bonds, Grant Thornton, LLP, Minneapolis, Minnesota, independent certified public accountants (the "Verification Agent"), will deliver reports stating that it has reviewed and confirmed the mathematical accuracy of certain computations relating to the adequacy of the Eligible Securities (as defined in the Escrow Agreements), the Investment Securities (as defined in the Refunding Instructions) and the interest thereon to pay, when due, the redemption price and interest on each Series of the Prior Bonds on and prior to the specified redemption dates thereof, the yield on the Series 2003 Bonds and the yields of the Eligible Securities and the Investment Securities.

CONTINUING DISCLOSURE

The Agency has covenanted in the Continuing Disclosure Certificate for the benefit of the holders and beneficial owners of the Series 2003 Bonds to provide certain financial information and operating data relating to the Agency each year by not later than the date which is 270 days following the end of the fiscal year, commencing with the report for the 2001-02 Fiscal Year (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and notices of material events will be filed by the Trustee as Dissemination Agent with each nationally Recognized Municipal Securities Information Repository and with any then existing State Repository, if any. Currently, there is no State Repository. The covenants set forth in the Continuing Disclosure Certificate of the Agency have been made in order to assist the Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). The specific nature of the information to be contained in the Annual Report and the notices of material events is set forth in APPENDIX G—"FORM OF CONTINUING DISCLOSURE CERTIFICATE" attached hereto.

The Agency has never failed to comply with all material respects with any previous undertaking with regard to Rule 15c2-12 to provide annual reports or notices of material events.

UNDERWRITING

The Series 2003 Bonds are being purchased through negotiation by Morgan Stanley & Co. Incorporated, E. J. De La Rosa & Co., Inc. and Redwood Securities Group, Inc. (collectively, the "Underwriters") at a price equal to \$131,588,726.26 which represents the principal amount of the Series 2003 Bonds, plus an original issue premium of \$11,627,992.45 and less an Underwriters' discount of \$644,266.19. The initial public offering prices of the Series 2003 Bonds may be changed from time to time by the Underwriters. The Bond Purchase Contract for the Series 2003 Bonds between the Agency and the Underwriters provides that the Underwriters will purchase all the Series 2003 Bonds from the Agency if any are purchased and that the obligation to make such purchase is subject to certain terms and conditions set forth in the Series 2003 Bond Purchase Contract including, among others, the approval of certain legal matters by counsel.

RATINGS

Moody's Investors Service ("Moody's") and Standard & Poor's Ratings Group ("Standard & Poor's") have assigned ratings of "Aaa" and "AAA," respectively, to the Series 2003 Bonds with the understanding that upon delivery of the Series 2003 Bonds a policy insuring the payment when due of principal of and interest on the Series 2003 Bonds will be issued by Financial Guaranty. See "BOND INSURANCE" and APPENDIX H—"SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY." A rating reflects only the view of the agency giving such rating and is not a recommendation to buy, sell or hold the Series 2003 Bonds. An explanation of the significance of the rating may be obtained from the rating agencies as follows: Moody's Investors Service, 99 Church Street, New York, New York 10007; and Standard & Poor's Ratings Group, 55 Water Street, 38th Floor, New York, New York 10041, respectively. There is no assurance that such ratings will continue for any given period of time or that they will not be reduced or withdrawn entirely by the rating agencies, or either of them, if in their, or its, judgment circumstances so warrant. The Agency has not undertaken any responsibility to oppose any such proposed revision or withdrawal. Any such revision or withdrawal of the rating may have an adverse effect on the marketability or market price of the Series 2003 Bonds.

MISCELLANEOUS

All of the preceding summaries of the Series 2003 Bonds, the Indenture, other applicable legislation, agreements and other documents are made subject to the provisions of the Series 2003 Bonds and such documents, respectively, and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the Agency for further information in connection therewith.

Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not 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 the Treasurer of the Agency has been duly authorized by the Agency.

REDEVELOPMENT AGENCY OF THE
CITY OF OAKLAND

By: /s/ Deborah Edgerly

Treasurer

APPENDIX A

GENERAL INFORMATION CONCERNING THE CITY OF OAKLAND

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APPENDIX A

CERTAIN INFORMATION CONCERNING THE CITY OF OAKLAND

General Information

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

City Government. The City was incorporated as a town in 1852 and as a city in 1854, and became a charter city in 1889. The Charter provides for the election, organization, powers and duties of the legislative branch, known as the City Council; the powers and duties of the executive and administrative branches; fiscal and budgetary matters, personnel administration, franchises, licenses, permits, leases and sales; employee's pension funds; and the creation and organization of the Port of Oakland (the "Port"). An eight-member City Council, seven of whom are elected by district and one of which is elected on a city-wide basis, governs the City. The Mayor is not a member of the City Council but is the City's chief elective officer. The Mayor and Council members serve four-year terms staggered at two-year intervals. The City Attorney is nominated and elected in the same manner, and for the same term, as the Council member-at-Large. The Mayor appoints a City Manager, subject to confirmation by the City Council, who is responsible for daily administration of City affairs and preparation and submission of the annual budget for the Mayor's submission to the City Council.

Subject to civil service regulations, the City Manager appoints all City employees that are not elected officers of the City except for the City Clerk. The City Clerk is appointed by the City Manager, subject to City Council confirmation. The City Auditor is elected at the same time as the Mayor and the City Attorney is elected two-years after the mayoral election.

On November 3, 1998, the voters amended the City's charter by approving ballot Measure X. Changes ratified at that time included the creation of the Mayor-Council form of government, the provision of a two-term limit for the Mayor, the institution of a requirement for voter approval for increases to City Council compensation, and a provision for the election of the City Attorney. The provisions of Measure X will sunset in November 2004. If voters do not extend the terms of Measure X, the city attorney position will revert to an appointed position and the provisions relating to the Mayor-Council form of government would expire. The City provides a full range of services contemplated by statute or charter, including those functions delegated to cities under State law. These services include public safety (police and fire), sanitation and environmental health enforcement, recreational and cultural activities, public improvements, planning, zoning and general administrative services.

Budget Process. The City's budget is developed on the Generally Accepted Accounting Principles ("GAAP") basis (modified accrual for governmental funds and accrual for proprietary and pension trust funds). The City Charter requires that the City Council adopt a balanced budget by June 30, preceding the start of the fiscal year on July 1. The City's budget cycle is a two-year process that promotes long-term decision making, increases funding stability and allows for greater performance evaluation. In advance of each two-year cycle, the City Manager and Agency heads conduct internal budget hearings to develop budget proposals for presentation to the Mayor. Within 60 to 90 days before the end of the prior two-year cycle, the

Mayor submits the proposed two-year budget to the City Council and formal public budget hearings are scheduled. Upon conclusion of the public hearings, the City Council may make adjustments and/or revisions. The City Council adopts the City's operating budget on or before June 30. It contains appropriations for all funds and two-year appropriations for the five-year Capital Improvements Program.

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

The City Council employs an independent certified public accountant who examines books, records, inventories, and reports of all officers and employees who receive, control, handle or disburse public funds, and those of any other employees or departments as the City Council directs. These duties are performed both annually and upon request. The City's independent auditor for fiscal years 1999-2000 and 2000-2001 was KPMG LLP, who is also serving as auditor for fiscal year 2001-2002.

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

Investment Policy

The authority to invest the City's Operating Fund is derived from Council Resolution No. 56127 that delegates to the Director, Financial Services Agency/Treasurer the authority to invest this Operating Fund within the guidelines of Section 53600 et seq. of Government Code of the State of California (the "Code"). The Code also directs the City to present an annual investment policy for confirmation to the City Council. The City Council adopted a policy for Fiscal Year 2002-2003 on July 23, 2002. The Investment Policy is subject to revision at any time.

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

Current Investment Portfolio

The City currently maintains approximately \$144.3 million in operating funds, excluding capital, debt service funds, special revenue funds and pension trust funds. The Operating Fund is broken out by different types of investment securities and is invested in accordance with the Investment Policy. The composition of these operating funds, including the average term and days to maturity, is provided below as of October 31, 2002. As of October 31, 2002, the City maintained approximately 54.36% of the Operating Fund in investments that mature in one year or less.

CITY OF OAKLAND
Operating Fund
Portfolio Master Summary
October 31, 2002

Investments	Book Value	Percent of Portfolio*	Average Term-Days	Days To Mat./Call	--- Yield To Maturity -	
					360 Equivalent	365 Equivalent
Federal Agency Issues-Coupon	68,806,582.69	47.68	1,540	251	4.874	4.942
LAIF-Bond Proceeds	30,339,826.95	21.03	1	1	2.663	2.700
Medium Term Notes	4,996,905.66	3.46	538	332	3.274	3.320
Money Market	14,310,000.00	9.92	1	1	1.647	1.670
Local Agency Investment Funds	25,000,000.00	17.32	1	1	2.535	2.570
Certificates of Deposit	850,000.00	0.59	192	100	1.933	1.960
Investments	\$ 144,303,315.30	100.00%	755	132	3.611	3.661

* rounded

Source: City of Oakland, Financial Services Agency, Treasury Division

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

Financial Obligations

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

General Obligation Debt. As of June 30, 2002, the City had outstanding a total of \$135,295,000 aggregate principal amount of general obligation bonds. The bonds are general obligations of the City; the City is obligated to levy ad valorem taxes upon all property that is within the City and which is subject to taxation by the City, for the payment of principal and interest.

\$12,000,000 City of Oakland General Obligation Bonds, Series 1991A (Measure K). On November 9, 1990, 66.8% of the voters passed a measure authorizing the City to issue \$60 million in general obligation bonds for the purposes of acquisition of open space and the rehabilitation, development and expansion of park and recreational facilities within the City. The 1991A Measure K Bonds were the first series to be issued under this authorization. On July 25, 2000, maturities from 2003 to 2015 were refunded via Series 2000E, leaving an outstanding balance of \$1.16 million.

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

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

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

\$45,420,000 City of Oakland General Obligation Bonds, Series 1997A (Measure I). On November 5, 1996, the electorate authorized this bond issue by a 77.6% vote, for the purpose of financing life enrichment improvements on various City-owned properties. These improvements include the repair, construction, acquisition and improvement of certain libraries, recreation centers and playing fields, the Oakland Zoo, the Oakland Museum and the Chabot Observatory and Science Center (now known as the "Chabot Space & Science Center").

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

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

\$38,000,000 City of Oakland General Obligation Bonds, Series 2002A (Measure G). On March 5, 2002, the electorate authorized the issuance of \$59 million in general obligation bonds. The purpose of the bonds are to acquire, renovate, improve, construct and finance existing and additional educational facilities for the Oakland Museum of California, the Oakland Zoo and the Chabot Space & Science Center.

The City issued the first series on November 6, 2002, in the amount of \$38,000,000. The Oakland Zoo will expend 40% of proceeds of the authorized bonds on the acquisition and construction of new exhibit areas, including, but not limited to the New Children's Zoo and the Wild California Exhibit. The Oakland Museum of California will expend 40% of the proceeds of the authorized bonds on architectural and structural improvements to its landmark building, enhancing visitor access, and increasing the educational facilities. The Chabot Science and Space Center will expend 20% of the proceeds of the authorized bonds on the acquisition and construction of a new education facility and an additional observation deck space.

Measure DD. On November 5, 2002, at the City's General Municipal Election the electorate approved an initiative measure authorizing the issuance of \$198,250,000 in general obligation bonds to finance, acquire, rehabilitate and construct improvements to recreational facilities, Lake Merritt, the Oakland Estuary, creeks, Lake Merritt Channel. The City anticipates issuing the bonds over a ten-year period.

Short-Term Obligations. The City implemented a short-term financing program in 1981 to finance general fund temporary cash flow deficits during the fiscal year (July 1 through June 30). The City has issued short-term notes for each of the last 12 Fiscal Years, including the issuance of \$53,965,000 Tax and

Revenue Anticipation Notes for the Fiscal Year ended June 30, 2003. The City has never defaulted on the payment of any of these notes.

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

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

Under an amended and restated lease agreement, which provides for the sublease of the Museum by the City, the City has agreed to make lease payments to the Agency through maturity of the certificates in 2012. The Certificates are Aaa/AAA rated by Moody's and S&P, respectively, as a result of the bond insurance policy provided by AMBAC Indemnity Corporation.

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

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

The Bonds comprise \$9,200,000 Fixed Rate Refunding Lease Revenue Bonds (Series A) and \$188,500,000 aggregate principal Variable Rate Lease Revenue Bonds (Series B). The Series A bonds are rated Aa3/AA- and the Series B bonds have long term ratings of Aa3/AA- and short-term ratings of A-1/P-1, by Moody's and S&P, respectively, based on a direct-pay letter of credit provided by Canadian Imperial Bank of Commerce.

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

On May 20, 2000, the Authority refunded the 1995 Series B bonds with its Lease Revenue Bonds (Oakland Coliseum Project) 2000 Refunding Series C (Tax-Exempt) bonds in the amount of \$150,800,000 and 2000 Refunding Series D (Taxable) bonds in the amount of \$50,500,000 (of which \$48,300,000 remains currently outstanding). The 1995 Series A bonds are still outstanding.

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

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

System and an irrevocable direct pay letter of credit relating to the Series A-2 bonds issued severally and not jointly by The Bank of New York and Allied Irish Banks, p.l.c., New York Branch.

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

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

\$103,945,000 Oakland Joint Powers Financing Authority Lease Revenue Bonds (Oakland Administration Buildings), Series 1996. These bonds were issued to finance, design, construct, rehabilitate and equip two buildings and a civic plaza that are at the heart of the administrative complex of the City of Oakland for a total project cost of \$102 million.

Under a lease agreement between the City and the Joint Powers Financing Authority, the City will make lease payments to use and occupy the property. In addition to a \$13 million cash contribution made by the City, proceeds of the bonds have been used to fund the Construction Fund, Capitalized Interest Fund, Reserve Fund, and costs of issuance.

The bonds, insured by AMBAC Indemnity Corporation and rated Aaa/AAA, by Moody's and S&P, respectively, are limited obligations of the Authority payable solely from lease revenues from the City, as lessee, to the Authority, as lessor, pursuant to a Lease Agreement, dated as of March 1, 1996.

\$187,500,00 Oakland Joint Powers Financing Authority, 1998 Series A-1/A-2. The 1998 bonds were issued by the Joint Powers Authority on August 3, 1998, to refund the City of Oakland's Special Refunding Revenue Bonds (Pension Financing), Series 1998 A. The bonds were sold in a variable-rate mode, in two series: \$131,500,000 Series A-1 and \$56,000,000 Series A-2, both with a final maturity of August 1, 2021. The bonds are limited obligations of the Authority, payable by base rental payments for the right to use and possession of a portion of the City's sewer system.

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

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

\$16,295,000 City of Oakland Refunding Certificates of Participation (Oakland Museum) 2002 Series A. The 2002 Series A Certificates were issued on March 12, 2002. The proceeds of the 2002 Series A Certificates were applied to fund an escrow to refund and legally defease all \$15,900,000 of the aggregate principal amount of the outstanding Refunding Certificates of Participation (Oakland Museum) 1992 Series A maturing April 1, 2012 and to pay costs of issuance. Since completion of this financing, \$11,688,025 of the 1992 A Certificates remain outstanding and are payable from Lease Payments on a parity with the 2002 Series A Certificates.

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

\$195,636,449.10 *City Of Oakland, Taxable Pension Obligation Bonds, Series 2001.* On October 17, 2001, The City of Oakland issued \$195,636,449.10 Taxable Pension Obligation Bonds, Series 2001. The Series 2001 Bonds were issued (1) to provide funds to purchase for cancellation and to legally defease a portion of the City's outstanding Taxable Pension Obligation Bonds, Series 1997 and (2) to pay costs of issuance. The issuance of the Series 2001 Bonds was part of a plan of finance undertaken by the City to extend the maturity of the Bonds to reduce annual debt service on the 1997 Bonds and to minimize the need for the City to use general fund revenues to pay such debt service on the 1997 and 2001 Bonds.

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

Estimated Direct And Overlapping Debt

Contained within the City are numerous overlapping local agencies providing public services. These local agencies have outstanding bonds issued in the form of general obligation, lease revenue, certificates of participation, and special assessment bonds. The direct and overlapping debt of the City as of June 1, 2002, according to California Municipal Statistics, Inc., is shown below. The City makes no assurance as to the accuracy of the following table, and inquiries concerning the scope and methodology of procedures carried out to complete the information presented should be directed to California Municipal Statistics, Inc. Self-supporting revenue bonds, tax allocation bonds and non-bonded capital lease obligations are excluded from this debt statement.

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CITY OF OAKLAND
Statement of Direct and Overlapping Debt, as of June 30, 2002

2001-02 Assessed Valuation: \$23,302,961,991
 Redevelopment Incremental Valuation: 3,051,729,606
 Adjusted Assessed Valuation: \$20,251,232,385

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 2/1/02</u>
East Bay Municipal Utility District	20.715%	\$ 1,155,897
East Bay Municipal Utility District, Special District No. 1	52.663	23,145,389
East Bay Regional Park District	10.935	18,310,111
Peralta Community College District	54.619	61,440,913
Berkeley and Castro Valley Unified School Districts	0.006 & 0.062	21,311
Oakland Unified School District	99.996	329,315,433
San Leandro Unified School District	19.011	4,170,063
City of Oakland	100.000	133,295,000
City of Oakland 1915 Act Bonds	100.000	8,875,000
City of Emeryville 1915 Act Bonds	4.183	526,640
TOTAL GROSS DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$580,255,757
Less: East Bay Municipal Utility District (100% self-supporting)		<u>1,155,897</u>
TOTAL NET DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$579,099,860

<u>DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>		
Alameda-Contra Costa Transit District Certificates of Participation	21.567%	\$ 4,964,723
Alameda County and Coliseum Authority General Fund Obligations	18.276	105,004,545
Alameda County Pension Obligations	18.276	81,797,562
Alameda County Board of Education Public Facilities Corporation	18.276	803,230
Chabot-Las Positas Community College District Certificates of Participation	2.241	98,044
Oakland Unified School District Certificates of Participation	99.996	48,688,052
San Leandro Unified School District Certificates of Participation	19.011	3,087,386
Castro Valley Unified School District Certificates of Participation	0.062	1,655
City of Oakland and Coliseum Authority General Fund Obligations	100.000	629,385,525
City of Oakland Pension Obligations	100.000	<u>419,464,842</u>
TOTAL DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$1,293,295,564

GROSS COMBINED TOTAL DEBT	\$1,873,551,321
NET COMBINED TOTAL DEBT	\$1,872,395,424

1. Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations

Ratios to 2001-02 Assessed Valuation:

DIRECT DEBT (\$133,295,000)..... 0.57%

Total Gross Direct and Overlapping Tax and Assessment Debt..... 2.49%

Total Net Direct and Overlapping Tax and Assessment Debt..... 2.49%

Ratios to Adjusted Assessed Valuation:

COMBINED DIRECT DEBT (\$1,182,145,367).....5.84%

Gross Combined Total Debt.....9.25%

Net Combined Total Debt.....9.25%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/02: \$831.665

Source: California Municipal Statistics

Property Taxation

Ad Valorem Property Taxes. City property taxes are assessed and collected by the County of Alameda (the "County") at the same time and on the same rolls as are County, school and special district property taxes. The County is permitted under State law to pass on costs for certain services provided to local government agencies including the collection of property taxes. The County imposed a fee on the City of approximately 0.52% of taxes collected for tax collection services provided in Fiscal Year 2001-2002.

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

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

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

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

CITY OF OAKLAND ASSESSED VALUATIONS ¹ (in \$000's)

Fiscal Year	Local Secured	Utility	Unsecured	Total
1997-98	\$15,265,600	\$80,139	\$2,413,259	\$17,758,998
1998-99	15,927,351	78,976	2,670,736	18,677,063
1999-00	16,993,037	64,608	2,518,336	19,575,981
2000-01	18,453,636	62,398	2,574,565	21,090,599
2001-02	20,529,197	53,823	2,719,940	23,302,960
2002-03	22,468,401	49,548	2,655,756	25,173,705

¹ Net of exemptions other than homeowners' exemptions

Source: Alameda County Auditor-Controller.

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

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

In the case of unsecured property taxes, a 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue beginning November 1st of the fiscal year, and a lien is recorded against the assessee. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on specific property of the taxpayer; (3) filing a certificate of delinquency for record in the County Recorder's Office in order to obtain a lien on specified property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

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

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

**CITY OF OAKLAND
SECURED TAX LEVY
AND AMOUNTS UNCOLLECTED
(in \$000's)**

Year Uncollected	Secured Tax Levy	Amount Uncollected as of June 30	Percent as of June 30
1996	\$94,756	\$5,368	5.67%
1997	95,519	5,554	5.82
1998	106,732	5,696	5.34
1999	105,036	6,411	6.10
2000	117,765	6,757	5.74
2001	117,129	6,257	5.34

Source: Alameda County Auditor-Controller

Tax Rates. The City is divided into thirty-three Tax Rate Areas. The largest Tax Rate Area within the City is Tax Rate Area 17-001, which has a total assessed valuation of \$12,748,989,870, or 60.45% of the City's total assessed valuation. A ten-year history of the property tax rates received by the City and the County of Alameda is shown below.

**CITY OF OAKLAND
PROPERTY TAX RATES**

Fiscal Year Ending June 30	City of Oakland	Alameda County	Others ¹	Total
1992	0.5198	0.3086	0.4092	1.2376
1993	0.5222	0.3086	0.4130	1.2438
1994 ²	0.4690	0.1555	0.6224	1.2469
1995	0.4643	0.1597	0.6169	1.2409
1996	0.4627	0.1595	0.6412	1.2634
1997	0.4468	0.1575	0.6412	1.2455
1998	0.4932	0.1567	0.6434	1.2933
1999	0.4568	0.1570	0.6370	1.2508
2000	0.5059	0.1570	0.6151	1.2780
2001	0.4694	0.1570	0.6775	1.3039
2002	0.4856	0.1570	0.6817	1.3243

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

² Educational Revenue Augmentation Fund Shift began in 1994.

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

Principal Property Taxpayers

A summary of the City's fiscal year 2001–2002 largest secured taxpayers is presented below:

**CITY OF OAKLAND
TOP TEN TAXPAYERS, 2001 – 2002¹**

Property Owner	Type of Business	2001-02 Assessed Valuation	Percentage of Total Local Secured Valuation ²
1. Oakland City Center LLC	Property Management	\$199,804,285	0.98%
2. Prentiss Properties Acquisition Prtnr	Property Management	182,882,680	0.89
3. Kaiser Foundation Health Plan, Inc.	Health Services	138,756,622	0.68
4. Kaiser Center Inc.	Property Management	107,021,333	0.52
5. 1800 Harrison Foundation	Property Management	104,206,152	0.51
6. Clorox Company	Household Products	100,415,242	0.49
7. LMP / LLC	Property Management	95,900,011	0.47
8. KSL Claremont Resort, Inc.	Hotel	76,212,147	0.37
9. Owens Illinois Glass Container, Inc.	Industrial	71,710,775	0.35
10. Webster Street Partners, Ltd.	Property Management	67,050,200	0.33
Total - Top Ten		\$1,143,959,447	5.59%

¹ Net of Exemptions.

² 2001-02 Local Secured Assessed Valuation: \$20,456,915,132 (net of exemptions other than homeowners exemptions)

Source: California Municipal Statistics

Financial and Accounting Information

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

Government Funds

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

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

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

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

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

Proprietary Funds

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

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

Fiduciary Funds

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

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

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

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

General Fund Revenues and Expenditures

The following table describes revenues and expenditures for the General Fund Group for five fiscal years. Fiscal Year 2001 revenues and expenditures are audited and include intra- and inter-departmental amounts and therefore are not comparable with previous fiscal years. The City's fiscal year ends on June 30.

The City anticipated an estimated shortfall of \$15.4 million for the Fiscal Year 2001-02. To ensure a balance between spending and revenue collection by the end of the fiscal year, the City implemented several cost containment measures in March 2002, mainly related to freezes of vacant positions. In June 2002, the City implemented changes to its Fiscal Year 2002-03 budget to eliminate an estimated \$28.4 million shortfall. Major balancing measures included elimination of vacant positions, mandatory furloughs, and revenue enhancements (land sales, fee increases, and reimbursements).

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**CITY OF OAKLAND
REVENUES AND EXPENDITURES
GENERAL FUND GROUP
(in \$000s)**

Fiscal Year Ending June 30:	1997	1998	1999	2000	2001
<i>Revenues</i>					
Taxes ¹	\$221,793	\$237,658	\$258,853	\$282,322	\$314,731
Licenses and Permits	7,097	7,690	8,043	9,088	11,418
Traffic Fines and Various Penalties	9,506	11,873	13,224	14,129	16,150
Interest Income	8,702	5,793	4,785	10,019	6,530
Revenue from Current Services	32,008	30,920	34,517	36,506	40,962
Grant Revenue	7,443	6,242	6,695	7,265	5,385
Other Revenue, incl. Transfers	8,955	14,730	27,732	8,813	11,056
Total Revenues	\$295,504	\$314,902	\$353,849	\$368,142	\$406,232
<i>Expenditures</i>					
General Government ²	\$33,078	\$ 33,970	\$ 38,685	\$ 41,245	\$44,110
Public Safety ³	145,839	158,948	166,389	190,782	207,392
Public Works ⁴	41,552	29,359	26,070	25,050	24,185
Life Enrichment ⁵	25,038	26,565	28,874	31,749	37,149
Economic and Community Development ⁶	1,629	14,775	18,403	18,954	20,288
Payment to Unfunded Pension	440,409				-
Other ⁷	16,764	18,180	16,478	23,462	33,112
Transfers/other sources and uses	(410,044)	35,847	2,543	581	364
Total Expenditures	\$294,265	\$317,644	\$297,442	\$331,823	\$366,600
Excess of Revenues and Other Sources over Expenditures and Other Uses	\$1,239	\$2,738	\$156,407	\$36,319	\$39,362

Source: City of Oakland, Financial Services Agency

¹ Includes property, state and local taxes.

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

³ Includes police and fire services.

⁴ Previously classified in Public Works, the Office of Planning and Building amount was reclassified to Community and Economic Development in FY 1997-1998.

⁵ Includes Parks and Recreation, Library, Museum, Aging and Health, and Human Services.

⁶ Includes Planning and Building (as of FY1997-98), Housing and Neighborhood Development, and Economic Development and Employment.

⁷ Includes capital outlays and certain debt service charges; does not include rent payable on lease obligations. In addition, approximately \$72.9 million in debt service charges were paid from sources outside the General Fund.

Labor Relations

City employees are represented by seven labor unions and associations, identified in the table below, the largest one being the Service Employees International Union (Local 790), which represents approximately 47% of all City employees. Approximately 90% of all City employees are covered by negotiated agreements, as detailed below. Memoranda of Understanding effective July 1, 2000, were entered into with all non-sworn employee organizations. The City has never experienced an employee work stoppage. Pursuant to the Meyers-Milas-Brown Act (California Government Code Section 3500 et seq.), the City continues to meet and confer with the exclusive bargaining representatives of the City employees.

CITY OF OAKLAND LABOR RELATIONS (As of August 2002)

Employee Organization/Bargaining Unit	Number of Employees	Contract Termination
International Association of Firefighters (Local 557)	481	6/30/07
International Brotherhood of Electrical Workers (Local 1245)	28	6/30/02*
International Federation of Professional and Technical Engineers (Local 21)/Units A, W, and F	660	6/30/02*
IFPTE, Local 21 Units H (Supervisors) & M (Managers)	375	6/30/02*
IFPTE, Local 21 (Deputy City Attorneys)	29	6/30/02*
Oakland Police Officers Association	779	6/30/06
Service Employees International Union (Local 790)/full-time	1,479	6/30/02*
Service Employees International Union (Local 790)/part-time	1,317	6/30/02*
Ranger Association	21	6/30/06

* The City is in the process of negotiating new contracts with these Unions.

Source: City of Oakland, Office of Personnel Resource Management

Retirement Programs

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

As of June 30, 2002, PFRS covered 26 current employees and 1,464 retired employees. In November, 2000, the voters of the City amended the City Charter to give active members of the Retirement System the option to terminate their membership and transfer to the California Public Employees’ Retirement System (“PERS”) upon certain conditions, including the Retirement Board authorizing a transfer to PERS of funds held by the Retirement System representing City and employee contributions to the Retirement System

for each member who exercises such option to transfer. Active members of PFRS decided on October 13, 2001, whether to transfer. As a result, 104 members transferred to PERS.

Effective July 1, 1976, the City began providing for and funding an amount equal to the annual normal service cost of all PFRS participants and the amortization of unfunded actuarial accrued liability ("UAAL") as of that date over a forty-year period. On June 7, 1988, voters approved a City measure to extend the amortization period of the unfunded benefits to fifty years, ending in 2026. In accordance with these voter-approved measures, the City annually levies an ad valorem tax (the Tax Override) on all property within the City subject to taxation by the City to help fund the UAAL. For fiscal year 2002, the City has levied an ad valorem property tax at the rate of 0.1575% for this purpose.

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

For the fiscal year ended June 30, 2002, contributions to PFRS totaling \$297,645 (no employer contributions; all \$297,645 contributed by employees) were made in accordance with actuarially determined contribution requirements. Through the Series 1997 Bond financing in fiscal year 1996-97, the City made a payment of \$417,072,300 to PFRS to offset a portion of its then UAAL for the 14-year period ending June 30, 2011. The City's actuaries do not make an allocation of the contribution amount between normal cost and the UAAL because the PFRS plan is closed. An actuarial valuation on the PFRS benefit plan is conducted every two years with the most recent complete valuation conducted for the period ended June 30, 2000.

The Oakland Municipal Employees Retirement System ("OMERS") is administered by the City and covers two active nonuniformed employees hired prior to September 1, 1970 who have not elected to transfer to the PERS as well as 151 retired employees. For the fiscal year ended June 30, 2002, the City, in accordance with actuarially determined contribution requirements, did not make contributions to OMERS as the plan is fully funded.

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

For accounting purposes, employees covered under PERS are classified as either miscellaneous employees or safety employees. City miscellaneous employees and City safety employees are required to contribute 7% and 9%, respectively, of their annual salary to PERS. The City's contribution rates for the fiscal year ending June 30, 2002 was 0.0% for miscellaneous employees. On October 13, 2001, the collective bargaining agreement for safety employees was amended to allow the transfer of 104 PFRS firefighters to PERS and to provide 3.0% at 55 retirement benefits for fire department members. As a result of the amendments, the City's contribution for safety employees increased from 8.488% to 18.446%. The City pays the entire amount of its employees contribution rate for miscellaneous and safety employees, including the annual contribution of 7% and 9% to PERS. As of June 30, 2000, the pension benefit obligation for the City miscellaneous employees was overfunded by \$178.3 million.

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

Economic Highlights

The City occupies approximately 53.8 square miles, with approximately 19 miles of coastline on the San Francisco Bay in Northern California. The City's convenient access to mass transit, freeways, rail lines and airports; its favorable climate and environmental quality and multiple cultures; its proximity to well regarded universities and research institutions; and its diverse employee base all contribute to the cosmopolitan character of the City and have made it a center of commerce in the Bay Area.

The City's economic base historically has been predominantly industrial. Over the past several years, there have been significant gains in diversifying the City's economic base. Commercial and service-oriented sectors have come to play a larger role in the economy. The City has embraced an aggressive economic development strategy surrounding five primary business clusters: (1) biotechnology/healthcare, (2) telecommunications, (3) software/multimedia, (4) food processing, and (5) transportation.

The City of Oakland continues to enjoy growth in commercial, residential and mixed-use development. In May 2002, the City of Oakland was ranked 8th place in Forbes Magazine's "Best Places for Business" nationwide survey of 200 large metropolitan areas. In April 2001, Newsweek Magazine ranked the City in its list of top 10 technology cities. Selected highlights of this development are summarized below.

Housing Development. The "10K initiative" is a multi-phase program to develop housing for 10,000 new residents or approximately 6,000 new units in downtown Oakland by 2004. This program includes offering City and Redevelopment Agency owned property to developers and aggressively marketing downtown sites. The City is also encouraging the development of 300 privately owned properties, which include vacant lots, parking lots and vacant or underutilized buildings. Private and Agency projects combined include: 721 units in 6 completed projects; 607 units in 5 projects under construction; 814 units in 5 projects with planning approvals (including 3 agency projects); 795 units in 5 projects submitted for planning approval; and 1,797 units in 8 projects in discussion with the City's Planning Department. This equals 4,734 units, or 79% of the goal of the 10k initiative.

Commercial Development. For the first time in more than 10 years, developers are building office towers in downtown Oakland: construction of over 1.5 million square feet of new office space and renovation of over 1.0 million square feet of existing office space is currently underway.

The downtown Oakland area added a new 162-room Marriott Courtyard hotel in Spring 2002.

To enhance the downtown for retail, the City is building \$7.0 million worth of sidewalk improvements and pedestrian and transit amenities along Broadway between 9th and 17th Streets; another \$12.2 million has been budgeted for public improvements, façade improvement programs, site development, and merchant assistance for neighborhood shopping areas.

Downtown technology improvements include a new \$5 billion fiber optic network investment by Pacific Telesis.

Commerce/Transportation

Approximately \$1.4 billion will be spent over the next five years on the expansion and renovation of the Oakland International Airport, including the renovation of all terminals, a new parking garage and new roadways. The Oakland International Airport (the "Airport") has shown steady growth in passenger traffic; the improvements will enable the Airport to handle approximately 13.8 million passengers per year.

In May 2002, the Port of Oakland completed construction of a Joint Intermodal Terminal, with four new marine terminals.

The Oakland Airport Connector is planned as a self-propelled automated aerial guideway system, traveling 3.2 miles along the median of Hegenberger Road from the Coliseum BART station to the Oakland International Airport. Completion of the Connector will support inter-regional linkages between national and international destinations and the Oakland International Airport, with enhanced regional linkages to BART and the proposed Capital Corridor (AMTRAK) passenger rail station. In addition to the inter-regional benefits, the two intermediate stations to be constructed along the Connector's alignment are expected to encourage high quality transit-oriented development generating over 4,000 new permanent jobs and property tax revenue that will be used to help fund the Connector's two intermediate stations. Construction of the Oakland Airport Connector is scheduled to begin by 2004 and be complete by 2008.

The City was awarded nearly \$4.3 million in state and local transportation grants for the acquisition, engineering, design and construction of the Coliseum intercity rail platform along the Union Pacific rail line between the Coliseum Complex and the Coliseum BART station. The projected completion is tentatively scheduled for the 4th quarter of 2003.

Sources: City of Oakland, Community and Economic Development Agency, Port of Oakland, and City of Oakland, Treasury Division

Population

The Demographic Research Unit of the California Department of Finance estimated the City's population on January 1, 2002, at 408,800. This figure represents 27.5% of the corresponding County figure and 1.17% of the corresponding State figure. The City's population has grown over 20% in the twenty-two years since 1980. The following table illustrates the City's population relative to the population of Alameda County and the State of California.

POPULATION

Year	City of Oakland	County of Alameda	State of California
1960	367,548	908,209	15,717,204
1970	361,561	1,071,446	19,953,134
1980	339,337	1,105,379	23,667,902
1990	371,100	1,276,702	29,473,000
1991	378,200	1,294,700	30,321,000
1992	378,200	1,310,500	30,982,000
1993	379,700	1,326,300	31,552,000
1994	381,400	1,338,400	31,952,000
1995	381,400	1,344,200	31,910,000
1996	383,900	1,356,300	32,223,000
1997	389,700	1,375,900	32,609,000
1998	397,800	1,408,100	33,252,000
1999	399,900	1,433,800	33,773,000
2000	402,100	1,454,300	34,336,000
2001	403,500	1,462,900	34,385,000
2002	408,800	1,486,600	35,037,000

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

Employment

Over the past several years, both the City's labor force and employment levels have gradually grown; the unemployment rate dropped through 2000, but has increased since then. The following table shows the labor patterns in the City, the State of California, and the United States as of June 1995 through June 2002.

**CITY OF OAKLAND, STATE OF CALIFORNIA AND UNITED STATES
CIVILIAN LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT
As of June 1995 through October 2002**

Year and Area	Labor Force	Employment	Unemployment	Unemployment Rate
1995				
City	180,540	164,250	16,290	9.0%
State	15,350,800	14,145,700	1,205,100	7.9
United States	131,949,000	124,522,000	7,427,000	5.6
1996				
City	179,350	165,310	14,040	7.8
State	15,475,500	14,355,400	1,120,100	7.2
United States	133,697,000	126,602,000	7,095,000	5.3
1997				
City	183,480	170,710	12,770	7.0
State	15,939,900	14,939,900	999,300	6.3
United States	136,215,000	129,416,000	6,799,000	5.0
1998				
City	185,530	173,410	12,120	6.5
State	16,321,600	15,360,000	965,500	5.9
United States	137,436,000	131,227,000	6,209,000	4.5
1999				
City	188,100	176,800	11,300	6.0
State	16,566,700	15,706,700	860,000	5.2
United States	139,314,000	133,388,000	5,926,000	4.3
2000				
City	194,000	183,700	10,300	5.3
State	17,139,300	16,262,800	876,500	5.1
United States	140,757,000	135,183,000	5,574,000	4.0
2001				
City	200,800	186,300	14,500	7.2
State	17,382,600	16,488,200	894,400	5.1
United States	141,354,000	134,932,000	6,422,000	4.5
2002 ¹				
City	206,250	185,340	20,910	10.1
State	17,660,800	16,573,600	1,087,200	6.2
United States	142,878,000	135,237,000	7,640,000	5.3

¹ Preliminary

Source: California State Employment Development Department and U.S. Department of Labor, Bureau of Labor Statistics

Major Employers. As an integral part of the Bay Area, the City of Oakland benefits from the wide variety of job opportunities available throughout the area. Summarized below are the City's largest private and public employers as of June 30, 2002.

TOP TEN PUBLIC EMPLOYERS
(as of June 30, 2002)

Employer	Type of Organization	Number of Employees*
U.S. Federal Government (Civilian)	Government Operations	10,300
County of Alameda	Government Operations	9,738
Oakland Unified School District	Education	7,500
City of Oakland	Government Operations	4,288
State of California (not including University of California)	Government Operations	4,200
Bay Area Rapid Transit District	Public Transportation	2,800
Alameda Contra Costa Transit	Public Transportation	2,540
East Bay Municipal Utility District	Utility/Water/Wastewater	1,900
University of California (Office of the President)	Education	1,000
United States Post Office	Mail Services	950

* Approximate figures

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

TOP TEN PRIVATE EMPLOYERS
(as of June 30, 2002)

Employer	Type of Organization	Number of Employees*
Kaiser Permanente	Health Services	6,254
Alta-Bates Summit Medical Center	Health Services	2,254
Southwest Airlines	Air Transportation	2,200
Federal Express Corporation	Air Courier Services	1,900
Children's Hospital Medical Center	General Medical Surgical Hospital	1,700
Clorox Company	Household Products	1,400
United Parcel Service	Courier Services	1,250
Pacific Gas and Electric	Utility	670
Alaska Airlines	Air Transportation	600
World Savings & Loan	Financial Institution	552

* Approximate figures

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

Commercial Activity

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

**CITY OF OAKLAND
TAXABLE TRANSACTIONS 1996-2001**

Year	Total Sales
1996	\$2,596,521,000
1997	2,767,367,000
1998	2,817,183,000
1999	3,085,079,000
2000	3,453,695,000
2001 ¹	2,459,752,000

¹ Through third quarter of 2001; most current information available.

Source: State Board of Equalization, Department of Research and Statistics

Construction Activity

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

**CITY OF OAKLAND
BUILDING PERMITS AND VALUATIONS 1996-2001**

Year	Number of Permits Issued	Authorized New Dwelling Units	Residential Valuation (In Thousands)	Nonresidential Valuation (In Thousands)
1996	\$ 12,154	180	\$ 79,278	\$ 99,844
1997	12,459	176	39,425	202,995
1998	12,545	233	121,006	302,080
1999	14,860	181	175,115	117,140
2000	16,725	542	272,170	195,270
2001	16,879	954	138,570	481,635

Source: Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2001

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Median Household Income

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

CITY OF OAKLAND AND ALAMEDA COUNTY MEDIAN HOUSEHOLD EFFECTIVE BUYING INCOME 1996-2001¹ Median EBI

Year	City of Oakland	Alameda County	California	United States
1996	\$28,788	\$39,658	\$35,216	\$33,482
1997	29,784	41,127	36,483	34,618
1998	30,388	41,715	37,091	35,377
1999	32,751	44,730	39,492	37,233
2000	38,602	50,631	44,464	39,129
2001	39,567	54,076	43,532	38,365

¹ Most recent data available.

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

Litigation

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

Oakland Raider Litigation. On September 29, 1997, the City, the County of Alameda and the Oakland Alameda County Coliseum Authority (the “Authority”), filed suit against the Oakland Raiders and A.D. Football, Inc. (collectively “Raider Management”) for breach of contract, declaratory relief and interference with prospective economic advantage. The suit asked for compensatory and punitive damages with regard to revenues lost as a result of actions by Raider Management, and for declaratory relief concerning (1) the parties’ rights, duties and obligations under a Master Agreement concerning the naming rights for the Oakland Stadium, (2) whether Raider Management’s claims of fraudulent inducement have merit and whether Raider Management has the right to rescind or terminate the Master Agreement, and (3) Visiting Team Share Agreement concerning the reimbursement of legal fees and costs. Raider Management filed a cross-complaint seeking the right to rescind the Master Agreement and seeking damages for breaches of the Master Agreement and for fraudulent inducement. In a series of decisions, the court has ruled that (1) the Raiders cannot rescind or terminate the Master Agreement; (2) the East Bay Entities do not have claims for damages, and (3) the Raiders do not have claims for tort damages against the City, the County or the Authority. Raider Management continues to have a claim for damages of \$1.1 billion related to claims of fraudulent inducement against the Oakland Alameda County Coliseum, Inc. and one of its former directors. The Authority, the City, and the County have agreed to indemnify this former director against the Raider Management claims. Raider Management also has several breach of contract claims against the City, County, the Authority and Oakland Alameda County Coliseum, Inc. These claims as currently pleaded are worth less than \$5 million. The City is optimistic that all of the Raider Management claims will fail. However, the City cannot predict whether the Raider Management will be awarded damages at trial. The July 2002 trial date has been vacated and a new trial date has not been ordered.

Golden State Warriors Arbitration. In November 1998, the Authority brought an arbitration proceeding against the Golden State Warriors (the “Warriors”) to collect: (1) past due rents for use of the Oakland arena; (2) past due amounts of revenue sharing required by the License Agreement; and

(3) facility use fees collected by the Warriors for the Authority. The arbitration demand also seeks damages for the Warriors' breach of the License Agreement for failure to sell seat rights in the new Arena, a major source of revenue to the Authority. The arbitrator found on October 6, 1999, that the Warriors owed more than \$17 million to the Authority, net of some \$720,000 in offsets granted to the Warriors. A second phase of the arbitration was decided in July 2000, when the arbitrator decided that the Warriors breached the License Agreement by failing to sell seat rights in the new Arena. However, the arbitrator awarded no damages to the Authority because he determined the damages could not be proven. The San Francisco Superior Court confirmed the arbitrator's award. The Warriors appealed the confirmation and in August 2002, that appeal was decided in favor of the Authority. The Warriors petition for certiorari to the California Supreme Court was denied in November 2002 and the Phase I Award is due and payable immediately. In January 2002, an arbitrator ruled that the Warriors are required by the License Agreement to pay a 5% facility fee on ticket revenue. In doing so, he rejected the Warriors' claim that the facility fee is an illegal tax. The arbitrator awarded the Authority \$1.5 million that has yet to be paid. It is expected that this award will also require Superior Court confirmation and could be appealed. The Authority and the Warriors have expressed interests in informally resolving this matter and initial settlement discussions have begun.

"Riders" Litigation. The City is involved in federal civil rights litigation, in which allegations have been made that individual Oakland Police Officers and the Oakland Police Department violated plaintiffs' civil rights. The litigation is colloquially known as the "Riders" litigation. Currently 15 individual cases have been filed in U.S. District Court, on behalf of 121 plaintiffs. Allegations include charges of false arrest, false imprisonment and/or use of excessive force. Over 40 defendants have been named, including four officers who have since been terminated from the Police Department because of inappropriate conduct towards plaintiffs.

The individual cases have been consolidated. Plaintiffs seek \$11 million in damages. The City is defending the allegations and is working to resolve the matters through negotiated settlement. Due to the unspecified nature of the costs of implementing sweeping reforms in the Police Department, and the City's ongoing defense and settlement efforts, the City's potential total liability in these matters is difficult to estimate. No trial date has been set and the parties are continuing their efforts to negotiate settlement.

Business Tax Litigation. In Kaiser Aluminum & Chemical Corporation v. City of Oakland, Alameda County Superior Court Case No. 822752-0, Kaiser seeks a refund of business taxes based upon gross rental receipts that it paid on its own behalf and on behalf of its lessor for the 1994 through 2000 tax years, in the amount of \$2,953,875. It alleges that the City's Business Tax Ordinance violates the commerce clause in that it is internally inconsistent, and does not fairly apportion the business activity of out-of-City landlords. Cross-motions for summary judgment and summary adjudication were denied.

A group of Pacific Bell entities and other businesses have also challenged the City's Business Tax Ordinance in Pacific Bell, et. al. v. City of Oakland, Alameda County Superior Court Case No. 823263-0. The Plaintiffs allege that the Business Tax Ordinance is unconstitutional due to internal inconsistency and discriminatory provisions. Plaintiffs in this action are engaged in a variety of business activities. They seek refunds of all business taxes paid between 1996 and 2001 totaling about \$3.1 million. The City settled this matter for \$2.2 million. The City paid \$1.5 million during the fiscal year 2001/2002. The remaining \$700,000 was paid on July 1, 2002.

The Kaiser case is being vigorously contested. Trial began on October 2, 2002. The Court will hear further briefing on the matter on November 22, 2002. If plaintiffs prevail, the City could be obligated to refund all or a portion of the Business Tax collected in the challenged categories. The City collected \$15.2 million in the challenged categories in fiscal years 1998-2001. Under a worse case scenario, the City might also be prohibited from future collections unless and until any constitutional deficiencies are resolved. The City is acting affirmatively to minimize its exposure in this litigation.

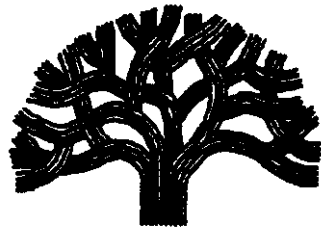
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APPENDIX B

**REDEVELOPMENT AGENCY AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

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REDEVELOPMENT AGENCY
OF THE
CITY OF OAKLAND



FINANCIAL STATEMENTS
and
SUPPLEMENTAL INFORMATION

FISCAL YEAR ENDED JUNE 30, 2001

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
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WILLIAMS, ADLEY & COMPANY, LLP
Certified Public Accountants
Management Consultants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying general purpose financial statements of the Redevelopment Agency of the City of Oakland (the "Agency"), a component unit of the City of Oakland, California, as of and for the year ended June 30, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these general purpose 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Redevelopment Agency of the City of Oakland, as of June 30, 2001, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in note 2 to the general purpose financial statements, the Agency adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* and GASB Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*.



WILLIAMS, ADLEY & COMPANY, LLP

Management Consultants
Certified Public Accountants

In accordance with *Government Auditing Standards*, we have also issued a report dated December 31, 2001 on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements of the Agency, taken as a whole. The supplemental financial information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects, in relation to the general purpose financial statements taken as a whole.

Williams, Adley & Company, LLP

Oakland, California
December 31, 2001

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUP
June 30, 2001

	<u>Governmental Fund Types</u>			<u>Account Group</u>
	<u>Capital Project</u>	<u>Debt Service</u>	<u>Redevelopment Planning Fund/ West Oakland</u>	<u>General Long- Term Obligations</u>
ASSETS AND OTHER DEBITS				
Cash	\$ 3,525,670	\$ -	\$ 100	\$ -
Restricted cash and investments with fiscal agent	34,350,952	15,794,316	-	-
Restricted cash in bank	4,220,452	-	-	-
Pooled cash and investments:				
Accrued interest receivable	-	-	1,180,165	-
Investments	-	-	84,499,695	-
Less: Other funds interests	-	-	(85,679,860)	-
Equity in pooled cash and investments	79,540,992	3,386,623	2,752,245	-
Tax increment receivable	1,618,769	23,263	-	-
Accrued interest receivable	1,819,510	3,798	-	-
Due from the US Environmental Protection Agency	6,173	-	-	-
Due from the City of Oakland	20,462,802	-	374,621	-
Direct financing lease receivable- City of Oakland	-	28,845,817	-	-
Accounts receivable (net of \$200,000 allowance for doubtful accounts)	282,895	-	-	-
Notes receivable, net	14,997,788	-	-	-
Property held for resale	53,506,163	21,446,577	-	-
Amount available in debt service fund	-	-	-	16,844,457
Amount to be provided for retirement of general long-term obligations	-	-	-	243,604,659
Capital contribution	1,000	-	-	-
TOTAL ASSETS AND OTHER DEBITS	\$ 214,333,166	\$ 69,500,394	\$ 3,126,966	\$ 260,449,116

See accompanying notes to general purpose financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUP
June 30, 2001

	<u>Governmental Fund Types</u>			<u>Account Group</u>
	<u>Capital Project</u>	<u>Debt Service</u>	<u>Redevelopment Planning Fund/ West Oakland</u>	<u>General Long-Term Obligations</u>
LIABILITIES				
Accrued debt service	\$ -	\$ 3,417,579	\$ -	\$ -
Accrued liabilities	4,185,583	-	19,612	-
Certificates of participation	-	-	-	28,845,817
Bonds payable	-	-	-	218,648,004
Advances from the City of Oakland	-	-	-	12,955,295
Due to the City of Oakland	24,182,892	20,380,530	140,124	-
Due to other government	508,870	-	-	-
Refundable deposits	268,564	-	-	-
Deferred revenue	57,585,850	28,857,828	374,621	-
Other liabilities	150,000	-	6,281	-
TOTAL LIABILITIES	<u>86,881,759</u>	<u>52,655,937</u>	<u>540,638</u>	<u>260,449,116</u>
FUND BALANCES				
Fund balances:				
Reserved for debt service	-	16,844,457	-	-
Reserved for property held for resale	26,674,382	-	-	-
Reserved for approved capital projects/activities	100,777,025	-	-	-
Unreserved - designated for future capital projects/activities	-	-	2,586,328	-
TOTAL FUND BALANCES	<u>127,451,407</u>	<u>16,844,457</u>	<u>2,586,328</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 214,333,166</u>	<u>\$ 69,500,394</u>	<u>\$ 3,126,966</u>	<u>\$ 260,449,116</u>

See accompanying notes to general purpose financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL
FUND TYPES
June 30,2001

	<u>Governmental Fund Types</u>		
	<u>Capital Project</u>	<u>Debt Service</u>	<u>Redevelopment Planning Fund/ West Oakland</u>
REVENUES			
Tax increment	\$ 32,639,541	\$ 706,513	\$ -
Interest on restricted cash and investments with fiscal agent	3,338,416	814,130	-
Interest on pooled cash and investments	4,092,191	114,934	141,257
Interest on notes receivable	209,182	-	19,623
Interest and principal on direct financing lease receivables City of Oakland	-	4,950,817	-
Rents and reimbursements	1,841,368	-	-
Proceeds from sale of land	3,959,595	-	-
Other	941,698	-	852,702
TOTAL REVENUES	<u>47,021,991</u>	<u>6,586,394</u>	<u>1,013,582</u>
EXPENDITURES			
Debt Service:			
Retirement of long-term debt	-	10,440,000	-
Interest	-	17,655,381	-
Operation and management of acquired property	1,899,727	-	-
Site clearance and toxics remediation	865,591	-	-
Project improvements	20,247,327	-	-
General and administrative	10,825,063	-	-
Other	2,786,733	29,977	170,038
TOTAL EXPENDITURES	<u>36,624,441</u>	<u>28,125,358</u>	<u>170,038</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	10,397,550	(21,538,964)	843,544
OTHER FINANCING SOURCES (USES)			
Operating transfers in	142,063	23,907,905	-
Operating transfers out	(23,907,905)	(142,063)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(23,765,842)</u>	<u>23,765,842</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(13,368,292)	2,226,878	843,544
FUND BALANCES AT BEGINNING OF YEAR	<u>140,819,699</u>	<u>14,617,579</u>	<u>1,742,784</u>
FUND BALANCES AT END OF YEAR	<u>\$ 127,451,407</u>	<u>\$ 16,844,457</u>	<u>\$ 2,586,328</u>

See accompanying notes to general purpose financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2001

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

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

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

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

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

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

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

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2001

The Central District Redevelopment Project, the Agency's primary project, provides for the development and rehabilitation of commercial and residential structures for approximately 200 blocks of Oakland's downtown area.

The Agency also purchased the Oakland Museum from the City and leases it back under a direct financing lease.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—Fund Accounting

The accounts of the Agency are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. The various funds are summarized by type in the financial statements. Fund types and the account group used by the Agency are as follows.

Governmental Fund Types

Capital Project Fund—The Agency is organized into project areas which constitute separate accounting entities within the Agency. The operations of each project area are accounted for through a Capital Project Fund. The Capital Project Fund accounts for financial resources to be used for the acquisition, construction or improvement of major capital facilities.

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

Redevelopment Planning Fund, West Oakland/Coliseum — The Redevelopment Planning Fund accounts for the payments that are directly associated with the proposed West Oakland project and the approved Coliseum project. The West Oakland project is currently in the planning and developmental stage. The Coliseum Area Redevelopment Plan was adopted on July 25, 1995; the costs for the planning, adoption and implementation of the project are funded from the Redevelopment Planning Fund.

Account Group

General Long-Term Obligations Account Group—The General Long-Term Obligations Account Group is established to account for the Agency's long-term obligations expected to be financed by governmental funds.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2001

Basis of Accounting

Modified Accrual Basis of Accounting

The modified accrual basis of accounting is followed in the governmental fund types. Revenues are recorded when susceptible to accrual, that is, both measurable and available. "Measurable" means the amount of the transactions can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is expected to be liquidated with expendable available resources. Principal and interest on general long-term obligations are recorded as fund liabilities when due or when amounts have been accumulated in the Debt Service Funds for payments to be made early in the following year.

Governmental Accounting Standards Board Statement No. 33

The Agency adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. This statement establishes accounting and financial reporting standards for nonexchange transactions involving financial and capital resources such as the Agency's property increment. In a nonexchange transaction, a government gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. This statement affects the timing of recognition of nonexchange transactions-that is, when governments recognize them in the financial statements. Adoption of Statement No. 33 did not impact reported fund balances.

Governmental Accounting Standards Board Statement No. 36

The Agency adopted the provisions of GASB Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*. This statement amends GASB Statement No. 33 with respect to the manner in which shared nonexchange revenues are accounted for by recipient governments. Accordingly, the Agency considered the effects of this statement when adopting the provisions of GASB Statement No. 33 as previously described.

Investments

The Agency's investments are stated at fair value. Fair value has been obtained by using market quotes as of June 30, 2001, and reflects the values as if the Agency were to liquidate the securities on that date.

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

Investment earnings are accrued as they become measurable and available.

Restricted Cash and Investments with Fiscal Agents

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

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2001

Pooled Cash and Investments

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

Property Held for Resale

Property held for resale and/or lease is recorded at lower of cost or estimated conveyance value.

Direct Financing Lease Receivable

The Agency accounts for its long-term direct financing leases (Debt Service Fund) on the modified accrual basis wherein the present value of the minimum lease payments is capitalized and reduced as payments are received. Capital leases are offset by deferred revenue. Revenue is recognized as payments are received.

Fund Equity

Reservations of fund balances indicate those portions of fund equity which are not available for appropriation or expenditure or which have been legally restricted to a specific use.

The Agency has reserved fund balance as follows:

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

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

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

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

Tax Increment Revenue

Tax increment revenues are recognized when measurable and available from local taxing authorities.

Budgetary Data

The Agency operates on a project basis. Because comparison of financial results for a specific period would not be meaningful, annual budgetary data is not presented in the combined financial statements. The Agency's budgets are subject to the approval of the Agency's board. Unexpended budget appropriations are carried forward to the succeeding year.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2001

(3) TRANSACTIONS WITH THE CITY OF OAKLAND

The Agency and the City are closely related but are separate legal entities. The City Council members serve as the governing board for the Agency. The Agency does not have employees nor does it have administrative facilities separate from the City. A substantial portion of the Agency's expenditures represent reimbursement to the City.

The City provides administrative services and materials related to the various projects, as well as advances and loans. For certain projects, as described below, the Agency has entered into repayment agreements to reimburse the City for all amounts advanced for those projects.

At June 30, 2001, the following amount was due from the City:

Oakland Museum direct financing lease receivable in semiannual installments ranging from \$2,170,000 to \$3,880,000 through March 15, 2012, with interest imputed at 6.44%	<u>\$ 28,845,817</u>
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A summary of future minimum lease payments from the Oakland Museum direct financing lease receivable is as follows:

Year ending June 30,

2002	\$ 3,703,480
2003	3,700,450
2004	3,702,750
2005	3,700,563
2006	4,332,896
Thereafter	<u>23,251,796</u>
TOTAL FUTURE MINIMUM LEASE PAYMENTS RECEIVABLE	42,391,935
LESS AMOUNTS REPRESENTING INTEREST	<u>(13,546,118)</u>
PRESENT VALUE OF FUTURE MINIMUM LEASE PAYMENTS RECEIVABLE	<u>\$ 28,845,817</u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2001

Due from City of Oakland

Reimbursements to the Agency for various redevelopment loans made by the City. The City will reimburse the Agency as amounts are collected on the underlying loans.	\$18,502,107
Various Agency advances to the City currently receivable	<u>2,335,316</u>
Due from City of Oakland	<u>\$20,837,423</u>
Various City advances on Agency projects currently payable	<u>\$44,703,546</u>

(4) CASH AND INVESTMENTS

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

Agency investments are categorized by type to give an indication of the level of credit risk assumed at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Agency or its agent in the Agency's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the Agency's custodian in the Agency's name. Category 3 includes unregistered investments with the securities held by the counter party or its trust department or agent but not in the Agency's name. The Agency had no Category 2 or 3 investments as of June 30, 2001.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2001

At June 30, 2001, cash and investments were categorized as follows:

	Amortized Cost	Fair Value	Risk Category
Cash	<u>\$ 3,525,770</u>	\$ —	—
Restricted cash in bank	<u>\$ 4,220,452</u>	\$ —	—
Restricted cash and investments with fiscal agents:			
Commercial Paper	—	999,591	1
U.S. treasury	—	1,629,605	1
U.S. federal agency	—	5,557,983	1
Repurchase and other investment agreements	—	3,754,994	1
Government money market funds	<u>38,203,095</u>	<u>—</u>	—
	<u>\$ 38,203,095</u>	<u>\$ 11,942,173</u>	
Pooled cash and investments:			
Cash	163,985	—	—
Local agency issue	—	5,000,000	1
U.S. federal agency	—	49,318,222	1
Money market funds	13,928,757	—	—
Local Agency Investment Fund	<u>—</u>	<u>16,088,731</u>	—
	<u>\$ 14,092,742</u>	<u>\$ 70,406,953</u>	

Money market investments with maturities of one year or less have been stated at amortized cost, as permitted by GASB 31. The amortized cost of these investments approximates fair value as of June 30, 2001.

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

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

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2001

(5) NOTES RECEIVABLE

Notes receivable consisted of advances to developers of various other Agency redevelopment projects. These advances are evidenced by a note or loan receivable at June 30, 2001, as follows:

Madrone Hotel Associates, bearing interest at 6%, through September 1, 1989, and zero interest thereafter, principal and interest due on December 31, 2000, or earlier under certain provisions of the note.	\$ 339,349
Cahon, Inc., bearing interest at 6%, through June 30, 1993, and zero interest thereafter, principal and interest due December 31, 2000 or earlier under certain provisions of the note.	1,100,000
Slim Jenkins Court Associates, bearing interest at 9%, through June 30, 1991, then 5% through December 31, 1992, and zero interest thereafter, principal and interest due December 31, 2000, or earlier under certain provisions of the note.	950,000
Women's Economic Agenda, bearing interest at 6%, principal and interest due August 14, 2025.	2,394,512
McArthur Park Development Associates, bearing zero interest, principal due November 8, 2003	2,956,993
Subordinated Housing Set-Aside notes receivable	6,072,680
Other notes receivable	1,818,833
Less allowance for doubtful accounts	<u>(634,579)</u>
	<u>\$ 14,997,788</u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2001

(6) PROPERTY HELD FOR RESALE

Property held for resale at June 30, 2001, consisted of the following:

11th-12th Broadway & Franklin	\$2,419,000
1608-1616 San Pablo Avenue	\$256,068
1818-1824 San Pablo Avenue	300,928
1826-1840 San Pablo Avenue (Res.99-49)	606,865
1975 Telegraph Avenue	21,322
1975 Telegraph Avenue	891,210
529-20th Street., 1901 Telegraph Ave., 538-544 & 562-570 William St.	1,791,110
550 William Street	192,400
562-570 William Street	121,034
574 William Street	195,765
584 William Street	35,660
602, 604 & 608 William Street	81,536
624-16th Street	275,000
728-73rd Avenue	365,000
811 Clay Street	311,915
819 Clay Street	141,200
Acorn Shopping Center	2,970,000
America Recreation Center	250
Chinatown	840,000
City Center	2,543,241
City Center Garage West	21,446,577
City Hall Annex	2,874,736
Coliseum	2,748,900
Evelyn Rose Family Housing	1,048,675
Fox Theater	3,000,000
Housewives Market	1,610,963
Multi-Service Center	5,100,000
Preservation Park	6,448,160
Swans Market	4,425,474
Talden Site	1,301,679
US Ice Skating Rink	10,588,072
	<u><u>\$74,952,740</u></u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2001

7) LONG-TERM OBLIGATIONS

General Long-Term Obligations

The following is a summary of changes in the General Long-Term Obligations Account Group for the year ended June 30, 2001:

	Balance July 1, 2000	Additions	Retirements and Decreases	Balance June 30, 2001
Certificates of participation	\$ 30,895,817	\$ -	\$ 2,050,000	\$ 28,845,817
Tax allocation bonds payable	187,113,004	-	8,360,000	178,753,004
Housing Set-Aside Revenue Bonds	39,395,000	-	-	39,395,000
General Obligation Bond	530,000	-	30,000	500,000
Advances from City of Oakland	<u>12,226,448</u>	<u>728,847</u>	<u>-</u>	<u>12,955,295</u>
	<u>\$270,160,269</u>	<u>\$728,847</u>	<u>\$10,440,000</u>	<u>\$260,449,116</u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2001

General Long-Term Obligations consist of the following:

	Maturity	Interest Rates	Balance at June 30, 2001
CERTIFICATES OF PARTICIPATION			
Oakland Museum 1992 Series A-Serial	2002-2003	5.90-6.00%	\$ 4,465,000
Oakland Museum 1992 Series A-Term	2005	6.25%	5,020,000
Oakland Museum 1992 Series A-Term	2012	6.00%	15,900,000
Oakland Museum 1992 Series A-Capital appreciation	2006-2007	6.45%-6.55%	<u>3,460,817</u>
TOTAL CERTIFICATES OF PARTICIPATION			<u>28,845,817</u>
TAX ALLOCATION BONDS			
Acom Refunding Series 1988:			
Term bonds	2007	7.40%	<u>1,845,000</u>
Central District Refunding Series 1989A:			
Capital appreciation bonds	2002-2010	6.60%-6.65%	<u>22,658,004</u>
Central District Senior Tax Allocation Refunding Series 1992:			
Serial bonds	2002-2008	5.50-6.00%	34,305,000
Term bonds	2009-2014	5.50%	<u>35,910,000</u>
			<u>70,215,000</u>
Central District Subordinated Tax Allocation Refunding Series 1992A			
	2002-2020	5.95%	<u>52,600,000</u>
Central District Subordinated Tax Allocation Bonds Series 1993A:			
Serial bonds	2002-2005	4.70-4.90%	2,620,000
Term bonds	2006-2010	5.30%	4,075,000
Term bonds	2011-2014	5.00%	4,080,000
Term bonds	2015-2022	5.00%	<u>11,025,000</u>
			<u>21,800,000</u>
Central District Subordinated Tax Allocation Bonds Series 1995A:			
Serial bonds	2002	5.50%	225,000
Term bonds	2005-2009	7.20%	1,010,000
Term bonds	2011-2016	7.50%	1,340,000
Term bonds	2017-2022	7.60%	<u>7,060,000</u>
			<u>9,635,000</u>
TOTAL TAX ALLOCATION BONDS			178,753,004
GENERAL OBLIGATION BOND-Tribune Tower	2011	5.643%	500,000
SUBORDINATED HOUSING SET-ASIDE REVENUE BONDS			
Series 2000T:			
Serial bonds	2004-2005	7.39%	2,750,000
Term bonds	2006-2011	7.82%	11,160,000
Term bonds	2012-2016	7.93%	14,065,000
Term bonds	2017-2019	8.03%	<u>11,420,000</u>
TOTAL SUBORDINATED HOUSING SET-ASIDE REVENUE BONDS			<u>39,395,000</u>
TOTAL BONDS			<u>218,648,004</u>
ADVANCES FROM THE CITY OF OAKLAND			<u>12,955,295</u>
TOTAL GENERAL LONG-TERM OBLIGATIONS			<u>\$260,449,116</u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2001

Certificates of Participation

Oakland Museum 1992 Series A

On May 15, 1992, the Agency issued \$39,408,000 in Refunding Certificates of Participation (Certificates) with an effective interest cost of 6.442% to legally defease the Oakland Museum Certificates of Participation 1987 Series A. The Certificates were issued to finance the reacquisition of the Museum and accordingly, they are recorded in the General Long-Term Obligations Account Group.

The Agency has leased the Museum's facilities and site to the City under a lease agreement. The Agency is not obligated to make any payments in respect to the Certificates except from the payments by or on behalf of the City pursuant to the lease agreement.

Tax Allocation Bonds

Acorn Tax Allocation Refunding Bonds Series 1988

On November 1, 1988, the Acorn Refunding Bonds Series 1988 in the amount of \$3,375,000, with an average coupon rate of 11.64%, were issued by the Agency to advance refund \$2,895,000 of Acorn Tax Allocation Refunding Bonds. The bonds are a limited obligation of the Agency and are payable from and secured by a pledge of a portion of tax revenues assessed on property within the Central District Redevelopment Project Area, allocable to the Agency pursuant to Redevelopment Law. Bonds maturing in 2007 are subject to mandatory sinking fund requirements commencing May 1, 2001, and are subject to prior redemption.

Central District Tax Allocation Refunding Bonds Series 1989A

On August 1, 1989, \$92,399,000 Central District Tax Allocation Bonds Series 1989A were issued by the Agency. Proceeds of the bonds are being used by the Agency to finance projects and improvements in the Central District Redevelopment Project Area. The bonds are a limited obligation of the Agency and are payable from and secured by a pledge of a portion of tax revenues assessed on property within the Central District Redevelopment Project Area, allocable to the Agency pursuant to Redevelopment Law.

As discussed under Central District Subordinated Tax Allocation Refunding Series 1992A, the Agency refunded all of the \$51,600,000 term portion and \$2,000,000 of the serial portion of the Series 1989A bonds in July 1992.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2001

Central District Senior Tax Allocation Refunding Series 1992

On November 15, 1992, the Agency issued \$97,655,000 of Central District Senior Tax Allocation Refunding Series 1992 Bonds at an effective interest cost of 6.25%. The bonds were issued to defease in substance all of the Agency's Central District Tax Allocation Refunding Bonds Series 1986 in the amount of \$84,325,000. The bonds are secured by senior tax revenue of the Agency. The Series 1992 Senior Tax Allocation Bonds are a limited obligation of the Agency and are payable from and secured by a pledge of a portion of tax revenues assessed on property within the Central District Redevelopment Project Area, allocable to the Agency pursuant to Redevelopment Law.

Central District Subordinated Tax Allocation Refunding Bonds Series 1992A

On July 9, 1992, the Agency issued \$53,600,000 of Central District Subordinated Tax Allocation Refunding Bonds Series 1992A, at an interest rate of 5.95% to provide a bond equivalent yield of 6.02%. These bonds were used to refund the \$51,600,000 term bond portion and \$2,000,000 of the serial bond portion of the Agency's Central District Series 1989A bonds. These bonds are on parity with the Central District Series 1993A and Central District 1989A bonds. These bonds are a limited obligation of the Agency and are payable from and secured by a pledge of a portion of tax revenues assessed on property within the Central District Redevelopment Project Area, allocable to the Agency pursuant to Redevelopment Law.

Central District Subordinated Tax Allocation Series 1993A

On March 1, 1993, the Agency issued \$25,000,000 of Central District Series 1993A bonds. A portion of the proceeds of the bonds is intended to be used to finance the renovation and reconstruction of the Oakland City Hall and other redevelopment projects in the Central District Redevelopment Project Area. The remaining proceeds were used to establish a capitalized interest account to pay interest charges through March 1, 1995, and to establish a reserve account. The bonds are on parity with the Central District Series 1989A and Central District Subordinated Tax Allocation Refunding Series 1992A bonds, and are a limited obligation of the Agency payable from and secured by a pledge of a portion of tax revenues assessed on property within the Central District Redevelopment Project Area, allocable to the Agency pursuant to Redevelopment Law.

Central District Subordinated Tax Allocation Bonds Series 1995A

On August 1, 1995, the Agency issued \$10,000,000 of Central District Redevelopment Project Subordinated Tax Allocation Bonds, Series 1995A at an interest rate of 7.80%. The proceeds of the bonds are intended to be used to finance a portion of the costs of the construction, equipping, remodeling, and improving of the City Administration Facility, and costs of other redevelopment projects in the Central District Redevelopment Project Area. A portion of the proceeds was used to pay bond issuance costs, to establish a capitalized interest account to pay interest charges through

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2001

March 1, 1996, and to establish a capital reserve account. The bonds are on parity with the Central District Tax Allocation Refunding Bonds Series 1989A, Central District Subordinated Tax Allocation Refunding Bonds Series 1992A, and the Central District Subordinated Tax Allocation Bonds Series 1993A, and are a limited obligation of the Agency and are payable from and secured by a pledge of a portion of tax revenues assessed on property within the Central District Redevelopment Project Area, allocable to the Agency pursuant to Redevelopment Law.

General Obligation Bond

On April 15, 1998, the Tribune Tower Restoration Bond was issued by the Agency for \$600,000 at an interest rate of 5.643% which will mature on November 1, 2011. The proceeds of the bond will be used to pay a portion of the costs to restore one of Oakland's historic landmarks, The Tribune Tower. The bond constitutes a general obligation of the Agency payable from any lawfully available moneys of the Agency.

Subordinated Housing Set-Aside Revenue Bonds Series 2000T

On May 1, 2000, the Agency issued Subordinated Housing Set Aside Revenue Bonds, Series 2000T in aggregate principal amount of \$39,395,000 at interest rates ranging from 7.39% to 8.03%, which will mature on September 01, 2018. Proceeds of the bonds will be used by the Agency to increase, improve, and preserve the supply of housing within the City of Oakland available at affordable housing cost to persons or families of low or very low income. The bonds are secured by portion of the 20% housing set-aside tax increment revenues from the City's six redevelopment project areas. These bonds were issued on a federally taxable basis to provide the greatest flexibility on the use of proceeds. A portion of the proceeds (\$1,028,641) was used to pay for delivery date expenses such as cost of issuance, underwriter's discount, insurance premium, and surety bond.

Advances from City to the Redevelopment Agency

The City has made various advances to the Agency for redevelopment projects. The advances are payable principally from future tax increment revenues. \$12,955,295 of the advances bear interest at 6% per annum. The remaining advances are non-interest bearing.

Bond Indentures

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

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2001

Annual Future Payments

The following table presents the Agency's aggregate annual amount of future payments required to amortize the outstanding debt service payments and long-term liabilities to the City of Oakland as of June 30, 2001.

Year ending June 30,	General Long-Term Obligations
2002	\$ 26,331,793
2003	26,198,494
2004	27,411,688
2005	27,391,155
2006	27,872,925
Thereafter	<u>285,280,137</u>
	420,486,192
Amounts with unspecified payment dates (advances from City of Oakland)	<u>12,955,295</u>
TOTAL	433,441,487
Less amounts representing interest	<u>(172,992,371)</u>
LIABILITY AT JUNE 30, 2001	<u>\$260,449,116</u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2001

(8) COMMITMENTS AND CONTINGENCIES

As of June 30, 2001, the Agency has entered into contractual commitments of approximately \$6,115,510 for materials and services relating to various projects. These commitments and future costs will be funded by currently available funds, tax increment revenue and other sources.

At June 30, 2001, the Agency was committed to fund \$4,964,630 in loans and had issued \$1,648,600 in letters of credit in connection with several low and moderate income housing projects. These commitments were made to facilitate the construction of low and moderate income housing within the City of Oakland.

The Agency initiated a lawsuit in eminent domain to acquire certain real property. The jury verdict for the value of the property was \$3.5 million. The Agency is currently appealing the jury verdict. No loss contingency has been recorded in the financial statements and management is unable to provide an opinion as to the outcome of the appeal or an estimate as to the amount of the loss contingency. Should the Agency not abandon the litigation, the award would result in the Agency acquiring the property.

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
COMBINING BALANCE SHEET - CAPITAL PROJECT FUND BY ACTION AREA
June 30, 2001

	Acorn	Central District	Coliseum	Other Projects	Low Moderate Housing	Total
ASSETS AND OTHER DEBITS						
Cash	\$ ---	\$ 3,525,670	\$ ---	\$ ---	\$ ---	\$ 3,525,670
Restricted cash and investments with fiscal agents	---	---	---	---	34,350,952	34,350,952
Restricted cash in bank	---	---	4,220,452	---	---	4,220,452
Equity in pooled cash and investments	2,194,411	47,731,700	7,765,555	9,848,931	12,000,395	79,540,992
Tax increment receivable	14,761	1,040,472	296,894	31,578	235,064	1,618,769
Accrued interest receivable	5,230	578,202	47,701	---	1,188,377	1,819,510
Due from US Environmental Protection Agency	---	---	6,173	---	---	6,173
Due from the City of Oakland	---	18,841,934	---	---	1,620,868	20,462,802
Accounts receivable (net of \$200,000 allowance for doubtful accounts)	30,000	56,003	---	28,392	168,500	282,895
Notes receivable, net	---	3,694,913	---	---	11,302,875	14,997,788
Property held for resale	2,970,000	35,278,293	2,748,901	11,460,294	1,048,675	53,506,163
Capital contribution	---	1,000	---	---	---	1,000
TOTAL ASSETS AND OTHER DEBITS	<u>5,214,402</u>	<u>110,748,187</u>	<u>15,085,676</u>	<u>21,369,195</u>	<u>61,915,706</u>	<u>214,333,166</u>
LIABILITIES						
Accrued liabilities	170,820	2,404,878	1,284,593	308,556	16,736	4,185,583
Due to the City of Oakland	3,087,392	9,219,052	10,598,690	286,348	991,410	24,182,892
Due to the Government	---	508,870	---	---	---	508,870
Refundable deposits	12,250	251,500	---	530	4,284	268,564
Deferred revenue	14,761	40,212,921	109,190	4,122,490	13,126,488	57,585,850
Other liabilities	---	150,000	---	---	---	150,000
TOTAL LIABILITIES	<u>3,285,223</u>	<u>52,747,221</u>	<u>11,992,473</u>	<u>4,717,924</u>	<u>14,138,918</u>	<u>86,881,759</u>
FUND BALANCES						
Reserved for property held for resale	2,970,000	13,361,298	2,748,901	7,594,183	---	26,674,382
Reserved for approved capital projects/activities	(1,040,821)	44,639,668	344,302	9,057,088	47,776,788	100,777,025
TOTAL FUND BALANCES	<u>1,929,179</u>	<u>58,000,966</u>	<u>3,093,203</u>	<u>16,651,271</u>	<u>47,776,788</u>	<u>127,451,407</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 5,214,402</u>	<u>\$ 110,748,187</u>	<u>\$ 15,085,676</u>	<u>\$ 21,369,195</u>	<u>\$ 61,915,706</u>	<u>\$ 214,333,166</u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
CAPITAL PROJECT FUND BY ACTION AREA
For the Year Ended June 30, 2001

	Acorn	Central District	Coliseum	Other Projects	Low Moderate Housing	Eliminate Intrafund Transfers	Total
REVENUES							
Tax Increment	\$ 868,271	\$25,329,930	\$ 6,422,964	\$ 18,376	\$ -	\$ -	\$ 32,639,541
Interest on restricted cash and investments with fiscal agents	2,043	688,624	-	-	2,647,749	-	3,338,416
Interest on pooled cash and investments	169,755	2,385,172	370,073	593,575	573,616	-	4,092,191
Interest on notes receivable	-	190,558	-	-	18,624	-	209,182
Rents and reimbursements	-	1,778,421	2,500	60,447	-	-	1,841,368
Proceeds from sale of land	-	959,400	3,000,195	-	-	-	3,959,595
Other	456,230	221,136	255,013	7,915	1,404	-	941,698
TOTAL REVENUES	<u>1,496,299</u>	<u>31,553,241</u>	<u>10,050,745</u>	<u>680,313</u>	<u>3,241,393</u>	<u>-</u>	<u>47,021,991</u>
EXPENDITURES							
Operation and management of acquired property	494,609	1,266,543	-	138,575	-	-	1,899,727
Site clearance and toxics remediation	-	751,036	-	114,555	-	-	865,591
Project improvements	701,219	6,193,197	2,387,965	298,091	10,666,855	-	20,247,327
General and administrative	283,098	7,912,453	916,442	468,813	1,244,257	-	10,825,063
Other	-	724,673	1,568,836	493,224	-	-	2,786,733
TOTAL EXPENDITURES	<u>1,478,926</u>	<u>16,847,902</u>	<u>4,873,243</u>	<u>1,513,258</u>	<u>11,911,112</u>	<u>-</u>	<u>36,624,441</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	17,373	14,705,339	5,177,502	(832,945)	(8,669,719)	-	10,397,550
OTHER FINANCING SOURCES (USES)							
Operating transfers in	-	349,999	407,147	381,628	6,703,948	(7,700,659)	142,063
Operating transfers out	(558,250)	(26,156,289)	(1,672,454)	(410,820)	(2,810,751)	7,700,659	(23,907,905)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(558,250)</u>	<u>(25,806,290)</u>	<u>(1,265,307)</u>	<u>(29,192)</u>	<u>3,893,197</u>	<u>-</u>	<u>(23,765,842)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(540,877)	(11,100,951)	3,912,195	(862,137)	(4,776,522)	-	(13,368,292)
FUND BALANCES AT BEGINNING OF YEAR	<u>2,470,056</u>	<u>69,101,917</u>	<u>(818,992)</u>	<u>17,513,408</u>	<u>52,553,310</u>	<u>-</u>	<u>140,819,699</u>
FUND BALANCES AT END OF YEAR	<u>\$ 1,929,179</u>	<u>\$58,000,966</u>	<u>\$ 3,093,203</u>	<u>\$16,651,271</u>	<u>\$ 47,776,788</u>	<u>\$ -</u>	<u>\$ 127,451,407</u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
SCHEDULE OF CAPITAL PROJECT EXPENDITURES - CENTRAL DISTRICT
June 30, 2001

	City Center	Chinatown	City Hall Plaza Activities	Uptown	Other	Total
EXPENDITURES						
Operation and management of acquired property	\$ 124,918	\$ 310,336	\$ -	\$ 215,318	\$ 615,971	\$ 1,266,543
Site clearance and toxics remediation	238,801	91,744	-	332,007	88,484	751,036
Project improvements	72,500	-	4,843,204	540,973	736,520	6,193,197
General and administrative	48,772	128,227	47,723	666,315	7,021,416	7,912,453
Other	-	-	-	425,392	299,281	724,673
TOTAL EXPENDITURES	<u>\$ 484,991</u>	<u>\$ 530,307</u>	<u>\$ 4,890,927</u>	<u>\$ 2,180,005</u>	<u>\$ 8,761,672</u>	<u>\$ 16,847,902</u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
COMBINING BALANCE SHEET - DEBT SERVICE FUND
 June 30, 2001

	Tax Allocation Debt	City-Agency Lease Financing Oakland Museum	Total
ASSETS			
Restricted cash and investments with fiscal agents	\$ 12,031,940	\$ 3,762,376	\$ 15,794,316
Equity in pooled cash and investments	3,386,623	—	3,386,623
Tax increment receivable	23,263	—	23,263
Accrued interest receivable	3,798	—	3,798
Direct financing lease receivable - City of Oakland	—	28,845,817	28,845,817
Property held for resale	<u>21,446,577</u>	<u>—</u>	<u>21,446,577</u>
TOTAL ASSETS	<u>\$ 36,892,201</u>	<u>\$ 32,608,193</u>	<u>\$ 69,500,394</u>
LIABILITIES			
Accrued debt service	3,341,429	76,150	3,417,579
Accrued liabilities	—	—	—
Due to the City of Oakland	20,380,530	—	20,380,530
Deferred revenue	<u>12,011</u>	<u>28,845,817</u>	<u>28,857,828</u>
TOTAL LIABILITIES	23,733,970	28,921,967	52,655,937
FUND BALANCES - RESERVED FOR DEBT SERVICE	<u>13,158,231</u>	<u>3,686,226</u>	<u>16,844,457</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 36,892,201</u>	<u>\$ 32,608,193</u>	<u>\$ 69,500,394</u>

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - DEBT SERVICE FUND
June 30, 2001

	Tax Allocation Debt	City-Agency Lease Financing Oakland Museum	Total
REVENUES			
Tax increment	\$ 706,513	\$ —	\$ 706,513
Interest on restricted cash and investments with fiscal agents	635,209	178,921	814,130
Interest on pooled cash and investments	114,934	—	114,934
Interest and principal on direct financing lease receivables City of Oakland	<u>1,497,791</u>	<u>3,453,026</u>	<u>4,950,817</u>
TOTAL REVENUES	<u>2,954,447</u>	<u>3,631,947</u>	<u>6,586,394</u>
EXPENDITURES			
Debt Service			
Retirement of long-term debt	8,390,000	2,050,000	10,440,000
Interest	16,004,667	1,650,714	17,655,381
Other	<u>29,977</u>	<u>—</u>	<u>29,977</u>
TOTAL EXPENDITURES	<u>24,424,644</u>	<u>3,700,714</u>	<u>28,125,358</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(21,470,197)	(68,767)	(21,538,964)
OTHER FINANCING SOURCES			
Operating transfers in	23,907,905	—	23,907,905
Operating transfers out	<u>(142,063)</u>	<u>—</u>	<u>(142,063)</u>
TOTAL OTHER FINANCING SOURCES	<u>23,765,842</u>	<u>—</u>	<u>23,765,842</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	2,295,645	(68,767)	2,226,878
FUND BALANCES AT BEGINNING OF YEAR	<u>10,862,586</u>	<u>3,754,993</u>	<u>14,617,579</u>
FUND BALANCES AT END OF YEAR	<u>\$ 13,158,231</u>	<u>\$ 3,686,226</u>	<u>\$ 16,844,457</u>



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

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

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

We have audited the general purpose financial statements of the Redevelopment Agency of the City of Oakland (the "Agency") as of and for the year ended June 30, 2001, and have issued our report thereon dated December 31, 2001. Our report on the general purpose financial statements was modified to indicate that the Agency adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* and GASB Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Agency's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions include those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying Schedule of Findings as Finding Nos. 01-1 through 01-3.

Internal Control Over Financial Reporting

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



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

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

Williams, Adley & Company, LLP

Oakland, California
December 31, 2001

Redevelopment Agency of the City of Oakland
Schedule of Findings
June 30, 2001

Finding No. 01-1: State Redevelopment Agency Compliance Requirements - Financial Disclosure and Reporting (Submission of Reports to State Controller)

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

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

The first five identified reports were not submitted within the required reporting period. The last two reports were not submitted.

Recommendation

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

Management Response

Due to the implementation of the Agency's new financial system, the audit for the year ended June 30, 2000, was not complete by December 31, 2000, the due date for filing of the State Controller's Report. The State Controller's Office requires the reporting of audited financial figures. Staff was not aware, at the time, of the revised reporting requirement, that called for the inclusion of the Property Report and Loan Report. These reports will be included in future filings.

Redevelopment Agency of the City of Oakland
Schedule of Findings
June 30, 2001

Finding No. 01-2: State Redevelopment Agency Compliance Requirements - Affordable Housing (Monitoring available levels of affordable housing to low- or moderate-income households)

Pursuant to California Health and Safety Code Section 33418, the Agency is required to maintain a system to monitor the levels of affordable housing made available to low- or moderate-income persons and families. As part of the monitoring, the Agency must require property owners or managers of low- or moderate-income housing to submit an annual report to the Agency. For each rental unit, this report must include the rental rate and income and family size of occupants. For each owner-occupied unit, the report must include whether there was an ownership change from the prior year and, if so, the income and family size of the new owners. The income information shall be supplied by the tenant in a certified statement on a form provided by the Agency. The Agency is also required to report the obtained information to the department of Housing and Community Development or the Controller.

We were unable to test the Agency's system of monitoring due to the absence of supporting documentation.

Recommendation

We recommend that the Agency establish policies and procedures to ensure that monitoring of affordable housing is performed and related documentation is maintained.

Management Response

The Agency Budget includes provision for a position to perform and document the required monitoring activities and to prepare applicable reports. Recruitment for this position is underway.

**Redevelopment Agency of the City of Oakland
Schedule of Findings
June 30, 2001**

Finding No. 01-3: State Redevelopment Agency Compliance Requirements - Conflict of Interest (Public Disclosure Statements)

As a local government agency, the Agency is subject to the Political Reform Act of 1974 (the Act), and must adopt and promulgate a conflict of interest code that conforms to the requirements established by the Fair Political Practices Commission. These codes must enumerate the positions that involve the making of decisions that may potentially have a material effect on a financial interest. Additionally, the codes must specify types of financial interests, contain prohibitions, and require filing of annual public disclosure statements.

In accordance with the provisions of the Act, the Agency has adopted a conflict of interest code that identifies those positions that involve the making of decisions that may potentially have a material effect on a financial interest, and requires the individuals that hold those positions to file annual public disclosure statements with the Agency. We noted that two individuals had not filed their annual conflict of interest statements as required by the Agency's conflict of interest code.

Recommendation

We recommend that the Agency establish policies and procedures to ensure that all required conflict of interest statements are filed in a timely manner.

Management Response

Both individuals, who failed to file their annual conflict of interest statements, have left the City of Oakland. The City Clerk's office has contacted these individuals to request their compliance with the filing requirements. The City Clerk's Office has formed a task force with the City Attorney's Office, Office of Personnel and Public Ethics Commission to improve compliance tracking through revised procedures and more effective use of technology.

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APPENDIX C

REPORT OF THE FISCAL CONSULTANT

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Appendix C

THE REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

CENTRAL DISTRICT REDEVELOPMENT PROJECT;

Subordinated Refunding Tax Allocation Bonds, Series 2003

PROJECTED TAXABLE VALUES AND ANTICIPATED TAX INCREMENT REVENUES

December 19, 2002

I. Introduction

The Redevelopment Agency of the City of Oakland (the Agency), located in Alameda County, California (the County), is proposing to issue its Subordinated Refunding Tax Allocation Bonds, Series 2003 (the Bonds) secured by the tax increment revenues generated from the Central District Redevelopment Project as amended (the Project Area). The Bonds are being issued by the Redevelopment Agency of the City of Oakland (the "Redevelopment Agency") to refund the Redevelopment Agency's Central District Redevelopment Project Tax Allocation Bonds, Series 1989A, the Central District Redevelopment Project Subordinated Tax Allocation Refunding Bonds, Series 1992A, the Central District Redevelopment Project Subordinated Tax Allocation Bonds, Series 1993A, the Central District Redevelopment Project Subordinated Tax Allocation Bonds, Series 1995A and to finance certain redevelopment activities within or to the benefit of the Project Area

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

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

Debt Service payments on the Bonds are subordinate to debt service payments for the Agency's Central District Redevelopment Project, Senior Tax Allocation Refunding Bonds, Series 1992 (Senior Bonds). All Tax Revenues in excess of the amounts required for payment of debt service on the Senior Bonds will be utilized for payment of debt service on the Bonds. Information that would

**Redevelopment Agency of the City of Oakland
Fiscal Consultant's Report
December 19, 2002**

be necessary to project revenues from the Amendment Area is not available at this time. Tax Revenues from the Amendment Area will be pledged to the payment of debt service on the Bonds, however, no revenues from the Amendment Area have been reflected in this projection. As a result of our research, we project the Tax Revenue for the Project Area to be as shown in the table below (000's omitted):

Fiscal Year	Incremental Value	Gross Revenue	County Admin. Charges	Housing Set-Aside Requirement	Tax Revenue
2002-03	\$2,462,068	\$31,745	\$292	\$6,349	\$25,104
2003-04	2,489,423	32,045	295	6,409	25,341
2004-05	2,540,704	32,630	300	6,526	25,803
2005-06	2,593,010	33,225	306	6,645	26,275
2006-07	2,646,363	33,833	311	6,767	26,755
2007-08	2,700,782	34,452	317	6,890	27,245
2008-09	2,756,290	35,083	323	7,017	27,744
2009-10	2,812,908	35,727	329	7,145	28,253
2010-11	2,870,658	36,382	335	7,276	28,771
2011-12	2,929,564	37,051	341	7,410	29,300

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

II. The Project Areas

The City Council of the City of Oakland adopted the Central District Urban Renewal Plan (the Plan) on June 12, 1969 and amended it by Ordinance No. 10822 on December 16, 1986 to incorporate limits on receipt of tax increment revenue. Central District was subsequently amended or supplemented by the adoption of ordinances on January 21, 1971, May 29, 1973, December 16, 1975, December 12, 1978, June 12, 1979, August 3, 1982, October 2, 1984, June 11, 1985, March 27, 1990, February 18, 1997, October 27, 1998, December 20, 1994 and July 24, 2001. The amendment that was adopted on July 24, 2001 added approximately 14.86 acres of new territory (the Amendment Area) to the Project Area. The Amendment Area will initially be eligible to receive tax increment revenue for the 2002-03 fiscal year.

A. Land Use

The following table illustrates the breakdown of land use in the Project Area by assessed value for fiscal year 2002-03. Because the information is not yet available, assessed values from the

**Redevelopment Agency of the City of Oakland
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Amendment Area have not be considered in this breakdown. It is based on the lien date tax roll for fiscal year 2002-03. Unsecured parcels are shown in brackets because they are, in reality, tax bills that are assigned to secured parcels already accounted for in other categories.

Category	Parcels	Assessed Value	%
Residential	1,518	\$504,732,856	17.5%
Commercial	1,246	\$1,790,018,194	61.9%
Industrial	295	\$114,429,187	4.0%
Recreational	36	\$5,715,068	0.2%
Institutional	44	\$138,063,796	4.8%
Unknown	2	\$4,182,347	0.1%
Vacant	101	\$19,369,266	0.7%
Exempt	239	\$0	0.0%
Secured Non-Unitary Utilities	[24]	\$2,292,255	0.1%
Unsecured	[2,170]	\$312,964,127	10.7%
Total Value:	3,481	\$2,891,767,096	100.0%
Exemptions		(\$154,458,859)	
Net Taxable Value:		\$2,737,308,237	

B. Redevelopment Plan Limits

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

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

More recent legislation, Chapter 942, Statutes of 1993, established further limits on redevelopment plans. Chapter 942 restricted the life span of redevelopment plans adopted prior to 1994. The time limit for establishing indebtedness was limited to 20 years from the adoption of the redevelopment plan or January 1, 2004, whichever is later. The life of the existing redevelopment plans was limited to 40 years from the date of adoption or January 1, 2009, whichever is later. Finally, a redevelopment agency is restricted from paying indebtedness with tax increment beyond 10 years after its redevelopment plan expires except to fund deferred Housing Set Aside requirements and to repay indebtedness incurred prior to January 1, 1994.

Pursuant to Chapter 942, on December 20, 1994 the Agency adopted Ordinance No. 11762 for the purpose of amending the Plan to add time limits to conform to the provisions of Chapter 942. On July 24, 2001, the Plan was further amended by the adoption of Ordinance No. 12348 C.M.S. This ordinance extended the Plan Expiration to June 12, 2009. Accordingly the Plan will terminate on

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June 12, 2009 and the last date to repay debt with tax revenue is June 12, 2019. Certain expenditures with respect to deferred Housing Set-Aside requirements will continue past Plan expiration. The last date for establishment of new debt is January 1, 2004. The Plan limits the Agency to the receipt of \$1,348,862,000 in tax increment revenue over the life of the Plan. Through fiscal year 2001-02, the Agency has received \$333,383,418 according to Agency and County records. Based on the projection of revenues over the life of the Project Area the Agency will not reach its tax increment limit before reaching the last date to repay debt from tax increment revenue.

The amendment area added in 2001 will be subject to the limitations defined in the Law for project areas adopted after January 1, 1994. Under the Law project areas adopted after January 1, 1994 terminate their effectiveness not more than 30 years from the date of their adoption. Loans, advances and other forms of indebtedness may not be repaid beyond 45 years following the date of adoption of the redevelopment plan. Except for certain expenditures from the Housing Fund, redevelopment plans adopted after January 1, 1994 may not establish any new debt to be repaid from tax increment revenue beyond 20 years from the date of adoption and eminent domain proceedings may not be initiated beyond 12 years from the adoption date. Redevelopment plans adopted after January 1, 1994 are not required to have limits on the amount of tax increment that may be received annually or over the life of the plan.

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

III. Project Area Assessed Values

A. Assessed Values

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

The Central District Project Area has declined in value from 1993-94 through 1996-97 by \$435.5 million. This was a reduction of 20.08% of the Project Area's total value. The Project Area experienced a 14.16% decline in incremental values between 1993-94 and 1994-95 primarily due to movement of assessed value to the exempt tax roll. Acquisitions of property by the Alameda County Public Facilities Corporation (\$109.9 million), the City of Oakland (\$15.7 million) and the Redevelopment Agency (\$7.7 million) led to a significant decline in value. Since 1996-97, the Project Area has steadily added assessed value and is now substantially above the level of assessed value of 1993-94. Since 1996-97 the Project Area has grown in assessed value by \$1,004,720,634 (58.0%). This growth has been almost entirely the result of increases in assessed value on the

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secured tax roll. Unsecured assessed values have increased since 1996-97 by \$32,458,171 (11.9%) despite significant reductions in unsecured improvement values in 2000-01 and 2001-02. Secured values have increased over this same period by \$972,262,463 (66.60%). Improvement value on the secured tax roll has led the way by increasing \$761,117,299 (62.43%) since 1996-97. The information outlined above is based on the lien date tax rolls and is illustrated on Table 3.

The Amendment Area will be eligible to receive tax increment revenue for the first time in 2002-03, however, because it is a new project area the Alameda County Auditor Controller's office has not yet released current year or base year values. We anticipate this information to be available by January 2003.

B. Top Ten Taxable Property Owners

A review of the top ten taxable property owners in the Project Area for fiscal year 2002-03 was conducted. A list of the top ten property owners for the Project Area and the number of parcels attributed to each owner, are presented on Table 4. The secured and unsecured value of these parcels is compared to the full taxable assessed value of the Project Area. On Table 4a, the values of properties owned by the top ten taxpayers are compared to the incremental taxable value within the Project Area. Owners that are within the Amendment Area have not been considered in the tabulation of this top taxpayer list.

The top property owner within the Project Area is the OCC Venture LLC with a taxable value of \$171,796,329 on nine parcels owned. These parcels contain office buildings of five stories or more. The combined secured taxable value of the top ten taxpayers totals \$916,051,293 that is 37.67% of the Project's total secured taxable value. The combined unsecured taxable value of the top ten taxpayers totals \$33,262,865 or 10.90% of the Project Area's total unsecured taxable value. Top ten taxpayer taxable secured and unsecured value together total \$949,314,158 or 34.68% of all taxable value in the Project Area. Because the Project Area is in the downtown area the majority of the top taxpayers own property that is in commercial and/or industrial use. Residential uses within the Project Area are, for the most part, multifamily, high-density residential properties. The values controlled by the top ten taxpayers make up 41.30% of the Project Area's secured incremental value, 13.63% of the Project Area's unsecured incremental value and 38.56% of the Project Area's total incremental value.

IV. Tax Allocation and Disbursement

A. Property Taxes

The taxable values of property are established each year on the property tax lien date. Prior to 1997 the lien date was March 1 for locally assessed property and January 1 for State assessed utility property. Beginning with 1997, the lien date is also January 1 for locally assessed property. Real Property reflects the reported assessed values for secured and unsecured land and improvements. Pursuant to Article XIII A of the State Constitution the value of locally assessed Real Property may only be increased up to two percent annually to reflect inflation. The inflation factor used for 2002-

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03 was two percent and the State Board of Equalization has recently determined the inflation factor for 2003-04 to also be two percent. Real Property values are also permitted to increase as a result of a change of ownership or new construction. Utility property assessed by the State Board of Equalization may be revalued annually and such assessments are not subject to the inflation limitations of Article XIII A. The taxable value of Personal Property is also established on the lien dates and is not subject to the annual two percent limit of locally assessed Real Property.

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

B. Supplemental Assessments

Chapter 498 of the Statutes of 1983 provides for the reassessment of property upon a change of ownership or completion of new construction. Such reassessment is referred to as the Supplemental Assessment. It is determined by applying the current year's tax rate to the amount of increase in a property's value and prorating the resulting property taxes to reflect the portion of the tax year remaining as determined by the date of the change in ownership or completion of new construction. Supplemental Assessments become a lien against Real Property. Since 1984-85 revenues derived from Supplemental Assessments have been allocated to redevelopment agencies and taxing entities in the same manner as regularly collected property taxes. The receipt of Supplemental Tax Revenues by taxing entities typically follows the change of ownership by a year or more. The Agency received no Supplemental Revenue for 1998-99 and then received \$642,200 for 1999-00, \$549,262 for 2000-01 and \$1,233,722 for 2001-02. We have not included projected amounts of revenue that could result from Supplemental Assessments in our projections.

C. Tax Rates

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

A Constitutional amendment approved in June 1983 allows the levy of Override Tax Rates to repay indebtedness for the acquisition and improvement of real property, upon approval by a two-thirds vote. A subsequent amendment of the Constitution prohibits the allocation of Override taxes to redevelopment agencies for repayment of indebtedness approved by the voters after December 31, 1988. The Override Tax Rates typically decline each year as a result of (1) increasing property values (which would reduce the Override Rate needed to be levied to meet debt service) and (2) the

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eventual retirement of debt over time. Within the Project Area, three Override Tax Rates have been approved after December 31, 1988. These tax rates are for the Oakland Unified School District, the Peralta Community College District and the City of Oakland. These portions of the Override Tax Rate have been omitted from the calculation of projected revenue.

A Tax Rate Area consists of a geographic area where the taxes on all property are levied by the same taxing entities at the same rate. The projections are based on the 2002-03 tax rates. All of the tax rate areas within the Project Area have same tax rate, however, a new tax rate area for the Amendment Area has recently been established and the tax rate for this new area is not yet available. It is reasonable to assume, however, that the tax rate for the Amendment Area will be consistent with the tax rate for the balance of the Project Area. The components of the tax rate that is applied to secured value in the Project Area for 2002-03 are as follows:

		Termination Date
General Levy	1.0000	
Oakland U.S.D. EC 16090	.0017	2012
East Bay Regional Park 1	.0065	2027
EBMUD Special District 1	.0084	2015
City of Oakland	<u>.1575</u>	<u>2026</u>
Total RDA Eligible Tax Rate:	1.1741	
<u>Non-RDA Eligible Tax Rates</u>		
Oakland U.S.D. Bonds	.0801	
Peralta Community College Dist.	.0176	
City of Oakland	<u>.0322</u>	
Total Tax Rate:	<u>1.3040</u>	

The Override Rate approved by voters before 1989 and levied by the City of Oakland is authorized for long term funding of pension funds and has been authorized through 2026. The Override Rate levied by the East Bay Regional Parks District will not be retired until 2027. The EBMUD Special District override rate will be retired in 2015 and no longer exist after fiscal year 2014-15. The Oakland Unified School District EC 16090 bonds will be retired over a ten-year period and will no longer exist after fiscal year 2011-12. We have incorporated the appropriate retirement dates of these Override Tax Rates in the projection and for those years after the retirement dates have assumed the combined RDA eligible portion of the override tax rates for the City of Oakland and the East Bay Regional Parks and general levy tax rate constant at \$1.174 for the balance of our projections.

D. Allocation of Taxes

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

In accordance with Revenue and Taxation Code Section 4701ff the County utilizes an alternative method for the distribution of tax revenue to taxing agencies known as the Teeter Plan. Under this

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method, the taxing entities, including redevelopment agencies in Alameda County receive 100 percent of the taxes levied on the extended tax roll subject to correction, cancellation and refunds. The tax revenues of the Agency are not subject to revenue loss due to delinquencies or gains due to redemption of unpaid taxes. Counties utilizing the Teeter Plan are required to maintain a fund in an amount determined by in the code that is to be used to cover losses that may occur as a result of property tax delinquencies.

E. Assessment Appeals

A review of the assessment appeal history in the Project Area was conducted. Since fiscal year 1997-98 there have been 634 assessment appeals filed within the Project Area. Of the appeals filed, 313 assessment appeals (57.64%) have been allowed with a reduction in value, 230 assessment appeals (42.36%) have been denied and 91 assessment appeals remain pending as of October 10, 2002. The pending appeals have a combined assessed value of \$293,000,066 under appeal and include assessment appeals of value for 1996-97 through 2002-03. It is unclear exactly how much of this value is at risk because many of the owners have not entered owner opinions of value. Of the appeals that were allowed, the average reduction in value was 22.32%.

Among the top ten taxpayers, Clorox Company, Oakland City Center LLC and SSR Western Multifamily LLC have currently pending appeals. Clorox has assessment appeals pending on one of their parcels for 2001-02 and is seeking a reduction of \$7,188,914 (7.16%) of the assessed value for the parcel. Oakland City Center LLC has appeals pending on 11 of their 12 parcels for 2001-02. Oakland City Center LLC has filed appeals totaling of \$10,801,740 in assessed value but listed no opinion of value on their application. The Kaiser Foundation Health Plan has appealed one of its 2001-02 unsecured values and is seeking a reduction of \$7,250,140 (30%) on an assessed value of \$24,167,132. SSR Western Multifamily LLC has files assessment appeals on three properties for 2002-03. The total assessed value under appeal is \$59,531,000 and the owner has listed no owner's opinion of value on the application.

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

	Total Appeals	Allowed	Denied	Pending
Number of Appeals	634	313	230	91
% of Resolved Appeals		57.64%	42.36%	
Average Reduction		(22.32%)		
Appealed Value Pending				\$293,000,066
Est. No. Allowed				52
Est. Value Reduction				(\$37,689,690)

F. Allocation of State Assessed Unitary Taxes

Legislation enacted in 1986 (Chapter 1457) and 1987 (Chapter (921) provided for a modification of the distribution of tax revenues derived from utility property assessed by the State Board of

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

To administer the allocation of unitary tax revenues to redevelopment agencies, the County no longer includes the taxable value of utilities as part of the reported taxable values of the project area. As a result the base year value of project areas was reduced by the amount of utility value that existed originally in the base year value. The County Auditor-Controller remitted \$2,815,093 in unitary revenue to the Project Areas for 2000-01 and \$2,873,553 in 2001-02. We have assumed that the utility tax revenue will remain constant in future years at the amount remitted in 2001-02.

G. County Collection Charges

Chapter 466 allows counties to recover charges for property tax administration in an amount equal to their 1989-90 property tax administration costs, as adjusted annually. Within this report, these charges are referred to as the SB 2557 Administrative Fees. For fiscal year 2001-02, the amount of the County collection charge attributed to the Project Area was \$256,607, which was 0.92 percent of 2001-02 Gross Revenues. The Auditor Controller has not yet established the County Collection Charge for 2002-03. For purposes of these projections, we have assumed that the County will continue to charge the Agency for property tax administration and that such charge will remain at the same percentage of Gross Revenue as was charged in 2001-02.

V. Low and Moderate Income Housing Set-Aside

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

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On December 11, 2001, the Agency adopted Resolution No. 01-85 C.M.S., that increased the amount of tax increment revenue to be set-aside in the Housing Fund from the 20 percent required in the Law to 25 percent for all of the Agency's Project Areas that have debt service coverage ratios of 1.2 percent. The resolution provides that this increase in the set-aside amount is subordinate to all existing and future tax allocation bonded indebtedness. This projection of revenue assumes that the Housing Set-Aside Requirement will continue to be fulfilled at 20 percent of the Gross Revenue from the Project Area and that the additional set-aside of 5 percent of Gross Revenue will be fulfilled in accordance with the requirements of the adoptive resolution.

VI. Legislation

In order to address State Budget deficits, the Legislature enacted SB614, SB844 and SB 1135 that required payments from redevelopment agencies for the 1992-93, 1993-94 and 1994-95 fiscal years into a countywide Education Revenue Augmentation Fund (the ERAF). This year the Legislature enacted AB 1768 requiring another ERAF payment from redevelopment agencies. The Agency's obligation for 2002-03 is approximately \$1,267,000. The Agency is allowed to use any funds legally available and not legally obligated for other uses, including reserve funds, bond proceeds, earned income and proceeds of land sales to satisfy this obligation, but is prohibited from using moneys in the Low and Moderate Income Housing Fund (the Housing Fund). An agency may reduce its payment due to existing indebtedness, contractual obligations and 90 percent of 2000-01 administrative costs (collectively, Existing Obligations). If an agency could not make the required payment because of its Existing Obligations, it could borrow up to 50 percent of its 1992-93 contribution to the Housing Fund. Funds borrowed in this manner are required to be repaid within ten years. The agency may, alternatively, required to obtain a loan from the city/county in order to pay the difference between what the agency paid and the total amount that due. For agencies that do not borrow to meet any shortfall of the required payment, the county auditor-controller is required to deduct any amount due from the city/county's allocation of property taxes. The obligation applied to the agency and not to specific project areas. It is the Agency's intention to meet its ERAF obligation from existing funds. We have not reflected the ERAF obligation on our tax increment projections.

It is anticipated the State will have a budget deficit in the coming fiscal year and possibly additional years as well. It is possible that the Legislature could continue to require ERAF payments for the foreseeable future.

VII. Tax Sharing Agreements and Other Obligations

The Agency has entered into no tax sharing agreements in connection with the Project Area.

VIII. Recent Court Decisions

Santa Ana Decision

The State Court of Appeals recently upheld a Superior Court decision which held the Santa Ana School District had the right to receive payments from the Orange County Redevelopment Agency

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pursuant to a resolution adopted by the School District in 1999 under former Section 33676(a) of the Law (Santa Ana Unified School District v. Orange County Redevelopment Agency; App. 4 Dist. 2001 108 Cal. Rptr.2d 770, 90 Cal. App 4th 404, review denied). Former Section 33676(a)(2) provided that, unless a negotiated tax sharing agreement had been entered into, upon passage of a resolution prior to adoption of a redevelopment plan, affected taxing agencies and every school and community college district could elect to be allocated increases in the assessed value of taxable property in the project area based on inflation growth (the 2% Property Tax Increase).

Former Section 33676(a)(2) was repealed as part of major revisions made to the Law pursuant to the Reform Act of 1993 (AB 1290). The changes to the Law contained in AB1290 were effective as of January 1, 1994. The Court of Appeals affirmed the lower court ruling that due to an amendment to former Section 33676(a) that was adopted in 1984 and became effective on January 1, 1985, school and community college districts were to automatically receive the 2% Property Tax Increase even without adopting the appropriate resolution prior to the adoption of a redevelopment plan.

Since the Project Area was adopted prior to the enactment of Section 33676(a) there will be no impact on the Project Area as a result of this decision.

Seal Beach Decision

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

The Orange County Superior Court has recently ruled in favor of a motion to restate the complaint as a class action, which could have the effect of extending this ruling to other similar cases. The Agency is unable to predict the outcome of this litigation and what effect, if any, it might have on assessed values in Alameda County or the availability of revenue sources, which may be provided by the State to replace lost property tax revenues. If the holding of the Orange County Superior Court should be determined to govern the Assessor, such limitation may have a material adverse impact on Tax Revenues and, therefore, the Agency's ability to make payments on the Bonds for the Project Area.

IX. New Development

Substantial additional value will be added to the values for fiscal year 2003-04 due to transfers of ownership on parcels within the Project Area. These transfers of ownership have been confirmed by the recordation of grant deeds or other documentation filed with the Alameda County Recorders Office and occurred between the January 1, 2002 lien date and August 1, 2002. The amount added to the Project Area valuation for 2003-04 is \$14,770,322.

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New development projects continue to occur within the Project Area although the estimated value of these developments have not been incorporated into the projection. The 555 Essex Center development is planned to contain of 470,000 square feet of office space. The Essex will contain 270 apartment rentals and the New Market Lofts development will consist of 46 lofts that will be offered for sale. Taken together, these three developments are expected by the Agency to be valued at approximately \$163 million.

The Old Sears development will be 53 loft rentals and commercial space. Sierra Lofts/311 Oak will offer 229 loft units for sale. Landmark Place will consist of 92 condominiums. Taken together, these developments are expected to have a value of \$112.0 million. In addition, Telegraph Gateway is a development of 50 apartment units and commercial. Arioso will consist of 88 condominiums and commercial space. Housewives will consist of 116 condominiums and lofts with an expected value of \$35,580,00

Once again, no assessed value has been incorporated into the projection for these developments

X. Trended Taxable Value Growth

Growth in real property land and improvement values have been limited to an assumed rate of growth of real property taxable values of two percent annually as allowed under Article XIII A of the state Constitution. A two percent growth rate has been assumed because it is the maximum inflationary growth rate permitted by law and this rate of growth has been realized in all but four years since 1981. The years in which less than two percent growth was realized were 1983-84 (1.0%), 1995-96 (1.19%), 1996-97 (1.11%) and 1999-00 (1.85%). Should the growth of taxable value in the project areas be less than two percent in future years, the resultant Gross Tax Increment Revenues would be reduced proportionately. HdL Coren & Cone make no representation that taxable values will actually grow at two percent. Future values will also be impacted by changes of ownership and new construction not reflected in our projections. In addition, the values of property previously reduced in value due to assessment appeals based on reduced market values could increase more than two percent when real estate values increase more than two percent (see Section III.F above). Seismic activity and environmental conditions such as hazardous substances that are not anticipated in this report might also impact property taxes and Tax Increment Revenue. HdL Coren & Cone makes no representation that taxable values will actually grow at the rate projected.

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

**Oakland Redevelopment Agency
Central District Project Area**

Projection of Incremental Taxable Value & Tax Increment Revenue

(000's Omitted)

Table 1

	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>
Taxable Values (1)										
Real Property (2)	2,536,677	2,564,033	2,615,313	2,667,620	2,720,972	2,775,392	2,830,899	2,887,517	2,945,268	3,004,173
Personal Property (3)	<u>200,631</u>	<u>200,631</u>	<u>200,631</u>	<u>200,631</u>	<u>200,631</u>	<u>200,631</u>	<u>200,631</u>	<u>200,631</u>	<u>200,631</u>	<u>200,631</u>
Total Projected Value	2,737,308	2,764,664	2,815,945	2,868,251	2,921,603	2,976,023	3,031,531	3,088,149	3,145,899	3,204,804
Taxable Value over Base	275,241	2,489,423	2,540,704	2,593,010	2,646,363	2,700,782	2,756,290	2,812,908	2,870,658	2,929,564
Gross Tax Increment Revenue (4)	28,872	29,172	29,756	30,352	30,959	31,578	32,210	32,853	33,509	34,178
Unitary Tax Revenue (5)	<u>2,874</u>	<u>2,874</u>	<u>2,874</u>	<u>2,874</u>	<u>2,874</u>	<u>2,874</u>	<u>2,874</u>	<u>2,874</u>	<u>2,874</u>	<u>2,874</u>
Gross Revenues	31,745	32,045	32,630	33,225	33,833	34,452	35,083	35,727	36,382	37,051
LESS										
SB 2557 Admin. Fee (6)	(292)	(295)	(300)	(306)	(311)	(317)	(323)	(329)	(335)	(341)
Housing Set Aside Requirement (7)	<u>(6,349)</u>	<u>(6,409)</u>	<u>(6,526)</u>	<u>(6,645)</u>	<u>(6,767)</u>	<u>(6,890)</u>	<u>(7,017)</u>	<u>(7,145)</u>	<u>(7,276)</u>	<u>(7,410)</u>
Tax Revenues	25,104	25,341	25,803	26,275	26,755	27,245	27,744	28,253	28,771	29,300
Added Housing Set-Aside (7)	<u>(1,587)</u>	<u>(1,602)</u>	<u>(1,631)</u>	<u>(1,661)</u>	<u>(1,692)</u>	<u>(1,723)</u>	<u>(1,754)</u>	<u>(1,786)</u>	<u>(1,819)</u>	<u>(1,853)</u>
Net Tax Revenue	23,517	23,739	24,172	24,613	25,063	25,522	25,990	26,466	26,952	27,447

- (1) Taxable values as reported by Alameda County.
- (2) Real property consists of land and improvements. Increased for new development and for inflation at 2% annually. Real Property values for 2003-04 include \$14,770,322 for transfers of ownership between the lien date and equalization date. Values for 2003-04 are reduced by \$37,689,690 for estimated losses in value due to pending assessment appeals.
- (3) Personal property is held constant at 2002-03 level.
- (4) Projected Gross Tax Increment is based upon incremental taxable values factored against an assumed Project tax rate and adjusted for indebtedness approved by voters after 1988. The assumed future tax rates decline to \$1.1575 per \$100 of taxable value over 10 years
- (5) Unitary Revenue is held constant at 2001-02 level.
- (6) County Administration fee is estimated at 0.92% of Gross Revenue.
- (7) Housing Set Aside Requirement is calculated at 20% of Gross Revenue. The Agency has at it's own election chosen to set aside an additional 5% of Gross Revenue into the Housing Fund. This Added Housing Set-Aside is subordinate to payment of debt service on the Bonds.



**Oakland Redevelopment Agency
Central District Project Area**
PROJECTION OF INCREMENTAL VALUE AND TAX INCREMENT REVENUE
(000s Omitted)
Table 2

	Total	Taxable Value		Gross Tax Revenue (1)	Housing Set-Aside	SB 2557 County Admin.	Tax Revenues	Added Housing Set-Aside	Net Tax Revenues
		Taxable Value	Over Base						
1	2002-03	2,737,308	2,462,068	31,745	(6,349)	(292)	25,104	(1,587)	23,517
2	2003-04	2,764,664	2,489,423	32,045	(6,409)	(295)	25,341	(1,602)	23,739
3	2004-05	2,815,945	2,540,704	32,630	(6,526)	(300)	25,803	(1,631)	24,172
4	2005-06	2,868,251	2,593,010	33,225	(6,645)	(306)	26,275	(1,661)	24,613
5	2006-07	2,921,603	2,646,363	33,833	(6,767)	(311)	26,755	(1,692)	25,063
6	2007-08	2,976,023	2,700,782	34,452	(6,890)	(317)	27,245	(1,723)	25,522
7	2008-09	3,031,531	2,756,290	35,083	(7,017)	(323)	27,744	(1,754)	25,990
8	2009-10	3,088,149	2,812,908	35,727	(7,145)	(329)	28,253	(1,786)	26,466
9	2010-11	3,145,899	2,870,658	36,382	(7,276)	(335)	28,771	(1,819)	26,952
10	2011-12	3,204,804	2,929,564	37,051	(7,410)	(341)	29,300	(1,853)	27,447
11	2012-13	3,264,888	2,989,647	37,733	(7,547)	(347)	29,839	(1,887)	27,952
12	2013-14	3,326,173	3,050,932	38,428	(7,686)	(354)	30,389	(1,921)	28,467
13	2014-15	3,388,684	3,113,443	39,136	(7,827)	(360)	30,949	(1,957)	28,992
14	2015-16	3,452,445	3,177,204	39,858	(7,972)	(367)	31,520	(1,993)	29,527
15	2016-17	3,517,481	3,242,241	40,613	(8,123)	(374)	32,117	(2,031)	30,086
16	2017-18	3,583,818	3,308,578	41,385	(8,277)	(381)	32,728	(2,069)	30,658
17	2018-19	3,651,482	3,376,241	21,087	(4,217)	(194)	16,675	(1,054)	15,621
18	2019-20	0	0	0	0	0	0	0	0
				600,413	(120,083)	(5,524)	474,806	(30,021)	444,786

(1) Project Area can receive no revenue after 6/12/19 under current limits.

**Oakland Redevelopment Agency
Central District Project Area**

Historical Assessed Values
Table 3

	Base Year	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03 (2)
Secured (1)	1993-99										
Land	214,110,703	431,732,748	445,897,858	441,308,806	430,053,378	436,393,138	427,918,827	442,449,591	479,129,299	518,629,695	561,384,436
Improvements	0	1,339,591,602	1,358,498,272	1,347,144,944	1,219,132,020	1,227,909,359	1,231,002,337	1,355,976,801	1,562,377,101	1,642,873,915	1,980,249,319
Personal Property	0	77,301,580	59,476,401	79,804,502	60,437,274	64,848,844	79,180,975	69,600,755	63,987,297	54,788,060	37,169,214
Exemptions	0	(53,455,101)	(227,237,751)	(242,214,397)	(249,826,116)	(263,511,941)	(270,203,345)	(270,023,156)	(271,188,283)	(113,643,485)	(146,743,950)
Total Secured	214,110,703	1,795,170,829	1,636,634,780	1,626,043,855	1,459,796,556	1,465,639,400	1,467,878,794	1,598,003,991	1,834,305,414	2,102,648,185	2,432,059,019
Unsecured											
Land	0	32,286,187	34,227,503	25,574,889	25,599,647	32,564,358	34,524,552	35,264,212	12,991,470	13,008,000	17,678,883
Improvements	0	205,112,501	98,512,141	106,759,102	139,561,141	143,518,281	152,562,248	155,740,568	86,060,521	86,470,008	124,108,292
Personal Property	61,129,825	140,481,413	136,300,996	140,557,166	114,643,304	145,308,822	149,361,308	146,664,981	167,474,825	179,800,975	171,176,952
Exemptions	0	(5,011,111)	(5,730,439)	(5,645,968)	(7,013,045)	(9,676,787)	(4,208,235)	(7,604,137)	(7,520,171)	(5,457,994)	(7,714,909)
Total Unsecured	61,129,825	372,868,990	263,310,201	267,245,189	272,791,047	311,714,674	332,239,873	330,065,624	259,006,445	273,820,989	305,249,218
GRAND TOTAL	275,240,528	2,168,039,819	1,899,944,981	1,893,289,044	1,732,587,603	1,777,354,074	1,800,118,667	1,928,069,615	2,093,311,859	2,376,469,174	2,737,308,237
Incremental Value		1,892,799,291	1,624,704,453	1,618,048,516	1,457,347,075	1,502,113,546	1,524,878,139	1,652,829,087	1,818,071,331	2,101,228,646	2,462,067,709
% Growth		-14.16%	-0.41%	-9.93%	3.07%	1.52%	8.39%	10.00%	15.57%	17.17%	

Source: County of Alameda.

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

**Oakland Redevelopment Agency
Central District Project Area
TOP TEN TAXABLE PROPERTY OWNERS
As Compared to Total Assessed Value
For Fiscal Year 2002-03
Table 4**

	Secured			Unsecured			Total			Use Code
	Taxable Value	Parcels	% of Sec. AV	Taxable Value	Parcels	% of Unsec. AV	Taxable Value	% of Total Value		
1. OCC Venture LLC	\$167,375,074	9	6.88%	\$0	0	0.00%	\$167,375,074	6.11%	Non-contiguous Commercial Office Buildings	
2. Prentiss Properties Lake Merritt LLC	\$148,867,166	6	6.12%	\$17,955	2	0.01%	\$148,885,121	5.44%	Non-contiguous Commercial Office Buildings	
3. Kaiser Foundation Health Plan Inc. (1)	\$96,633,101	3	3.97%	\$32,369,239	12	10.60%	\$129,002,340	4.71%	Foundation Administrative Offices/Parking	
4. 1800 Harrison Foundation	\$106,290,475	1	4.37%	\$0	0	0.00%	\$106,290,475	3.88%	Commercial Office Building	
5. Clorox Company (1)	\$96,685,749	3	3.98%	\$0	0	0.00%	\$96,685,749	3.53%	Commercial Office Building	
6. Oakland City Center LLC (1)	\$86,699,397	12	3.56%	\$875,671	1	0.29%	\$87,575,068	3.20%	Commercial Office Buildings	
7. Webster Street Partners Limited	\$70,836,432	3	2.91%	\$0	0	0.00%	\$70,836,432	2.59%	Commercial Office Buildings	
8. SSR Western Multifamily LLC (1)	\$59,531,000	3	2.45%	\$0	0	0.00%	\$59,531,000	2.17%	Non-contiguous, High Rise Multifamily Residential	
9. Simrock 2 180 Grand LLC	\$44,625,000	2	1.83%	\$0	0	0.00%	\$44,625,000	1.63%	Commercial Office Buildings	
10. Essex Portfolio Limited Partnership	\$34,086,644	1	1.40%	\$0	0	0.00%	\$34,086,644	1.25%	High Rise Multifamily Residential	
Top Ten Property Owner Totals:	\$911,630,038	43		\$33,262,865	15		\$944,892,903			

Project Area Total Assessed Values: \$2,432,059,019 37.48%
 \$305,249,218 10.90%
 \$2,737,308,237 84.52%

(1) Property owners with currently pending appeals

Oakland Redevelopment Agency
Central District Project Area
TOP TEN TAXABLE PROPERTY OWNERS
As Compared to Incremental Assessed Value
For Fiscal Year 2002-03
Table 4a

12/18/02

	Secured			Unsecured			Total			Use Code
	Value	Parcels	% of Inc. AV	Value	Parcels	% of Inc. AV	Value	% of Inc. Value		
1. OCC Venture LLC	\$167,375,074	9	7.55%	\$0	0	0.00%	\$167,375,074	6.80%	Non-contiguous Commercial Office Buildings	
2. Prentiss Properties Lake Merritt LLC	\$148,867,166	6	6.71%	\$17,955	2	0.01%	\$148,885,121	6.05%	Non-contiguous Commercial Office Buildings	
3. Kaiser Foundation Health Plan Inc. (1)	\$96,633,101	3	4.36%	\$32,369,239	12	13.26%	\$129,002,340	5.24%	Foundation Administrative Offices/Parking	
4. 1800 Harrison Foundation	\$106,290,475	1	4.79%	\$0	0	0.00%	\$106,290,475	4.32%	Commercial Office Building	
5. Clorox Company (1)	\$96,685,749	3	4.36%	\$0	0	0.00%	\$96,685,749	3.93%	Commercial Office Building	
6. Oakland City Center LLC (1)	\$86,899,397	12	3.91%	\$875,671	1	0.36%	\$87,575,068	3.56%	Commercial Office Buildings	
7. Webster Street Partners Limited	\$70,836,432	3	3.19%	\$0	0	0.00%	\$70,836,432	2.88%	Commercial Office Buildings	
8. SSR Western Multifamily LLC (1)	\$59,531,000	3	2.68%	\$0	0	0.00%	\$59,531,000	2.42%	Non-contiguous, High Rise Multifamily Residential	
9. Simrock 2 180 Grand LLC	\$44,625,000	2	2.01%	\$0	0	0.00%	\$44,625,000	1.81%	Commercial Office Buildings	
10. Essex Portfolio Limited Partnership	\$34,086,644	1	1.54%	\$0	0	0.00%	\$34,086,644	1.38%	High Rise Multifamily Residential	
Top Ten Property Owner Totals:	\$911,630,038	43	41.10%	\$33,262,865	15	13.63%	\$944,892,903	38.38%		
Project Area Incremental Values:	\$2,217,948,316			\$244,119,393		13.63%	\$2,462,067,709	38.38%		

(1) Property owners with currently pending appeals

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APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a brief summary of certain provisions of the Indenture of Trust (the "Indenture") authorizing the Series 2003 Bonds that are not otherwise described in the text of this Official Statement. Such summary is not intended to be definitive, and reference is made to the actual Indenture (copies of which may be obtained from the Agency) for the complete terms thereof.

Definitions

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

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

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

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

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

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

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

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

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

"Code" means the Internal Revenue Code of 1986 as in effect on the date of issuance of the Series 2003 Bonds or (except as otherwise referenced in the Indenture) as it may be

amended to apply to obligations issued on the date of issuance of the Series 2003 Bonds, together with applicable proposed, temporary and final regulations promulgated, and applicable official public guidance published, under the Code.

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

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

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

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

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

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

- (a) Cash;
- (b) Federal Securities;
- (c) The interest component of Resolution Funding Corporation strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form;
- (d) Pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by S&P;
- (e) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself): (i) direct obligations or fully guaranteed certificates of beneficial ownership of the U.S. Export-Import Bank; (ii) certificates of beneficial ownership of the Farmers Home Administration; (iii) Federal Housing Administration debentures; (iv) participation certificates of the General

Services Administration; (v) Federal Financing Bank bonds and debentures; (vi) guaranteed mortgage-backed bonds or guaranteed pass-through obligations of the Government National Mortgage Association; (vii) guaranteed Title XI financings of the U.S. Maritime Administration; and (viii) project notes, local authority bonds, new communities debentures and U.S. public housing notes and bonds of the U.S. Department of Housing and Urban Development; and

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

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

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

"Fiscal Year" means any twelve-month period beginning on July 1 in any year and extending to the next succeeding June 30, both dates inclusive, or any other twelve month period selected and designated by the Agency to the Trustee in writing as its official fiscal year period.

"Indenture" means the Indenture of Trust by and between the Agency and the Trustee, as originally entered into or as it may be amended or supplemented by any Supplemental Indenture entered into pursuant to the provisions thereof.

"Independent Accountant" means any accountant or firm of such accountants duly licensed or registered or entitled to practice as such under the laws of the State, appointed by the Agency, and who, or each of whom:

- (a) is in fact independent and not under domination of the Agency;

(b) does not have any substantial interest, direct or indirect, with the Agency;
and

(c) is not connected with the Agency as an officer or employee of the Agency, but who may be regularly retained to make reports to the Agency.

"Independent Redevelopment Consultant" means any consultant or firm of such consultants appointed by the Agency (who may be an underwriter of bonds of the Agency or the City), and who, or each of whom:

(a) is judged by the Agency to have experience in matters relating to the collection of Tax Revenues or otherwise with respect to the financing of Redevelopment Projects;

(b) is in fact independent and not under domination of the Agency;

(c) does not have any substantial interest, direct or indirect, with the Agency;
and

(d) is not connected with the Agency as an officer or employee of the Agency, but who may be regularly retained to make reports to the Agency.

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

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

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

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

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

"Moody's" means Moody's Investors Service and its successors.

"Outstanding", when used as of any particular time with reference to Bonds, means (subject to the applicable provisions of the Indenture) all Bonds except:

(a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation;

(b) Bonds paid or deemed to have been paid within the meaning of the Indenture, but not including any Bonds paid by the Series 2003 Insurer or by any other Insurer, as provided in the Indenture; and

(c) Bonds in lieu of or in substitution for which other Bonds shall have been authorized, executed, issued and delivered by the Agency pursuant the Indenture.

"Owner" or "Bondowner" means, with respect to any Bond, the person in whose name the ownership of such Bond shall be registered on the Registration Books.

"Parity Debt" means any additional loans, advances or other indebtedness issued or incurred by the Agency on a parity with the Bonds pursuant to the Indenture.

"Parity Debt Instrument" means any Supplemental Indenture or other instrument providing for the issuance or incurrence of Parity Debt.

"Participating Underwriter" has the meaning ascribed thereto in the Continuing Disclosure Certificate.

"Permitted Investments" means any of the following which at the time of investment are in compliance with the City's investment policies then in effect (provided that the Trustee shall be entitled to rely upon any investment direction from the Agency as conclusive certification to the Trustee that the investments described therein are in compliance with the City's investment policies then in effect), but only to the extent that the same are acquired at Fair Market Value:

- (a) Federal Securities;
- (b) The interest component of Resolution Funding Corporation strips which have been stripped by request to the Federal Reserve Bank of New York in book-entry form;
- (c) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself): (i) direct obligations or fully guaranteed certificates of beneficial ownership of the U.S. Export-Import Bank; (ii) certificates of beneficial ownership of the Farmers Home Administration; (iii) Federal Housing Administration debentures; (iv) participation certificates of the General Services Administration; (v) Federal Financing Bank bonds and debentures; (vi) guaranteed mortgage-backed bonds or guaranteed pass-through obligations of the Government National Mortgage Association; (vii) guaranteed Title XI financings of the U.S. Maritime Administration; and (viii) project notes, local authority bonds, new communities debentures and U.S. public housing notes and bonds of the U.S. Department of Housing and Urban Development;
- (d) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities only as stripped by the agency itself): (i) senior debt obligations of the Federal Home Loan Bank System; (ii) participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation; (iii) mortgaged-backed securities and senior debt obligations of Fannie Mae; (iv) senior debt obligations of the Student Loan Marketing

Association; (v) obligations of the Resolution Funding Corporation; and (vi) consolidated system-wide bonds and notes of the Farm Credit System;

- (e) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of at least "AAAm-G", "AAAm" or "AAm", and a rating by Moody's of "Aaa", "Aa1" or "Aa2" (such funds may include funds for which the Trustee, its affiliates, parent or subsidiaries provide investment advisory or other management services);
- (f) Certificates of deposit (including those of the Trustee, its parent and its affiliates) secured at all times by collateral described in (a) or (b) above, which have a maturity not greater than one year from the date of investment and which are issued by commercial banks, savings and loan associations or mutual savings banks whose short-term obligations are rated "A-1+" or better by S&P and "Prime-1" by Moody's, which collateral must be held by a third party and provided that the Trustee must have a perfected first security interest in such collateral;
- (g) Certificates of deposit, savings accounts, deposit accounts or money market deposits (including those of the Trustee and its affiliates) which are fully insured by FDIC, including BIF and SAIF or which are issued by any bank the obligations of which are rated at least "A" by Moody's and S&P;
- (h) Investment agreements, including guaranteed investment contracts, forward purchase agreements, reserve fund put agreements and collateralized investment agreements with banks, insurance companies or other financial institutions rated "A" or better by S&P and Moody's (or guaranteed by an entity rated "A" or better by S&P and Moody's);
- (i) Commercial paper rated "Prime-1" by Moody's and "A-1+" or better by S&P;
- (j) Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest rating categories assigned by such agencies;
- (k) Federal funds or bankers acceptances with a maximum term of one year of any bank which an unsecured, uninsured and unguaranteed obligation rating of "Prime-1" or "A3" or better by Moody's, and "A-1+" by S&P;
- (l) The Local Agency Investment Fund which is administered by the California Treasurer for the investment of funds belonging to local agencies within the State of California, provided for investment of funds held by the Trustee, the Trustee is entitled to make investments and withdrawals in its own name as Trustee; and
- (m) Shares in a California common law trust (including the California Asset Management Program) established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State of California which invests exclusively in investments permitted by Section 53601 of Title 5, Division 2, Chapter 4 of the Government Code of the State of California, as it may be amended.

"Plan Limit" means the limitation contained in the Redevelopment Plan on the number of dollars of taxes which may be divided and allocated to the Agency pursuant to the Redevelopment Plan, as such limitation is prescribed by Section 33333.4 of the Law.

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

"Project Area" means the territory within the Redevelopment Project, as described in the Redevelopment Plan.

"Qualified Reserve Account Credit Instrument" means an irrevocable standby or direct-pay letter of credit, insurance policy or surety bond issued by a commercial bank or insurance company and deposited with the Trustee, provided that all of the following requirements are met at the time of acceptance thereof by the Trustee: (a) in the case of a commercial bank, the long-term credit rating of such bank is at least "AA" from S&P or "Aa" from Moody's and, in the case of an insurance company, the claims paying ability of such insurance company is "AAA" from S&P or "Aaa" from Moody's or, if rated by A.M. Best & Company, is rated in the highest rating category by A.M. Best & Company; (b) such letter of credit or surety bond has a term of at least 12 months; (c) such letter of credit or surety bond has a stated amount at least equal to the portion of the Reserve Requirement with respect to which funds are proposed to be released; (d) the Trustee is authorized pursuant to the terms of such letter of credit or surety bond to draw under the Indenture an amount equal to any deficiencies which may exist from time to time in the Interest Account or the Principal Account for the purpose of making payments required pursuant to the Indenture; and (e) such letter of credit, insurance policy or surety bond otherwise meets the requirements described under the heading "Additional Provisions Relating to Qualified Reserve Account Credit Instruments" below.

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

"Redevelopment Fund" means the fund by that name created under the Indenture and held by the Trustee.

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

"Redevelopment Plan" means the redevelopment plan for the Central District Redevelopment Project of the Agency in Oakland, California, titled "Central District Urban Renewal Plan," heretofore adopted and approved as the Redevelopment Plan for the Project, and as amended and restated by Ordinance No. 12348 adopted by said Council on July 24, 2001, together with all further amendments thereto hereafter made in accordance with the Law.

"Redevelopment Project" means the Oakland Central District Redevelopment Project as described in the Redevelopment Plan.

"Report" means a document in writing signed by an Independent Redevelopment Consultant and including:

- (a) a statement that the person or firm making or giving such Report has read the pertinent provisions of the Indenture to which such Report relates;
- (b) a brief statement as to the nature and scope of the examination or investigation upon which the Report is based; and

(c) a statement that, in the opinion of such person or firm, sufficient examination or investigation was made as is necessary to enable said consultant to express an informed opinion with respect to the subject matter referred to in the Report.

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

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

"S&P" means Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, and its successors.

"Senior Bonds" means the Agency's Central District Redevelopment Project Senior Tax Allocation Refunding Bonds, Series 1992, and any obligations issued on a parity therewith as provided in the Senior Bonds Resolution.

"Senior Bonds Resolution" means the Resolution of the Agency adopted on June 3, 1986, entitled "Resolution of the Redevelopment Agency of the City of Oakland Authorizing the Issuance and Prescribing the Terms, Conditions and Form of \$91,555,000 Principal Amount of Redevelopment Project Tax Allocation Refunding Bonds, Series 1986," as amended and supplemented by the Resolution of the Agency adopted on July 28, 1992, entitled "First Supplemental and Amendatory Resolution of the Redevelopment Agency of the City of Oakland Authorizing the Issuance and Prescribing the Agency of the City of Oakland Central District Redevelopment Project Senior Tax Allocation Refunding Bonds, Series 1992," and as it may be further amended from time to time, and pursuant to which the Senior Bonds were issued.

"Serial Bonds" means all Bonds other than Term Bonds.

"Series 1989A Bonds" means the Agency's Central District Redevelopment Project Tax Allocation Bonds, Series 1989A.

"Series 1995A Bonds" means the Agency's Central District Redevelopment Project Subordinated Tax Allocation Bonds, Series 1995A (City Administration Facility).

"Series 1993A Bonds" means the Agency's Central District Redevelopment Project Subordinated Tax Allocation Bonds, Series 1993A.

"Series 1992A Bonds" means the Agency's Central District Redevelopment Project Subordinated Tax Allocation Refunding Bonds, Series 1992A.

"Series 2003 Bonds" means the Redevelopment Agency of the City of Oakland Central District Redevelopment Project Subordinated Tax Allocation Bonds, Series 2003.

"Series 2003 Bond Insurance Policy" means the municipal bond insurance policy issued by the Series 2003 Insurer insuring the payment when due of the principal of and interest on the Series 2003 Bonds as provided therein.

"Series 2003 Insurer" means Financial Guaranty Insurance Company, doing business in California as FGIC Insurance Company, a New York Stock Insurance Company or any successor thereto.

"Series 2003 Policy Costs" shall have the meaning assigned to that term in the Series 2003 Reserve Account Agreement.

"Series 2003 Qualified Reserve Account Credit Instrument" means the Municipal Bond Debt Service Reserve Fund Policy issued by the Series 2003 Insurer.

"Series 2003 Reserve Account Agreement" means the Debt Service Reserve Fund Policy Agreement dated as of January 9, 2003, between the Agency and the Series 2003 Insurer.

"Special Fund" means the fund by that name established and held by the Agency.

"State" means the State of California.

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

"Subordinate Debt Instrument" means any instrument providing for the issuance of Subordinate Debt.

"Supplemental Indenture" means any resolution, agreement or other instrument which has been duly adopted or entered into by the Agency, but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

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

"Tax Revenues Certificate" means a Written Certificate of the Agency identifying, among other things, the amount of Tax Revenues received or estimated to be received by the Agency in the then current Fiscal Year.

"Term Bonds" means that portion of any Bonds payable from mandatory sinking account payments.

"Written Request of the Agency" or "Written Certificate of the Agency" means a request or certificate, in writing signed by the Treasurer of the Agency or her or his designee, or by any other officer of the Agency or the City duly authorized by the Agency for that purpose.

Establishment of Funds and Accounts; Flow of Funds

Each of the following funds and accounts are established pursuant to the Indenture:

- (a) Costs of Issuance Fund,
- (b) Redevelopment Fund,
- (c) Refunding Fund,
- (d) Special Fund,
- (e) Debt Service Fund,
- (f) Interest Account,
- (g) Principal Account,
- (h) Reserve Account, and
- (i) Redemption Account.

Costs of Issuance Fund. The moneys in the Costs of Issuance Fund shall be used and withdrawn by the Trustee from time to time to pay the Costs of Issuance with respect to the Series 2003 Bonds upon submission of a Written Request of the Agency stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund. On the date which is six (6) months following the Closing Date with respect to the Series 2003 Bonds, or upon the earlier Written Request of the Agency, all amounts (if any) remaining in the Costs of Issuance Fund shall be withdrawn therefrom by the Trustee and transferred to the Redevelopment Fund.

Redevelopment Fund. The moneys in the Redevelopment Fund shall be maintained separate and apart from other moneys of the Agency. The moneys on deposit in the Redevelopment Fund shall be used in the manner provided by the Law solely for the purpose of aiding in financing the Redevelopment Project, including, without limitation, the payment of any unpaid Costs of Issuance. The Agency covenants that no funds on deposit in the Redevelopment Fund shall be applied for any purpose not authorized by the Law.

Refunding Fund. The amounts on deposit in the Refunding Fund shall be applied to the refunding of the Series 1989A Bonds, the Series 1992A Bonds, the Series 1993A Bonds and the Series 1995A Bonds.

Special Fund; Deposit of Tax Revenues. There is established in the Indenture another special fund known as the "Special Fund", which is held by the Agency and which is in the Indenture referred to as the "Special Fund". Subject to the provisions of the Senior Bonds Resolution regarding the application of Tax Revenues, the Agency shall transfer all of the Tax Revenues received in any Bond Year to the Special Fund promptly upon receipt thereof by the Agency, until such time during such Bond Year as the amounts on deposit in the Special Fund equal the aggregate amounts required to be transferred for deposit in such Bond Year (i) for deposit into the Interest Account, the Principal Account, the Reserve Account and the Redemption Account in such Bond Year and, if applicable, and (ii) with respect to any Parity Debt other than additional Bonds pursuant to the applicable Parity Debt Instrument. If the amount of Tax Revenues available in such Bond Year shall be insufficient to deposit the full amount required to be deposited pursuant to subsections (i) and (ii) of this paragraph, then the

Agency shall transfer such Tax Revenues for deposit pro rata based on the full amounts required to be so deposited.

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

Debt Service Fund; Deposit of Amounts by Trustee. There is established a trust fund to be known as the Debt Service Fund, which shall be held by the Trustee under the Indenture in trust. Moneys in the Special Fund, as provided in the Indenture, shall be transferred by the Agency to the Trustee in the following amounts, at the following times, and deposited by the Trustee in the following respective special accounts, which are established in the Debt Service Fund, and in the following order of priority:

(a) Interest Account. On or before the third (3rd) Business Day preceding each Interest Payment Date, the Agency shall withdraw from the Special Fund and transfer to the Trustee, for deposit in the Interest Account an amount which when added to the amount contained in the Interest Account on that date, will be equal to the aggregate amount of the interest becoming due and payable on the Outstanding Bonds on such Interest Payment Date. No such transfer and deposit need be made to the Interest Account if the amount contained therein is at least equal to the interest to become due on the next succeeding Interest Payment Date upon all of the Outstanding Bonds. All moneys in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds redeemed prior to maturity pursuant to the Indenture).

(b) Principal Account. On or before the third (3rd) Business Day preceding September 1 in each year beginning September 1, 2003, the Agency shall withdraw from the Special Fund and transfer to the Trustee for deposit in the Principal Account an amount which, when added to the amount then contained in the Principal Account, will be equal to the principal becoming due and payable on the Outstanding Serial Bonds and Outstanding Term Bonds, including pursuant to mandatory sinking account redemption, on the next September 1. No such transfer and deposit need be made to the Principal Account if the amount contained therein is at least equal to the principal to become due on the next September 1 on all of the Outstanding Serial Bonds and Term Bonds. All moneys in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Serial Bonds and the Term Bonds, including by mandatory sinking account redemption, as the same shall become due and payable.

(c) Reserve Account. In the event that the amount on deposit in the Reserve Account at any time becomes less than the Reserve Requirement, the Trustee shall promptly notify the Agency of such fact. Promptly upon receipt of any such notice, the Agency shall transfer to the Trustee an amount sufficient to maintain the Reserve

Requirement on deposit in the Reserve Account. If there shall then not be sufficient Tax Revenues to transfer an amount sufficient to maintain the Reserve Requirement on deposit in the Reserve Account, the Agency shall be obligated to continue making transfers as Tax Revenues become available in the Special Fund until there is an amount sufficient to maintain the Reserve Requirement on deposit in the Reserve Account. No such transfer and deposit need be made to the Reserve Account so long as there shall be on deposit therein a sum at least equal to the Reserve Requirement. All money in the Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of making transfers to the Interest Account and the Principal Account in such order of priority, in the event of any deficiency at any time in any of such accounts or for the retirement of all the Bonds then Outstanding, except that so long as the Agency is not in default under the Indenture, any amount in the Reserve Account in excess of the Reserve Requirement shall be withdrawn from the Reserve Account semiannually on or before the fifth (5th) Business Days preceding each March 1 and September 1 by the Trustee and deposited in the Interest Account. All amounts in the Reserve Account on the Business Day preceding the final Interest Payment Date shall be withdrawn from the Reserve Account and shall be transferred either (i) to the Interest Account and the Principal Account, in such order, to the extent required to make the deposits then required to be made pursuant to the Indenture or, (ii) if the Agency shall have caused to be transferred to the Trustee an amount sufficient to make all of the deposits required by the Indenture, then, at the Written Request of the Agency, to the Redevelopment Fund.

The Agency shall have the right at any time to direct the Trustee to release funds from the Reserve Account, in whole or in part, by tendering to the Trustee: (i) a Qualified Reserve Account Credit Instrument, and (ii) an opinion of Bond Counsel stating that neither the release of such funds nor the acceptance of such Qualified Reserve Account Credit Instrument will cause interest on the Series 2003 Bonds or any other Bonds the interest on which is excluded from gross income of the owners thereof for federal income tax purposes to become includable in gross income for purposes of federal income taxation. Upon tender of such items to the Trustee, and upon delivery by the Agency to the Trustee of written calculation of the amount permitted to be released from the Reserve Account (upon which calculation the Trustee may conclusively rely), the Trustee shall transfer such funds from the Reserve Account to the Agency to be deposited in the Redevelopment Fund and used for the purposes thereof. The Trustee shall comply with all documentation relating to a Qualified Reserve Account Credit Instrument as shall be required to maintain such Qualified Reserve Account Credit Instrument in full force and effect and as shall be required to receive payments under the Indenture in the event and to the extent required to make any payment when and as required under this subsection (d). Upon the expiration of any Qualified Reserve Account Credit Instrument, the Agency shall either (i) replace such Qualified Reserve Account Credit Instrument with a new Qualified Reserve Account Credit Instrument, or (ii) deposit or cause to be deposited with the Trustee an amount of funds equal to the Reserve Requirement, to be derived from the first available Tax Revenues. If the Qualified Reserve Account Credit Instrument is in the form of a letter of credit and the Agency has not renewed or replaced such letter of credit two weeks prior to its expiration or termination, the Trustee shall draw on such letter of credit in full and deposit the proceeds of such draw in the Reserve Account. If the Reserve Requirement is being maintained partially in cash and partially with a Qualified Reserve Account Credit Instrument, the cash shall be first used to meet any deficiency which may exist from time to time in the Interest Account or the Principal Account for the purpose of making interest and principal payments required pursuant to the Indenture. If the Reserve Requirement is being maintained with two or more Qualified Reserve Account Credit Instruments, any draw to meet a deficiency which may exist from time to time in the Interest Account or the Principal

Account for the purpose of making payments of interest and principal required pursuant to the Indenture shall be pro-rata with respect to each such instrument.

In the event that a Qualified Reserve Account Credit Instrument is available to be drawn upon for only one particular issue of Bonds, a separate subaccount in the Reserve Account may be established for such issue, and the calculation of the Reserve Requirement with respect to all other Bonds shall exclude the debt service on such issue of Bonds. Additionally, the Reserve Account may be maintained in the form of one combined Reserve Account or in the form of one more separate sub-accounts which are established for the purpose of holding the proceeds of separate issues of Bonds in conformity with applicable provisions of the Code to the extent directed by the Agency in writing to the Trustee.

(d) Redemption Account. On or before the Business Day preceding any date on which Bonds are to be redeemed pursuant to the Indenture, the Trustee shall withdraw from the Debt Service Fund any amount transferred by the Agency for deposit in the Redemption Account, such amount being the amount required to pay the principal of and premium, if any, on the Series 2003 Bonds and on other Bonds to be redeemed on such date pursuant to the Indenture or a similar provision of a Supplemental Indenture. All moneys in the Redemption Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of and premium, if any, on the Series 2003 Bonds and on such other Bonds to be redeemed pursuant to the Indenture or a similar provision of a Supplemental Indenture on the date set for such redemption. Interest due on the Series 2003 Bonds or such other Bonds to be redeemed on the date set for redemption shall, if applicable, be paid from funds available therefor in the Interest Account. Notwithstanding the foregoing, at any time prior to giving notice of redemption of any such Series 2003 Bonds or such other Bonds, the Trustee may, at the direction of the Agency, apply amounts deposited or otherwise to be deposited in the Redemption Account to the purchase of the Series 2003 Bonds or such other Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest on such Series 2003 Bonds or such other Bonds, which is payable from the Interest Account) as shall be directed by the Agency.

Claims Upon the Series 2003 Bond Insurance Policy

The following provisions apply to claims upon the Series 2003 Bond Insurance Policy with respect to the Bonds and apply to payments by and to the Series 2003 Insurer:

(a) If, on the third day preceding any Interest Payment Date for the Series 2003 Bonds there is not on deposit with the Trustee sufficient moneys available to pay all principal of and interest on the Series 2003 Bonds due on such date, the Trustee shall immediately notify the Series 2003 Insurer and State Street Bank and Trust Company, N.A., New York, New York or its successor as its Fiscal Agent (the "Fiscal Agent") of the amount of such deficiency. If, by said Interest Payment Date, the Agency has not provided the amount of such deficiency, the Trustee shall simultaneously make available to the Series 2003 Insurer and to the Fiscal Agent the registration books for the Series 2003 Bonds maintained by the Trustee. In addition:

(i) The Trustee shall provide the Series 2003 Insurer with a list of the Owners of the Series 2003 Bonds entitled to receive principal or interest payments from the Series 2003 Insurer under the terms of the Series 2003 Bond Insurance Policy relating to the Series 2003 Bonds and shall make arrangements for the Series 2003 Insurer and its Fiscal Agent (1) to mail checks or drafts to Owners of the Series 2003 Bonds entitled to receive full or partial interest payments from the Series 2003 Insurer and (2) to pay principal of the Series 2003 Bonds surrendered to the Fiscal Agent by the Owners of the

Series 2003 Bonds entitled to receive full or partial principal payments from the Series 2003 Insurer; and

(ii) The Trustee shall, at the time it makes the registration books available to the Series 2003 Insurer pursuant to (1) above, notify Owners of the Series 2003 Bonds entitled to receive the payment of principal of or interest on the Series 2003 Bonds from the Series 2003 Insurer (1) as to the fact of such entitlement, (2) that the Series 2003 Insurer will remit to them all or part of the interest payments coming due subject to the terms of the Series 2003 Bond Insurance Policy relating to the Series 2003 Bonds, (3) that, except as provided in paragraph (b) below, in the event that any Owner of a Series 2003 Bond is entitled to receive full payment of principal from the Series 2003 Insurer, such Owner of a Series 2003 Bond must tender his Series 2003 Bond executed in the name of the Series 2003 Insurer, and (4) that, except as provided in paragraph (b) below, in the event that such Owner of a Series 2003 Bond is entitled to receive partial payment of principal from the Series 2003 Insurer, such Owner of a Series 2003 Bond must tender his Series 2003 Bond for payment first to the Trustee, which shall note on such Series 2003 Bond the portion of principal paid by the Trustee, and then, with an acceptable form of assignment executed in the name of the Series 2003 Insurer, to the Fiscal Agent, which will then pay the unpaid portion of principal to the Owner of the Series 2003 Bonds subject to the terms of the Series 2003 Bond Insurance Policy.

(b) In the event that the Trustee has notice that any payment of principal of or interest on a Series 2003 Bond has been recovered from an Owner of a Series 2003 Bond pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee shall, at the time it provides notice to the Series 2003 Insurer, notify all Owners of Series 2003 Bonds that in the event that any such Owner's payment is so recovered, such Owner will be entitled to payment from the Series 2003 Insurer to the extent of such recovery, and the Trustee shall furnish to the Series 2003 Insurer its records evidencing the payments of principal of and interest on the Series 2003 Bonds which have been made by the Trustee and subsequently recovered from Owners of the Series 2003 Bonds, and the dates on which such payments were made.

(c) The Series 2003 Insurer shall, to the extent it makes payment of principal of or interest on the Series 2003 Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Series 2003 Bond Insurance Policy relating to the Series 2003 Bonds and, to evidence such subrogation, (A) in the case of subrogation as to claims for past due interest, the Trustee shall note the Series 2003 Insurer's rights as subrogee on the registration books maintained by the Trustee upon receipt from the Series 2003 Insurer of proof of the payment of interest thereon to the Owners of the Series 2003 Bonds and (B) in the case of subrogation as to claims for past due principal, the Trustee shall note the Series 2003 Insurer's right as subrogee on the registration books for the Series 2003 Bonds maintained by the Trustee upon receipt of proof of the payment of principal thereof to the Owners of such Series 2003 Bonds. Notwithstanding anything in the Indenture or the Series 2003 Bonds to the contrary, the Trustee shall make payment of such past due interest and past due principal directly to the Series 2003 Insurer to the extent that the Series 2003 Insurer is a subrogee with respect thereto.

Provisions Relating to the Series 2003 Qualified Reserve Account Credit Instrument.

(a) Notwithstanding anything in the Indenture to the contrary, in the event that amounts on deposit in the Reserve Account are required to be withdrawn to pay the principal of (including pursuant to mandatory sinking fund redemption) and interest on the Series 2003 Bonds, if and to the extent that cash is on deposit in the Reserve Account, all such cash shall be used (or investments purchased with such cash shall be liquidated and the proceeds applied as

required in the Indenture) prior to any drawing being made under the Series 2003 Qualified Reserve Account Credit Instrument, and the repayment of Series 2003 Policy Costs shall be made prior to the replenishment of any such cash amounts and shall enjoy the same priority as the obligation to maintain and refill the Reserve Account. Additionally, if in addition to the Series 2003 Qualified Reserve Account Credit Instrument any other surety bond, insurance policy or letter of credit (an "Additional Qualified Reserve Account Credit Instrument") is provided, drawings under the Series 2003 Qualified Reserve Account Credit Instrument and such Additional Qualified Reserve Account Credit Instrument, and repayment of the Series 2003 Policy Costs and reimbursements of amounts due in connection with the Additional Qualified Reserve Account Credit Instrument shall be made on a pro rata basis (calculated by reference to the maximum amounts available to be drawn thereunder) after applying all available cash and Investment Securities on deposit in the Reserve Account and prior to the replenishment of any such cash draws, respectively.

(b) To the extent that a drawing is made on the Series 2003 Qualified Reserve Account Credit Instrument, the Agency shall repay such draw and related expenses as provided in the Series 2003 Reserve Account Agreement (notwithstanding anything to the contrary set forth in the Indenture). Such draw and related expenses shall bear interest at a rate equal to the lower of (i) the prime rate of JPMorgan Chase Bank in effect from time to time plus 2% per annum and (ii) the highest rate permitted by law. Repayment of Policy Costs shall be in an amount equal to 1/12 of the aggregate of Policy Costs related to a draw on the Series 2003 Qualified Reserve Account Credit Instrument.

(c) If the Agency fails to pay any Series 2003 Policy Costs in accordance with the provisions of the Series 2003 Reserve Account Agreement, the Series 2003 Insurer shall be entitled to exercise any and all remedies available at law or under the Indenture or the Series 2003 Reserve Account Agreement other than (i) acceleration of the maturity of the Series 2003 Bonds or (ii) remedies which would adversely affect the Owners of the Series 2003 Bonds.

(d) The Indenture shall not be deemed discharge until all Series 2003 Policy Costs shall have been paid in full.

(e) As security for the Agency's repayment obligations with respect to the Series 2003 Reserve Account Agreement, the Series 2003 Insurer, as provider of the Series 2003 Qualified Reserve Account Credit Instrument, is hereby granted a security interest in the Tax Revenues and amounts held by the Trustee under the Indenture, which security interest shall be subordinate to the security interest granted to the Owners of the Series 2003 Bonds (including the Series 2003 Bond Insurer) and on a parity with the security interest granted to the provider of an Additional Qualified Reserve Account Credit Instrument.

(f) In determining whether the Agency complies with the Parity Debt test set forth in the Indenture in connection with the incurrence of Parity Debt, there shall also be taken into account any Series 2003 Policy Costs then due and payable, provided that there need be only one times coverage with respect thereto. Additionally, in the event that any Series 2003 Policy Costs are past due and owing, no additional Series of Bonds may be issued without the consent of the Series 2003 Insurer, as provider of the Series 2003 Qualified Reserve Account Credit Instrument.

(g) The Trustee shall ascertain the necessity for a claim upon the Series 2003 Qualified Reserve Account Credit Instrument and provide the Series 2003 Insurer, as the provider thereof, in accordance with the provisions of the Series 2003 Qualified Reserve Account Credit Instrument, at least two (2) days prior to the applicable Interest Payment Date.

Rights of Series 2003 Insurer; Consent or Approval of the Series 2003 Insurer

(a) The following provisions shall govern, notwithstanding anything to the contrary set forth in the Indenture. The rights granted to the Series 2003 Insurer under the Indenture to request, consent to or direct any action are rights granted to the Series 2003 Insurer in consideration of its issuance of the Series 2003 Bond Insurance Policy. In this regard, the Series 2003 Insurer is a third party beneficiary of the Indenture. Any exercise by the Series 2003 Insurer of such rights is merely an exercise of the Series 2003 Insurer's contractual rights and shall not be construed or deemed to be taken for the benefit or on behalf of the Owners of the Series 2003 Bonds. With respect to Events of Default under the Indenture, the consent of the owners of the Series 2003 Bonds shall not be required in addition to consent of the Series 2003 Insurer where the Series 2003 Insurer was granted such right of consent.

(b) The Series 2003 Insurer shall be deemed to be the sole owner of the Series 2003 Bonds insured by it for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the owners of the Series 2003 Bonds insured by it are entitled to take pursuant to the Indenture. Except as otherwise provided in the Indenture, no contract shall be entered into or action taken by which the rights of the Series 2003 Insurer or the security or sources of payment for the Series 2003 Bonds may be impaired or prejudiced, except upon obtaining the prior written consent of the Series 2003 Insurer.

(c) The rights of the Series 2003 Insurer to direct or consent to Agency, Trustee or Bondowner actions under the Indenture shall be suspended during any period in which the Series 2003 Insurer is in default in its payment obligations under the Series 2003 Bond Insurance Policy (except to the extent of amounts previously paid by the Series 2003 Insurer and due and owing to the Series 2003 Insurer) and shall be of no force or effect in the event the Series 2003 Bond Insurance Policy is no longer in effect or the Series 2003 Insurer asserts that the Series 2003 Bond Insurance Policy is not in effect or the Series 2003 Insurer shall have provided written notice that it waives such rights.

(d) The Series 2003 Insurer shall be deemed to be the Owner of all Series 2003 Bonds insured under the Series 2003 Bond Insurance Policy for the following purposes and provided that the Series 2003 Insurer is not on default under the terms of the Series 2003 Bond Insurance Policy, during the following times under the Indenture: (a) at all times for the purpose of the execution and delivery of a Supplemental Indenture relating to any amendment, change or modification of the Indenture where the consent of the Bondowners is required; (b) at all times with respect to the initiation by the Bondowners of any action to be taken under the Indenture by the Trustee at the request of such Bondowners, which under the Indenture requires the written approval or consent of or permits initiation by the owners of a specified principal amount of Series 2003 Bonds then Outstanding; and (c) following the occurrence of an Event of Default for all other purposes.

(e) The Agency shall, to the extent permitted by law, pay or reimburse the Series 2003 Insurer for any and all charges, fees, costs and expenses which the Series 2003 Insurer may reasonably pay or incur in connection with the pursuit of any remedies under the Indenture or the enforcement of the Indenture or otherwise afforded by law or equity other than resulting from the failure of the Series 2003 Insurer to honor its obligations under the Series 2003 Bond Insurance Policy. The Series 2003 Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of the Indenture.

(f) Payments required to be made to the Series 2003 Insurer shall be payable solely from Tax Revenues and other amounts pledged under the Indenture and shall be paid (i) prior to an Event of Default after required deposits to the Revenue Fund and (ii) on and after an

Event of Default, with respect to amounts other than principal and interest on the Series 2003 Bonds, on a priority immediately following payments to the Trustee for expenses

(g) The Series 2003 Insurer shall be deemed to be a party in interest under the Indenture and as a party entitled to (i) notify the Agency, the Trustee or any applicable receiver of the occurrence of an Event of Default and (ii) request the Trustee or receiver to intervene in judicial proceedings that could affect the Series 2003 Bonds or the security therefor. The Trustee or receiver shall be required to accept notice of default from the Series 2003 Insurer.

(h) The Series 2003 Insurer shall be provided with the following information:

(i) Notice of any drawing upon or deficiency due to market fluctuation in the amount, if any, on deposit in the Reserve Account;

(ii) Notice of the redemption, other than pursuant to mandatory sinking fund redemption, of any of the Series 2003 Bonds, or the advance refunding of the Series 2003 Bonds, including the principal amount, maturities and CUSIP numbers thereof;

(iii) Notice of any material events pursuant to Rule 15c2-12 under the Securities Exchange Act of 1934; and

(iv) Such additional information as the Series 2003 Insurer may reasonable request from time to time.

Additional Provisions Relating to Qualified Reserve Account Credit Instruments.

Unless otherwise waived by the Series 2003 Insurer in writing, but only for so long as either the Series 2003 Bond Insurance Policy or the Series 2003 Qualified Reserve Account Credit Instrument is in effect and the Series 2003 Insurer is not in default thereunder, the following criteria shall apply to the delivery of any Qualified Reserve Account Credit Instrument, other than the Series 2003 Qualified Reserve Account Credit Instrument:

(i) The Qualified Reserve Account Credit Instrument must be issued by a company licensed to issue a Qualified Reserve Account Credit Instrument, and the claims paying ability of the issuer thereof shall be rated "AAA" or "Aaa" by S&P or Moody's, respectively.

(ii) If the Qualified Reserve Account Credit Instrument is issued by an entity other than a municipal bond insurer, the form and substance of such instrument and the issuer thereof shall be approved by the Series 2003 Insurer.

(iii) If the Qualified Reserve Account Credit Instrument is an unconditional irrevocable letter of credit, the issuer thereof shall be rated at least "AA" by S&P. The letter of credit shall be payable in one or more draws upon presentation by the beneficiary of a sight draft accompanied by its certificate that it then holds insufficient funds to make a required payment of principal or interest on the Bonds. The draws shall be payable within two days of presentation of the sight draft. The letter of credit shall be for a term of not less than three years. The issuer of the letter of credit shall be required to notify the Agency and the Trustee, not later than 30 months prior to the stated expiration date of the letter of credit, as to whether such expiration date shall be extended, and if so, shall indicate the new expiration date.

(iv) If such notice indicates that the expiration date of the letter of credit shall not be extended, the Agency shall deposit in the Reserve Account an amount sufficient

to cause the cash or Permitted Investments on deposit in the Reserve Account together with any other Qualified Reserve Account Credit Instrument, to equal the Reserve Requirement on all outstanding Bonds, such deposit to be paid in equal installments on at least a semi-annual basis over the remaining term of the letter of credit, unless such letter of credit is replaced by a Qualified Reserve Account Credit Instrument meeting the requirements in any of (i) through (iii) above. The letter of credit shall permit a draw in full not less than two weeks prior to the expiration or termination of such letter of credit if the letter of credit has not been replaced or renewed.

(v) The use of any Qualified Reserve Account Credit Instrument shall be subject to receipt of an opinion of counsel acceptable to the Series 2003 Insurer and in form and substance satisfactory to the Series 2003 Insurer as to the due authorization, execution, delivery and enforceability of such instrument in accordance with its terms, subject to applicable laws affecting creditors' rights generally, and, in the event the issuer of such Qualified Reserve Account Credit Instrument is not a domestic entity, an opinion of foreign counsel in form and substance satisfactory to the Series 2003 Insurer. In addition, the use of an irrevocable letter of credit shall be subject to receipt of an opinion of counsel acceptable to the Series 2003 Insurer and in form and substance satisfactory to the Series 2003 Insurer to the effect that payments under such letter of credit would not constitute avoidable preferences under Section 547 of the U.S. Bankruptcy Code or similar state laws with avoidable preference in the event of the filing of a petition for relief under the U.S. Bankruptcy Code or similar state laws or against the issuer of the bonds (or any other account party under the letter of credit).

(vi) The obligation to reimburse the issuer of a Qualified Reserve Account Credit Instrument for any fees, expenses, claims or draws upon such Qualified Reserve Account Credit Instrument shall be subordinate to the payment of debt service on the Bonds. The right of the issuer of a Qualified Reserve Account Credit Instrument to payment or reimbursement of its fees and expenses shall be subordinated to cash replenishment of the Reserve Account, and, subject to the second succeeding sentence, its right to reimbursement for claims or draws shall be on a parity with the cash replenishment of the Reserve Account. The Qualified Reserve Account Credit Instrument shall provide for a revolving feature under which the amount available thereunder will be reinstated to the extent of any reimbursement of draws or claims paid. If the revolving feature is suspended or terminated for any reason, the right of the issuer of the Qualified Reserve Account Credit Instrument to reimbursement will be further subordinated to cash replenishment of the Reserve Account to an amount equal to the difference between the full original amount available under the Qualified Reserve Account Credit Instrument and the amount then available for further draws or claims. If (a) the issuer of a Qualified Reserve Account Credit Instrument becomes insolvent or (b) the issuer of a Qualified Reserve Account Credit Instrument defaults in its payment obligations thereunder or (c) the claims-paying ability of the issuer of the insurance policy or surety bond falls below a S&P "AAA" or a Moody's "Aaa" or (d) the rating of the issuer of the letter of credit falls below a S&P "AA", the obligation to reimburse the issuer of the Qualified Reserve Account Credit Instrument shall be subordinate to the cash replenishment of the Reserve Account.

(vii) If (a) the revolving reinstatement feature described in the preceding paragraph is suspended or terminated or (b) the rating of the claims paying ability of the issuer of the surety bond or insurance policy falls below a S&P "AAA" or a Moody's "Aaa" or (c) the rating of the issuer of a Qualified Reserve Account Credit Instrument in the form of a letter of credit falls below a S&P "AA", the Agency shall either (i) deposit into the Reserve Account an amount sufficient to cause the cash or permitted investments on deposit in the Reserve Account to equal the Reserve Account

Requirement on all outstanding Bonds, such amount to be paid over the ensuing five years in equal installments deposited at least semi-annually or (ii) replace such instrument with a surety bond, insurance policy or letter of credit meeting the requirements in any of (i) through (iii) above within six months of such occurrence. In the event (a) the rating of the claims-paying ability of the issuer of the surety bond or insurance policy falls below "A" or (b) the rating of the issuer of the letter of credit falls below "A" or (c) the issuer of the Qualified Reserve Account Credit Instrument defaults in its payment obligations or (d) the issuer of the Qualified Reserve Account Credit Instrument becomes insolvent, the Agency shall either (1) deposit into the Reserve Account an amount sufficient to cause the cash or permitted investments on deposit in the Reserve Account to equal to Reserve Account Requirement on all outstanding Bonds, such amount to be paid over the ensuing year in equal installments on at least a monthly basis or (2) replace such instrument with a surety bond, insurance policy or letter of credit meeting the requirements in any of (i) through (iii) above within six months of such occurrence.

(viii) Where applicable, the amount available for draws or claims under the Qualified Reserve Account Credit Instrument may be reduced by the amount of cash or permitted investments deposited in the Reserve Account pursuant to clause (1) of the preceding subparagraph (vi).

(ix) If the Agency selects the above described alternatives to a cash-funded Reserve Account, any amounts owed by the Agency to the issuer of such Qualified Reserve Account Credit Instrument as a result of a draw thereon or a claim thereunder, as appropriate, shall be included in any calculation of debt service under the Indenture for any purpose, including, for example, the Parity Debt test.

(x) The Trustee shall ascertain the necessity for a claim or draw upon the Qualified Reserve Account Credit Instrument and provide notice to the issuer of the Qualified Reserve Account Credit Instrument in accordance with its terms not later than two days (or such longer period as may be necessary depending on the permitted time period for honoring a draw under the Qualified Reserve Account Credit Instrument) prior to each interest payment date.

(xi) Cash on deposit in the Reserve Account shall be used (or investments purchased with such cash shall be liquidated and the proceeds applied as required) prior to any drawing on any Qualified Reserve Account Credit Instrument. If and to the extent that more than one Qualified Reserve Account Credit Instrument is deposited in the Reserve Account, drawings thereunder and repayments of costs associated therewith shall be made on a pro rata basis, calculated by reference to the maximum amount available thereunder.

(xii) In the event of a conflict between the provisions described under the caption "Establishment of Funds and Accounts; Flow Funds - Debt Service Fund; Deposit of Amounts by Trustee - Reserve Account" and the provisions described in (i) through (xi) above regarding the delivery of and provisions relating to a Qualified Reserve Account Credit Instrument, the provisions described in (i) through (xi) above shall comply.

Investment of Funds

Moneys in the Debt Service Fund, the Interest Account, the Principal Account, the Reserve Account, the Redemption Account and the Costs of Issuance Fund shall be invested by the Trustee in Permitted Investments as directed by the Agency in the Written Request of the

Agency filed with the Trustee, except that moneys in the Reserve Account shall not be invested in Permitted Investments having a maturity of more than five (5) years, unless any such Permitted Investment is described in clause (h) of the definition thereof. In the absence of any such Written Request of the Agency, the Trustee shall invest any such moneys in Permitted Investments described in clause (e) of the definition thereof, which by their terms mature prior to the date on which such moneys are required to be paid out under the Indenture. The Trustee shall be entitled to rely conclusively upon the written instructions of the Agency directing investments in Permitted Investments as to the fact that each such investment is permitted by the laws of the State, and shall not be required to make further investigation with respect thereto. With respect to any restrictions set forth in the above list which embody legal conclusions (e.g., the existence, validity and perfection of security interests in collateral), the Trustee shall be entitled to rely conclusively on an opinion of counsel or upon a representation of the provider of such Permitted Investment obtained at the Agency's expense. Moneys in the Special Fund and the Redevelopment Fund may be invested by the Agency in any obligations in which the Agency is legally authorized to invest its funds. Obligations purchased as an investment of moneys in any fund shall be deemed to be part of such fund or account. All interest or gain derived from the investment of amounts in any of the funds or accounts held by the Trustee under the Indenture shall be deposited in the Interest Account; *provided, however*, that all interest or gain from the investment of amounts in the Reserve Account shall be deposited by the Trustee in the Interest Account only to the extent not required to cause the balance in the Reserve Account to equal the Reserve Requirement. The Trustee may act as principal or agent in the acquisition or disposition of any investment and may impose its customary charges therefor. The Trustee shall incur no liability for losses arising from any investments made at the direction of the Agency or otherwise made in accordance with this provision. For investment purposes only, the Trustee may commingle the funds and accounts established under the Indenture, but shall account for each separately.

Issuance of Parity Debt

In addition to the Series 2003 Bonds, the Agency may, by Supplemental Indenture, issue additional bonds or incur other loans, advances or indebtedness payable from Tax Revenues on a parity with the Series 2003 Bonds to finance redevelopment activities with respect to the Redevelopment Project in such principal amount as shall be determined by the Agency. The Agency may issue and deliver any such Parity Debt subject to the following specific conditions all of which are made conditions precedent to the issuance and delivery of such Parity Debt:

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

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

Senior Bonds), estimated Tax Revenues shall not be reduced by the amount of debt service on the Senior Bonds for the then current Fiscal Year;

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

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

(e) The aggregate amount of the principal of and interest on the Senior Bonds, all Outstanding Bonds, other outstanding Parity Debt and Subordinate Debt coming due and payable following the issuance of such Parity Debt shall not exceed the maximum amount of Tax Revenues permitted under the Plan Limit to be allocated and paid to the Agency following the issuance of such Parity Debt as shall be confirmed at the time of the issuance of such Parity Debt and as shall be thereafter confirmed at least annually by the Agency in a written accounting to the Trustee and the Series 2003 Insurer and any other Insurer. The Agency shall provide for the deposit of Tax Revenues into an escrow held by the Trustee and pledged to the payment of the Bonds and Parity Debt in the event and to the extent it determines, based on the annual calculation provided for in the preceding sentence, that remaining debt service on the Senior Bonds and the remaining debt service payable on the Bonds and Parity Debt exceeds ninety-five percent (95%) of the amount of Tax Revenues then remaining to be allocated and paid to the Agency under the Plan Limit. The Agency shall apply amounts on deposit in such escrow solely to the purchase or redemption of the Senior Bonds, the Bonds or Parity Debt, or, in the event that the Agency delivers a Written Certificate of the Agency to the effect that the Plan Limit has been amended such that the remaining debt service on the Senior Bonds, and the remaining debt service on the Bonds including any Parity Debt, no longer exceeds ninety-five percent (95%) of the amount of Tax Revenues then remaining to be allocated and paid to the Agency under the Plan Limit, the Trustee shall transfer amounts on deposit in such escrow to Agency to be used for any lawful purpose; and

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

Issuance of Subordinate Debt

The Agency may issue or incur Subordinate Debt in such principal amount as shall be determined by the Agency. The Agency may issue or incur such Subordinate Debt subject to the following specific conditions precedent:

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

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

Certain Other Covenants of the Agency

Limitation on Additional Indebtedness; Against Encumbrances. The Agency covenants that, so long as the Bonds are Outstanding, the Agency shall not issue any bonds, notes or other obligations, enter into any agreement or otherwise incur any indebtedness, which is in any case payable from all or any part of the Tax Revenues, excepting only (i) refunding bonds with respect to the Senior Bonds (and any refunding of such refunding bonds) which do not result in an increase in debt service under the Senior Bonds Resolution in any Bond Year (as defined in the Senior Bonds Resolution), (ii) the Series 2003 Bonds, (iii) any Parity Debt and (iv) any Subordinate Debt. The Agency will not otherwise encumber, pledge or place any charge or lien upon any of the Tax Revenues or other amounts pledged to the Bonds superior or equal to the pledge and lien created for the benefit of the Bonds.

Extension of Payment. The Agency will not, directly or indirectly, extend or consent to the extension of the time for the payment of any Bond or claim for interest on any of the Bonds and will not, directly or indirectly, be a party to or approve any such arrangement by purchasing or funding the Bonds or claims for interest in any other manner. In case the maturity of any such Bond or claim for interest shall be extended or funded, whether or not with the consent of the Agency, such Bond or claim for interest so extended or funded shall not be entitled, in case of default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest which shall not have been so extended or funded.

Payment of Claims. The Agency shall promptly pay and discharge, or cause to be paid and discharged, any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the properties owned by the Agency or upon the Tax Revenues or other amounts pledged to the payment of the Bonds, or any part thereof, or upon any funds in the hands of the Trustee, or which might impair the security of the Bonds. Nothing shall require the Agency to make any such payment so long as the Agency in good faith shall contest the validity of said claims.

Books and Accounts; Financial Statements. The Agency shall keep, or cause to be kept, proper books of record and accounts, separate from all other records and accounts of the Agency and the City of Oakland, in which complete and correct entries shall be made of all transactions relating to the Redevelopment Project, the Tax Revenues, the Redevelopment Fund and the Special Fund. Such books of record and accounts shall at all times during business hours be subject to the inspection of the Series 2003 Insurer, any other Insurer and the Owners of not less than ten percent (10%) in aggregate principal amount of the Bonds then Outstanding, or their representatives authorized in writing.

The Agency will cause to be prepared, within two hundred and seventy (270) days after the close of each Fiscal Year so long as the Bonds are Outstanding, complete audited financial statements with respect to such Fiscal Year showing the Tax Revenues, all disbursements of Tax Revenues and the financial condition of the Redevelopment Project, including the balances in all funds and accounts relating to the Redevelopment Project, as of the end of such Fiscal Year. The Agency shall promptly furnish a copy of such financial statements to the Trustee, the Series 2003 Insurer and any other Insurer at no expense and to any Owner upon reasonable request and at the expense of such Owner. In addition, the Agency shall deliver to the Trustee, the Series 2003 Insurer and any other Insurer, on or about February 1 of each year, a Written

Certificate of the Agency and a written certificate or opinion of an Independent Accountant stating that the Agency is in compliance with its obligations under the Indenture.

Payments of Taxes and Other Charges. Except as otherwise provided in the Indenture, the Agency will pay and discharge, or cause to be paid and discharged, all taxes, service charges, assessments and other governmental charges which may hereafter be lawfully imposed upon the Agency or the properties then owned by the Agency in the Redevelopment Project, or upon the revenues therefrom when the same shall become due. Nothing contained in the Indenture shall require the Agency to make any such payment so long as the Agency in good faith shall contest the validity of said taxes, assessments or charges. The Agency will duly observe and conform with all valid requirements of any governmental authority relative to the Redevelopment Project or any part thereof.

Disposition of Property. The Agency will not participate in the detachment of land from the Project Area or the disposition of any land or real property in the Project Area to anyone which will result in such property becoming exempt from taxation because of public ownership or use or otherwise (except property dedicated for public right-of-way and except property planned for public ownership or use by the Redevelopment Plan in effect on the date of the Indenture) so that such detachment or disposition shall, when taken together with other such detachments or dispositions, (i) aggregate more than ten percent (10%) of the assessed value of property in the Project Area or (ii) would cause the amount of Tax Revenues available to the Agency for application under the Indenture in the succeeding Fiscal Year to fall below 115% of Maximum Annual Debt Service, in either case unless the Series 2003 Insurer and any other Insurer shall otherwise consent in writing.

Maintenance of Tax Revenues. The Agency shall comply with all requirements of the Law to insure the allocation and payment to it of the Tax Revenues, including without limitation the timely filing of any necessary statements of indebtedness with appropriate officials of the County and, in the case of amounts payable by the State, appropriate officials of the State. The Agency shall not undertake proceedings for amendment of the Redevelopment Plan if such amendment shall result in payments to one or more taxing entities pursuant to Sections 33607.5 and 33607.7 of the Law unless the Agency shall first obtain a written opinion of an Independent Redevelopment Consultant that such payments will not adversely impair the Agency's ability to pay debt service on the Bonds. Additionally, the Agency shall not approve any amendment to the Redevelopment Plan which would, in and of itself, cause the amount of Tax Revenues available to the Agency for application under the Indenture in any succeeding Fiscal Year to fall below 115% of Maximum Annual Debt Service without the written consent of the Series 2003 Insurer and any other Insurer.

Compliance With Law; Low and Moderate Income Housing Fund. The Agency shall ensure that all activities undertaken by the Agency with respect to the redevelopment of the Project Area are undertaken and accomplished in conformity with all applicable requirements of the Redevelopment Plan and the Law, including, without limitation, duly noticing and holding any public hearing required by either Section 33445 or Section 33679 of the Law prior to application of proceeds of the Bonds to any portion of the Redevelopment Project. Without limiting the generality of the foregoing, the Agency covenants that it shall deposit or cause to be deposited in the Low and Moderate Income Housing Fund established pursuant to Section 33334.3 of the Law, all amounts when, as and if required to be deposited therein pursuant to the Law.

Tax Covenants Relating to the Bonds. The Agency will assure that the proceeds of the Bonds are so used as to cause the Bonds to satisfy the private business tests of section 141(b) of the Code or the private loan financing test of section 141(c) of the Code. The Agency will not take any action or permit or suffer any action to be taken if the result of the same would be to

cause the Bonds to be "federally guaranteed" within the meaning of section 149(b) of the Code. The Agency will not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the Bond proceeds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the Closing Date, would have caused the Bonds to be "arbitrage bonds" within the meaning of section 148 of the Code. The Agency shall take all actions necessary to assure the exclusion of interest on the Bonds from the gross income of the Owners of the Bonds to the same extent as such interest is permitted to be excluded from gross income under the Code as in effect on the date of issuance of the Bonds.

Continuing Disclosure. The Agency covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of the Indenture, failure of the Agency to comply with the Continuing Disclosure Certificate shall not be an Event of Default under the Indenture. However, any Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Agency to comply with its obligations under the Indenture. Any notice required to be given pursuant to the provisions of the Continuing Disclosure Certificate shall also be given to the Series 2003 Insurer and to S&P and Moody's.

The Trustee

Duties, Immunities and Liabilities of Trustee.

(a) The Trustee shall, prior to the occurrence of an Event of Default (as defined below under the heading "Events Of Default"), and after the curing or waiver of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in the Indenture and no implied covenants, duties or obligations shall be read into the Indenture against the Trustee. The Trustee shall, during the existence of any Event of Default (which has not been cured or waived), exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

(b) The Agency may remove the Trustee at any time, unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee (i) if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or (ii) if at any time the Agency has knowledge that the Trustee shall cease to be eligible in accordance with (e) below, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation. In each case such removal shall be accomplished by the giving of written notice of such removal by the Agency to the Trustee, with a copy to the Series 2003 Insurer and any other Insurer, whereupon the Agency shall appoint a successor Trustee by an instrument in writing.

(c) The Trustee may at any time resign by giving written notice of such resignation to the Agency and by giving the Owners, the Series 2003 Insurer and any other Insurer notice of such resignation by first class mail, postage prepaid, at their respective addresses shown on the Registration Books. Upon receiving such notice of resignation, the Agency shall promptly appoint a successor Trustee by an instrument in writing, with notice of such appointment to be furnished to the Series 2003 Insurer and any other Insurer.

(d) Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective only upon acceptance of appointment by the successor Trustee.

If no successor Trustee shall have been appointed and have accepted appointment within forty-five (45) days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any Owner (on behalf of such Owner and all other Owners) may petition any court of competent jurisdiction at the expense of the Agency for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Indenture shall signify its acceptance of such appointment by executing, acknowledging and delivering to the Agency and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee; but, nevertheless at the Written Request of the Agency or the request of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions set forth in the Indenture. Upon request of the successor Trustee, the Agency shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in this subsection, the Agency shall cause either the predecessor Trustee or the successor Trustee to mail a notice of the succession of such Trustee to the trusts under the Indenture to each rating agency which then has a current rating on the Bonds and to the Owners at their respective addresses shown on the Registration Books.

(e) If an Event of Default occurs with respect to any Bonds of which the Trustee has been given or is deemed to have notice, as provided in the Indenture, then the Trustee shall immediately give written notice thereof, by first-class mail to the Series 2003 Insurer, any other Insurer and the Owner of each such Bond, unless such Event of Default shall have been cured before the giving of such notice; provided, however, that unless such Event of Default consists of the failure by the Agency to make any payment when due, the Trustee shall, within thirty (30) days of the Trustee's knowledge thereof, give such notice to the Series 2003 Insurer and any other Insurer, and the Trustee, with the consent of the Series 2003 Insurer and any other Insurer, may elect not to give such notice if and so long as the Trustee in good faith determines that it is in the best interests of the Bond Owners not to give such notice.

(f) The Agency agrees that, so long as any Bonds or any Parity Debt are Outstanding, the Trustee shall be a financial institution having a trust office in the State, having (or in the case of a corporation or trust company included in a bank holding company system, the related bank holding company shall have) a combined capital and surplus of at least \$75,000,000, and subject to supervision or examination by federal or state authority. If such financial institution publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this subsection the combined capital and surplus of such financial institution shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this subsection (f), the Trustee shall resign immediately in the manner and with the effect specified in this Section.

No Trustee Liability or Duty. The Trustee shall have no liability or obligation to the Bondowners with respect to the payment of debt service on the Bonds by the Agency or with respect to the observance or performance by the Agency of the other conditions, covenants and terms contained in the Indenture, or with respect to the investment of any moneys in any fund

or account established, held or maintained by the Agency pursuant to the Indenture or otherwise.

No provision of the Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Indenture, or in the exercise of any of its rights or powers. The Trustee shall be entitled to interest on all amounts advanced by it at the maximum rate permitted by law.

The Trustee may execute any of the trusts or powers under the Indenture or perform any duties under the Indenture either directly or by or through agents, attorneys or receivers and the Trustee shall not be responsible for any intentional misconduct or negligence on the part of any agent, attorney or receiver appointed with due care by it under the Indenture.

The Trustee shall have no responsibility, opinion, or liability with respect to any information, statements or recital in any offering memorandum or other disclosure material prepared or distributed with respect to the issuance of the Bonds.

Before taking any action under the Indenture at the request of the Owners or the Series 2003 Insurer or any other Insurer, the Trustee may require that a satisfactory indemnity bond be furnished by the Owners, the Series 2003 Insurer or any other Insurer for the reimbursement of all expenses to which it may be put and to protect it against all liability, except liability which is adjudicated to have resulted from its negligence or willful misconduct in connection with any action so taken.

Compensation and Indemnification. The Agency shall pay to the Trustee from time to time reasonable compensation for all services rendered under the Indenture and also all reasonable expenses, charges, legal and consulting fees and other disbursements and those of its attorneys (including the allocated costs and disbursement of in-house counsel to the extent such services are not redundant with those provided by outside counsel), agents and employees, incurred in and about the performance of its powers and duties under the Indenture. The Trustee shall have a first lien on the Tax Revenues and all funds and accounts held by the Trustee under the Indenture to secure the payment to the Trustee of all fees, costs and expenses, including reasonable compensation to its experts, attorneys and counsel (including the allocated costs and disbursement of in-house counsel to the extent such services are not redundant with those provided by outside counsel).

Amendment of Indenture

The Indenture and the rights and obligations of the Agency and of the Owners may be modified or amended at any time by a Supplemental Indenture which shall become binding upon adoption without the consent of any Owners, but only with the prior written consent of the Series 2003 (except that no such consent shall be required with respect to any Supplemental Indenture entered into for the purposes set forth in (c) below), to the extent permitted by law, but only for any one or more of the following purposes-

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

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

the reasonable determination of the Agency, materially adversely affect the interests of the Owners; or

(c) to provide for the issuance of Parity Debt in accordance with the Indenture; or

(d) to amend any provision of the Indenture relating to the requirements of or compliance with the Code, to any extent whatsoever but only if and to the extent such amendment will not adversely affect the exemption from federal income taxation of interest on any of the Bonds, in the opinion of Bond Counsel; or

(e) to comply with the requirements of a provider of a Qualified Reserve Account Credit Instrument.

Except as set forth in the preceding paragraph, the Indenture and the rights and obligations of the Agency and of the Owners may be modified or amended at any time by a Supplemental Indenture which shall become binding when the written consent of the Series 2003 Insurer, any other Insurer and the Owners of a majority in aggregate principal amount of the Bonds then Outstanding are filed with the Trustee. No such modification or amendment shall (a) extend the maturity of or reduce the interest rate on any Bond or otherwise alter or impair the obligation of the Agency to pay the principal, interest or redemption premiums (if any) at the time and place and at the rate and in the currency provided therein of any Bond without the express written consent of the Series 2003 Insurer, any other Insurer or the Owner of such Bond, or (b) reduce the percentage of Bonds required for the written consent to any such amendment or modification. In no event shall any Supplemental Indenture modify any of the rights or obligations of the Trustee without its prior written consent. In no event shall any Supplemental Indenture modify any of the rights or obligations of the Series 2003 Insurer or any other Insurer without its prior written consent.

Events of Default and Remedies

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

(a) if default shall be made by the Agency in the due and punctual payment of the principal of or interest or redemption premium (if any) on any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by declaration or otherwise;

(b) if default shall be made by the Agency in the observance of any of the covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, other than a default described in the preceding clause (a), and such default shall have continued for a period of thirty (30) days following receipt by the Agency of written notice from the Trustee, the Series 2003 Insurer or any other Insurer or written notice from any Owner (with a copy of said notice delivered to the Trustee and the Series 2003 Insurer and any other Insurer) of the occurrence of such default, provided that if in the reasonable opinion of the Agency the failure stated in the notice can be corrected, but not within such thirty (30) day period, such failure will not constitute an event of default if corrective action is instituted by the Agency (with the prior written consent of the Series 2003 Insurer and any other Insurer) within such thirty (30) day period and the Agency thereafter diligently and in good faith cures such failure in a reasonable period of time as approved by the Series 2003 Insurer and any other Insurer; or

(c) If the Agency files a petition seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America, or if a court of competent jurisdiction will approve a petition by the Agency seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America, or, if under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction will approve a petition by the Agency, seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America, or, if under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction will assume custody or control of the Agency or of the whole or any substantial part of its property.

In determining whether an Event of Default has occurred under (a) above, no effect shall be given to payments made under the Series 2003 Bond Insurance Policy, the Series 2003 Qualified Reserve Account Credit Instrument or under any other municipal bond insurance policy, financial guaranty insurance policy or Qualified Reserve Account Credit Instrument.

If an Event of Default has occurred under the Indenture and is continuing, the Trustee, may, and, if requested in writing by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding the Trustee shall, (a) declare the principal of the Bonds, together with the accrued interest thereon, to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, anything in the Indenture or in the Bonds to the contrary notwithstanding, and (b) subject to the provisions of the Indenture, exercise any other remedies available to the Trustee and the Bond Owners in law or at equity.

Immediately upon receiving notice or actual knowledge of the occurrence of an Event of Default, the Trustee shall give notice of such Event of Default to the Series 2003 Insurer and any other Insurer and to the Agency by telephone promptly confirmed in writing. Such notice shall also state whether the principal of the Bonds shall have been declared to be or have immediately become due and payable. With respect to any Event of Default described in clauses (a) or (c) above the Trustee shall, and with respect to any Event of Default described in clause (b) above the Trustee in its sole discretion may, also give such notice to the Owners by mail, which shall include the statement that interest on the Bonds shall cease to accrue from and after the date, if any, on which the Trustee shall have declared the Bonds to become due and payable pursuant to the preceding paragraph (but only to the extent that principal and any accrued, but unpaid, interest on the Bonds is actually paid on such date). In no event shall the debt service on the Series 2003 Bonds be accelerated without the prior written consent of the Series 2003 Insurer.

This provision, however, is subject to the condition that if, at any time after the principal of the Bonds shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Agency shall, with the written consent of a majority in aggregate principal amount of the Owners of the Bonds, deposit with the Trustee a sum sufficient to pay all principal on the Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, with interest on such overdue installments of principal and interest (to the extent permitted by law), and the reasonable fees and expenses of the Trustee, (including the allocated costs and disbursements of its in-house counsel to the extent such services are not redundant with those provided by outside counsel) and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Trustee shall promptly give written notice of the foregoing to the Series 2003 Insurer, any other Insurer and the Owners of all Bonds then Outstanding, and with the prior written approval of the Owners of at least a majority in aggregate principal amount of the Bonds then

Outstanding, by written notice to the Agency and to the Trustee, may, on behalf of the Owners of all of the Bonds, rescind and annul such declaration and its consequences. However, no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon. In no event shall any rescission or annulment of the acceleration of the debt service on the Series 2003 Bonds occur without the prior written consent of the Series 2003 Insurer.

Application of Funds Upon Acceleration. All of the Tax Revenues and all sums in the funds and accounts established and held by the Trustee under the Indenture upon the date of the declaration of acceleration as described above, and all sums thereafter received by the Trustee under the Indenture, shall be applied by the Trustee in the following order upon presentation of the several Bonds, and the stamping thereon of the payment if only partially paid, or upon the surrender thereof if fully paid:

First, to the payment of the fees, costs and expenses of the Trustee in declaring such Event of Default and in exercising the rights and remedies set forth in the Indenture, including reasonable compensation to its agents, attorneys (including the allocated costs and disbursements of its in-house counsel to the extent such services are not redundant with those provided by outside counsel) and counsel and any outstanding fees, expenses of the Trustee; and

Second, to the payment of the whole amount then owing and unpaid upon the Bonds for principal and interest, as applicable, with interest on the overdue principal and installments of interest at the net effective rate then borne by the Outstanding Bonds (to the extent that such interest on overdue installments of principal and interest shall have been collected), and in case such moneys shall be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then to the payment of such principal and interest without preference or priority, ratably to the aggregate of such principal and interest.

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

Limitation on Owner's Right to Sue. No Owner of any Bond issued under the Indenture shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture, unless (a) such Owner shall have previously given to the Agency, the Trustee, the Series 2003 Insurer and any other Insurer written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty

(60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are, in every case, to be conditions precedent to the exercise by any Owner of any remedy under the Indenture; it being understood and intended that no one or more Owners shall have any right in any manner whatever by his or their action to enforce any right under the Indenture, except in the manner in the Indenture provided, and that all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner in the Indenture provided and for the equal benefit of all Owners of the Outstanding Bonds.

Determination of Percentage of Bond Owners. Whenever in the Indenture the consent, direction or other action is required or permitted to be given or taken by a percentage of the Owners of an aggregate principal amount of Outstanding Bonds (including by the Owners of a majority in aggregate principal amount of the Outstanding Bonds), such percentage shall be calculated on the basis of the principal amount of the Outstanding Bonds, determined as of the next succeeding Interest Payment Date.

Defeasance of Bonds

The Agency may pay and discharge the indebtedness on any Bonds in any one or more of the following ways:

(i) by well and truly paying or causing to be paid the principal of and interest and premium (if any) on all or the applicable portion of Outstanding Bonds, as and when the same become due and payable;

(ii) by irrevocably depositing with the Trustee or an escrow agent, in trust, at or before maturity, money which, together with the available amounts then on deposit in the funds and accounts established pursuant to the Indenture, is fully sufficient to pay all or the applicable portion of Outstanding Bonds, including all principal, interest and redemption premiums, as applicable, or;

(iii) by irrevocably depositing with the Trustee or an escrow agent, in trust, Defeasance Obligations in such amount as an Independent Accountant shall determine will, together with the interest to accrue thereon and available moneys then on deposit in the funds and accounts established pursuant to the Indenture, be fully sufficient to pay and discharge the indebtedness on all Bonds or the applicable portion thereof (including all principal, interest and redemption premiums) at or before maturity;

and, if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given pursuant to the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, then, at the election of the Agency, and notwithstanding that any Bonds shall not have been surrendered for payment, the pledge of the Tax Revenues and other funds provided for in the Indenture and all other obligations of the Trustee and the Agency under the Indenture shall cease and terminate with respect to all Outstanding Bonds or, if applicable, with respect to that portion of the Bonds which has been paid and discharged, except only (a) the covenants of the Agency under the Indenture with respect to the Code, (b) the obligation of the Trustee to transfer and exchange Bonds under the Indenture, (c) the obligations of the Agency under the Indenture and (d) the obligation of the Agency to pay or cause to be paid to the Owners (or the Series 2003 Insurer and any other Insurer), from the amounts so deposited with the Trustee, all sums due thereon and to pay the Trustee, the Series 2003 Insurer and any other Insurer all fees, expenses and costs of the Trustee, the Series 2003 Insurer and any other Insurer. In the event the Agency shall, pursuant to the

foregoing provision, pay and discharge any portion or all of the Bonds then Outstanding, the Trustee shall be authorized to take such actions and execute and deliver to the Agency all such instruments as may be necessary or desirable to evidence such discharge, including, without limitation, selection by lot of Bonds of any maturity of the Bonds that the Agency has determined to pay and discharge in part.

In the case of a defeasance or payment of all of the Bonds Outstanding, any funds thereafter held by the Trustee which are not required for said purpose or for payment of amounts due the Trustee shall be paid over to the Agency.

If a forward supply contract is employed in connection with the defeasance of any of the Bonds, (i) the verification report relating to the defeasance of such Bonds shall expressly state that the adequacy of the escrow to accomplish the defeasance relies solely on the initial escrowed investments and the maturing principal thereof and interest income thereon and does not assume performance under or compliance with the forward supply contract, and (ii) the applicable escrow agreement shall provide that in the event of any discrepancy or difference between the terms of the forward supply contract and the escrow agreement, the terms of the escrow agreement shall be controlling.

Notwithstanding anything in the Indenture to the contrary, in the event that the principal and/or interest due of the Bonds is paid by the Series 2003 Insurer pursuant to the Series 2003 Bond Insurance Policy or by any other Insurer pursuant to its municipal bond or financial guaranty insurance policy, such Bonds shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Agency, and the assignment and pledge of the Tax Revenues and other assets under the Indenture and all covenants, agreements and other obligations of the Agency to the Bond Owners so paid shall continue to exist and shall run to the benefit of Series 2003 Insurer and any other Insurer, and the Series 2003 Insurer and any other Insurer shall be subrogated to the rights of such Bond Owners, as applicable.

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APPENDIX E
PROPOSED FORM OF BOND COUNSEL OPINION

January __, 2003

Redevelopment Agency of the City of Oakland
One Frank Ogawa Plaza
Oakland, California 94612

OPINION: \$120,605,000 Redevelopment Agency of the City of Oakland Central
District Redevelopment Project Subordinated Tax Allocation Bonds, Series
2003

Members of the Agency:

We have acted as bond counsel in connection with the issuance by the Redevelopment Agency of the City of Oakland (the "Agency") of its \$120,605,000 principal amount Redevelopment Agency of the City of Oakland Central District Redevelopment Project Subordinated Tax Allocation Bonds, Series 2003 (the "Bonds"), pursuant to the Community Redevelopment Law, constituting Part 1 (commencing with Section 33000) of Division 24 of the Health and Safety Code of the State of California (the "Law"), a resolution of the Agency adopted on December 17, 2002, and an Indenture of Trust dated as of January 1, 2003 (the "Indenture"). We have examined the Law and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Agency contained in the Indenture and in certified proceedings and other certifications of public officials furnished to us, without undertaking to verify such facts by independent investigation.

Based upon the foregoing, we are of the opinion, under existing law, as follows:

1. The Agency is duly created and validly existing as a public body, corporate and politic, with the power to execute and deliver the Indenture, perform the agreements on its part contained therein and issue the Bonds.
2. The Indenture has been duly executed and delivered by the Agency and constitutes a valid and binding obligation of the Agency enforceable upon the Agency.

3. Pursuant to the Law, the Indenture creates a valid lien on the funds pledged by the Indenture for the security of the Bonds, subject to the prior lien granted to the Senior Bonds under the Senior Bonds Resolution (as such terms are defined in the Indenture).

4. The Bonds have been duly authorized, executed and delivered by the Agency and are valid and binding special obligations of the Agency, payable solely from the sources provided therefor in the Indenture.

5. The interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The opinions set forth in the preceding sentence are subject to the condition that the Agency comply with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Agency has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

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

The rights of the owners of the Bonds and the enforceability of the Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in appropriate cases.

Respectfully submitted,

A Professional Law Corporation

APPENDIX F

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The information in this Appendix F concerning The Depository Trust Company, New York, New York (“DTC”) and DTC’s book-entry system has been obtained from DTC and the Agency takes no responsibility for the completeness or accuracy thereof. The Agency cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Series 2003 Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Series 2003 Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series 2003 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 Series 2003 Bonds. The Series 2003 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued for each maturity of the Series 2003 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (respectively, “NSCC”, “GSCC”, “MBSCC”, and “EMCC”, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Series 2003 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2003 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 Series 2003 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2003 Bonds, except in the event that use of the book-entry system for the Series 2003 Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2003 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 Series 2003 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2003 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2003 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Indenture and the Loan Agreement. For example, Beneficial Owners of the Series 2003 Bonds may wish to ascertain that the nominee holding the Series 2003 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. The conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants and by DTC Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Any failure of DTC to advise any DTC Participant, or of any DTC Participant or Indirect Participant to notify a Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the Series 2003 Bonds called for redemption or of any other action premised on such notice. Redemption of portions of the Series 2003 Bonds by the Agency will reduce the outstanding principal amount of Bonds held by DTC. In such event, DTC will implement, through its book-entry system, a redemption by lot of interests in the Series 2003 Bonds held for the account of DTC Participants in accordance with its own rules or other agreements with DTC Participants and then DTC Participants and Indirect Participants will implement a redemption of the Series 2003 Bonds for the Beneficial Owners. Any such selection of Bonds to be redeemed will not be governed by the Indenture and will not be conducted by the Agency or the Trustee.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2003 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2003 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest evidenced by the Series 2003 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Agency or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Trustee, or the Agency, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest evidenced by the Series 2003 Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Agency or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

NEITHER THE AGENCY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF BONDS FOR REDEMPTION.

Neither the Agency nor the Trustee can give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal of, premium, if any, and interest on the Series 2003 Bonds paid to DTC or its nominee, as the registered Owner, or any redemption or other notice, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Official Statement.

DTC may discontinue providing its services as depository with respect to the Series 2003 Bonds at any time by giving reasonable notice to the Agency or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The Agency may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

In the event that the book-entry system is discontinued as described above, the requirements of the Indenture will apply. The foregoing information concerning DTC concerning and DTC's book-entry system has been provided by DTC, and neither the Agency nor the Trustee take any responsibility for the accuracy thereof.

The Agency and the Trustee cannot and do not give any assurances that DTC, the Participants or others will distribute payments of principal, interest or premium, if any, evidenced by the Series 2003 Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the Agency nor the Trustee are responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the Series 2003 Bonds or an error or delay relating thereto.

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APPENDIX G

FORM OF CONTINUING DISCLOSURE CERTIFICATE

THIS CONTINUING DISCLOSURE CERTIFICATE (this "Disclosure Certificate") is executed and delivered by the **REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND** (the "Agency") in favor of **BNY WESTERN TRUST COMPANY** as Trustee, in connection with the issuance of \$120,605,000 Redevelopment Agency of the City of Oakland, Central District Redevelopment Project Subordinated Tax Allocation Bonds, Series 2003 (the "Bonds"). The Bonds are being executed and delivered pursuant to that certain Indenture of Trust, dated as of January 1, 2003, between the Agency and the Trustee (the "Indenture"). The Agency and the Trustee covenant and agree as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Agency for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule (as defined below).

Section 2. Definitions. The definitions set forth in the Indenture apply to all capitalized terms used in this Disclosure Certificate unless otherwise defined in this Section. The following capitalized terms shall have the following meanings:

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

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

"Dissemination Agent" shall mean the Agency, or any successor Dissemination Agent designated in writing by the Agency and which has filed with the Agency and the Trustee a written acceptance of such designation.

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

"National Repository" shall mean the repositories designated by the Securities and Exchange Commission from time to time for purposes of the Rule. Information on the National Repositories as of a particular date is available on the Internet at www.sec.gov/consumer/nrmsir.htm.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each National Repository and each State Repository. Information regarding the National Repositories as of a particular date is available on the Internet at www.sec.gov/info/municipal/nrmsir.htm. Information regarding state information repositories can be found at www.sec.gov/info/municipal/nrmsir.htm#state.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

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

Section 3. Provision of Annual Reports.

(a) The Agency shall, or shall cause the Dissemination Agent to, not later than 270 days after the end of the Agency's fiscal year (which is currently June 30) commencing with the 2001-2002 fiscal year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Agency may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Agency's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) Not later than fifteen (15) Business Days prior to said date, the Agency shall provide the Annual Report to the Dissemination Agent (if other than the Agency). If the Agency is unable to provide to the Dissemination Agent and the Repositories an Annual Report by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

- (i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and
- (ii) if the Dissemination Agent is other than the Agency, file a report with the Agency certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing the Repositories to which it was provided.

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

1. The audited financial statements of the Agency for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Agency's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

2. Unless otherwise provided in the audited financial statements filed on or prior to the annual filing deadline for Annual Reports provided for in Section 3 above, financial information and operating data with respect to the Agency for the preceding Fiscal Year, substantially similar to that provided in the corresponding tables and charts in the Official Statement Bonds:

- (a) Table 1
- (b) Table 2
- (c) Table 3

(d) Table 4

Such annual information and operating data described above shall be provided on or before seven months after the end of the Agency's fiscal year. The Agency's current fiscal year ends June 30. The Agency may adjust such fiscal year by providing written notice of the change of fiscal year to each then existing National Repository and the State Repository, if any. In lieu of providing such annual financial information and operating data, the Agency may cross-reference to other documents provided to the National Repository, the State Repository or to the Commission and, if such document is a final official statement within the meaning of the Rule, available from the MSRB.

Section 5. Material Events. The Agency agrees to provide or cause to be provided, in a timely manner, to the State Repository, if any, and to each National Repository or to the MSRB notice of the occurrence of any of the following events (the "Listed Events") with respect to the Bonds, if material:

1. Principal and interest payment delinquencies.
2. Non-payment related defaults.
3. Modifications to rights of the Holders of the Bonds.
4. Optional, contingent or unscheduled bond calls.
5. Defeasances.
6. Rating changes.
7. Adverse tax opinions or events adversely affecting the tax-exempt status of the Bonds.
8. *Unscheduled draws on debt service reserves reflecting financial difficulties.*
9. *Unscheduled draws on credit enhancements reflecting financial difficulties.*
10. Substitution of the credit or liquidity providers or their failure to perform.
11. Release, substitution or sale of property securing repayment of the Bonds.

; provided, that any event under subsections (1) or (6) of the definition of the term "Listed Event" will always be deemed by the Agency to be material.

If the Agency determines that knowledge of the occurrence of a Listed Event would be material, the Agency shall promptly file a notice of such occurrence with each Repository. The Agency shall have no obligation under this Section 3 to give further notices after the date of the defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the maturity of the Bonds, the Agency shall give notice of such termination in the same manner as for a Listed Event.

Notwithstanding any other provision of this Section, the Agency may amend this Section 3, and any provision of this Section 13 may be waived, provided that the following conditions are satisfied:

- (a) the amendment or waiver may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) the undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the amendment or waiver either (i) is approved by the Bondholders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Bondholders.

Nothing in this Section shall be deemed to prevent the Agency from disseminating any other information, or including any other information in any notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Agency chooses to include any information in any notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Agency shall have no obligation under this Disclosure Certificate to update such information or include it in any future notice of occurrence of a Listed Event.

In the event of a failure of the Agency to comply with any provision of this Section 3 any Bondholder may take such actions as may be necessary and appropriate, including applicable legal remedies to cause the Agency to comply with its obligations under this Section 3. A default under this Section shall not be deemed an event of default under this Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the Agency to comply with this Section shall be an action to compel performance.

This Section shall inure solely to the benefit of the Agency, the Participating Underwriters and holders from time to time of the Bonds and no other person shall have any rights hereunder.

Section 6. Termination of Reporting Obligation. The obligations of the Agency under this Disclosure Certificate shall terminate upon the legal defeasance or payment in full of all of the Bonds. If such termination occurs prior to the final maturity date of the Bonds, the Agency shall give notice of such termination in the same manner as for a Listed Event under Section 3.

Section 7. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Agency may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Section 3, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Owners of the Bonds in the same manner as provided in the Ordinance for amendments to the Ordinance with the consent of Owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the Bonds.

Section 8. Dissemination Agent. The Agency may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

Section 9. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Agency agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder (including, without limitation, any alleged violations of the Securities Exchange Act of 1934, as amended), including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Agency under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Neither the Trustee nor the Dissemination Agent shall be responsible for the accuracy or validity of any information contained in any Annual Report or report of a Listed Event prepared by the Agency under this Disclosure Certificate.

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Agency from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Agency chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Agency shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Agency, the Trustee, the Dissemination Agent, the Participating Underwriters and holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 12. Default. In the event of a failure of the Agency to comply with any provision of this Disclosure Certificate, any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Agency, as the case may be, to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Ordinance, and the sole remedy under this Disclosure Certificate in the event of any failure of the Agency to comply with this Disclosure Certificate shall be an action to compel performance.

Section 13. Prior Undertakings. The Agency each hereby certifies that it is in compliance in all material respects with all prior undertakings made by it pursuant to Rule 15c2-12(b)(5).

Section 14. Effective Date. This Disclosure Certificate shall be effective on and as of January 9, 2003.

Section 15. Notices. Any notices or communications to the Agency relating to this Disclosure Certificate may be given as follows:

If to the Agency:

Redevelopment Agency of the City of Oakland
c/o Financial Services Agency
150 Frank H. Ogawa Plaza, Suite 5330
Oakland, California 94612
Attention: Treasury Manager
Telephone: (510) 238-7375
Fax: (510) 238-2059

The Agency may, by written notice to the other parties acting hereunder, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

Section 16. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, this Certificate is given this 9th day of January, 2003.

**REDEVELOPMENT AGENCY OF THE
CITY OF OAKLAND, CALIFORNIA**

By: _____
Authorized Representative

BNY WESTERN TRUST COMPANY

By: _____
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Obligor: **REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND,
CALIFORNIA**

Name of Bond Issue: **Redevelopment Agency of the City of Oakland, Central District
Redevelopment Project Subordinated Tax Allocation Bonds, Series 2003
(the " Bonds")**

Date of Delivery: January 9, 2003.

NOTICE IS HEREBY GIVEN that the Redevelopment Agency of the City of Oakland, California (the "Agency") has not provided an Annual Report with respect to the above-named Bonds as required by the Indenture dated as of January 1, 2003 relating to the Bonds. The Agency anticipates that the Annual Report will be filed by _____.

Dated: _____

**REDEVELOPMENT AGENCY OF THE
CITY OF OAKLAND, CALIFORNIA**

By: _____
Authorized Representative

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APPENDIX H

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

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Financial Guaranty Insurance
 Company, doing business in California
 as FGIC Insurance Company
 125 Park Avenue
 New York, NY 10017
 (212) 312-3000
 (800) 352-0001

A GE Capital Company

Municipal Bond New Issue Insurance Policy

Issuer:	Policy Number:
	Control Number: 0010001
Bonds:	Premium:

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to State Street Bank and Trust Company, N.A., or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, 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 and means, when referring to interest on a Bond, the stated date

Financial Guaranty Insurance
Company, doing business in California
as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001



A GE Capital Company

Municipal Bond New Issue Insurance Policy

for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in its sole and exclusive authority to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

A handwritten signature in cursive script, appearing to read "Deborah M. Reif".

President

Effective Date:

Authorized Representative

State Street Bank and Trust Company, N.A., acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

A handwritten signature in cursive script, appearing to be a stylized name.

Authorized Officer

Financial Guaranty Insurance
Company, doing business in California
as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001



A GE Capital Company

Endorsement
To Financial Guaranty Insurance Company
Insurance Policy

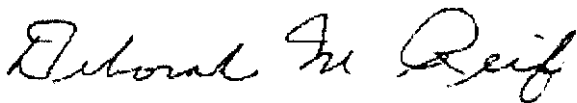
Policy Number:

Control Number: 0010001

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder 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.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

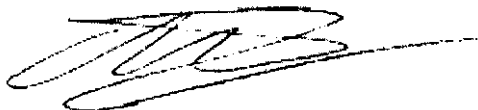


President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:



Authorized Officer
State Street Bank and Trust Company, N.A., as Fiscal Agent

Financial Guaranty Insurance
Company, doing business in California
as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001



A GE Capital Company

**Mandatory California State
Amendatory Endorsement
To Financial Guaranty Insurance Company
Insurance Policy**

Policy Number:

Contract Number: 0010001

The insurance provided by this Policy is not covered by the California Insurance Guaranty Association (California Insurance Code, Article 14.2).

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:

Authorized Officer
State Street Bank and Trust Company, N.A., as Fiscal Agent

Financial Guaranty Insurance
Company, doing business in California
as FGIC Insurance Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001



A GE Capital Company

**Mandatory California State
Amendatory Endorsement
To Financial Guaranty Insurance Company
Insurance Policy**

Policy Number:

Control Number: 0010001

Notwithstanding the terms and conditions in this Policy, it is further understood that there shall be no acceleration of payment due under such Policy, unless such acceleration is at the sole option of Financial Guaranty.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:

**Authorized Officer
State Street Bank and Trust Company, N.A., as Fiscal Agent**

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APPENDIX I

SPECIMEN RESERVE ACCOUNT SURETY POLICY

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Financial Guaranty Insurance
 Company, doing business in California
 as FGIC Insurance Company
 125 Park Avenue
 New York, NY 10017
 (212) 312-3000
 (800) 352-0001

A GE Capital Company

**Municipal Bond Debt Service
 Reserve Fund Policy**

Issuer:	Policy Number:
	Control Number: 0010001
Bonds: , together with any parity obligations issued under the authorizing document, as amended and supplemented, and secured by the same debt service reserve fund	Premium Maximum Amount:
Paying Agent:	Termination Date:

SPECIMEN

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay the paying agent named above or its successor, as paying agent for the Bonds (the "Paying Agent"), for the benefit of Bondholders, that portion (not to exceed the Maximum Amount set forth above) of the amount required to pay principal and interest (but not any prepayment premium) on the Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer. No payment shall be due hereunder for any event of Nonpayment that occurs after the Termination Date set forth above.

Financial Guaranty will make such payment to the Paying Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. Upon such disbursement, Financial Guaranty shall become entitled to reimbursement therefor (together with interest thereon) all as provided in the Debt Service Reserve Fund Policy Agreement between the Issuer and Financial Guaranty dated as of the Effective Date of this Policy. The Maximum Amount shall be automatically reinstated when and to the extent that the Issuer repays amounts disbursed hereunder, but shall not be reinstated to the extent of amounts received by Financial Guaranty constituting interest on amounts disbursed to the Paying Agent pursuant to this Policy. Financial Guaranty shall provide Notice to the Paying Agent of any reinstatement of any portion of the Maximum Amount within one Business Day of such reinstatement.

This Policy is non-cancellable for any reason, including the failure of the Issuer to reimburse Financial Guaranty for any payment made hereunder.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, 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 and means, when referring to interest on a Bond, the stated date for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided

Financial Guaranty Insurance
Company, doing business in California
as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001



A GE Capital Company

Municipal Bond Debt Service Reserve Fund Policy

sufficient funds to the Paying Agent for payment in full of all principal and interest Due for Payment on such Bond and includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder 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 telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from the Paying Agent for the Bonds to Financial Guaranty or from Financial Guaranty to the Paying Agent, as the case may be. "Business Day" means any day other than a Saturday, Sunday or a day on which the Paying Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date:

Authorized Representative

State Street Bank and Trust Company, N.A., acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

Authorized Officer

Financial Guaranty Insurance
Company, doing business in California
as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001



A GE Capital Company

**Mandatory California State
Amendatory Endorsement
To Financial Guaranty Insurance Company
Insurance Policy**

Policy Number:

Control Number: 0010001

The insurance provided by this Policy is not covered by the California Insurance Guaranty Association (California Insurance Code, Article 14.2).

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:

Authorized Officer

State Street Bank and Trust Company, N.A., as Fiscal Agent

Financial Guaranty Insurance
Company, doing business in California
as FGIC Insurance Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001



A GE Capital Company

**Mandatory California State
Amendatory Endorsement
To Financial Guaranty Insurance Company
Insurance Policy**

Policy Number:

Contract Number: 0010001

Notwithstanding the terms and conditions in this Policy, it is further understood that there shall be no acceleration of payment due under such Policy unless such acceleration is at the sole option of Financial Guaranty.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:

**Authorized Officer
State Street Bank and Trust Company, N.A., as Fiscal Agent**